

TAX BRIEFING

REVENUE ON-LINE SERVICE



Paul Duff, Accenture, Frank Daly, Revenue Commissioner, Noel Treacy, Minister for Science & Technology, Margaret Whelan, ROS Strategy Manager and Eilish Keegan, ROS, at the recent EU eGovernment Best Practice Label Awards in Brussels

A number of issues have been raised by the Institute of Taxation, CCABI, the Big 5 Accountancy Practices and other firms regarding the filing of Forms 11 & CT1 through ROS. In this article we would like to take the opportunity to answer many of the questions raised and to clarify and explain Revenue's position on these matters. Following the questions and answers there is a section dealing with the Accounts menus separately.

Is it possible for Revenue to supply tax practitioners with a list of their clients as per Revenue records?

There have been a number of requests from practitioners to provide comprehensive lists of their clients to them. A decision was taken to defer the program to identify these lists in view of the transfer of all IT/CT/CGT cases into the new Integrated Taxation Processing (ITP) system in mid September 2001. As part of this transfer all "redundant" cases were dropped from the new system. This resulted in a significant "clean out" of cases and will save needless checking of out-of-date lists.

As the ITP system is now in operation and stable, ROS management have requested the program and extract which will enable Revenue to issue these lists in a user-friendly format. As you will appreciate with over 13,000 agents representing 400,000 clients, the task of issuing the data in a meaningful, user-friendly fashion is not to be underestimated. It is intended to issue these lists initially to those agents who have specifically requested the data by e-mail or diskette. Following this it is hoped to issue lists to other agents on request early in the new year. When requesting this please forward your e-mail details to Taxes Central Registration Office at tcro.revenue.ie.

Is it possible to issue a second TAIN number for ROS Clients?

The issue here relates to what client details will be on ROS and a request for Revenue to issue a second TAIN number to cater for clients who don't want their details on the Internet. The ROS system has been designed for the generality of taxpayers who want to avail of its services and benefits. It is not possible to design

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KEY DATES

January

14 PAYE/PRSI
P30 monthly return and payment for month ended 31 December

14 DWT
Return and payment of DWT for month ended 31 December

14 RCT
RCT30 monthly return for 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 Tax

31 Income Tax
Return of Third Party Information

February

14 PAYE/PRSI
P30 monthly return and payment for month ended 31 January

14 DWT
Return and payment of DWT for month ended 31 January

14 RCT 30
Return and payment for January

15 RCT 35
RCT 35 return for year ended 31 December

15 PAYE/PRSI
Issue P60 to each employee

15 PAYE/PRSI
Due date for submission of Form P35 for year ended 31 December

1-28 Corporation Tax
Preliminary Tax for APs ending between 1-31 August

1-31 Corporation Tax
Returns for APs ending between 1-30 May

1-31 Corporation Tax
Returns of Third Party Information for APs ending between 1-30 May

March

1 PAYE
Bulk Issue of Certificates of Tax Credits and Employer TDCs

14 PAYE/PRSI
P30 monthly return and payment for February

14 DWT
Return and payment of DWT for month ended 28 February

14 RCT
RCT 30 monthly return and payment for 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

31 Income Tax
Deadline for claiming Separate Assessment

31 Income Tax
Deadline for nominating Assessable Spouse

EDITORIAL



On behalf of all involved in the production of **Tax Briefing** in the past year I would like to wish all our

readers and contributors a very Happy Christmas and Best Wishes for the New Year.

At this time it is appropriate to extend sincere thanks to the staff from the various areas within Revenue who contributed articles in 2001. 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 offered their views on the content of the material published.

These welcome suggestions greatly assisted in ensuring that the articles were kept both topical and relevant. We look forward to receiving this ongoing support from all our readers.

Finally, I would like to say a special word of thanks to the Customer Service Unit team for their dedication and skills in meeting the publishing and design requirements for each issue.

Niall Cody.

ROS

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a system to cater for every eventuality or special interest request. Revenue are fully confident of the integrity and security of their on-line service and will continue to ensure that this standard is maintained through ongoing security tests, audits, etc. The sole responsibility for the security of the service rests with Revenue.

However, just to clarify for those who have concerns, the only client information that comes across the Internet to ROS is the client's name and number. The ROS administrator can ensure that no further information is available. This is a matter of confidence between the client and agent. Revenue will not be issuing second TAIN numbers to practitioners. It should be noted that while information on all the agents is available through ROS, there is no obligation to file returns through ROS for a client.

Is it possible to provide a hard copy of returns for transmission to clients?

- ▼ The facility to print hard copies of the on-line and off-line Forms 11 and the off-line Form CT1 pre and post submission is currently available. There are two formats available at present. The first option is a facility to print a

summary of the form including a calculation of the liability. The second format prints the complete form showing details of all entries made, including the accounts data entered and all the data in the mini calculators. It should be noted that a declaration similar to the paper format is included at the end of each format. If it is felt necessary, agents can ask their clients to sign this declaration and keep this paper copy for their own records

- ▼ The VAT3 and PAYE (Employers) P30s post submission on-line forms can be printed from the inbox
- ▼ From January 2002, the VAT 3 and PAYE/Employers P30 forms will be available off-line with suitable wording for the signatories along with full print facilities pre and post submission
- ▼ ROS is currently looking at a requirement for the pre-submission print of the on-line version of the VAT and PREM forms but the date for delivery of this service is not yet decided
- ▼ The on-line forms cannot be transmitted to clients in the same manner as the off-line forms.

How should Hard Copies of returns be linked with Electronic Submission?

It is not or never was Revenue's intention to impose controls into practitioners' systems. Practitioners are always responsible for internal control ensuring that the forms which their clients authenticate are the ones transmitted to Revenue whether through ROS or otherwise.

How are Surcharges dealt with by ROS?

The issue raised here was why ROS does not compute and display the late filing surcharge in appropriate cases.

Surcharges were not included in ROS due to the availability of the off-line Form 11, which, by its nature, cannot compute the surcharge and because of many requests from practitioners to exclude it. All procedures and decisions on surcharges continue to be applied as set out in the Statement of Practice on Surcharges for all of Revenue's customers.

In an effort to meet the conflicting requirements of practitioners, ROS will be developed to show a warning message on the on-line forms in circumstances where a surcharge will apply. This will be available in the first quarter of 2002.



ROS

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If practitioners wish us to compute and display the late filing surcharge on the on-line forms in a future release of ROS they should make this known to ROS management.

Where are Panels 18 et seq from the paper Form CT1 on the ROS CT1?

The information in these panels is incorporated into other sections of the ROS return and is not omitted. The data is being requested in a truncated form for ease of completion for ROS users.

How are Loss/Group Relief Claims dealt with through ROS?

Restrictions will be advised to the tax office through a new electronic transaction review system, provided the tick box on the return has been completed. The electronic review system will ensure that the appropriate reliefs are given to each case.

Is it possible to print the computations shown in ROS?

All computations (including computations from the mini calculators) will print as part of the print facility in ROS.

Is it possible to Sign and Submit Batches of Forms 11 & CT1 in ROS?

The load, sign and submit facility is a single process on-line and loading is currently restricted to the person who signs and submits the forms. It is intended to change the loading feature in the first quarter of 2002 to meet requirements of practitioners for the batch filing of returns.

What additional features are now available in the ROS Customer Information Service (CIS)?

The Customer Information Service (CIS) now includes Income Tax, Corporation Tax and Capital Gains Tax details. This service provides up to date information on returns,

payments, credits, statements of account, etc. for the current year and the previous two years. It is hoped to extend the numbers of years for which information is available in the future.

At present we are planning for the redesign of both the tax clearance procedures and Relevant Contacts Tax (RCT) on the Revenue mainframe system, possibly in 2002. At this stage it is our intention that RCT at least will be made available through ROS in 2002.

When will Forms 12 and Facilities for PAYE Taxpayers be available in ROS?

Our PAYE system is scheduled to be redesigned over the coming two years. When this has been completed, full facilities for PAYE taxpayers will be provided on ROS.

What will individual partners file and will there be linking of Form 1/ Form 11(Firm) with Form 11?

Individual partners will be able to submit their Form 11 through ROS and the partnership accounts will be submitted with the Form 1 (Firm) manually as with existing practice. Any loss claims on Forms 11 will be processed in the normal fashion whether filed through ROS or otherwise. Any linking of the two forms i.e. the Form 1 and the Form 11 will be part of the audit screening process as heretofore.

Will ROS and/or Revenue's main processing system reject any Returns?

ROS rejects any returns that are being submitted incorrectly e.g. serial number not on record; the data submitted conflicts with the registration data on file (commencement/cessation dates); if a return has already been processed, etc. It also rejects returns that do not have completed accounts information.

Due to the complexities involved in finalising the liability for death cases it is not possible to file Forms 11 for death cases.

Furthermore in death cases you are advised not to use ROS (for VAT & PAYE/Employers' forms) if the personal representative details are not on Revenue records, as there will be an overriding stop on the case. This is the only known instance where ROS may accept a return but the main processing system will reject it - hence the warning.

However, Revenue will continue to monitor this and would appreciate being advised of any instances of rejection should they arise.

Are the computations shown in ROS Indicative Computations?

Double Taxation Relief calculators are not available in ROS due to their complexity. However double taxation relief and the Irish Effective rate are included in the calculation of the liability in ROS for the Form 11.

The manufacturing relief, small companies relief, BIK, health expenses, retirement annuity relief and job assist calculations in ROS are all correct. The exemption rules, marginal relief and effective rates are all in accordance with the assessing system.

The ROS computations should no longer be regarded as "indicative". Revenue will stand over the calculations performed on ROS.

How will the Capital Gains Tax information on the returns be treated?

The details requested in ROS are in lieu of a computation. The tax district will be notified by ROS of the details input for the manual issue of the notice of assessment. There are plans to improve this page for later returns.



ROS

How are Capital Allowances claims treated?

As with Capital Gains Tax, the details requested are in lieu of the computations. Desk and field audits of capital allowances figures will, of course, continue and in these circumstances an auditor may request a computation.

What about the differences between the paper returns and the ROS returns?

It is accepted that there is a requirement to bring both the ROS return and the paper return into line and this work is ongoing at the moment.

What is the position regarding Revenue Audits?

We have been asked to consider reducing the current six-year time limit in which Revenue may carry out an audit particularly in the case of returns filed through ROS. (*Section 956 TCA 1997*).

Subject to the following conditions Revenue is prepared to look favourably at recommending a reduction in the period of six years, specified in *Section 956*, to four years. The conditions are:

- The reduction will only apply to returns filed electronically through ROS.
- That there is a significant uptake in returns filed through ROS. By this we mean at least 50% of both Forms 11 and Forms CT1 to be filed electronically; and
- That the grounds for excluding “fraud or neglect” enquiries will be extended to cover enquiries being conducted with a view to detecting tax avoidance schemes.

Revenue is not prepared to recommend any reduction in the six-year time period stipulated in *Section 886 TCA 1997* regarding the keeping of business records. In this regard the maximum time period of

six years also applies to *Section 917 D* - electronic transmission of returns, etc.

Revenue is also not prepared to recommend any reduction for the period for making assessments.

How will Expressions of Doubt be treated?

Two issues have been raised with Revenue under this heading:

Procedures and Practices in Tax Districts:

It is accepted that different practices have emerged and that there is a need for a more consistent treatment across all tax districts. New instructions will be issued to all tax districts on how this issue, which will also incorporate how Expressions of Doubt filed through ROS, should be dealt with.

Specific Timeframe for a Revenue response:

Subject to the following conditions Revenue is prepared to look favourably at introducing a specific time limit by which Revenue must respond to an Expression of Doubt. The time limit Revenue has in mind is two years from the date the return is filed.

The conditions attaching to this are:

- This specific period will apply only to returns filed electronically through ROS and
- There is a significant uptake in returns filed through ROS. By this we mean at least 50% of both Form 11 and Form CT1 being filed electronically.

