

Extracts from Accounts Form 11/CT1 Updated Guidance for Practitioners

Introduction

This article updates a similar article in Tax Briefing Issue 53 (August 2003) regarding the 'Extracts from Accounts' section on the Form 11 and CT1 returns. It is intended to provide timely assistance to practitioners in the completion of the 'Extracts from Accounts' on the Form 11/CT1 by clarifying the most common errors and identifying other matters so that they are aware of the correct approach. Also included is a section covering frequently asked questions. All queries or comments should continue to be made through your local Revenue office.

Paper Filers v Electronic Filers: 'Extracts from Accounts' Details

In order to ensure equality of treatment between paper and electronic filers (through ROS, Revenue Online Service), paper filers are required to submit the same level and format of data as electronic filers. Electronic data and paper returns will be treated in exactly the same way by all Revenue processes.

What are 'Extracts from Accounts'?

'Extracts from Accounts' are exactly what the term suggests. They are the figures extracted from the business/company accounts and tax adjustment calculations that were traditionally prepared.

It is important to remember that the requirement to complete the 'Extracts from Accounts' in no way affects the necessity to prepare proper accounts or the manner in which accounts should be prepared for tax purposes, i.e., for tax purposes, accounts have to be prepared in accordance with the ordinary rules and conventions of commercial accountancy. The accounts, like any other documents in support of the return, should be retained for six years as they may be required by Revenue for audit or verification purposes.

When completing the 'Extracts from Accounts' you must complete each section that is relevant and for which you have an entry in the accounts.

Depending on how the accounts are prepared, it may be necessary to aggregate some figures to arrive at a figure to be included in the 'Extracts from Accounts'. For example, at line 129 on page 6 of the 2009 Form 11, the aggregate total of 'Motor, Travel and Subsistence' is required, these may be shown separately in the accounts.

The extracts represent a list of items that will be used, in conjunction with other Revenue data, to profile the case. They do not try to represent a complete set of accounts. Therefore, they will not, nor is it intended that they would, 'add-up' or 'balance' as in a full set of

accounts. What is required is the completion of all relevant fields. They are as generic as possible to suit as many trades as possible. With the benefit of practical experience, it may be necessary/desirable to alter these in the future and any changes will be made in consultation with the various representative bodies.

It should be noted that paper returns submitted without the Extracts from Accounts details completed will be returned for completion and this could result in surcharges for late filing.

Electronic Filing Through ROS

ROS is designed in such a way that, unless certain fields in the 'Extracts from Accounts' pages are completed, you will not be able to file the return electronically. ROS was designed in this way to ensure that the 'Extracts from Accounts' were not overlooked and to encourage the maximum level of completion. Although only some of the 'Extracts from Accounts' fields in ROS are 'required' fields, this should not be taken to mean that it is sufficient only to complete these fields. On the contrary, similar to paper filers, **ROS filers are required to complete each section that is relevant and for which there is an entry in the accounts.**

If a required field is not relevant or the information is not available from the accounts, a '0' should be entered. Some practitioners have expressed concern that such an entry might automatically highlight the case for attention in Revenue and that would place them at a disadvantage to paper filers, who may leave the same field blank on the paper return. This is not the case. All data whether submitted electronically through ROS or on a paper return, will be captured electronically and is treated in exactly the same manner.

Completion of 'Extracts from Accounts' by Practitioners/Taxpayers

Revenue relies practitioners/taxpayers to complete the extracts correctly. It should not be necessary to re-analyse the accounts prepared. The same duty of care that applies in completing the income figures on the tax return applies to the completion of the 'Extracts from Accounts' details.

Revenue can give a certain amount of 'comfort' with regard to 'innocent errors' in the completion of the extracts. The most likely outcome that may result is that, in the application of risk analysis, an additional risk ranking may be applied because the data submitted are incorrect.

An error in completing the 'Extracts from Accounts' details may not necessarily result in contact from Revenue. However, it is in the client's/agent's interest to complete the extracts as accurately as possible and to the best of their ability. If a number of errors or omissions are made, this may cause Revenue's Risk Evaluation Analysis and Profiling Programme (REAP) to assign a higher risk ranking to that taxpayer than is necessary, which may lead to intervention by Revenue staff.

