

TAX BRIEFING

TAX CREDIT SYSTEM



Introduction

In his Budget Financial Statement on 6 December 2000, the Minister for Finance, Mr Charlie McCreevy, T.D., detailed the continuing programme of tax reforms which will take place from 6 April 2001. These reforms relate to:

- t The introduction of a full tax credit system from 6 April 2001 and
- t The change to a calendar tax year from 1 January 2002. The first calendar tax year, that is, the year 2002, will be preceded by a short transitional tax "year" from 6 April 2001 to 31 December 2001.

In **Tax Briefing Issue 41** we set out details of the changes arising in relation to the introduction of the PAYE tax credit system from 6 April 2001.

This article outlines the measures in place to ensure a smooth changeover

to the PAYE tax credit system and explains the operation of PAYE under such a system from the perspective of employers and employees. The changes in relation to the short tax "year"/calendar tax year and "questions and answers" on the new system are also included.

Overview

Tax Credit System from 6 April 2001

The full tax credit system will replace the existing tax-free allowance based system. The move to a tax credit system has been facilitated by the gradual standard rating of tax allowances in recent Budgets. Tax Tables and Table Allowances will no longer be a feature of the PAYE system.

The move to a tax credit system means that it will be necessary to make some changes in the way in which employers calculate the tax deducted under the PAYE system with effect from 6 April 2001. These changes will give rise to the need for modifications in the layout of Tax Deduction Cards issued to employers who operate a manual PAYE system and in software packages used by employers who use computerised payroll systems.

The information issued to both employers and employees will be different than in other years as tax-free allowances have now been replaced by tax credits.

Short Tax "Year"/Calendar Tax Year

The Minister for Finance announced on 20 July 2000 that the income tax

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Town Renewal Scheme

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KEY DATES

Jan

- 14 PAYE/PRSI**
P30 monthly return and payment for month ended 5 January
- 14 DWT**
Return and payment of DWT for month ended 31 December
- 19 VAT**
VAT 3 return and payment for period November/December
- 1-28 Corporation Tax**
Preliminary Tax for APs ending between 1-31 July
- 1-31 Corporation Tax**
Returns for APs ending between 1-30 April
- 1-31 Corporation Tax**
Returns of Third Party Information for APs ending between 1-30 April
- 31 Income Tax**
Return of Income
- 31 Capital Gains Tax**
Return of Capital Gains
- 31 Income Tax**
Return of Third Party Information

Feb

- 14 PAYE/PRSI**
P30 monthly return and payment for month ended 5 February
- 14 DWT**
Return and payment of DWT for month ended 31 January
- 1-28 Corporation Tax**
Preliminary Tax for APs ending between 1-31 August
- 1-28 Corporation Tax**
Returns for APs ending between 1-30 May
- 1-28 Corporation Tax**
Returns of Third Party Information for APs ending between 1-30 May

Mar

- 1 Income Tax**
Bulk Issue of Tax Credit Certs and Employer TDC's
- 14 PAYE/PRSI**
P30 monthly return and payment for month ended 5 March
- 14 DWT**
Return and payment of DWT for month ended 28 February
- 19 VAT**
VAT 3 return and payment for period January/February
- 1-28 Corporation Tax**
Preliminary Tax for APs ending between 1-30 September
- 1-31 Corporation Tax**
Returns for APs ending between 1-30 June
- 1-31 Corporation Tax**
Returns of Third Party Information for APs ending between 1-30 June

EDITORIAL

On behalf of all involved in the production of **Tax Briefing** I would like to wish all our readers and contributors a very Happy Christmas and Best Wishes for the New Year.

I would also like to extend sincere thanks to the staff from the various areas within Revenue who contributed articles in 2000. We are very grateful to them and appreciate the time and effort that goes into preparing articles.

Thanks are also due to the many practitioners who expressed their support and made suggestions as to the content of the materials published. These welcome suggestions assist us in ensuring that the articles were topical and relevant and that the publication continues to meet the needs of practitioners. We look forward to receiving this ongoing support from all our readers.

Throughout the Millennium Year the demands placed on Revenue in terms of the quality and speed of customer services continued to grow. The sustained expansion of the economy has presented challenges to the delivery of such services. Revenue continues to research new and innovative ways of delivering quality services and, in particular, to exploit the full potential of information technology.

We published in **Tax Briefing** the various developments that have taken place during the year. The launch of the first phase of the Revenue On-Line Service (ROS) in September was one such initiative. The important role played by practitioners in the development of this project has contributed greatly to its success and we look forward to your continued support with the introduction of future phases.

During 2000 we also re-designed our website and added significantly to the content. The aim is to publish as much information as possible on the site and to make it easy for viewers to navigate within the site. Work on the Integrated Taxation Processing project continued throughout the year. We will continue to embrace new technologies as a means of providing a quality service to our customers and in line with the wider eGovernment programme.

Looking ahead to 2001 we are aware that there are a number of challenges facing us all. The introduction of a full tax credit system from 6 April next coupled with the short tax "year" in preparation for the introduction of the calendar tax year in 2002 will mean changes to the operation of the PAYE system. As you will see from our feature article in this issue we are committed to providing timely information and assistance for practitioners and employers / employees to ensure that the changeover takes place smoothly

and we will include further updates in the coming year to cover any remaining issues arising. The final preparations for the introduction of the euro from 1 January 2002 will also be to the forefront during 2001 and again we will keep you informed of developments in this area. We look forward to these challenges and, as in the past, we know that we can rely on your continued co-operation and support.