Can the costs of switching to ROS be offset?

Revenue expenses incurred in identifying and extracting accounts information are allowable deduction in computing the profits for Schedule D.

No further tax relief measures will be provided, for example, double tax deduction, capital costs, etc.

How will clients be advised about ROS?

During the course of 2002, we will be extensively advertising the new Pay and File arrangements. We intend to incorporate into this the changes and benefits which ROS will bring.

ROS will be delighted to assist in any way possible e.g. speakers, Computer Gym, leaflets etc, if any of the representative bodies are holding seminars or workshops during 2002.

Is there a Helpdesk available to deal with any queries regarding ROS?

The ROS Help Desk is currently available from 8.30 to 6.30 from Monday to Friday (6.00pm. Friday). At present the numbers of calls peak during the core business hours. There is also a record kept of calls “abandoned” over the weekend and the numbers are very small.

ROS will, however, keep this issue under constant review and will re-visit it if necessary. One proposal, for example, may be to expand the service at peak filing and payment dates. Please keep the ROS management team informed of your requirements in this regard.

Accounts Issues

A large number of questions have been raised concerning accounts generally and are dealt with below.

Standard Accounts:

This concept has been abandoned following consultations and discussions with relevant parties. In its place there are now two formats for the accounts. The first is for cases with a turnover less than £250,000 (€320,000) and the second is for cases with a turnover greater than

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ROS

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£250,000 (€320,000) but less than £10,000,000 (€13,000,000).

Full details were set out in **Tax Briefing** 44, June 2001.

Accounts menus an Additional Burden?

It appears from some correspondence with practitioners that they see the menus as imposing an additional burden on them. This is true if viewed solely from the perspective of inputting the relevant data from an already prepared set of accounts. A filer would have to sit with the accounts and extract the information, probably in a different sequence to the way it is presented in their printed accounts. Even where a 25-item menu is presented, the relevant figures must be extracted and input.

The balance Revenue is offering to this is the benefits of ROS (speedier service, access to information, validation checks, calculation facilities, payment options, etc.), and the consultation process with software companies by which we hope to encourage as many of them as possible to provide a complete package of software from accounts preparation through to filing all the relevant information on ROS.

The impression has been conveyed by some representations that we may be seeking a re-analysis of accounts to completely fill our menus as defined. However, the term 'menu' is chosen specifically because that is what it is. The customer selects from the list of items those headings which relate to his/her accounts. Re-analysis to provide figures under all the headings will not be required and 'other' categories, have been included to account for any unusual items in a person's own accounts.

Finally, these menus have in-built (addition and subtraction) calculation facilities which also carry-forward relevant figures (e.g. net profit to the

Capital Account in IT cases) and the relevant add-backs to the adjusted profit computations.

Discussions with software houses are ongoing to provide an automated and seamless transfer of data from accounts packages to the ROS menus. Anyone wishing to discuss software issues should contact Eilish Keegan, ROS directly at
Tel: 01- 2771108,
email: ekeegan@revenue.ie.

Accounts with turnover less than £250,000 (€320,000)

A significant number of our customers will benefit from having to provide LESS information than before. Possibly one-third of our Income Tax returns are made by individuals themselves or by very small agents. Approximately 70% of our customers (IT and CT) have turnovers of less than £250,000 (€320,000). It is clear, therefore, that there will be a market for the short menu (£250,000, €320,000) and in spite of the extraction effort mentioned above, this short menu will provide a useful option for a large number of our customers.

In addition this menu is a list of risk (from a tax perspective) data and does not try to represent a complete set of accounts. All that is required is the input of relevant items.

[Note: Furthermore, in the menu there are headings for subcontractors and two headings for debit and credit client account balances. These headings are for people involved in the construction industry and solicitors. All other cases, therefore, are looking effectively at a menu of only twenty two items.]

Accounts with turnover greater than £250,000 (€320,000)

These menus are designed to be as generic as possible and will 'fit' most cases. There are 3 categories on income in both the Income Tax and Corporation Tax menus. These

menus are: General trades/services (Income Tax & Corporation Tax), Professionals (Income Tax & Corporation Tax), Farmer (Income Tax) and Construction/Manufacturing (Corporation Tax). The menus have between 60 and 75 items, of which between 10 and 20 items are mandatory depending on the category of income.

These menus have in-built (addition and subtraction) calculation facilities which also carry-forward relevant figures (e.g. net profit to the Capital Account in IT cases), and the relevant add-backs to the adjusted profit computations.

There will be particular cases and industries which they do not suit but with experience and demand we will develop suitable menus to cater for these. An example of this which we have already identified is the re-insurance industry.

Accounts with turnover £10 million (€13 million):

It has been agreed that these cases will continue to submit accounts in paper format as at present. However, readers should be advised that Revenue is re-examining this in the light of the setting up of the new Large Cases Division. When this review is completed we will revert back to you.

Group Companies and Accounts.

As for all other filers the consolidated turnover decides the accounts category, for example, groups with an aggregated turnover exceeding £10 million will submit paper accounts.

Specific Menu Items

There are a number of items in the accounts menus that have been queried and are addressed below. There is a comprehensive help text available at all stages of form completion including the accounts menus covering these and all other fields.



ROS

Plant and Machinery

A heading for plant and machinery was omitted from the balance sheet in the ROS menus. It will be included in a later release of ROS. In the meantime the details can be input under the heading 'Other Fixed Assets'.

Leasing Interest and Charges

There is a box for the inclusion of leasing interest as an add-back in the adjusted profit computation for cases with turnovers over £250,000. The total of the lease finance charges including interest can then be deducted further down the computation.

Stock Relief

A stock relief box is available in the adjusted profit computation for cases with turnovers over £250,000. To keep the number of menus to a minimum, particularly in a paper environment, the adjusted profit computation is the same whichever menu is being completed - farmer, professional, etc. but the stock relief relates solely to the deduction for farmers for an increase in stock values.

Double Rent Deduction

In the adjusted profit computation the figure provided in the Double Rent Deduction box should be the net result of adding back rent paid and claiming the double deduction.

Are accounts Menus finalised or not?

Accounts menus are finalised for the launch of Phases 3 and 4 of ROS (Phase 4 will be released in December 2001 and amongst other things takes account of the Euro and Calendar Year changes (the Form 11 for the year ended 31/12/2001 will be released early in 2002)). It is expected that the experience of users over time will result in some amendments, or perhaps, clearer definitions of what is meant under a particular heading, etc.

Fundamentally, however, the menus are complete and, subject to any legislative changes and any other imperatives, the accounts menus will remain the same and 12 months notice of any changes will be given - Ref: **Tax Briefing 44**, June 2001. That issue of **Tax Briefing** also gave further assurances that :

- ▼ Threshold levels will be indexed for inflation
- ▼ There will be flexibility in regard to marginal movements across thresholds
- ▼ Statistical data from accounts data captured such as error rates for example will be made available on a regular basis, and
- ▼ Innocent transposition errors will not lead to additional liabilities or penalties provided they are rectified within a reasonable period (e.g. 2 months from date of assessment) and do not amount to an abuse of the system.

That article also states that the internal and external consultation on what accounts information should be captured will be a continuous process *"to ensure we get the balance right between customer service, ROS ease of use and Revenue risk rating and audit requirements."*

Revenue published details of the accounts menus with definitions in July and maintained an open door policy on consultation. However, it appears that, possibly because of other pressures, they have not yet been considered in detail by practitioners or at least only a few observations have been shared with Revenue to date. It is therefore possible that, like all new systems, there may be minor errors or clarifications required on the accounts menus, which will only become apparent when users come on-line, for example, the trading account in the accounts menus where turnover exceeds £250,000 (£320,000) contains a phrase "add

closing stock". This field should simply be titled "closing stock" and not "add closing stock". We apologise for any confusion this may cause and will amend it shortly.

The principal layout and structure of the menus is finalised and the menus are fixed now for at least a year. Revenue would value feedback from the representative bodies for future years as they come on-line and discover issues that should be addressed.

2001 Return:

Accounts for this return can be filed in the "traditional" manner, by way of the new paper menus or electronically through ROS.

In this period there will be no electronic interrogation of the e-filed accounts data for the purposes of selecting cases for audit unless we are also in a position to capture similar data from the "traditionally" filed accounts.

2002 Return:

All accounts information must be filed on menus and submitted either in paper format or electronically through ROS. Revenue is currently examining the legislation to see what changes, if any, are required to bring this into effect.

All accounts menus filed, either electronically or on paper, from that date will be subject to electronic interrogation and risk analysis.

Re-Analysis of Figures:

As mentioned before the term "menu" is chosen specifically because that is what it is. The customer selects from the list of items those headings that relate to his/her accounts. Re-analysis to provide figures under all the headings will not be required. Categories "other" have been included to account for any unusual items. In ROS very few of the items are mandatory. Those that are, are headings such as "Sales",



ROS

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“Wages” and “Motor” which are headings common to most sets of accounts and a zero will satisfy the mandatory requirement if there is no entry to be made.

It is recognised that some businesses may have to, for example, amalgamate some headings, say “Fuel” and “Motor”, to give Revenue’s “Motor Expenses”.

However, we have not used any new or unusual headings that would not be found in an average set of accounts.

Risk of Audit:

In response to fears expressed by practitioners when ROS was in its infancy that electronic filers would be more susceptible to audit than manual filers because of the accessibility of their data, the

Revenue Commissioners gave the guarantee that manual filers would be expected to file the same accounts data as electronic filers and that no one’s data would be electronically interrogated until everyone’s data was in the same warehouse. The date for this process to commence was put back by a year to October 2003 in response to representations.

It is important to note that Revenue’s risk analysis approach in an electronic environment, which is currently being formulated, will draw from many sources of information, third party information, economic data and comparison with “norms”, together with the quality and the quantity of accounts information provided. In other words there will be several reasons as to why a case will be ultimately selected for audit.

Customers who provide or repeatedly provide as little information as possible run the risk of drawing attention to themselves by the lack of information.

Errors made on Accounts Menus:

Any amendments will have to be made in the usual fashion with the Tax Office.

Euro Equivalents:

The Euro equivalents of the ROS Accounts turnover limits are as follows:

Turnover < £250,000 may be taken to equate to an equivalent of €320,000

Turnover < £10 million may be taken to equate to an equivalent of €13 million.



ROS

ROS Workshops

In the last edition of Tax Briefing, an invitation was extended to all ROS customers to participate in a series of workshops, in order to identify areas that ROS customers were having difficulties with. The first workshop on Access Control was scheduled for December, however, in view of the pressures being experienced by Tax Practitioners at this time of the year it has been decided to defer the workshop until February 2002. If you are interested in attending the workshop or would like more information, please contact either:

Eilish Keegan:

email: ekeegan@revenue.ie

Telephone : (01) 2771108

or

Ken Fleming:

email: kffleming@revenue.ie

Telephone: (01) 2771106

ROS Form 11 & CT1 Presentations

A series of presentations on the ROS Form 11 & CT1 took place during November and early December. If you were unable to attend on those dates and are interested in receiving a presentation in the new year on these forms please contact:

Eilish Keegan:

email: ekeegan@revenue.ie

Telephone: (01) 2771108

or

Ken Fleming:

email: kffleming@revenue.ie

Telephone: (01) 2771106

ROS Helpdesk

If you are experiencing any difficulties in the using the Revenue on-Line Service, please contact the ROS helpdesk and they will be glad to deal with any problems that you are experiencing.

The ROS Help Desk is currently available from 8.30 to 6.30 from Monday to Friday (6.00pm. Friday).

Telephone 1890 201106

email: roshelp@revenue.ie

ROS Awarded EU eGovernment Best Practice Label

At a recent ceremony in Brussels ROS was awarded an EU best practice label. This award was in recognition that the Revenue On-Line Service was found to be one of the very best practices of its type and the label is a symbol of recognised excellence. Out of 282 nominations that were received from throughout the EU for the best practice label, ROS was one of only 61 services that received the award ■



ROS

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Sample ROS Accounts Menu

The following represents a sample set of accounts and adjusted profit computation for a sole trader with a turnover less than £250,000 and how they relate to the ROS menu for that category. Out of a possible 32 items this trader only has to enter twenty-two. These accounts are modelled on a real submission.