Examples of Incorrect Completion of 'Extracts from Accounts'

Set out below are some examples of common errors made in completing the 'Extracts from Accounts' and 'Adjusted Profit Computation' on the Form 11 and CT1. These examples use the line numbers of the paper forms for reference. Unless otherwise stated these refer to the 2009 Form 11 and the 2010 Form CT1.

Income

Lines 121, 122 and 123, Form 11

Lines 2.41, 2.42 and 2.43, Form CT1

Errors arise where entries for the fields 'Receipts from Government Agencies' and 'Other Income' are included in 'Sales/Receipts/Turnover'. These should be entered separately under the correct heading on the return.

Example

Extracts from company accounts

Trading income

Sales	576,410
GMS payments	39,500
Tax-exempt income	52,780

Correctly completed Form 11

Income

Sales/Receipts/Turnover	576,410
Receipts from Government Agencies	39,500
Other income including tax exempt income	52,780

Incorrectly completed Form 11

Income

Sales/Receipts/Turnover	668,690
Receipts from Government Agencies	0
Other income including tax exempt income	0

Completion of 'required' fields only

Although only certain of the 'Extracts from Accounts' fields in ROS are 'required' fields, this should not be taken to mean that it is sufficient only to complete these fields. On the contrary, customers are obliged to complete each section that is relevant in accordance with entries in

the accounts. Not completing some or all of the required fields may, however, increase the risk ranking assigned to a particular taxpayer by the REAP system.

Entering the same figures year on year

This can occur, in error, when using in-house accounting packages where the previous year's figures have been stored and are copied forward erroneously from one year to the next. It is the norm for the hard copy financial statements to show different figures from one year to the next, unless no trading was carried on during the particular year.

CT1: Balance of Directors' Current and Loan Accounts

Line 2.56(a) and (b), Form CT1

This field should be completed by recording the balance of the directors' current and loan accounts as at the end of the accounting period.

If the director owes the company money, this is a **positive** balance on the directors' account and an entry is required at line 2.56(a).

If the company owes the director money, this is a **negative** balance on the directors' account and an entry is required at line 2.56(b).

Sub-Contractors

Line 127 Form 11 Line 2.48 Form CT1

The 'Subcontractors' field should be completed where the entry is related to trade in the construction, meat processing or forestry industries **only**. Subcontractors are those defined by Section 531 TCA 1997.

Frequently, sub-contractors are incorrectly shown as part of the 'Cost of Sales' figure in the Profit & Loss account of the business. If the sub-contractors are a type defined by section 531 TCA 1997, this figure should be shown in the 'sub-contractors' field in the 'Extracts from Accounts'.

Purchases

Line 124 Form 11 Line 2.44 Form CT1

Only materials or purchases for resale purchased during the accounting period should be entered in this field. This field should not contain any other amounts, e.g. wages, insurance, etc.

All amounts relating to wages, salaries and staff costs should be entered in the field 'Salaries/Wages' only.

Tax Creditors

Line 144 Form 11
Line 2.64 Form CT1

The 'Tax Creditors' field should contain all amounts owing for all taxes, e.g. VAT, PAYE/PRSI, Relevant Contracts Tax, Income Tax, Corporation Tax and Capital Gains Tax.

Other Expenses

Line 133 Form 11
Line 2.55 Form CT1

The field 'Other Expenses' is often misinterpreted and completed incorrectly in the 'Extracts from Accounts'. Although both ROS and paper filers are required to complete each section that is relevant and for which there is an entry in the accounts, it may also be necessary to aggregate some figures to arrive at a figure to be included in the 'Extracts from Accounts'.

The field 'Other Expenses' is the total of all **other** expenses included in your Profit and Loss Account and not itemised already under any of the fields in 'Expenses and Deductions' (lines 126 to 132 inclusive, Form 11; lines 2.46 to 2.54 inclusive, Form CT1).