I should also mention that this is the occasion of the **tenth anniversary of Tax Briefing**. Looking back over the decade at the changing taxation landscape it is clear that we have all, practitioners and Revenue, benefited greatly from the provision of timely and relevant information on matters of mutual interest. We look forward with confidence to continuing this process into the future.

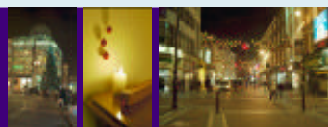
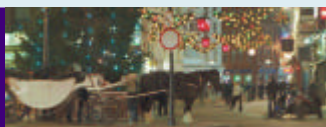
Finally, I would like on behalf of Rosemary O'Rahilly, Assistant Editor and all involved with the publication to say a special "Thank You" to the Customer Service Unit team for their dedication and excellent work in continuing to meet the publication and design requirements for each issue.

Nollaig agus athbhliain faoi shéan is faoi mhaise daoibh go léir.

Denis Holligan,
Editor

Please note our E-mail address taxbrief@revenue.ie.

Comments from readers on tax matters are welcome - if there are particular tax topics which you would like to see covered in a future issue of **Tax Briefing** please e-mail a note or 'phone 01-6716777.



TAX CREDIT SYSTEM

Continued from page 1

year is to be aligned with the calendar year with effect from 1 January 2002. Thus, the calendar tax year beginning on 1 January 2002 will end on 31 December 2002. The first calendar tax year, 1 January 2002 to 31 December 2002, will be preceded by a short transitional tax "year" from 6 April 2001 to 31 December 2001. Payroll systems will need to cater for this change.

Information Programme

A number of measures have been introduced with a view to ensuring that the changeover to the tax credit system including the short tax "year"/calendar tax year changes take place as smoothly as possible. These measures include:

- u All employers, software companies and representative bodies were issued with a **Notice to Employers on the PAYE Tax Credit System from 6 April 2001 and the Calendar Tax Year from 1 January 2002**. This notice issued in October and contained an overview of the changes together with detailed examples showing how the PAYE tax credit system will operate
- u All employers will receive, in January next, a "Post Budget Notice" outlining the changes effective from 6 April 2001
- u An automated electronic newsletter facility has been set up on our website at www.revenue.ie. This allows employers, wages clerks, practitioners etc. to submit their e-mail address and receive information via e-mail on a regular basis in relation to the PAYE tax credit system. Employers not receiving information in this way will receive details via the postal system.
- u Workshops and seminars will be organised in conjunction with our offices around the country
- u Production of a Video/CD-Rom on the new tax system is planned
- u The PAYE/PRSI Guide for Small Employers will be updated before 6 April next
- u A national media campaign will operate in February and March next year to highlight the tax changes
- u All employees will receive information outlining the changes in clear and straightforward terms.

The Operation of PAYE under a Tax Credit System

With the introduction of a tax credit system from 6 April 2001, the procedure for calculating tax on an employee's salary/wages will change. **Tax Tables and Table Allowances will no longer be a feature of the PAYE system.**

The tax credit system will replace the existing tax-free allowance based system. Under a tax credit system, tax is calculated at the appropriate rates on gross pay to arrive at gross tax. Gross tax is reduced by the tax credits due, to arrive at the net tax payable. Gross Tax less Tax Credits = Tax Payable. The system is a cumulative system and where

tax credits and/or standard rate cut-off point are not used in a pay period, they are carried forward and are available for use in the calculation of tax due in the following pay period.

The new procedure will be as follows:

The tax office will, in respect of **each employee**, notify the employer of the:

- u Tax Credits
- u Standard Rate Cut-Off Point, and
- u Rates of tax.

This information will be provided on a "Certificate of Tax Credits and Standard Rate Cut-Off Point" (or tax deduction card, tape/diskette, as appropriate). This replaces the existing "Certificate of Tax-Free Allowances". The calculation of tax for each pay period is made by applying the information supplied in the certificate against the gross pay (less superannuation) as follows:

- u Gross pay is taxed at the appropriate tax rate(s) to give gross tax
- u The standard rate of tax is applied to gross pay up to the **standard rate cut-off point** for that week or month. Any balance of pay over that amount in that pay period is taxed at the higher rate.
- u The gross tax is reduced by the tax credit as advised by the tax office to arrive at the net tax payable.

Example of Tax Calculation under the Tax Credit System - with Budget 2001 changes and new forms

The following example is based on the short tax "year" from 6 April 2001 to 31 December 2001, containing 38 pay weeks/9 pay months.

A married couple, John and Margaret, have salary for the short tax "year" as follows:

- u John £500 p.w. x 38 weeks = £19,000
- u Margaret £2,000 p.m. x 9 months = £18,000

In the short tax "year" they pay mortgage interest of £2,148 and John has expenses in employment of £150. They are chargeable to benefit-in-kind on a company car of £1,500 and also have investment income of £500, the tax on which is collected through the PAYE system.