Profit and loss account for y/e 31/12/2000			
Sales		169971	
Cost of sales			
Opening stock	23500		
Purchases	110679		
Less closing stock	16350		
		(117829)	
Gross profit		52142	
Expenses			
Rent rates and services	26		
Wages	6614		
Advertising	585		
Telephone postage and stationery	264		
Motor and travel	1160		
Insurance	2361		
Interest	4948		
Repairs	687		
Accountancy	900		
Depreciation Fixtures	640		
Depreciation Motor	5934		
Lease interest	988		
Light and heat	281		
Sundry	561		
Profit on disposal	(1050)		
		(24899)	
Profit for year		27243	

Balance Sheet at 31/12/2000			
Fixed Assets			
Buildings	21500		
Fixtures and fittings	1926		
Motor vehicles	11200		
		34626	
Current Assets			
Stock	16350		
Debtors	13366		
		29716	
Liabilities			
Creditors	23990		
Bank overdraft	22261		
Term loan	21100		
Leasing obligations	8817		
		(78168)	
Assets less Liabilities		(11826)	
Capital Account			
Balance brought forward	(13476)		
Capital introduced	2584		
Profit for year	27243		
Drawings	(28177)		
		(11826)	

Adjusted Profit Computation			
Profit per accounts		27243	
Add back			
Depreciation	6574		
Private motor	525		
Lease interest	988	35330	
Less			
Profit on disposal	1050		
Lease charges	4510		
Taxable profit		29770	



Accounts Screen - Microsoft Internet Explorer provided by Revenue Internet Administration

Revenue On-Line Service

ROS menu for cases with turnover less than £250,000

Sources of Income¹

1. Sales / receipts / turnover	169971
2. Receipts from government agencies (GMS, etc.)	
3. Other Income	

Trading Account Items

4. Purchases	110679
5. Gross Trading Profits	52142

Expenses / Deductions

6. Salaries / Wages, Staff costs ²	6614
7. Sub-contractors ²	0
8. Consultancy, Professional fees	900
9. Motor, Travel and Subsistence ²	1160
10. Repairs / renewals	687
11. Depreciation, Goodwill, Capital write-off	6574
12. Provisions including Bad Debts (+/-)	
13. Other expenses [Total]	8964

Capital account / balance sheet items

14. Cash / Capital introduced	2584
15. Drawings ² (net of tax and pension contributions) (Say tax paid £3000)	25177
16. Closing Capital Balance	-11826
17. Stock, Work in Progress, Finished goods	16350
18. Debtors and prepayments	13366
19. Cash / Bank (Debit) ²	0
20. Bank / loans / overdraft (Credit) ²	43361
21. Client Account Balances (Debit)	
22. Client Account Balances (Credit)	
23. Creditors and accruals	23990
24. Tax Creditors	
25. Net Assets	-11826

¹One income figure mandatory.
²Mandatory. Zero will satisfy.

Note

The image above represents a completed menu. However when viewed on a computer screen it will not be possible to see it in this format. It will be necessary to scroll down as you complete the information.

Revenue On-Line Service

Adjusted Profit Computation

1. Net profit per accounts ³	27243
2. Net loss per accounts ³	

Adjustments

3. Motor expenses	525
4. Donations (Political and charitable) / Entertainment	
5. Light, heat and phone	
6. Net gain on sale of fixed / chargeable assets	1050
7. Net loss on sale of fixed / chargeable assets	

³one figure (profit or loss) mandatory.



ROS

Continued from page 11

Sample ROS Accounts Menu

The following represents a sample set of accounts and adjusted profit computation for a professional with a turnover less than £250,000 and how they relate to the ROS menu for that category. Out of a possible 32 items this person only has to enter eighteen. These accounts are modelled on a real submission.

Trading and Profit and loss account for y/e 31/12/2000		Balance Sheet at 31/12/2000	
Income		Fixed Assets	
Fees receivable	98221	Land and Buildings	61295
GMS payments	30334	Plant and machinery	3983
	128555	Fixtures and fittings	1121
Expenses		Equipment	16800
Wages and salaries	8,204	Motor vehicles	75360
Rent and rates	7101		158559
Professional indemnity	1596	Current Assets	
Medical supplies	821	Cash at bank	600
Books and periodicals	69		600
Light and heat	2835	Current Liabilities	
Professional fees	2000	Bank loans	9375
Repairs and maintenance	977	Creditors	15023
Printing, postage and stationery	3334	Accruals	8918
Advertising	200		(33316)
Telephone	3467	Creditors over one year	
Motor expenses	2722	Bank	126083
Travelling expenses	2672	Leasing	65202
Security	203		(191285)
Bank interest and charges	1377		(65442)
Canteen	2141	Assets less Liabilities	
Sundry	1354		
Subscriptions	11751	Capital Account	
Depreciation Fixtures and fittings	51	Balance brought forward	(23008)
Depreciation Equipment	1919	Capital introduced	13162
Depreciation Motor	12360	Profit for year	46482
Loan interest	9249	Drawings	(102078)
Lease finance charges	5670		(65442)
Profit for year	46482		

Adjusted Profit Computation	
Profit per accounts	46482
Add back	
Depreciation	14330
Private motor and travel	1320
Lease interest	5670
Less	
Lease charges	12510
Taxable profit	55292



Accounts Screen - Microsoft Internet Explorer provided by Revenue Internet Administration

Address: https://www2011.Financ1/Server/Accounts/Accounts2

Revenue On-Line Service

ROS menu for cases with turnover less than £250,000

Sources of Income¹

1. Sales / receipts / turnover	98221
2. Receipts from government agencies (GMS, etc.)	30334
3. Other Income	

Trading Account Items

4. Purchases	
5. Gross Trading Profits	

Expenses / Deductions

6. Salaries / Wages, Staff costs ²	8,204
7. Sub-contractors ²	0
8. Consultancy, Professional fees	2000
9. Motor, Travel and Subsistence ²	5394
10. Repairs / renewals	977
11. Depreciation, Goodwill, Capital write-off	14330
12. Provisions including Bad Debts (+/-)	
13. Other expenses [Total]	51168

Capital account / balance sheet items

14. Cash / Capital introduced	13162
15. Drawings ² (net of tax and pension contributions) (Say Tax paid £22000)	80078
16. Closing Capital Balance	-65442
17. Stock, Work in Progress, Finished goods	
18. Debtors and prepayments	
19. Cash / Bank (Debit) ²	600
20. Bank / loans / overdraft (Credit) ²	135458
21. Client Account Balances (Debit)	
22. Client Account Balances (Credit)	
23. Creditors and accruals	23941
24. Tax Creditors	
25. Net Assets	-65442

¹One income figure mandatory.
²Mandatory. Zero will satisfy.

Note

The image above represents a completed menu. However when viewed on a computer screen it will not be possible to see it in this format. It will be necessary to scroll down as you complete the information.

Revenue On-Line Service

Adjusted Profit Computation

1. Net profit per accounts ³	46482
2. Net loss per accounts ³	

Adjustments

3. Motor expenses	1320
4. Donations (Political and charitable) / Entertainment	
5. Light, heat and phone	
6. Net gain on sale of fixed / chargeable assets	
7. Net loss on sale of fixed / chargeable assets	

³One figure (profit or loss) mandatory.



BUDGET

2002

Income Tax

Introduction

In his Budget statement on 5 December 2001 the Minister for Finance delivered the first Euro Budget. 1 January 2002 also sees the introduction of the first calendar tax year. The chart below gives a summary of the main personal tax credits for 2002.

Tax Credits		
Personal Tax Credits	Existing "Full Tax Year" €	Budget 2002 €
Single Person	1,397	1,520
Married Person	2,794	3,040
Widowed Person		
Without dependent children	1,651	1,820
Qualifying for One-Parent Family Tax Credit	1,397	1,520
One-Parent Family		
Widowed Person	1,397	1,520
Other Person	1,397	1,520
Widowed Parent Tax Credit		
Bereaved in 2001	2,540	2,600
2000/2001	2,032	2,100
1999/2000	1,524	1,600
1998/1999	1,016	1,100
1997/1998	508	600
Home Carer's Credit Max.	762	770
PAYE Credit	508	660
Age Tax Credit		
Single/Widowed	204	205
Married	408	410
Blind Tax Credit		
One Spouse Blind	762	800
Both Spouses Blind	1,524	1,600
Other Tax Credits		
Incapacitated Child Credit Max.	408	500
Dependent Relative Credit Max.	56	60

Tax Rates and Tax Bands

Tax Rates

There is no change in the tax rates of 20% and 42%.

Tax Bands

The following are the changes to the tax bands:

- ▼ The standard rate band will be widened from €25,395 to €28,000 for a single or widowed person without dependent children
- ▼ The standard rate band will be widened from €29,395 to €32,000 for a single or widowed person with dependent children and who qualifies for the one-parent family tax credit
- ▼ The standard rate band for a married couple with one income will be widened from €36,823 to €37,000
- ▼ The standard rate band for a married couple, both with income, will be €37,000 subject to an increase of up to €19,000. The increase will be the lower of €19,000 or the amount of the income of the spouse with the lower income - this increase is not transferable between spouses.

Summary Chart - Tax Rates and Bands

Personal Status	Bands of Taxable Income	
	Existing "Full Tax Year" €	Budget 2002 €
Single/Widowed without dependent children	25,395 @ 20% Balance @ 42%	28,000 @ 20% Balance @ 42%
Single/Widowed qualifying for One-Parent Family Tax Credit	29,395 @ 20% Balance @ 42%	32,000 @ 20% Balance @ 42%
Married couple (one spouse with income)	36,823 @ 20% Balance @ 42%	37,000 @ 20% Balance @ 42%
Married couple (both spouses with income)	36,823 @ 20% [with increase of 13,967 max] Balance @ 42%	37,000 @ 20% [with increase of 19,000 max] Balance @ 42%



BUDGET

2002

Exemption Limits		
Single/Widowed	Existing "Full Tax Year" €	Budget 2002 €
General Limit (under 65 years of age)	5,210	5,210
65 years of age & over	10,793	13,000
Married		
General Limit (under 65 years of age)	10,420	10,420
65 years of age & over	21,586	26,000

Marginal Relief will continue to apply at 40% where income does not greatly exceed the relevant exemption limit.

The above exemption limits are increased by €575 for each of the first two dependent children and by €830 for the third and subsequent children.

Incappeditated Person (Employing a Carer)

The allowance is being increased from €12,700 (max) p.a. to €30,000 (max) p.a. at the individual's highest rate of tax.

Benefit-in-Kind

Preferential Loans

The "specified" rate in respect of home loans is being reduced from 6% to 5% with effect from 1 January 2002. There is no change in the rate for other loans (12%).

Refund of Contributions to Occupational Pension Schemes

The rate of tax charged on a refund of contributions to an Occupational Pension Scheme on or after 5 December 2001 will be reduced from 25% to 20%.

Interest Relief on Borrowings for Rented Residential Properties

Interest relief on borrowed monies employed in the purchase, improvement or repair of rented residential properties by an individual, partnership or company has been restored.

Interest arising on or after 1 January 2002, including interest on existing borrowings will be allowable against rental income.

Farmers - compulsory disposals of stock

Farmers in receipt of compensation for compulsory disposals of stocks due to disease eradication, can defer the taxation of the compensation over an extended 4 year period (formerly 2 years). The special stock relief in respect of such disposals is also extended to 4 years. The extended period will apply to disposals from 21/2/2001.