Example

Expenses extracted from profit and loss account

Wages and salaries	58,204
Rent and rates	17,101
Professional indemnity	6,596
Light and heat	9,835
Professional fees	12,400
Repairs and maintenance	2,977
Printing, postage and stationery	5,334
Advertising	2,200
Telephone	4,467
Motor expenses	2,722
Travelling expenses	12,672
Bank interest and charges	7,377
Sundry	3,854
Subscriptions	2,751
Depreciation: equipment	21,919
Depreciation: motor	11,360
Loan interest	9,249
Lease finance charges	5,670

Correctly completed Form 11*Expenses and deductions*

Salaries/Wages, Staff costs	58,204
Sub-contractors	0
Consultancy/Professional fees	12,400
Motor, Travel and Subsistence	15,394
Repairs/Renewals	2,977
Depreciation, Goodwill/Capital write-off	33,279
(a) Provisions including bad debts - positive	
(b) If negative state amount here	
Other Expenses (Total)	74,434

Incorrectly completed Form 11*Expenses and deductions*

Salaries/Wages, Staff costs	58,204
Sub-contractors	0
Consultancy/Professional fees	
Motor, Travel and Subsistence	
Repairs/Renewals	
Depreciation, Goodwill/Capital write-off	
(a) Provisions including bad debts - positive	
(b) If negative state amount here	
Other Expenses (Total)	138,484

Two fields entered into a single field

Entering data for two separate fields into one field in error.

Example*Extract from company accounts*

Salaries/Wages	35,790
Sub-contractors	47,650

Incorrectly completed Form 11

Salaries/Wages, Staff costs	3,579,047,650
Sub-contractors	0

Shareholders' Funds details shown as a Negative

Where a company is insolvent, a negative figure should be shown for shareholders' funds. If a company is solvent, Revenue would expect to see this shown as a positive figure.

Frequently Asked Questions

These FAQs use line numbers from the paper forms to assist in identifying the field in the 'Extracts from Accounts'. Unless otherwise stated all line references refer to the 2009 Form 11 and the 2010 CT1.

1. With regard to Lines 146 and 147, Form 11, is it the profit per the accounts, or the adjusted profit figure for tax purposes that is required? The line reads 'Net Profit per Accounts' but the heading reads 'Extracts from Adjusted Profit Computation'

The figure required is the net profit/loss from the accounts, before adjustment for add-backs/ deductions are made.

2. My client has more adjustments to the adjusted profit computation than listed in the 'Extracts from Accounts' pages. Where do I list the remaining items?

The 'Extracts from Accounts' are a selection of items for transcription from a customer's set of accounts/statements/income and expenditure record, etc. The financial statements and adjusted profit computations must be prepared as heretofore and retained by you or your client; therefore there is no need to supply the additional add-back details.

3. On the Form 11, Lines 148 to 152 list details of certain types of adjustments to the profit per the accounts to arrive at the adjusted net profit (loss). As this list is not exhaustive, when these listed adjustments are taken from the profit (loss) per the accounts at Line 146 (147), the result will be different than the Case I figure returned. Will my client automatically receive enquiry letters in this case?

No. As with the menu of accounts items, this is only a representative selection of possible adjustments. For example, we don't mention the depreciation add-back, which would feature in most cases.

4. If I submitted accounts, which form the basis period for this return, with a previous return, do I have to complete the 'Extracts from Accounts' pages?

No. If accounts were previously submitted with a prior year's tax return, it is not necessary to enter the data in the return now being completed. You should, however, clearly state which year's tax return the accounts were submitted with (line 119 Form 11; line 2.40 Form CT1).

5. How do I approach completion of the return where the accounting period does not end within the tax year?

Enter the figures per the accounts and indicate the accounting period covered. If the accounts also cover the following year, it will not be necessary to enter them on that year's return, but instead a reference should be made that the accounts information has already been submitted. (See answer to Question 4).

6. If the period of account is long and two Form CT1s are required, both of which contain the 'Extracts from Accounts' pages, do I enter the accounts information in one or both of the returns? Do I apportion the figures on a pro rata basis?

Complete the 'Extracts from Accounts' pages on the form CT1 for Accounting Period 1 only, giving the figures for the full period of the accounts. The Form CT1 for Accounting Period 2 should contain a reference that the figures have already been supplied - see Question 4.

7. Can I submit paper accounts and write 'as per the attached accounts' on the Form 11/CT1 and not complete the 'Extracts from Account's pages?

No. Paper accounts are not an acceptable substitute for completion of the 'Extracts from Accounts' pages. The 'Extracts from Accounts' pages should be completed in all cases where you have trading or professional income, unless:

- > You are carrying on business in partnership. Individual partners are not required to complete the *Extracts from Accounts* pages in their personal return. Instead the Partnership should file this information in the Partnership tax return – Form 1.
- > You have already submitted accounts information relating to this return with an earlier return of income.