John and Margaret have requested that John be treated as the assessable spouse and that the tax credits and standard rate cut-off point be allocated evenly as follows:

	John	Margaret
u Tax Credits £2,280	£1,140	£1,140
u Standard Rate Cut-Off Point £27,750	£13,875	£13,875
		(i.e. transferred £5,735 plus increase £8,140)

The tax office provides John's employer with a certificate containing the following information:

- Tax Credits of £1,140 = £30 p.w.,
Standard Rate Cut-Off Point £13,875
= £365.14 p.w.
- Standard rate of tax 20%. Higher rate of tax 42%

The actual certificates and tax deduction card which would issue to John, Margaret and their respective employers are shown on the following four pages.

The tax calculation for the first week for John would be as follows:

Gross Pay	£500	i.e. gross pay for the week
Tax on £365.14 @ 20%	£73.02	i.e. standard rate up to a maximum of the standard rate cut-off point, as advised by the tax office
Tax on £134.86 @ 42%	£56.64	i.e. higher rate on pay in excess of the standard rate cut-off point
Total Tax	£129.66	i.e. sum of tax due at standard and higher rates
Less Tax Credit	(£ 30)	i.e. tax credit advised by the tax office
Tax Due this week	£99.66	i.e. total tax less tax credit.

NOTE : Tax credits are non-refundable e.g. where the gross tax on gross pay is, say, £100 and the tax credit is £120, the difference of £20 is not refunded. The employee simply has no tax liability for that period. **The unused tax credit of £20 is carried forward for offset against future tax due, on a cumulative basis. The cumulative basis also applies to the standard rate cut-off point.** This can be seen by examining the sample Tax Deduction Card (TDC) on pages 8 & 9 overleaf.

As mentioned, tax credits are non-refundable. Tax refunds will, of course, arise where cumulative tax for the last pay period exceeds cumulative tax for this pay period. See month 4 on the Tax Deduction Card on pages 8 & 9.

Tax Credits from the Employee's Perspective

Each employee will receive one of the following before the start of the next tax year

Notification regarding entitlements	Circumstances
Notice of Determination of Tax Credits and Standard Rate Cut-Off Point (Form P2)	This is the main Notification showing a full breakdown of all tax credits, standard rate cut-off point and amounts allocated to other employments (including a spouse's employment).
Allocation of Tax Credits and Standard Rate Cut-Off Point. (Form P2N)	This is generally issued where an individual has more than one job or where a married couple are jointly assessed. The main certificate (Form P2) has the full breakdown of all tax credits and standard rate cut-off point while this notification (Form P2N) shows the amounts allocated to this particular employment only.

Coded Income and Non-Standard Rated Reliefs

Some employees may be liable for tax on non-PAYE income e.g. Benefit-in-Kind, the tax on which is collected ("coded") through the PAYE system. Some may have deductions e.g. expenses in employment, on which tax relief is due at the higher rate of income tax.

Under the PAYE tax credit system "coded" income will be taxed by reducing:

- the tax credits by the amount of the income at the standard rate of tax
- the standard rate band by the amount of the income.

Reducing the tax credits ensures the non-PAYE income is taxed at the standard rate. Reducing the standard rate band ensures the income is taxed at the difference between the standard rate and the higher rate of tax. The combined effect is to collect tax due on the non-PAYE income at the higher rate of tax.

Non-standard rated reliefs will be granted by increasing:

- the tax credits by the amount of the relief at the standard rate of tax
- the standard rate band by the amount of the relief.

Increasing the tax credits ensures relief is obtained at the standard rate of tax. Increasing the standard rate band ensures relief is obtained at the difference between the standard rate and the higher rate of tax. The combined effect ensures relief is obtained in full at the higher rate of tax.

Tax Credits from the Employer's Perspective

In order for the employer to operate the system the tax office will, in respect of each employee, advise the employer of the tax credits and standard rate cut-off point and rates of tax to use in the calculation of tax for each pay day.

Employers who operate a manual system will receive this information incorporated into the Tax Deduction Card. See sample of a Tax Deduction Card showing this information at pages 8 & 9.

Employers who use their "Own System" will receive this in the form of a paper "Certificate of Tax Credits and Standard Rate Cut-Off Point". See sample on page 7.

Employers who are members of the **Computer Media Exchange Scheme** will receive this information in electronic format for certificates issued prior to the start of the short tax "year" and in the form of a paper "Certificate of Tax Credits and Standard Rate Cut-Off Point", if issued during the short tax "year".

(Continued on page 6)

Continued from page 5


Non-Standard Rated Reliefs and Standard Rate Cut-Off Point

Where an employee has deductions from income which qualify for tax relief at the higher rate of income tax, the tax credits will be increased by the amount of the relief at the standard rate of income tax and the standard rate tax band will also be increased by the amount of the relief.

Increasing the tax credits ensures relief is obtained at the standard rate of tax. Increasing the standard rate band ensures relief is obtained at the difference between the standard rate and the higher rate of tax. The combined effect ensures relief is obtained in full at the higher rate of tax.

Where an employee has non-PAYE income e.g. benefit-in-kind (the tax on which is collected through the PAYE system), the amount of the tax credits is reduced by the amount of the non-PAYE income at the standard rate of tax and the standard rate tax band is reduced by the amount of that income.