Capital Allowances

Cars:

The cost threshold for capital allowances is increased from €21,586 to €22,000. This new limit will apply to capital allowances and allowable expenses for new and secondhand cars used in the course of a trade, profession or employment. The new limit will apply to expenditure incurred:

- ▼ In accounting periods ending on or after 1/1/2002 for Corporation Tax
- ▼ In the basis period for the tax year 2002 onwards for Income Tax.

Extension of Deadlines

The following extensions to deadlines for a number of property incentive schemes have been announced, subject to certain conditions:

Park & Ride Facilities	extended to 30 June 2004
Urban Renewal Scheme	extended to 31 December 2004
Rural Renewal Scheme	extended to 31 December 2004
Multi-Storey Car Parks	extended to 31 December 2004
Student Accommodation	extended to 30 September 2005

Business Expansion Scheme (BES)

The BES is being extended from 1 January 2002 for a 2 year period until 31 December 2003. The company limit is increased from €317,500 to €750,000.

Seed Capital Scheme (SCS)

The SCS is being extended from 1 January 2002 until 31 December 2003. The overall 5 year period has been extended to 6 years. The €750,000 BES company limit will also apply to the SCS.

Payment of Tax by means of Donation of Heritage Items

It is proposed to increase the minimum value of a gift to €100,000 and the annual limit to €6 million.

Donations to Sports Bodies

Tax relief will be available for donations to tax compliant sports bodies for capital projects. Full details will be available in the Finance Bill.

Sport Injury Clinics

Relief subject to certain conditions will be available for the construction and refurbishment of buildings used as independent sports injury clinics.

Independent Hospitals

Relief is due for expenditure incurred on the construction or refurbishment of buildings used for private hospitals. The condition that the hospital has to be operated by a body with charitable status for tax purposes is being removed. The minimum requirement of 100 in-patient beds is being reduced to 70. This is subject to clearance by the European Commission.

Continued on page 16



BUDGET

Continued from page 15

Other Taxes

Corporation Tax

The standard rate of Corporation Tax for trading income is being reduced from 20% to 16% from 1 January 2002.

Preliminary Tax Payment dates for Corporation Tax

At present Preliminary Tax for CT is payable 6 months after the end of the accounting period. The payment date is being brought forward to the 28th of the month before the end of the accounting period - an advance of 7 months. This change is being brought in over a transitional period of 5 years. The following example illustrates the position for a company with an accounting period ending 31 December:

Accounting Period Ending	Preliminary Tax	
	1st instalment payable	2nd instalment payable
31/12/02	20% on 28/11/02	80% on 28/6/03
31/12/03	40% on 28/11/03	60% on 28/6/04
31/12/04	60% on 28/11/04	40% on 28/6/05
31/12/05	80% on 28/11/05	20% on 28/6/06
31/12/06	100% on 28/11/06	

For the first year of transition any preliminary tax payment will not have to be paid before 28 June 2002. This means that for accounting periods ending up to 30 June 2002 the first instalment will be due on 28 June 2002.

Loss Relief

The restriction on the offset of trading losses is amended so that relief will now be available against other income and gains on a proportional value basis. Full details will be available in the Finance Bill.

Shipping

A new tonnage tax regime for qualifying shipping activities will be introduced in the Finance Bill.

Value Added Tax

The standard rate of VAT is being increased from 20% to 21% with effect from 1 March 2002.

Excise Duty

Tobacco:

The excise duty on a packet of 20 cigarettes is increased by 10 pence (including VAT) from midnight 5 December 2001.

Petrol:

The excise duty on a litre of petrol is increased by 5 pence (including VAT) from midnight on 5 December 2001.

Auto Diesel:

The excise duty on a litre of auto diesel is increased by 5 pence (including VAT) from midnight on 5 December 2001. There will be two rates of excise duty on auto diesel from 1 March 2002. The rate for auto diesel with higher sulphur content will be 5 cent higher than the rate for Low Sulphur Diesel.

Cider:

The excise duty on a pint of cider is increased by about 21 pence (including VAT) from midnight on 5 December 2001.

Betting Duty:

The rate of betting duty will be reduced from 5% to 2% from 1 May 2002.

Capital Acquisitions Tax

The base date for the aggregation of gifts or inheritances within the same Group threshold is brought forward from 2 December 1988 to 5 December 1991. The change is effective for gifts or inheritances taken on or after 5 December 2001.

Stamp Duty

Investors in new and secondhand residential property will now pay the same stamp duty rates as apply to non-first time owner occupiers who purchase secondhand houses/apartments. The table below shows the rates structure applying to conveyances, transfers and leases of such residential property executed on or after 6 December 2001.

Aggregate Consideration £	Aggregate Consideration Effective 1 January 2002 €	Non- First time Owner Occupiers/Investors New and 2nd Hand houses/apartments
Up to 100,000	Up to 127,000	Exempt
100,001 - 150,000	127,001 - 190,500	3%
150,001 - 200,000	190,501 - 254,000	4%
200,001 - 250,000	254,001 - 317,500	5%
250,001 - 300,000	317,501 - 381,000	6%
300,001 - 500,000	381,001 - 635,000	7.5%
Over 500,000	Over 635,000	9%

To give **immediate effect** to the Minister's Budget announcement Revenue will, on an administrative basis until the enactment of the Finance Act, 2002, apply the above changes to the instruments executed on or after 6 December 2001.

BUDGET

2002

Anti Avoidance

Capital Allowances: Limit on Relief for Expenditure on Significant Buildings by Passive Investors

The Minister introduced an annual limit of £25,000 (€31,750 with effect from 1 January 2002) on the amount of losses that can be claimed by passive investors against their other income. This restriction applies in respect of expenditure incurred on or after 5 December 2001.

Personal Portfolio Life Assurance Policies

The surcharge announced by the Minister on 26/9/2001 has been implemented by Financial Resolution.

PRSI & Health Levy

The contribution ceiling for employees' PRSI is increased from €35,870 to €38,740 from 1 January 2002.

The PRSI contribution rate for employers will be reduced by 1.25% from 12% to 10.75% with effect from 1 March 2002.

The reduced employer's PRSI rate of 8.5% for class AO employees remains unchanged.

Class A (Normal rate at which contributions are made)

Income (€)	Employer	Employee
Up to 38,740	10.75%	6% (includes 2% Health Contribution)
Over 38,740	10.75%	2% (Health Contribution)

Employees will continue to be exempt from PRSI on the first €127p.w. (The weekly exemption of €26 for employees on a modified PRSI rate also remains unchanged).

Employees earning less than €287 p.w. will be exempt from PRSI and those earning less than €356 p.w. will be exempt from the Health Contribution of 2%.

Class S (Self-Employed)

Income (€)	Rate
All income	5% (includes 2% Health Contribution)

Exempt from the Health Contribution of 2% where annual income is less than €18,512. Minimum annual PRSI contribution is €253.

Further Information

PAYE LO-CALL Service - 1890 60 50 90 (inside ROI only)

For all contacts related to PAYE e.g. general queries, claims for additional entitlements, requests for a certificate of Tax Credits in respect of a new employment etc.

For information other than PAYE contact your local tax office or the Central Telephone Information Office at (01) 873 6100 or the Revenue Web Site www.revenue.ie



EURO

Update

Introduction

The details of how and when Revenue will switch all our customers' tax affairs to Euro, from 1 January next, are set out in Revenue's *Euro Changeover Guide* which issued in June 2001. Copies of the Guide are available on request from any tax office and it is also available on the internet at www.revenue.ie.

A summary of the position was also carried in Issue 44 of *Tax Briefing* (June 2001). The general message is that Revenue will:

- ▼ Automatically switch all our customers' tax affairs to euro for transactions/ events/ accounting/ reporting periods ending after 31/12/01
- ▼ Continue to accept **annual** tax returns in Irish pounds where the tax year or accounting period ended on or prior to 31/12/2001.

This article deals with some of the issues that will arise after 1 January 2002, including; the currency in which personal and corporate tax returns should be completed for periods ending prior to 31/12/01; how Revenue will process these tax returns; summary of other business tax returns (e.g. VAT 3, P35 etc.) spanning the changeover period and the currency in which these should be returned **and** how business costs incurred to deal with the euro will be treated for tax purposes.

For your convenience, a separate summary chart of Revenue's Business Tax and Customs Euro Changeover Plan is included with this issue of *Tax Briefing*.

Personal (non PAYE) and Corporate Tax returns for years of assessment and accounts periods ending on or prior to 31/12/01 with an end filing date after 1/1/02

General

Some of the Income Tax and Corporation Tax returns, for example, the annual income tax

return for the year ended 5 April 2001 (due by 31/1/02); the return for the short tax 'year' of assessment 2001 (due by 31/10/02) and the Corporation tax returns for accounts periods ended on or before 31/12/01 (due on or before 30/9/02) have filing dates in 2002, i.e. post the full introduction of the euro. Tax returns for these periods have either already issued in Irish pounds (or will issue in due course in Irish pounds) where a customer has not 'elected' to make returns in euro. Where returns issue in Irish pounds we will be expecting these to be completed and returned to us in Irish pounds.

Income Tax Returns for short tax 'year' 2001 (end filing date 31/10/02)

Recently, a number of tax practitioners contacted Revenue expressing the view that their software systems would be fully in euro by the time they come to complete the income tax return for the short tax 'year' 2001 (due by 31 October 2002). On that basis they asked that we send euro income tax returns to them in respect of their clients, for completion in euro. We have agreed to facilitate this request and recently sent a mailshot to approximately 2,700 practitioners on our mailing list, inviting them to request euro income tax returns for their clients for the short tax 'year' 2001, if required. Where we do not get a request for euro returns, or no formal 'election' for euro is received, we will issue Irish pound returns for completion and submission in Irish pounds, in accordance with our published *Changeover Guide* of last June. The invitation to issue euro returns did not extend to Corporation Tax as the bulk of these returns have already issued at this stage.

Completion & Filing of Income Tax / Corporation Tax returns post 1 January 2002:

As far as possible, you should submit the return that issued to you on behalf of your client, i.e. if you were sent an Irish pound return, complete this in Irish pounds; if you were sent a euro return, complete it in euro.

NEVER alter the currency on the return form or enter figures of a currency other than that of the return, i.e. do not insert some figures in Irish pounds and some in euro. If you want to submit a return in, say, euro but you have received an Irish pound return, you should request a blank euro return form from the tax office for that purpose. Alternatively you can send the return in euro through the Revenue On Line system (ROS) or use a Revenue approved euro facsimile form.

