**Chapter 12 Taxation Notes**

**1 –PAYE: Pay As You Earn**

P.A.Y.E. is an income tax paid by all employees. It is used to finance Government expenditure (i.e. on education, the health system, etc.)

P.A.Y.E. is deducted from the employees wage/salary by their employer before it is received. They pay the Revenue Commissioners at periodic intervals

There are two main **rates** of P.A.Y.E, the higher 42% and the lower rate 20%

**What is a Tax Credit?**

These are the part of a person’s income on which they are not taxed.

A tax credit is a deduction from Gross Tax.

**Features of P.A.Y.E.**

* The Income system is progressive. The more a person earns, the greater the proportion of income paid in tax.
* People do not pay tax on all their income
* People must claim the allowances and credits they are entitled to by filling in the proper form
* Tax is deducted from your weekly wage/monthly salary by their employer and sent into the tax office.

**Form 12A**

All employees when they start working must claim the tax free allowances to which they are entitled. This is done by completing the Form 12A and sending it into the Inspector of Taxes.

All subsequent claims are made on Form 12.

**Certificate of Tax Credits**

The Inspector of Taxes sends a certificate of tax credits to the taxpayer’s employer.

The form tells the employer all he/she needs to know to deduct tax from the employee.

It contains:

* The correct rate at which to deduct tax from the employee
* The total figure for the employee’s tax credits divided into weekly and monthly figures
* It includes the standard cut-off point.
* If an employer does not receive a Certificate of Tax Credits he/she must deduct tax on an emergency basis when paying the employee.
* A temporary tax credit is given for the first month of employment, and tax deductions are increased progressively afterwards.

**P60**

At the end of the tax year the employer gives the employee a P60.

This document contains

* Details of Gross Pay
* All tax and P.R.S.I deductions made during the year.
* Employees need this form if they are looking for tax refunds or making claims for social welfare benefits
* Employees may often use this form when seeking a loan or mortgage

**P45**

The employer gives the employee a P45 if the employee leaves his/her employment during the tax year.

The document contains

* Details of Gross Pay
* All tax and P.R.S.I. deductions made during the tax year to date.
* The P45 is then given to the new employer so that he/she may deduct tax and P.R.S.I. at the correct rate.
* Alternatively it may be used to claim unemployment benefit.

**P35**

At the end of the tax year, the employer sends a P35to the Inspector of Taxes.

This document gives

* Details of gross pay
* All deductions for tax and P.R.S.I. made from all employees.
* The total tax deducted as stated on the form should be equal to the total tax sent in by the employer to the tax office during the year.

**A Balancing Statement (P21)**

A document called the Income Tax Balancing Statement (Form 21) is then issued by the Inspector of Taxes.

* This compares tax paid with the tax that should have been paid and accounts for any differences arising.
* If tax has been overpaid, then there will be a tax refund.
* If tax has been underpaid, then there will be a demand for further tax

**2 - The Self-Assessment System**

* The Self-Assessment System of income tax collection was introduced for people who do not pay their income tax under P.A.Y.E. This applies to the Self-Employed, to people carrying out trades or professions, to farmers, business people, builders, etc.
* The Inspector of taxes does a preliminary calculation of the amount due and sends notice to the taxpayer in October.
* The Tax Payer can replace this with his/her calculation

3 - **D.I.R.T. (Deposit Interest Retention Tax)**

* When you save money in a deposit account in a bank/post office/credit union, the money you save earns interest.
* The government taxes this interest at 23% and this tax is called D.I.R.T.
* It is the responsibility of the financial institution where money is saved to calculate and deduct D.I.R.T. before interest in paid to the depositor/saver.
* D.I.R.T. is sent by the financial institution to the tax office semi-annually