Reducing the tax credits ensures the non-PAYE income is taxed at the standard rate. Reducing the standard rate band ensures the income is taxed at the difference between the standard rate and the higher rate of tax. The combined effect is to collect tax due on the non-PAYE income at the higher rate of tax.

INCOME TAX - PAY AS YOU EARN				NOTICE OF DETERMINATION OF TAX CREDITS AND STANDARD RATE CUT-OFF POINT									
FOR THE PERIOD 6 APRIL 2001 TO 31 DECEMBER 2001 AND FOLLOWING YEARS													
MR JOHN WHITE BLASKET VIEW CO. KERRY				When calling or writing to the Tax Office - always quote <table border="1"> <thead> <tr> <th>Unit No.</th> <th>Employer Number</th> <th>PPS Number</th> </tr> </thead> <tbody> <tr> <td>000</td> <td>2233322P</td> <td>1234567A</td> </tr> </tbody> </table> When calling or writing to the Department of Social, Community and Family Affairs always quote your PPS Number.				Unit No.	Employer Number	PPS Number	000	2233322P	1234567A
Unit No.	Employer Number	PPS Number											
000	2233322P	1234567A											
TAX CREDITS				STANDARD RATE CUT-OFF POINT									
MARRIED TAX CREDIT		1626		STANDARD RATE BAND		29600							
PAYE TAX CREDIT		592											
HOME LOAN INTEREST PAYABLE													
2148 = TAX CREDIT OF		430											
AMOUNT @ 20%				AMOUNT									
INCREASED BY				INCREASED BY									
EXPENSES	150	30	30	150	150								
REDUCED BY				REDUCED BY									
BENEFIT IN KIND	1500	300		1500									
INTEREST AND INCOME	500	100	-400	500	-2000								
Net Tax Credits				Standard Rate Cut-Off Point									
Allocated to other employments		2280		Allocated to other employments		27750							
		1140				13875							
Tax Credits this employment IRE		1140		Cut-Off Point this employment IRE		13875							
Monthly Tax Credit IRE		126.67		Monthly Cut-Off Point IRE		1541.67							
Weekly Tax Credit IRE		30.00		Weekly Cut-Off Point IRE		365.14							
Total equivalent to €		1448		Total equivalent to €		17618							
Monthly equivalent to €		160.89		Monthly equivalent to €		1957.56							
Weekly equivalent to €		38.11		Weekly equivalent to €		463.64							
Standard Rate of Tax		20%		Higher Rate of Tax		42%							
The Tax Credits and Standard Rate Cut-Off Point have been advised to your employer X MURPHY & CO.													
Issued By THE INSPECTOR OF TAXES GOVERNMENT OFFICES SPA ROAD TRALEE CO. KERRY				Please see important notes overleaf. Date of Issue 6 APRIL 2001 P2									

This *Certificate of Tax Credits and Standard Rate Cut-Off Point* would issue to John's employer based on the example outlined on page 4.

The Tax Credit and Standard Rate Cut-Off Point advised to the employer agree with the bottom line figure shown on the Notice of Determination issued to John.

INCOME TAX - PAY AS YOU EARN
CERTIFICATE OF TAX CREDITS AND STANDARD RATE CUT-OFF POINT
 FOR THE PERIOD 6 APRIL 2001 AND FOLLOWING YEARS

To: X MURPHY & CO Registered No. 2233322P

Re Employee: MR JOHN WHITE
 1 BLASKET VIEW
 CO. KERRY

The PPS Number must be quoted on all official forms and on other documents authorised by the Revenue Commissioners referring to this employee

PPS Number 1234567A Standard Rate of Tax 20% Higher Rate of Tax 42%

	IR£	Euro €		IR£	Euro €
Total Tax Credits	1140	1448	Standard Rate Cut-Off Point	13875	17618
Monthly Tax Credit	126.67	160.89	Monthly Cut-Off Point	1541.67	1957.56
Weekly Tax Credit	30.00	38.11	Weekly Cut-Off Point	385.14	483.64

This certificate is effective from 6 APRIL 2001

It cancels any previously issued certificates for the period stated.

If the employee leaves your employment you should complete Form P45 (Cessation Certificate) and

(a) Send Part 1 of Form P45 to the Tax Office

(b) Give Parts 2, 3 and 4 of Form P45 to the employee on leaving.

Issued by INSPECTOR OF TAXES
 GOVERNMENT OFFICES
 SPA ROAD
 TRALEE
 CO. KERRY

The date of this certificate is 6 APRIL 2001

P2C

This *Allocation of Tax Credits and Standard Rate Cut-Off Point* would issue to Margaret based on the example outlined on page 4.

The allocation of tax credits and Standard Rate Cut-Off Point as advised to Margaret agree with the amount "allocated to other employments" shown on the Notice of Determination issued to the assessable spouse i.e. John in this example. See John's Notice on the page opposite.

INCOME TAX - PAY AS YOU EARN
ALLOCATION OF TAX CREDITS AND STANDARD RATE CUT-OFF POINT

MRS MARGARET WHITE
 1 BLASKET VIEW
 CO. KERRY

PPS Number 1234567AW
 Employee's No. 40001891
 Unit Number 000

A Certificate of Tax Credits and Standard Rate Cut-Off Point has been issued to your employer
 SOFTWARE PRODUCTIONS (IRL) LTD.