The 'Extracts from Accounts' pages are not a set of accounts, but an extract of selected items from the accounts. They are not a substitute for the trading accounts. Accounts still have to be prepared as before in accordance with the ordinary rules and conventions of commercial accounting, and only certain figures from these accounts are requested in the 'Extracts from Accounts'.

All cases handled by Revenue's Large Cases Division should continue to file full paper accounts. Other cases with turnover in excess of €20 million will file full accounts when requested.

In all cases, accounts, like any other documents in support of the return, should be retained for six years in case they are required by Revenue for audit or verification purposes.

8. Will I be less susceptible to Revenue audit if I file my return and accounts information on paper rather than through ROS?

No. Revenue has given a guarantee that electronic filers will be treated the same as paper filers - therefore they will not be more susceptible to audit.

9. Where a person who is a sole trader does not complete the 'Extracts from Accounts', is his or her return valid?

No. The 'Extracts From Accounts' should be completed in all cases where you have trading or professional income (see answer to Question 7). When completing these extracts, you may have nothing to enter under some headings, as they may not apply to you. You must, however, complete each section that is relevant and for which you have an entry in your accounts.

10. An individual is carrying on business in partnership with his or her spouse. Previously a single set of accounts, filed under their own PPS number, was submitted. Can I continue to do this and only complete one column of the 'Extracts from Accounts'?

All partnerships should be registered for tax under a separate reference number. A separate return, Form 1 (Firms), which includes an 'Extracts from Accounts' section, should be completed and submitted by the precedent-acting partner. In these cases, the individual partners are not required to complete the 'Extracts from Accounts' on their own Form 11 with regard to this trade/profession, but they must enter the partnership number in the 'Self-employed Income' panel (Panel B of the paper form) where requested.

11. Are there a minimum number of entries I have to complete on the 'Extracts from Accounts' pages to make the return valid? If so, what are they?

Where there is an entry in the accounts, there should be a corresponding entry in the 'Extracts from Accounts'. The more complete the 'Extracts from Accounts' are, the more accurate a profile of the customer we will have. Non-completion of certain entries, for which you have data in the accounts, may ultimately leave your client more susceptible to contact from Revenue.

12. What if I make a mistake in some of the entries?

The same duty of care that applies in completing the income figures on the tax return applies to the completion of the 'Extracts from Accounts'. An error in completing the accounts menu will not of itself necessarily result in contact from Revenue, but to minimise this possibility it is in the customers' own interest to ensure the correct details are returned. (See also answer to Question 11).

13. If I am unclear or uncertain of the technical basis for the analysis of certain items (for example, whether an item of expenditure constitutes a repair of capital expenditure, or where there is a doubt regarding items in the provision for bad debts), do I need to make an expression of doubt in relation to the figure provided on the accounts menus?

The 'Extracts from Accounts' should reflect what is in the accounts. If there is an expression of doubt, under *Section 955(4) TCA 1997*, this should be dealt with as before, i.e., noted in the 'Personal Details' panel (line 21) of the Form 11, or the 'Company Details' panel (line 1.16) of the Form CT1.

14. For some clients, who may have more than one trade, it has been our practice to prepare a Profit and Loss Account for each trade and a single Capital Account and Balance Sheet reflecting the assets and liabilities of all trades. How do we complete the Capital Account and Balance Sheet sections for each trade?

If different accounts are kept for each trade, then separate 'Extracts from Accounts' pages should be submitted for each, including a separate Capital Account and Balance Sheet.

15. If I have more than eight trades, the 'Trade 8' screen of the 'Self-employed Income' panel on the Form 11 will be an amalgam of two or more trades. Will the result of a mixing of trading details leave me more open to audit, when this column is screened electronically?

While the mixing of trade details may distort the picture somewhat, Revenue customers will be profiled over a wide range of areas, including compliance behaviour, third party information, other tax-heads, etc. The mixed trade details in the 'Trade 8' screen are unlikely to have a major impact on a customer's overall risk profile. Note that the paper Form 11 caters for a maximum of three trades, however the position is the same for those returns.

16. What precisely are 'Government Agencies' for the purposes of line 122 Form 11, and line 2.42 Form CT1?

Any Government Department is considered a Government Agency. Income that should be included in this field includes GMS (General Medical Card Scheme) payments, Free Legal Aid payments, Department of Agriculture and Food payments etc.