Output from Revenue Following submission of Returns

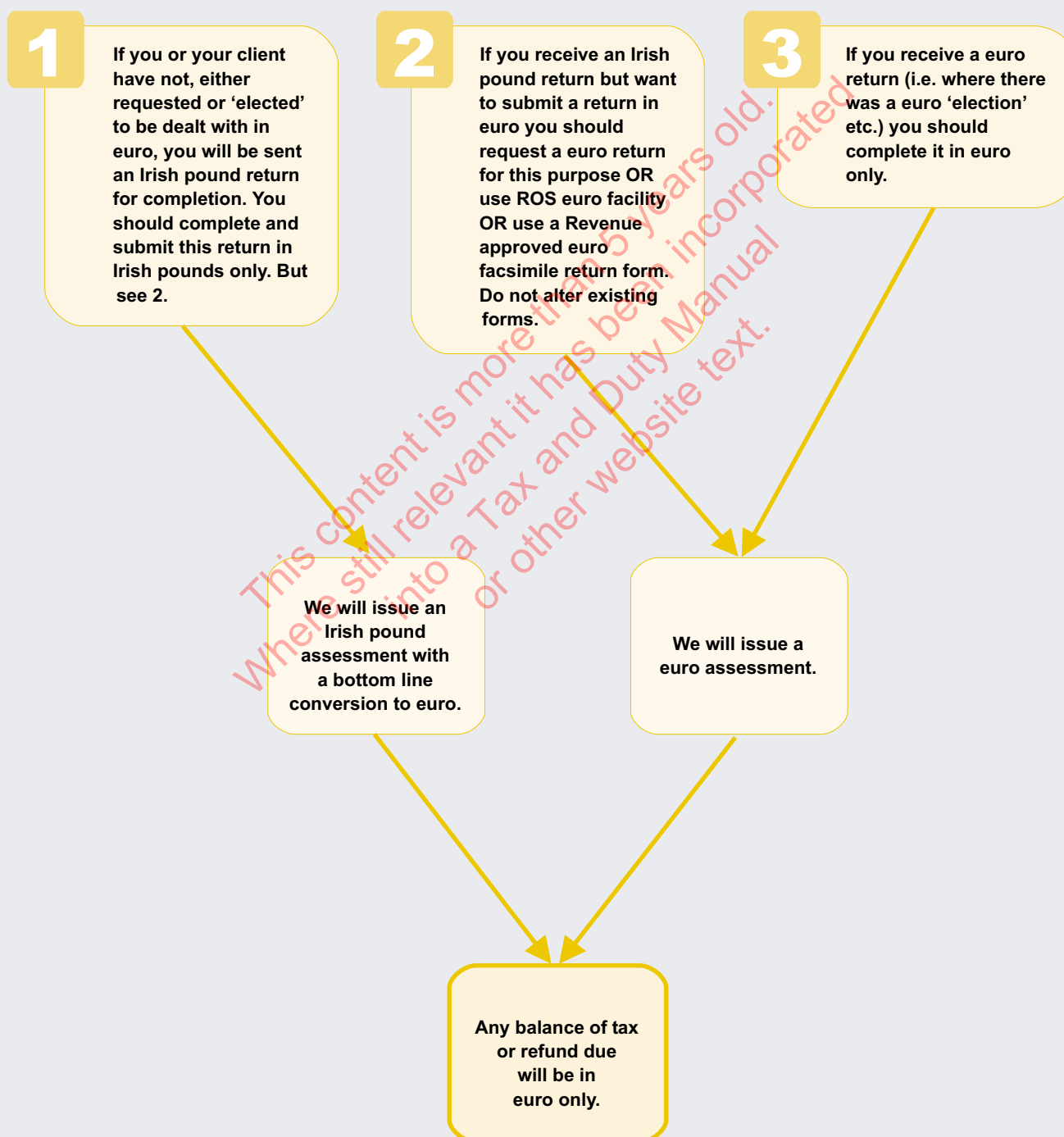
Where we receive a return in Irish pounds, we will issue an Irish pound assessment with a bottom line conversion to euro. This will allow you to check that the figures agree with the return submitted. Any balance due, will be demanded in euro. Any refund will also be in euro. This practice will be in place for a limited period only and from a future date (to be advised later) assessments for all years, whether pre or post the full introduction of the euro, will be in euro only. [The date from which all assessments will be in euro will be advised in a future edition of *Tax Briefing* but the practice above will, in any event, last until all the timely filed returns for the short tax 'year' 2001 (and accounting periods to 31/12/01 for Corporation Tax) are processed.]

Where we receive a return in euro we will issue a euro assessment and, again, any balance due or tax refund will be in euro.



EURO

Summary



EURO

Continued from page 19

Supporting documentation with returns

As stated earlier in this article, only figures in the currency for which the return is denominated should be entered on the returns, i.e. euro figures only on euro denominated return, Irish pounds only on Irish pound returns. Also, where possible, all supporting documentation, e.g. accounts, should be in the same currency in which the return is being made. However, in the changeover period there will be occasions where some supporting documentation is available in euro and some in Irish pounds. Where this arises it will be necessary to convert some figures before inserting them on the return form. Conversion should be carried out in accordance with the strict conversion rules as set out in the earlier **Tax Briefing** article (June 2001) and which is repeated again at the end of this article for ease of reference. Great care should be taken when doing conversions and Revenue would ask that tax practitioners be extra mindful of this when completing returns for the changeover period.

Where conversions of this nature are carried out, Revenue will accept the supporting documentation in its original currency before the conversion. For example, if the supporting accounts are, say, in Irish pounds and you are submitting a euro return we will accept supporting accounts in Irish pounds.

Practitioners must ensure when completing a euro return that all relevant panels are completed in euro irrespective of the currency of the supporting documentation.

PAYE Employees

PAYE taxpayers did not have the opportunity to elect to be dealt with in euro during the transitional period and accordingly only Irish pound returns issued (or will be issued in the case of the short tax 'year') for years up to 31/12/01. End of year reviews for those years, carried out

after 1/1/02, will be dealt with in Irish pounds and have a bottom line conversion to euro.

Other Tax returns spanning the changeover period

The following returns covering periods ending on or before 31 December 2001 will issue (or have already issued) in Irish pounds unless there was an 'election' to complete them in euro. If you want to complete any or all of these returns in euro you should contact Tel No. 1890 200 256.

- Annual return of Employers' PAYE / PRSI (P35 Return)
- Annual Return of VAT Trading Details (RTD)
- Annual Return of Relevant Contracts Tax (C35)
- Monthly Intrastat Return
- Monthly/Quarterly VIES Return.

The following returns, **which may include a payment**, SHOULD be completed in euro only.

- ▼ Bi-monthly VAT Return (VAT 3) for Nov/Dec 2001
- ▼ Monthly VAT Return (VAT3) for Dec 2001
- ▼ Annual VAT Return (VAT3) for year ended Dec 2001
- ▼ Monthly return of Employers' PAYE/PRSI (P30) for Dec 2001
- ▼ Return of Dividend Withholding Tax for Dec 2001
- ▼ Monthly Return and Payment of Relevant Contract Tax (C30) for Dec 2001
- ▼ Monthly Return of Professional Services Withholding Tax (F30) for Dec 2001.

Changeover Costs

The question of how business costs incurred to deal with the euro will be treated for tax purposes is again topical as we approach the changeover date. It is therefore timely to repeat and update an earlier article on this topic which appeared in Issue 31 of **Tax Briefing** (April 1998). Most queries on this topic

relate to the costs incurred on computer software and hardware, on adapting point-of-sale equipment such as cash registers and vending machines, and on training costs.

Revenue vs. Capital Expenditure

The starting point in dealing with this issue is to understand the basic difference between costs of a revenue nature (which can generally be written off in full for tax purposes in the year in which they are incurred), and costs of a capital nature for equipment (which, in most cases, can be written off for tax purposes over 5 years for expenditure incurred on or after 1/1/01). In this regard - although there are some exceptions such as finance leases - the capital/revenue classification for tax purposes will generally follow accountancy principles. For accountancy purposes, costs are of a capital nature if they give rise to an asset. Where costs are incurred in adapting existing assets, it is necessary to assess whether the expenditure enhances the economic benefit of the asset (by extending its service potential) or simply maintains its standard of performance, as originally assessed. In the former case, the costs are of a capital nature and will qualify for capital allowances; in the latter case, the costs can be written off for tax purposes as incurred.

Software Costs

Software to deal with the euro changeover can either be bought in or developed/adapted in-house. In either case, the principles outlined above will determine whether the costs will be of a capital or a revenue nature. As a general rule, these costs are likely to be of a revenue nature, and therefore can be written off for tax purposes as they are incurred. They represent no more than a modification of existing assets to deal specifically with the euro. They will only be capital where the new software acquired or the adaptation of existing software clearly results in an enhancement beyond the original



EURO



standard of performance and is not a mere maintenance of its service potential. Any software expenditure of a capital nature can be written off for tax purposes over 5 years (for expenditure incurred on or after 1/1/01) in the same way as plant and machinery.

Hardware Costs

It may be that existing hardware (computers, cash registers, vending machines etc.) may also need to be modified to cope with the euro. Again, the capital/revenue distinction, as outlined above, must be made to determine the tax consequences. As with software, the cost of modifications to maintain the

equipment's service potential can be written off for tax purposes as incurred. The cost of new hardware, or the cost of enhancing existing hardware beyond the asset's originally assessed standard of performance, can be written off for tax purposes over 5 years (i.e. 20% per annum for expenditure incurred on or after 1/1/01).

Training etc.

The costs of training, and other costs such as informing customers, changing stationery, etc., will generally be of a revenue nature and can be written off for tax purposes as incurred.

Conversion and Rounding

The fixed conversion rate between the euro and Irish pound is

1 euro = IR£ 0.787564.

The full rate must be used for all conversions. Converted amounts should be rounded to the nearest cent or penny as follows: where the third decimal place is four or lower you should round down to the nearest cent/penny; where it is five or higher round up. Examples of conversions are provided below:

TO CONVERT IRISH POUND AMOUNTS TO EURO

To Convert IR£80.00 to Euro	Conversion Rule	IR £ → €	To Convert IR£100.00 to Euro
IR£80 0.787564			IR£100 0.787564
	Divide the Irish pound amount by the conversion rate.		
= 101.57905			= 126.97380
= €101.58	Round the resulting amount to two decimal places - round down where the third figure after the decimal point is 4 or lower and round up where it is 5 or higher.		= €126.97

TO CONVERT EURO AMOUNTS TO IRISH POUND

To Convert €80.00 to Irish Pounds	Conversion Rule	€ → IR £	To Convert €126.00 to Irish Pounds
€80.00 X 0.787564			€126.00 X 0.787564
	Multiply the Irish pound amount by the conversion rate.		
= 63.00512			= 99.23306
= IR£63.01	Round the resulting amount to two decimal places, round down where the third figure after the decimal point is 4 or lower and round up where it is 5 or higher.		= IR£99.23



SUBSISTENCE EXPENSES

Domestic Subsistence Rates Effective From 1 January 2001

The schedule of rates based on the current Civil Service Subsistence Rates for absences within the State is set out hereunder. For details of the rules, etc. in relation to the application of these rates please refer to Information Leaflet IT54 Employees' Subsistence Expenses.

Class of Allowances	Night Allowances			Day Allowances	
	Normal Rate	Reduced Rate	Detention Rate	10 Hours or more	5 Hours but less than 10 hours
	£	£	£	£	£
A - Rate	88.90	81.96	44.44	25.20	10.28
B - Rate	79.88	68.32	39.95	25.20	10.28
C - Rate	66.81	55.28	33.44	25.20	10.28
D - Rate	57.80	48.77	28.91	19.03	9.41
E - Rate	47.35	39.26	23.64	19.03	9.41

EURO RATES

Domestic Subsistence Rates Effective From 1 January 2001

Class of Allowances	Night Allowances			Day Allowances	
	Normal Rate	Reduced Rate	Detention Rate	10 Hours or more	5 Hours but less than 10 hours
	€	€	€	€	€
A - Rate	112.88	104.07	56.43	32.00	13.05
B - Rate	101.43	86.75	50.73	32.00	13.05
C - Rate	84.83	70.19	42.46	32.00	13.05
D - Rate	73.39	61.93	36.71	24.16	11.95
E - Rate	60.12	49.85	30.02	24.16	11.95

EMPLOYEES' MOTORING EXPENSES



EURO RATES

Motor Mileage Rates Effective from 1 January 2001 (euro *)

Official Mileage in a calendar year	Engine Capacity up to 1200cc [cent]	Engine Capacity 1201cc to 1500cc [cent]	Engine Capacity 1501cc and over [cent]
Up to 4000	78.86	87.84	107.14
4001 and over	39.88	45.01	49.99

Motor Mileage Rates Effective from 1 January 2001

Official Mileage in a calendar year	Engine Capacity up to 1200cc [pence]	Engine Capacity 1201cc to 1500cc [pence]	Engine Capacity 1501cc and over [pence]
Up to 4000	60.53	69.18	84.38
4001 and over	31.41	35.45	39.37

Reduced Motor Mileage Rates Effective from 1 January 2001 (euro *)

Engine Capacity up to 1200cc [cent]	Engine Capacity 1201cc to 1500cc [cent]	Engine Capacity 1501cc and over [cent]
28.76	31.59	35.35

Reduced Motor Mileage Rates Effective from 1 January 2001

Engine Capacity up to 1200cc [pence]	Engine Capacity 1201cc to 1500cc [pence]	Engine Capacity 1501cc and over [pence]
22.65	24.88	27.84

* 1 euro = £0.787564 ■



HEALTH EXPENSES

Kidney Patients

The following is an update on the reliefs available in respect of certain expenses incurred by kidney patients.