Showing:-

	IR£	Euro €		IR£	Euro €
Total Tax Credits	1140	1448	Standard Rate Cut-Off Point	13875	17618
Monthly Tax Credit	126.67	160.89	Monthly Cut-Off Point	1541.67	1957.56
Weekly Tax Credit	30.00	38.11	Weekly Cut-Off Point	385.14	483.64

Standard Rate of Tax 20% Higher Rate of Tax 42%

For your own information, the details of the Total Tax Credits allocated to you are as follows:-

PAYE TAX CREDIT	296
MISC. CREDITS	844

See notes overleaf

Issued by INSPECTOR OF TAXES
 PAYE 4 DISTRICT
 O'CONNELL STREET
 DUBLIN 1

The date of this notification is 6 APRIL 2001

P2N

Continued from page 7

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Employee's Name		PPS Number		Works No.		Total Tax Credit		Total Cut-Off		Date of Issue	
MRS MARGARET WHITE		1234567A W				1140		13875		6/4/2001	

Row	Gross Pay (less Superannuation) this period		Cumulative Gross Pay to Date		Cumulative Standard Rate Cut-Off point		Cumulative Tax due at Standard Rate		Cumulative Tax due at Higher Rate		Cumulative Gross tax		Cumulative Tax Credit		Cumulative Tax (cannot be less than 0)		Tax deducted this period		Tax refunded this period	
	£	p	£	p	£	p	£	p	£	p	£	p	£	p	£	p	£	p	£	p
1																				
2																				
3																				
4	2400	00	2400	00	1541	67	308	33	348	49	648	83	126	67	542	16	542	16	0	00
5																				
6																				
7																				
8	1600	00	4000	00	3083	34	616	66	384	99	1001	66	253	34	748	32	206	16	0	00
9																				
10																				
11																				
12																				
13	2000	00	6000	00	4025	01	925	00	577	49	1582	49	300	01	1122	10	374	16	0	00
14																				
15																				
16																				
17	500	00	6500	00	6166	68	1232	33	139	99	1773	33	506	68	866	43	0	00	255	84
18																				
19																				
20																				
21	3500	00	10000	00	7708	35	1541	67	962	49	2594	16	633	35	1870	11	1004	16	0	00
22																				
23																				
24																				
25																				
26	2000	00	12000	00	9250	02	1850	00	1154	99	3694	99	760	02	2244	17	374	16	0	00
27																				
28																				
29																				
30	2000	00	14000	00	10791	89	2158	33	1347	49	5045	82	866	68	2619	12	374	16	0	00
31																				
32																				
33																				
34	2000	00	16000	00	12333	36	2466	67	1527	98	6566	66	1013	36	2773	10	374	16	0	00
35																				
36																				
37																				
38	2000	00	18000	00	13875	03	2775	00	1732	48	8297	49	1140	03	3367	16	374	16	0	00

← Pay

← Pay

Day Month Year

F4

F5

Previous Employment

DEDUCT

Tax →

This Employment

Net Tax deducted or Net Tax refunded

F6

If employment ceased during the tax year enter date of cessation at F5

If employment began (a) in Week 1 or later or (b) before Week 1 but first pay day was in Week 1 or later, enter date of commencement at F4

Description of Entry for each Column

- G** Enter gross pay (less superannuation) for this pay period.
- H** Enter cumulative gross pay (less superannuation) to date i.e. pay for this period plus cumulative gross pay to the previous pay period)
- I** This information is provided by the tax office
- J** Enter the lower of column H or I multiplied by standard rate of tax as advised by the tax office
- K** Where H minus I is positive enter the result @ 42%. Where H minus I is negative enter nil
- L** Add the figures in J and K and insert the answer in this column
- M** This information is provided by the tax office
- N** Subtract M from L and insert the answer in this column. Where the answer is negative enter nil
- O** Subtract the cumulative tax (N) for the last pay period from the cumulative tax (N) for this pay period and enter the result here. Where the answer is negative enter nil
- P** Subtract the cumulative tax (N) for this pay period from the cumulative tax (N) for the last pay period and enter the result here. Where the answer is negative enter nil

TAX CREDIT SYSTEM

Continued from page 9

Questions and Answers on the New System

What is the procedure if an employer does not receive a Certificate of Tax Credits and Standard Rate Cut-Off Point in respect of an employee?

The employer should operate the emergency procedure and advise the employee to contact his/her Inspector of Taxes to get a Certificate.

Will the Tax Deduction Card and Certificate of Tax Credits and Standard Rate Cut-Off Point be re-designed to cater for the new system?

Yes - samples of the new forms are shown on pages 6 to 9 inclusive.

Will there be a new P45?

Yes - see sample below. The new Revenue On-Line Service (ROS) provides a facility for the submission of P45 part 1 on-line and the printing of parts 2, 3 and 4 onto computer stationery which is available from our *Revenue Forms and Leaflets Service* at 01-8780100. For further information please refer to our website at www.revenue.ie or www.ros.ie

Does the Week 1/Month 1 (Non-Cumulative) Basis still apply?