17. Does line 132(a) and (b) Form 11 (line 2.54(a) and (b) Form CT1) refer to movement in provisions for bad debts, stock provisions, etc. (i.e., not the overall amount of the provision concerned)?

Yes. This line refers to the movement in provisions. Do not include provision for depreciation.

18. With regard to 'Other Expenses' (line 133 Form 11, line 2.55 Form CT1), is this every expense that does not fall under any of the other headings?

Yes. The field 'Other Expenses' is the total of all other expenses included in your Profit and Loss Account and not itemised already under any of the fields in 'Expenses and Deductions' (lines 126 to 132 Form 11; lines 2.46 to 2.54 CT1).

19. Where should 'Stock Relief' be accounted for in the 'Extracts from Accounts' pages?

We do not require this information in the 'Extracts from Accounts'. What is required is net profit/loss per accounts. The information requested in the 'Extracts from Accounts' is only a selection of certain information from the accounts. It is not a reproduction of the set of accounts. (See answers to Questions 2 and 7).

20. On the Corporation Tax return (Form CT1), at lines 2.73 and 2.74 (net gain/loss on sale of fixed/chargeable assets), should the accounting profit/loss on sale of assets or the tax adjusted profit/loss on sale of assets (before adjustment for corporation tax purposes) be entered?

The figure that should be entered is the figure that would normally be included in the add-back computation.

> Net gain on sale of fixed/chargeable assets – a profit on the sale of assets included in the Profit and Loss account can be deducted in the adjusted profit computation.

> Net loss on sale of fixed/chargeable assets – a loss on the sale of assets included in the Profit and Loss account should be added back in the adjusted profit computation.

21. If I give less information, am I reducing my chances of being audited?

Where we would expect that more information should have been provided based, for example, on the size of the business or the amount of tax paid, the absence of information may raise a customer's risk profile and result in contact of some sort from Revenue. To minimise this possibility, it is in the customers' own interests to provide Revenue with as much relevant information as possible. (See answer to Question 11).

22. Depending on the trade/profession, both line 123 and line 133 Form 11 (lines 2.43 and 2.55 Form CT1) could be disproportionately higher in some cases compared to the norm. A farmer, for instance, may have the bulk of his/her expenses listed on line 133 (other expenses) if it relates to feedstuffs, fertilizers, etc. When interpreting the results produced by the 'Extracts from Accounts', will the electronic screening programmes have access to the remainder of the information captured in the return?

Revenue customers will be profiled over a wide range of areas, including compliance behaviour, third-party information, other tax-heads, etc. The accounts information will only form part of that profile. The results of rules relating to certain broad fields, such as those mentioned, will be weighed to allow for alternative possibilities in the information provided. (See answer to Question 11).

23. In the ROS return, one 'suggested' method to circumvent the required fields is to enter '0' in the box. Will this be interpreted as an entry of '0', and therefore will I be more susceptible to audit? This is of particular relevance with regard to line 137 (drawings). An entry of '0' would suggest that no drawings were made, rather than no balance sheet was prepared.

Although only certain fields from the 'Extracts from Accounts' are 'required' fields within ROS, this should not be taken to mean that it is sufficient only to complete these fields. On the contrary, customers are obliged to complete each section that is relevant and for which there is an entry in the accounts.

However, an undue conclusion will not be drawn from a '0' figure entered where a balance sheet was not prepared.

24. If the trading income is small, can I enter it in the 'Irish Other Income' panel (panel F of the paper Form 11) under 'Fees, Commissions etc.' or 'Income from Sources not Shown Elsewhere' and not complete the 'Extracts from Accounts' pages?

No. Trading/professional income, assessable under Schedule D Case I or II, should be entered only in the 'Self-employed Income' panel (Panel B of the paper form). Taxpayers with an entry in this panel are required to complete the 'Extracts from Accounts' pages. Fees, commissions, etc., which do not arise from a trade or profession and which were not charged to tax under Schedule E, should be entered in the 'Irish Other Income' panel. This income is chargeable under Schedule D, Case IV. Fees, commissions, etc, which were charged to tax under Schedule E, should be included in the 'PAYE/Benefit-in-kind/Pensions' panel (panel D of the paper form).