4 - **Corporation Tax**

Corporation tax is calculated on a company’s profits currently 12 ½ % in Ireland

**Ireland’s Relationship with Corporation Tax**

* In the past, the standard rate of corporation tax was 38% and there was a special rate of 10 % which applied to manufacturing companies.
* Ireland’s rate of corporation tax has been very low in comparison to other counties in the EU. This attracted much foreign investment to Ireland.
* **i.e.:** companies form countries like the U.S.A., set up in Ireland, hired Irish workers and began to produce goods which were exported (this is very good for the Irish economy).
* In recent years, other E.U. countries have offered a similar low rate of corporation tax. Furthermore, the low rate of corporation tax which the Irish Government charged was seen as under cutting our E.U. partners and the Irish Government has been under pressure from the E.U. to increase this tax

**5. Capital Gains Tax (CGT)**

* This tax has to be paid if a profit is made from selling a fixed asset

**eg.:** shares in a company or a type of property (such as a house or land)

* If the profit made is due to inflation rather than any real increase in the value of the asset, then the tax to be paid may be reduced.
* There a certain exceptions - Gains from selling a house if it is the main residence of the family

**6) Capital Acquisitions TAX (CAT)**

People who receive gifts or inheritance may have to pay CAT on the money received

* The amount of tax payable depends on
* The blood relationship between the giver and the receiver
* The closer the blood relationship, the greater the amount that can be received without having to pay CAT

**7. VAT (Value Added Tax)**

* This is a tax on consumer spending and is charged when a business sells goods or services to a customer
* Those persons carrying out business in Ireland whose must register for VAT.
* VAT returns are submitted bi-monthly and accounting records must be kept in such a way that is suitable for V.A.T.
* Value Added is the difference between the price the materials cost the firm to buy and the price the assembled product can be sold for
* Businesses charge VAT on goods and services they sell (charge VAT on outputs). If a business uses goods or services in the production of their own goods or services (their inputs), they pay VAT on these inputs. They can claim a refund on the VAT paid on these inputs.

example 1

* You sell goods for €12,500 between Jan & Feb. VAT charged on these goods was € 2,500
* The inputs purchased during this period cost €10,000. Vat paid on these inputs was €2,000
* You charge €2,500 VAT for goods you sell, you pay €2,000 VAT for goods you buy.
* The difference is €500 which you pay to the tax office

**8 - Employee’ P.R.S.I. (Pay Related Social Insurance)**

This is a compulsory insurance payment by employees to the State. It is calculated as a percentage of gross income. The money raised goes towards paying for unemployment payments, pensions, maternity benefits

**9 - Employers’ P.R.S.I.**

This is levied on firms for every employee they have. The money raised goes towards paying for unemployment payments, pensions, maternity benefits, etc. It is calculated as a percentage of gross income.

**10 - Excise Duties**

These are taxes levied on certain types of goods within the state. Excise duties are paid on goods such as alcohol and tobacco.

**11. - Customs Duties**

These are taxes levied on imports coming into the country. Ireland is a member of the E.U. and customs duties between member states have been abolished. Imports from countries outside of the E.U. (eg. Canada) are subject to import duties.

**12. - Commercial Rates**

These are taxes levied by local authorities to help finance local government services. The tax is based on the value of the land and property being used for commercial purposes. Residential properties are exempt for rates. In special ‘designated areas’ commercial rates are waived for periods of up to ten years in order to encourage businesses to open up and to promote urban renewal.

**Tax Implications for Business**

**1. Costs**

Costs rise as businesses have to collect record and pay taxes. Since the business has to pay excise duties and VAT to the government, the selling price of goods to consumers will increase (the costs of their raw materials may increase).

**2. Tax Concessions**

Businesses receive tax concessions to locate in Ireland and to locate in certain parts of Ireland.

**3. Allowances**

Spending money paying taxes reduces profits, the amount of money one can plough back into the firm, pay as dividends, etc. Fixed assets can be bought with profits. Spending on investments can be written off against investment income. These reduce the tax that can be paid.

**4. Human Resources**

High personal Taxation levied on workers can reduce their financial motivation to work and seek promotion.

**Similarities AND Differences between Households and Businesses**

**Documentation**

*Similarity*

1. Both have to register for tax
2. Fill out forms
3. Keep records
4. Pay similar taxes – VAT, Income Tax, PRSI, CGT