Yes. If the week 1/month 1 basis applies neither the pay, tax credits nor the standard rate cut-off point are accumulated for tax purposes. The pay for each income tax week or month is dealt with separately. The tax credits and standard rate cut-off point for week 1 (or month 1) are used in the calculation of tax due each week (or each month). No refunds may be made by the employer in such cases. Although pay is not accumulated for tax purposes, the employer must take total pay to date into account for the purpose of the ceiling for PRSI contributions.

What is the position regarding taxation of Short-Term Social Insurance Disability Benefit and Occupational Injury Benefit?

Where an employee becomes entitled to receive such benefits, employers are required to make certain adjustments to their normal PAYE procedures to take account of these benefits.

The adjustments necessary (see 1, 2 and 3 below) depend on the option chosen by the employer.

Up to 5 April 2001 there are 3 options for dealing with the **taxable portion** of this income. These options are:

1. Add to pay and tax accordingly
2. Reduce Tax-Free Allowances by the taxable amount or
3. Put the employee on a week 1/ month 1 basis for the remainder of the year

From 6 April 2001 the 3 options will be:

Option 1

Add to pay and tax accordingly.

Option 2

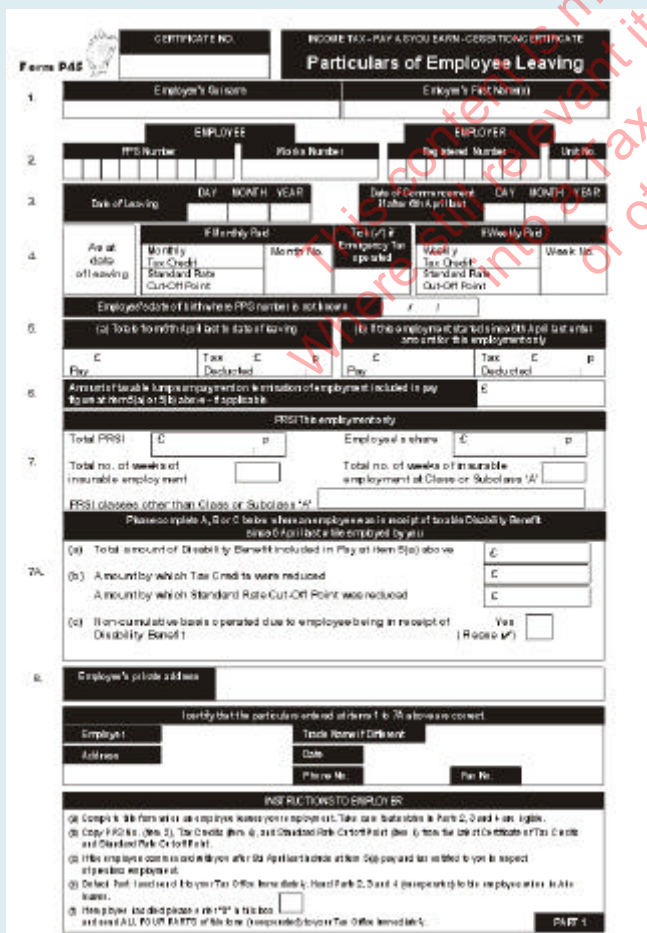
Reduce the weekly/monthly tax credit by the weekly/monthly taxable amount at 20% and reduce the weekly/monthly standard rate cut-off point by the full taxable amount e.g. where, for example, an employee has a weekly tax credit of £45 and a weekly standard rate cut-off point of £200 and receives taxable Disability Benefit of £50 p.w. the employer should, if using this option:

- n Reduce the weekly tax credit by £10 i.e. £50 @ 20%
- n Reduce the weekly standard rate cut-off point by £50

The cumulative tax credit and standard rate cut-off point for following weeks would need to be adjusted accordingly.

Option 3

Put the employee on a week 1/ month 1 basis for the remainder of the year.



Form P45 **CERTIFICATE NO.** **INCOME TAX - PAY AS YOU EARN - CERTIFYING CERTIFICATE**

Particulars of Employee Leaving

1. **EMPLOYER'S DETAILS**
 Employer's Name: _____
 Employer's PPS Number: _____

2. **EMPLOYEE'S DETAILS**
 Employee's Name: _____
 Employee's PPS Number: _____

3. **TAX CREDITS AND STANDARD RATE CUT-OFF POINT**
 Tax Credits: _____
 Standard Rate Cut-Off Point: _____

4. **EMPLOYEE'S SIGNATURE AND DATE**
 Signature: _____
 Date: _____

5. **INSTRUCTIONS TO EMPLOYER**
 (a) Complete this form and give it to the employee when you pay your first PAYE return.
 (b) Copy this form to the Revenue (Form 1), Tax Credits (Form 2), and Standard Rate Cut-Off Point (Form 3) from the Revenue website or from the Revenue website.
 (c) If the employee is a new employee, the employer must complete this form and give it to the employee when they start work.
 (d) If the employee is a returning employee, the employer must complete this form and give it to the employee when they start work.
 (e) If the employee is a returning employee, the employer must complete this form and give it to the employee when they start work.

How many weeks are there in the Short Tax “Year”?