Hospital Dialysis Patients (where the patient attends hospital for treatment)

Relief in respect of expenditure incurred travelling to and from hospital (unlimited journeys) may be allowed at the following rate -

2000/01	25p per mile (€ 0.35)
[1999/00	25p per mile]

Home Dialysis Patients (where the patient uses a dialysis machine at home)

Relief may be allowed in respect of -

	2000/01		1999/00
	£	€	£
Electricity	830	1055	830
Laundry	1125	1430	1050
Telephone	75	95	75
Travel * - per mile	0.25	0.35	0.25
* subject to a maximum of 25 trips per year			

Chronic Ambulatory Peritoneal Dialysis [CAPD] (where the patient has treatment at home without the use of a dialysis machine)

Relief may be allowed in respect of -

	2000/01		1999/00
	£	€	£
Electricity	660	840	660
Telephone	75	95	75
Travel * - per mile	0.25	0.35	0.25
* subject to a maximum of 25 trips per year			

RENT A ROOM SCHEME



Section 208 Finance Act 2001 amended Sections 91,92, 92A and 92B of the Stamp Duties Consolidation Act 1999 to ensure that, for instruments of transfer executed on or after 6 December 2000, there would be no stamp duty claw-back where the person in occupation of the house/apartment received rent, on or after 6 April 2001 for a letting out of furnished residential accommodation in part of the house/apartment concerned.

Revenue wishes to state that it will not seek to claw-back stamp duty in the same circumstances as outlined above where instruments of transfer are executed **PRIOR** to 6 December 2000. ■



ELECTRONIC STORAGE

IT



Retention of Tax Records in Electronic Format

Background

In the past, where businesses wished to retain tax related records in an electronic format, it was necessary to formally apply to Revenue on an individual basis and providing certain criteria were met and assurances given, individual approval was granted.

New Position

Section 232 Finance Act 2001 has simplified procedures. The section allows businesses to keep records electronically, without specific Revenue approval, provided that they are kept in accordance with guidelines published by the Revenue Commissioners. The guidelines which were published in *Iris Oifigiúil* number 83 dated 16 October 2001, are reproduced below:

"The Revenue Commissioners give notice that in exercise of the powers conferred on them by *Section 887 TCA 1997* (substituted by *Section 232 Finance Act 2001*) they have drawn up and published information technology and procedural requirements to which any electronic, photographic or other process used by a person for the storage, maintenance, transmission, reproduction and communication of any record must conform.

For the purpose of these requirements -

The "Acts" are the Tax Acts (i.e. the Income Tax and Corporation Tax Acts), the Capital Gains Tax Acts, the Value-Added Tax Act 1972, and the enactments amending or extending that Act, the Capital Acquisitions Tax Act 1976, and the enactments amending or extending that Act, and Part VI of the Finance Act 1983.

"Record" is any document which a person is obliged by the Acts to keep, to issue or to produce for inspection, and any other written or printed material which is stored, maintained, transmitted, reproduced or communicated for the purposes of the Acts.

In the case of invoices and other documents to which *Section 17* of the *Value-Added Tax Act 1972* applies, the information technology and procedural requirements published for the purposes of *Section 887 TCA 1997*, are subject to whatever additional requirements may apply to the electronic transmission of such documents by virtue of *Section 17* of the *Value-Added Tax Act, 1972*.

Persons should be aware that *Section 887(2) TCA 1997* contains other requirements which must be observed in order to fully comply with the provisions governing the storage, maintenance, transmission, reproduction and communication of records by any electronic, photographic or other process. Persons who fail to comply with any of the provisions of the section are liable to penalties.

▼ All electronically stored records must be held complete, unaltered and uncorrupted and must be retained for the appropriate period(s) of time specified in the Acts in relation to keeping of records

▼ Where business records are generated, recorded or stored in any electronic format, those records must be retained for the minimum period required by the Acts. The retention alone of paper copies of documents or reports which were generated, recorded or stored electronically at any time will not satisfy the requirements of the Acts to maintain records.

▼ The paper originals of all third party documents (for example, invoices, statements, etc.) must be retained for the appropriate period of time specified in the Acts in relation to the keeping of records

▼ If any third party document is received, transmitted or communicated electronically in the first instance, details are to be maintained by the sender/receiver of the form of encryption, digital signature or any other method used to verify the integrity of the document and the identity of the sender/receiver and how and where this is stored on the system (e.g. location on system, file name, passwords, etc.) for subsequent verification by Revenue, if necessary

▼ If a document is not an original this should be recorded. If the original of a document is of too poor a quality to be scanned or the colour or ink is such that legible scanned images might not be produced and a photocopy is used instead, this should be recorded and the original document (and its photocopy) retained. If the original contains physical changes that would not be visible on the scanned image or a reproduction, it should also be retained.



ELECTRONIC STORAGE

- ▼ There should be a clear audit trail within the system to cover scanning, batch details, indexing, problems arising during processing of records, the time and date of such processing, the name of the processor and other relevant information
- ▼ Subject to the time limits governing the keeping of records, records must be accessible to inspection by a Revenue official at all reasonable times
- ▼ Where new computer systems or applications are introduced the person to whom the records relate must ensure that the old systems and/or applications are maintained for such period as ensures that the records are retained for the minimum period required by the Acts unless specific approval has been obtained from Revenue to discontinue support for the old systems and/or applications
- ▼ The capability must be available to produce exact paper copies of any electronically stored record or document for the full period that such record or document is required to be maintained
- ▼ The generation and storage of additional paper copies of documents which have been generated electronically by the business itself or which were originally received in electronic format is not required
- ▼ The person to whom the records relate must be able to sign any reproductions as "true copies" (that is, that they are authentic, accurate and complete). He/she must also be able to certify that:
 - The stored records were not damaged or interfered with in any way
 - Proper security procedures were in place to prevent tampering
- Programs are in place which will reproduce accurately the documents which are stored, and
- A proper systems audit takes place annually to ensure that the instructions on the use of the system have been followed correctly and are in accordance with operational requirements.

These requirements are expressed to apply to electronic records but they are to be taken as equally applicable, where relevant, to records stored by means of any photographic or other similar process.

These requirements must be satisfied in all cases to which Section 887 TCA 1997 applies, including a case where the records are held by a third party service provider. The use of a third party service provider does not remove the onus on a person to satisfy these requirements." ■

DEFERRAL OF PAYMENT

Income Tax

Deferral of Payment of Income Tax under Section 128A TCA 1997

Clarification

Tax Briefing - Issue 41 contained a detailed article on the subject of Preliminary Tax (PT) and the making of an election to defer payment of income tax payable on the gain arising on the exercise of a share option. The article set out the position where an election is made to defer the tax payable on the exercise of a share option, in accordance with Section 128A TCA 1997 and the implications for the 90% (PT) rule. The tax payable for the year of assessment for the purposes of the

90% (PT) rule will be regarded as the tax payable for that year of assessment less the deferred amount of income tax payable in accordance with Section 128A TCA 1997.

Following a number of queries received, Revenue would like to clarify the following points:

- Where an election is made to defer the tax payable for the preceding tax year on the exercise of a share option, in accordance with Section 128A TCA 1997, the tax payable for the year of assessment for the purposes of the 100% (PT) rule will be regarded as the tax payable for the preceding year of assessment less the amount deferred in accordance with Section 128A TCA 1997 for that year of assessment
- Where an election is made to defer the tax payable for the tax year preceding the preceding tax year on the exercise of a share option, in accordance with Section 128A TCA 1997, the tax payable for the year of assessment for the purposes of the 105% (PT) rule will be regarded as the tax payable for the year preceding the preceding year of assessment less the amount deferred in accordance with Section 128A TCA 1997 for that year of assessment. ■



CALCULATION OF BASE COST

Shares



Calculation of Base Cost of Eircom shares and Vodafone shares

Following the disposal by Eircom of the Eircell business to Eircell 2000 and the subsequent share for share transaction between the shareholders of that latter company and Vodafone, the base cost of Eircom shares must be apportioned accordingly.

Apportionment Of Base Cost

Section 584(6) TCA 1997 contains the main rule for apportioning the cost of acquisition of a new "holding". For the purpose of computing a gain or loss accruing from the disposal of any part of the new "holding", the total cost of the new "holding" is apportioned on the basis of the respective market values, at the date of the part disposal, of what is disposed of and what is retained.

Section 548(3) outlines how market value is to be ascertained. Each Eircom shareholder received 1 share in Eircell 2000 for every Eircom share held. In accordance with the provisions of this section, the market value of the Eircom and Eircell 2000 shares, following the disposal are as follows:

Eircom	€1.11
Eircell 2000	€1.45406

Revenue will accept that the base cost to be used on the disposal of Eircom shares is as follows:

Assume Eircom shares purchased for €3.90 at original offer:

The split base cost per share, is thus as follows:

Eircom:

$$€3.90 \times \frac{1.11}{1.11 + 1.45406} = €1.69 \text{ per share}$$

Each Eircell 2000 shareholder received 0.9478 shares in Vodafone for every two shares held.

Revenue will accept that the base cost to be used on the disposal of Vodafone shares is as follows:

Assume, as above, Eircom shares were purchased for €3.90.

Vodafone:

$$€3.90 - €1.69 = €2.21 \text{ per share} \times \frac{2}{0.9478} = €4.66 \text{ per share}$$

Fractional entitlements have been disregarded.

The percentage split of the base cost between Eircom and Vodafone is therefore:

Eircom	$\frac{1.69}{1.69 + 2.21}$	x	100	=	43%
Vodafone	$\frac{2.21}{1.69 + 2.21}$	x	100	=	57%

Where Eircom shares were acquired after the initial floatation at a price other than €3.90 the split of that base cost (i.e. the cost of the shares) should be apportioned using the above percentages.

Individuals who held their shares for a specified period were entitled to receive one free loyalty bonus ordinary share for every 25 ordinary shares held. The bonus ordinary shares will have a base cost of nil for capital gains tax purposes.

Additionally, where an individual received loyalty bonus shares and subsequently Vodafone shares were received in respect of those shares, then the base cost of the Vodafone shares attributable to those shares is also nil.

Consequently, where an individual participated in the initial offer and later received the loyalty bonus of one free ordinary share for every 25 ordinary shares held, then 1/26th of Vodafone shares acquired in respect of that holding will have a base cost of nil.

Any Eircom shares acquired after the disposal of the Eircell business are not affected. ■



P35 END OF YEAR RETURN

Tax Year 2001

All registered employers will by now have received their P35 return for completion for the tax short 'year' 6 April 2001 to 31 December 2001. **The new closing date for receipt of P35 Returns is 15 February.**

P35 Helpline

The P35 Helpline is available again this year to assist employers and agents in dealing with any queries or problems that they may have completing the returns. The Helpline number is 1890 254565 (ext 63811) and calls are charged at local call rates.

Euro

Employers may file their P35 Return for the 2001 tax year in either IR£ or euro. Unless an employer has informed Revenue that they want to complete their P35 Return in euro they will have received Irish Pound forms. P35 Returns in euro must be made on euro P35 forms, which have the euro logo and the euro currency denomination. Irish pound returns must be made on Irish pound P35 forms. IR£ filers will have to convert some amounts on the P35 declaration form to euro. The currency denomination must not be changed on any form. Euro forms can be obtained by contacting the P35 Helpline at the above number. All requests for stationery should indicate clearly if euro or Irish Pound forms are required. By using the correct forms, employers and agents can ensure that records are properly updated by Revenue.

Payments

From 1 January 2002 customers making payments to Revenue by cheque must do so on a euro cheque.

