

**Statement of Practice
SP4
Income Tax Self Assessment
Tax Credits**

A copy of Statement of Practice SP4 is attached.

Statement of Practice
Income Tax Self Assessment
Tax Credits

This Statement sets out the preferred treatment of "actual basis" tax credits in income tax computations for 1988/89 which arise before the correct actual figures are available. It also deals with the treatment of some other credits.

The appropriate tax credit connected with any source of income assessed for 1988/89 is best arrived at by applying the 1988/89 legislative rules. In "Voluntary Self Assessment" cases, the use of the 1987/88 credit appropriate to the income being used in the computation will not lead to the computation being rejected but it will increase the likelihood of the case requiring subsequent review in order to collect an underpayment of tax. In cases where the Voluntary Self Assessment option is not availed of, the preferred method will be used by Revenue to calculate the appropriate credits for assessment purposes.

The following are the more important tax credits and the preferred treatment.

1. Credits in respect of Schedule F Dividends

Until such time as the correct "actual" income figure is known, Schedule F income for assessment in 1988/89 is to be taken as the amount of the income of the preceding year. This income is computed by adding together the distribution and the tax credit for 1987/88.

The amount of the credit to be allowed for 1988/89 should be based on a rate of 32%. [For 1987/88 it was 35%]. The appropriate tax credit for 1988/89 in the case of dividends which do not attract Export Sales Relief or Manufacturing Relief is therefore 32/35ths of the 1987/88 tax credit used in computing the preceding years income.

The credit for the unrelieved part of Export Sales Relieved dividends may also be arrived at by taking 32/35ths of the 1987/88 tax credit. The credit for the relieved part of such dividends remains unchanged.

The credit for Manufacturing Relieved dividends is unaltered and remains at 1/18th of the dividend.

2. PAYE Tax

Until the correct "actual" figures of income and tax are known, the preceding year's income figure should be used. The appropriate credit for PAYE tax is best arrived at by computing the amount of PAYE tax which would be deducted in 1988/89 if the income being used in the computation were the income for the year. In other words, the appropriate calculations are on the basis that the PAYE income for 1988/89 will be the same as for 1987/88, but the tax on that amount is calculated in accordance with the 1988/89 allowances and reliefs actually assigned in the 1988/89 Notice of Tax Free Allowances.

3. Retention Tax on Deposit Interest.

The 1987/88 income should be used and the credit is 35% of the interest (i.e. the 1987/88 credit).

4. Professional Services Withholding Tax

As this income will generally be charged on the preceding year basis the appropriate credit is the amount of Withholding Tax deducted in the basis period for 1988/89 less any tax repaid.