There are 38 full weeks and 4 days. This means that some employees will have 38 pay days and some will have 39. Where an employee has 39 pay days in the short tax “year” the procedures applicable to a payment falling in week 53 in a full tax year will apply. This means that the employer should operate a week 1 basis and calculate tax due by using one week’s tax credits and one week’s standard rate cut-off point as advised in the Certificate of Tax Credits and Standard Rate Cut-Off Point/Tax Deduction Card.

What are the implications of the Short Tax “Year”?

The tax credits and the standard rate cut-off point due for the short tax “year” will be divided by 38 for weekly paid employees and by 9 for monthly paid employees.

The certificates of Tax Credits and Standard Rate Cut-Off Point which will issue to employers will show the amounts due for the short tax “year” from 6 April 2001 to 31 December 2001.

Weekly Tax Calendar for the short tax “year” from 6 April 2001 to 31 December 2001

Week Number	Pay day between (both dates inclusive)	Week Number	Pay day between (both dates inclusive)
1	April 6 - April 12	21	Aug 24 - 30
2	13 - 19	22	31 - Sep 6
3	20 - 26	23	Sep 7 - 13
4	27 - May 3	24	14 - 20
5	May 4 - 10	25	21 - 27
6	11 - 17	26	28 - Oct 4
7	18 - 24	27	Oct 5 - 11
8	25 - 31	28	12 - 18
9	June 1 - June 7	29	19 - 25
10	8 - 14	30	26 - Nov 1
11	15 - 21	31	Nov 2 - 8
12	22 - 28	32	9 - 15
13	29 - July 5	33	16 - 22
14	July 6 - 12	34	23 - 29
15	13 - 19	35	30 - Dec 6
16	20 - 26	36	Dec 7 - 13
17	27 - Aug 2	37	14 - 20
18	Aug 3 - 9	38	21 - 27
19	10 - 16	*39	28 - Dec 31
20	17 - 23		

* Where a pay day falls in week 39 in the short tax “year”, the procedures applicable to a payment falling in week 53 in a full tax year will apply.

The Tax Deduction Card (on pages 8 & 9) shows the monthly tax calendar for months numbered 1 to 9 at column B.

How does a Tax Credit System operate for different pay frequencies?

Fortnightly pay - for the purpose of these procedures, fortnightly pay should be regarded as paid on the same weekday throughout the year. For example, where normal pay-day is on every second Friday but one pay-day is changed to the previous Thursday, the following day (Friday) should still be regarded as the pay-day for the purpose of determining the income tax week.

Fortnightly Pay - Tax Credits and Standard Rate Cut-Off Point to be used in the calculation of tax due

If cumulative basis applies:

Income tax week in which payment is made	Cumulative tax credits and Standard Rate Cut-Off Point at Week No.	Income tax week in which payment is made	Cumulative tax credits and Standard Rate Cut-Off Point at Week No.
1 or 2	2	21 or 22	22
3 or 4	4	23 or 24	24
5 or 6	6	25 or 26	26
7 or 8	8	27 or 28	28
9 or 10	10	29 or 30	30
11 or 12	12	31 or 32	32
13 or 14	14	33 or 34	34
15 or 16	16	35 or 36	36
17 or 18	18	37 or 38	38
19 or 20	20		

The tax credits and standard rate cut-off points used in the calculation of tax due where a non cumulative basis applies are as follows:

If week 1 basis applies use:

Twice the amount of the weekly tax credits and standard rate cut-off point figure as shown on the Certificate of Tax Credits and Standard Rate Cut-Off Point or tax deduction card. (This includes the situation where fortnightly pay is paid in week 1).

If temporary basis applies use:

Twice the amount of the weekly tax credits and standard rate cut of point figure as shown on the Certificate of Tax Credits and Standard Rate Cut-Off Point or on form P45.

If emergency basis applies:

See separate question on emergency tax.

Fortnight 19:

For the short tax “year” there will be 19 fortnightly pay days. Where, exceptionally, a “fortnight 20” pay day occurs pay in fortnight 20 should be treated on a week 1 basis and an extra fortnight’s tax credits and standard rate cut-off point should be used in the calculation of tax due. Any underpayment of tax arising will be dealt with by way of review of the employee’s liability after the end of the short tax “year”.

(Continued on page 12)

TAX CREDIT SYSTEM

Continued from page 11

Four-Weekly Pay - Tax Credits and Standard Rate Cut-Off Point to be used in the calculation of tax due

If cumulative basis applies:

Income tax week in which payment is made	Cumulative tax credits and Standard Rate Cut-Off Point at Week No.	Income tax week in which payment is made	Cumulative tax credits and Standard Rate Cut-Off Point at Week No.
1 - 4 inclusive	4	29-32 inclusive	32
5 - 8 inclusive	8	33-36 inclusive	36
9 - 12 inclusive	12	37-39 inclusive	Week 1 basis see below
13 - 16 inclusive	16		
17 - 20 inclusive	20		
21 - 24 inclusive	24		
25 - 28 inclusive	28		

The tax credits and standard rate cut-off points used in the calculation of tax due where a non-cumulative basis applies are as follows:

If week 1 basis applies use:

Four times the amount of the weekly tax credits and standard rate cut-off point figures as shown on the Certificate of Tax Credits and Standard Rate Cut-Off Point or tax deduction card (irrespective of the week in which the payment is made).