Revenue On-Line Service (ROS)

The Revenue On-Line Service (ROS) now provides customers with the facility to submit forms P35

on-line. This advance makes it easier to submit P35 end of year returns.

The completion of forms P35 has been simplified in recent years, specifically with the use by employers of the diskette method of submission. ROS provides the same facilities for employers on-line, assists in speeding up the transfer of employers tax and PRSI information to Revenue, and helps Revenue in their dealings with end of year reviews for employees. ROS customers receive instant acknowledgement of returns and have on-line access to tax information 24 hours a day. Payments can also be made electronically via ROS.

In addition to the above, the following are some of the main features of the P35 filing service in ROS

- ROS facilitates printing of P60's for employees in both on-line and off-line versions and there is a facility to upload directly to ROS from both third party payroll software (if payroll package includes ROS facility) and ROS off-line applications

- Customers have the facility to print a copy of the P35 in Adobe Acrobat format from their inbox. In addition to this the off-line system will also provide an option to print a copy of the P35L and P60.

- Stationery will be provided to ROS off-line customers for printing of P60's by contacting the P35 Helpline or e-mail p35helpline@revenue.ie

ROS can be accessed via the Revenue web site at www.revenue.ie or www.ros.ie. Practitioners can explore a number of features of ROS from the ROS homepage without any requirement to register.

Employers with Computer Payrolls

The vast majority of employers with computer payrolls are now forwarding their employee details on disk. Employers with computer payrolls who have not previously returned on disk have been written to and have been advised of the facilities available to return electronically via ROS or disk. Feedback has been very positive.

Returning on disk is a very attractive option for employers and the benefits include:

- Employee tax credit details are issued to employers on diskette in subsequent years
- Form filling becomes almost non-existent
- The time required to make the return is greatly reduced.

We are again asking those employers with computer payrolls who have not yet started returning electronically to do so. Further information on the diskette system can be obtained from Caroline Jones or Mairead Sheedy on 1890 254565 (ext 63172).

Employers with Manual Payrolls

The completion of the P35 form has been simplified considerably in recent years for manual payroll users. It is now only in the case of the actual P35 liability that a breakdown needs to be shown between PAYE and PRSI; in the case of all other entries on the declaration and giro a total figure need only be provided. This change is of considerable benefit to agents and employers in the completion of the return.

P35's for employers with manual payrolls can also be returned electronically via ROS or the employee details can be returned on preformatted disk.

Continued on page 28



P35 END OF YEAR RETURN

Continued from page 27

Preformatted Disk

The system whereby practitioners can return employee details using a pre-formatted diskette provided by Revenue has proved to be extremely popular. The feedback from those practitioners who have used the system has been very positive with the following aspects being highlighted as the main benefits:

- The facility to print P60's
- The facility to print P35 Summary Reports for reference purposes if required
- The provision whereby multiple employers' returns can be made on one diskette
- The fact that basic validation rules have been built into the system thereby detecting errors at input stage and thus reducing later queries from Revenue
- The inclusion of a Help facility
- The 'rollover' feature, which enables all relevant data from the previous year to be automatically pre-filled on return for current year
- The P35 Declaration becomes the only form for manual completion.

Further improvements to the software package for practitioners include a more comprehensive option to cater for all PRSI classes, an enhanced help facility and generally more user-friendly option menus. The system also caters for customers wishing to submit euro returns.

A copy of the disk is available from Revenue on request or you can download it from Revenue's Web Site at www.revenue.ie. Practitioners should note that when all the details have been entered, the information should be copied on to a new

diskette, which should then be returned to Revenue.

Further information on the above system can be obtained by phoning Clodagh Cleere or Colette Mangan at 067 44168/44283 (LoCall 1890 254565 ext. 63168/63283).

Employers with no Employees

A return indicating zero liability must be made for registered employers who had no employees during the tax year. The guidelines provided on the reverse of the P35 declaration forms should be followed in these cases.

General

Agents and employers should make every effort to ensure that the P35 is fully and accurately completed and that all the information required on the P35 has been provided. An incomplete return does not fulfil an employer's legal obligation to make a return. Furthermore, these returns can cause considerable hardship for employees in obtaining their social welfare entitlements. Agents and employers who fail to provide proper and complete P35 returns may be required to re-complete the returns and in the process may risk a penalty.

Revenue is using the most up to date technology to capture and process data, and the accurate and timely processing of returns will be greatly improved by agents and employers:

- ▼ **Ensuring that the forms and giro are only used for the employer to whom they are issued.** This is because each form is pre-coded with details that are unique to that employer.
- ▼ **Returning the original forms.** The technology used by Revenue to process returns is designed to operate with original forms. The forms should be completed

clearly and legibly in accordance with the instructions provided. Photocopies should not be used. Additional stationery is available from the Employers P35 Unit by calling the Helpline number - 1890 254565. ext 63811.

- ▼ **Ensuring that each employee's PPS No. is included.** The employee PPS No. is of the utmost importance in ensuring that employees can claim their social welfare benefits. If in exceptional cases, the employee's PPS is not available, the employee's name, address, and date of birth must be included on the return. In the absence of this information employees will face huge difficulties in claiming their benefits.

- ▼ **Fully completing each form.**

Penalties

Employers who fail to return their P35 by the 15 February deadline are liable to a penalty of €630 and this penalty increases by €630 per month that the return remains outstanding subject to a maximum of €2535. These penalty provisions will be vigorously applied in the case of non-compliant employers.

Those employers who fail to meet their P35 obligations are now very much in a minority. Revenue maintains a comprehensive record of those employers who fail to comply and will be corresponding with these employers in relation to their failure to meet their obligations. With a deadline of 15 February there is no justification for employers failing to make their return on time. Any employer who fails to return on time faces a real risk of being penalised. In addition, the names of all non-compliant employers who have penalties imposed by the Courts are published.



PAYE/PRSI

As all agents and practitioners are aware, PAYE/PRSI liabilities for each monthly period (which ends on the 5th of each month) are payable by the employer to the Collector-General nine days after the end of the PAYE/PRSI month (i.e. by the 14th). In 2002, with the change of the tax year to coincide with the calendar year, the PAYE/PRSI monthly period will be aligned with the calendar month. However, in order to facilitate customers the due date for the monthly return (P30) and payment will remain as the 14th of the month (e.g. P30 return and payment for January 2002 will be due on 14 February 2002).

On the basis that PAYE/PRSI payments are due to be paid each month throughout the tax year there should, theoretically, be no liability due with the annual (P35) return. However, Revenue recognise that minor adjustments to the liability already paid (on P30s) can sometimes arise and for this reason a payslip is provided with the P35 to allow any small balance due to be paid. Unfortunately, some employers have abused this situation by deliberately underpaying (or not paying) the PAYE/PRSI liability each month. This approach gives rise to an unfair cash flow advantage over legitimate traders, leading to a significant balance due with the annual return. In order to counteract this abuse, legal changes were introduced in this year's Finance Act (*Section 237 FA 2001, amending Section 991 TCA 1997*).

The practical effect of these changes is as follows:

- Where the balance on the P35 exceeds 10% of the PAYE/PRSI liability due for the year, this balance will be deemed to have been due from the mid-point of the tax year and interest charges will arise accordingly. Where Revenue raises an interest charge in accordance with this provision the employer has the option of providing details of the actual monthly amounts which should have been paid with each P30 throughout the year and the interest charge will then be re-calculated on that basis.
 - In all other cases any balance payable with the P35 will have the same due date as the last P30 of the tax year (i.e. 14 January) and interest charges will arise accordingly.
- Interest charges under these new provisions will only arise where an employer is underpaying PAYE/PRSI liability through the year and thus gaining an unfair cashflow advantage over legitimate traders. In deciding whether to apply interest charges Revenue will have regard to the nature of the balance paid with the P35 and situations involving minor adjustments, where the bulk of the liability has been properly paid throughout the year, will, as hitherto, not be subject to interest charges.

The rules outlined above also apply in situations where an employer makes monthly PAYE/PRSI

Balances on P35's

payments by direct debit but the amount of the direct debits significantly understates the on going liability leading to significant balances on the P35.

Practitioners and agents are asked to bring these changes to the attention of all their clients who are employers with a view to ensuring that the monthly PAYE/PRSI payments (whether by P30 or direct debit) are sufficient to meet on going PAYE/PRSI liabilities as they arise throughout the year. If any employer wishes to change the amount of his/her direct debit mandate, he/she should write, fax (01-6717020) or e-mail (eff-apollo@revenue.ie) to the Collector General requesting the change. The customer should simply state his/her registration number and provide details of the change required.

Supplementary P35s in respect of director's unpaid remuneration (*Section 996 TCA 1997*) will continue to be accepted without the imposition of interest charges provided such payments are received within the time limits laid down in *Section 996*.

Any queries in relation to this Article may be addressed to

*Technical Services Section,
Office of the Collector-General,
Sarsfield House,
Limerick*

Telephone 1890 20 30 70. ■



PAYMENT OF VAT

Payment by direct debit has important benefits for all Revenue's VAT customers. Customers who opt to pay by direct debit have the benefit of a single annual return (instead of a return every two months) as well as the advantage of a fixed payment amount each month. If the business is seasonal the direct debit amounts can be varied to suit the particular business.

When paying by direct debit it is not feasible to have an exact match between the debited amounts and the actual VAT liability arising during the course of the year. Revenue recognises this and has applied a reasonable tolerance as regards any balance due with the annual return. Unfortunately, some traders have abused this situation by deliberately underpaying the monthly direct debit amount, giving rise to an unfair cash flow advantage over legitimate traders, and a significant balance due with the annual return. In order to counteract this abuse, legal changes have now been introduced (*Sections 194 and 195 Finance Act 2001 amending Sections 19 and 21 VAT Act 1972*) governing the amounts that have to be paid when paying VAT by means of the direct debit system.

Customers using direct debit to pay their VAT liability are now legally

obliged to ensure that the amounts paid by direct debit are likely to be sufficient to cover the on going liability and, where necessary, to adjust the direct debit amounts to achieve this. Where insufficient amounts are paid by direct debit and, as a result, the balance of tax payable with the annual return is more than 20% of the actual liability for the year, interest is chargeable on this balance from a date six months prior to the due date of the annual return. Where the balance payable is less than 20% of the actual liability for the year and this balance is paid by the due date for the annual return no interest charge will arise.

Where Revenue raises an interest charge because the amount due with the annual return exceeds the 20% ceiling, the customer has the option of having the interest re-calculated as if the direct debit system had not been used (i.e. having regard to the dates that the liabilities would have been payable if the customer had been using the normal bi-monthly returns system and taking into account the payments made during the course of the year).

Practitioners and agents are asked to bring this change to the attention of any of their customers who pay VAT by direct debit. If any customer

Direct Debit

wishes to change the amount of his/her direct debit mandate, he/she should write, fax (01-6717020) or e-mail (eft-apollo@revenue.ie) to the Collector General requesting the change. The customer should simply state his/her registration number and provide details of the change required.

This latest change has been introduced in the interests of equity to ensure that everyone pays their fair share. Payment by direct debit remains an attractive option for all Revenue's VAT customers. Anyone wishing to join the system should obtain the relevant leaflet (CG 7 - DD) that explains how the system works and contains the necessary direct debit mandate. The leaflet is available at all Revenue offices, on Revenue's website (www.revenue.ie/publications/leaflets_and_guides/collector-general) or can be obtained by phoning 1890 20 30 70.

Any queries in relation to this Article may be addressed to:

*Technical Services Section,
Office of the Collector-General,
Sarsfield House,
Limerick*

Telephone: 1890 20 30 70 ■

VALUE ADDED TAX

Guide to the Apportionment of Input VAT

Value Added Tax (Apportionment) Regulations 2000 (SI 254 of 2000).