If temporary basis applies use:

Four times the amount of the weekly tax credits and standard rate cut-off point figures as shown on the Certificate of Tax Credits and Standard Rate Cut-Off Point or on form P45 (irrespective of the week in which the payment is made).

If emergency basis applies:

See separate question on emergency tax.

Monthly Pay - Tax Credits and Standard Rate Cut-Off Point to be used in the calculation of tax due

If cumulative basis applies use:

The cumulative tax credits and standard rate cut-off point up to and including the income tax month in which the pay day falls.

If month 1 basis applies use:

The amount of the tax credits and standard rate cut-off point figures as shown on the Certificate of Tax Credits and Standard Rate Cut-Off Point or tax deduction card.

If temporary basis applies use:

The amount of the monthly tax credits and standard rate cut-off point figures as shown on the Certificate of Tax Credits and Standard Rate Cut-Off Point or on form P45.

If emergency basis applies:

See separate question on emergency tax.

Month 9:

For the short tax "year" the annual tax credits and standard

rate cut-off point will be divided by 9. Where, exceptionally, only 8 monthly pay days occur the tax office will deal with any refund of tax arising by way of review of the employee's liability at the end of the short tax "year".

What is the position regarding deduction of tax from "holiday pay"?

The tax credits and standard rate cut-off point to be used in the calculation of tax on "holiday pay" paid in advance of the usual pay-day are strictly those (whether cumulative, week 1/month 1, temporary or emergency) which relate to the income tax week or month in which it is paid.

If, however, the effect of paying holiday pay in advance is that the employee receives the equivalent of two or three weeks pay in the same week and no pay in the following week, or following two weeks, the tax credits and standard rate cut-off point for those weeks may be taken into account in the calculation of tax due on the normal pay and the holiday pay except where the employee *is being paid holiday pay immediately before leaving the employment*.

Where holiday pay is being included in the last payment of salary or wages before 31 December 2001 (end of the short tax "year") and the relevant holiday period includes a period of the next income tax year (i.e. calendar tax year) the procedure is as follows:

- n if at the time the payment is being made a "multi-year" certificate or a Certificate of Tax Credits and Standard Rate Cut-Off Point or Tax Deduction Card for the next year has been received the amount of the holiday pay in respect of the period in the next year should be ascertained. The amount of tax which would be deducted from the amount of such holiday pay as if it was paid in the next year should be calculated and entries made in the pay record for the next year accordingly. The entries in the pay record for the current year should be the net amount of the pay after subtracting the amount of the holiday pay included in the next year's pay record from the amount of the total payment and the tax appropriate to such net amount on the basis of the cumulative tax credits and standard rate cut-off point at Week 38.
- n if at the time the payment is being made neither a "multi-year" Certificate of Tax Credits and Standard Rate Cut-Off Point nor a following year's certificate nor a Tax Deduction Card has been received the tax to be deducted should be calculated on the basis of the cumulative tax credits and standard rate cut-off point at Week 38 and entries made in this year's record only. The benefit of the cumulative tax credits and standard rate cut-off point from 1 January will be given when the first payment of salary or wages is being made to the employee in the next year.

What information should appear on payslips?

The Payment of Wages Act 1991 obliges employers to give to each employee with every wage packet a written statement of gross wages and itemising each deduction. If wages are paid by credit transfer, the statement of wages should be given to the employee soon after the credit transfer has taken place.

The tax deduction must be shown. There is no requirement to show the computation. However, to cut down on questions from employees most employers show the actual computation. It would be helpful though not obligatory if the Employer Registered Number was included.

How will Emergency Basis work?

The procedures regarding Emergency Tax will be included in the post Budget Notice to Employers which will issue in January 2001. **Z**

CALENDAR TAX YEAR

Revised Filing Dates

Calendar Tax Year Update

In **Tax Briefing** Issue 41 (September 2000), we outlined details of the change to a calendar tax year. The Minister for Finance, following a meeting with the Consultative Committee of Accountancy Bodies - Ireland (CCAB-I) and the Institute of Taxation, on 4 October 2000 revised and simplified the proposed dates which are to apply in a calendar tax year system for the filing of tax returns and the payment of tax under Self-Assessment.

The legislation to give effect to the new system will be contained in the Finance Bill 2001.

The changes will start to apply in 2002. Thus, the tax return for the short tax "year" from 6 April 2001 to 31 December 2001 and the balance of tax for that short tax "year" will both be due by 31 October 2002. Preliminary tax for the tax year 2002 will also be due by 31 October 2002, with the return and balance of tax for that year being due on 31 October 2003.

A comparison of the existing and the new arrangements is set out in the following Table.**Z**

Event	Existing system		New System	
	Date	Interval	Date	Interval
Pay Preliminary Tax	1 November (in year of assesment)	7 Months (from start of year of assessment)	31 October (in year of assesment)	10 Months (from start of year of assessment)
File Return	31 January (in following year of assesment)	10 Months (from end of year of assessment)	31 October (in following year of assesment)	10 Months (from end of year of assessment)
Pay Balance of Tax	30 April (in year following the return filing date)	13 Months (from end of year of assessment)	31 October (the same day as the return filing date)	10 Months (from end of year of assessment)