A new Revenue guide has issued dealing with the apportionment of input tax where a taxable person is not entitled to deduct the full amount of VAT on his or her inputs. This guide gives guidance on how to apply the rules in the new *Section 12(4)* of the VAT Act that came into effect on 1 May 2000 and the VAT (Apportionment) Regulations 2000. The guide is currently available on the Revenue Website. Any queries in relation to the practical application of the apportionment rules should be made to the taxable person's appropriate Revenue office.

The guide is quite lengthy and covers two distinct areas; general legislative principles and specific instances of the application of the apportionment rules.

A crucial part of the Guide is in Section 10, which deals with transitional arrangements. Particular problems could arise from the fact that the primary law and the Regulations contain different start up dates.

In view of the complexity, Revenue decided to allow flexibility in respect of the operation of the new rules up to now. Interest and penalties are waived in respect of taxpayers who comply with certain conditions (see paragraph 3 of section 10 of the Guide), and who submit corrected returns within set deadlines. There are stricter deadlines for more apportionment -sensitive business i.e. financial sector and entities receiving grants and subsidies.

Asylum Seekers

VAT Information Leaflet No. 1/01, *"Emergency' Accommodation, Including Accommodation Provided for Asylum Seekers and Homeless People and Ancillary Services"* which was published in February 2001 (available

in Revenue Offices and on the Website), indicates that where hotels/guesthouses are used as 'emergency accommodation' for asylum seekers, the hotel/guesthouse owners may elect to treat this provision of accommodation as being VAT exempt.

It has been agreed to allow hotel/guesthouse owners to avail of this concession with effect from 1 September 2000, provided that the hotel/guesthouse owners provide a breakdown in their income and expenditure records of amounts relating to the exempt supplies of accommodation and the taxable supplies of ancillary services (e.g. catering @ 12.5%, security @ 20% [21% from 1 March 2002], etc) which is subject to agreement with their local Inspectors of Taxes. The question of a claw-back for any self-supply of the property will also have to be clarified at that date. Queries on this concession should be addressed in the first instance to the local Inspector of Taxes dealing with the affairs of the hotel/guesthouse.

Dances, Theatrical and Musical Performances

Dances

The promotion of dances is a taxable activity liable to VAT at the rate of 20% [21% from 1 March 2002]. Dances are to be treated as an ordinary part of the activities carried on by a taxable person in the course of furtherance of business.

There are special arrangements for dances held on licensed premises. Where a dance is held on premises licensed for the sale of intoxicating liquor the licensee will be deemed to be the promoter of the dance. The licensee will be deemed to have received the total amount payable in respect of admissions and will be liable to account for the tax chargeable and, if not already registered, will be obliged to register if annual receipts from all taxable activities exceed, or are likely to

exceed, £20,000 per annum (€25,500 from 1 January 2002).

Where a dance is held on premises which are not licensed for the sale of intoxicating liquor, the promoter of the dance will be accountable for the tax chargeable, subject to the normal VAT rules. The promoter will be obliged to register and account for tax where his or her annual receipts from taxable activities (including the promotion of dances) exceed or are likely to exceed £20,000 per annum (€25,500 from 1 January 2002). Please see Value Added Tax Statement of Practice SP-VAT/6/92, "VAT on Dances" issued July 1992 for further information.

Theatrical and Musical Performances

The promotion of and admissions to live theatrical and musical performances, including circuses, are exempt from Value Added Tax (Para. (viii) First Schedule VAT Act 1972 as amended).

The exemption does not cover the following activities, which are liable to Value Added Tax.

- Dances (see above) at 20% [21% from 1 March 2002]
- Live music and theatrical performances in conjunction with which facilities are available for the consumption of food or drink during all or part of the performance by persons attending the performance. Examples of liable activities include cabaret - type entertainment in places such as hotels, public houses and clubs where food and drink is available for consumption at a performance. VAT rate 12.5%
- Cinematographic performances. VAT rate 12.5%
- Amusement services of the kind normally supplied in fairgrounds or amusement parks (excluding dances, circuses and gaming). VAT rate 12.5%.



NEW EU RULES ON VAT INVOICING

On 17 November 2000 the European Commission brought forward a proposal for a Directive with a view to simplifying, modernising, and harmonising invoicing requirements for VAT. The rules relating to invoicing had not changed since 1977. Developments since then, particularly the ever increasing level of cross frontier trading and the availability of cheaper secure electronic methods of invoicing, were the main factors behind this proposal. The existing diverse rules in Member States hinder these developments and place an unnecessary compliance burden on traders.

Agreement on the technical aspects of this proposal was reached at the Council Financial Questions Working Party on 20 November 2001. Political agreement was reached at the ECOFIN Council of 4 December 2001. Member States will be obliged to implement the Directive in their own legislation by 1 January 2004 at the latest.

Basically, the new Directive provides for:

- ▼ Harmonisation of the details required on an invoice
- ▼ A legal framework for electronic invoicing and storage including electronic storage of invoices and
- ▼ A legal basis for outsourcing of invoicing and self invoicing.

Details on the Invoice

Under current EU rules there is no real harmonisation at European level of the details required on an invoice. Certain statements are obligatory but other than that Member States can decide on their own requirements. Ireland has always endeavoured to keep the level of these details to a minimum consistent with reasonable control. This is in line with Revenue's overall strategy of easing the compliance burden on business. In the course of the discussions in

the Council working party on this aspect it became clear that this was by no means the case across the EU. Nevertheless, the eventual outcome was favourable insofar as Ireland is concerned. The level of details agreed is almost entirely in line with our current requirements and no other information is obligatory on VAT invoices. Our traders will have to make little or no changes to the details they provide on their invoices.

The main advantage of the new arrangements will be in the area of cross frontier trading. Traders can now be confident that their invoices will meet the needs of administrations in other Member States. This will significantly reduce the compliance burden on them. For their part administrations will be better able to control invoices from other Member States because of their harmonised content. This harmonisation will also facilitate the use of electronic invoicing in cross border trade.

Electronic Invoicing

The new directive will provide a legal framework for electronic invoicing. While the current rules do not specifically provide for electronic invoicing many Member States have introduced their own rules. Most of these, like Ireland, allowed invoicing under electronic data interchange systems (EDI) and prior authorisation by Revenue Authorities was required. These systems were used by a small number of large businesses to facilitate the secure transmission of invoices by their suppliers. Apart from their prohibitive cost in comparison with the new internet technology, these systems were severely hampered by the lack of harmonised rules in this area which prevented the development of cross border invoicing.

Ireland's position during the negotiations at the EU Council was

that electronic invoicing should be allowed under any system which guarantees the "authenticity of origin and integrity of contents" on invoices. The initial Commission proposal only provided for invoicing using an advanced electronic signature (see below). Ireland supported by a number of other Member States insisted that existing EDI systems and other systems which guaranteed "authenticity of origin and integrity of data" should also be provided for to allow some flexibility in this rapidly developing area of technology. This was eventually agreed and a trader will now be able to issue invoices electronically where the integrity of the system is guaranteed:

- ▼ By means of an advanced electronic signature within the meaning of Article 2 (2) of Directive 1999/93/EC (the e-signatures Directive). Member States may ask for the advanced electronic signature to be based on a qualified certificate and created by a secure signature creation device within the meaning of the e-signatures directive.
- ▼ By means of EDI (Member States may require an additional summary document on paper)
- ▼ By other electronic means accepted by a Member State.

According to Article 2(2) of this Directive, an advanced electronic signature is one which meets the following requirements:

- It is uniquely linked to the signatory
- It is capable of identifying the signatory
- It is created using means that the signatory can maintain under his sole control and is linked to the data in such a manner that any subsequent change to the data is detectable.



NEW EU RULES ON VAT INVOICING

In addition, Member States will be prohibited from having a prior authorisation system for electronic invoicing. As an interim measure, however, Member States will be allowed to retain systems of prior notification by traders of their intention to engage in electronic invoicing.

Storage of Invoices

The new Directive places the onus on every taxable person to store copies of invoices issued and actual invoices received by them. In addition taxable persons can decide the place of storage of invoices provided they can make them available without delay to the tax authorities on request. Member States can also require traders to notify them of the place of storage if it is outside their territory and indeed can oblige them to store invoices within their own territory if the storage "is not by electronic means guaranteeing full on-line access to the data concerned". Member States can also set the period for which invoices must be stored and when invoices are stored by electronic means Member States can require that the data guaranteeing the authenticity of origin and integrity of the data also be stored. Finally, Member States can prohibit or restrict the storage of invoices in

countries with which no mutual assistance arrangements exist.

Outsourcing and self billing

The new rules, will provide a legal basis for the growing practice of outsourcing of invoicing arrangements and for self billing. Many Member States, including Ireland, were already allowing such arrangements on an administrative basis. As regards outsourcing the new rules leave the onus on the supplier to ensure that all invoicing requirements are met. In cases where invoices are drawn up by the customer, (self billing) the new rules provide that there must be an agreement at the outset between the two parties and there must be a procedure in existence for the acceptance of each invoice by the supplier.

Implementation

As stated above Member States must implement the new Directive by 1 January 2004 at the latest. Ireland has already taken a step in this direction in the 2001 Finance Act with the removal of the requirement on traders to get advance authorisation from Revenue to engage in electronic invoicing. This amended legislation provides, in line with the new EU rules, that for an invoice to be valid, the authenticity of its origin and integrity of its

contents must be guaranteed. The 2001 Finance Act specified also that the system used to issue electronic invoices must meet certain specifications and conditions to be set out in regulations. Now that agreement has been reached at EU level on the requirements for electronic invoicing, it is hoped to issue regulations in the near future. These Regulations will of course take on board the new possibilities afforded by the EU Directive. In this context any observations from interested parties would be welcomed and can be sent to Mr Kevin Fitzpatrick, VAT Policy & Legislation Branch, Dublin Castle, or by e mail to kfitzpat@revenue.ie

As regards outsourcing, self billing and storage it is proposed to review these in the context of the 2003 Finance Bill. It should be noted that in the context of storage Revenue have recently published guidelines on electronic storage of records, including VAT invoices, in an Iris Oifigúil of 16 October 2001. These guidelines are covered on page 24 of this issue of *Tax Briefing*.

Any amendments to these guidelines or to other legislation resulting from the new invoicing rules will be taken on board as soon as possible, but in any event before 1 January 2004.



APPROVED PROFIT SHARING SCHEMES

As a result of enquires in relation to the Salary Forgone and Contributory elements of approved Profit Sharing Schemes for the 'year' of assessment 6 April to 31 December 2001 (the short tax year) Revenue are prepared to agree the following transitional arrangements for the short tax 'year' only.

Approved Profit Sharing Schemes and Salary Forgone

- Salary collected from participants in schemes during the year of assessment 6 April 2001 to 31 December 2001 may be carried forward into the year of assessment 2002. Any amount carried forward will not be regarded as income arising in the short tax year for any purpose.
- The carried forward amount must be matched by a company contribution in the normal way, both elements to be used to acquire shares in the year of assessment 2002. Where this

cannot be done and a refund to the participant is necessary, the refunded amount will be regarded as income arising in the year of assessment 2002. Because the year of assessment 2002 is a full 12 month period, the normal appropriation limit of €12,700 will apply.

- For the year of assessment 2002 and all future years of assessment any amounts collected by way of salary forgone must be matched in the normal way by company contributions within that year of assessment.

Approved Profit Sharing Schemes and Contributory element

- Monies saved from net salary during the year of assessment 6 April 2001 to 31 December 2001 may be carried forward into the year of assessment 2002 and be matched by a company contribution in the normal way,

both elements to be used to acquire shares in the year of assessment 2002

- The normal limit of €12,700 for the company contribution and salary forgone and other rules governing contributory schemes will continue to apply
- Any net salary saved in 2002 must be used in 2002 subject to all the normal rules
- Net salary saved in 2003 can only be used to match free shares in 2003. This will continue for subsequent years of assessment

These arrangements should be regarded as exceptional, in recognition of the unique circumstances of the short tax year. The Revenue Commissioners will not agree to these arrangements in respect of any future years of assessment and reserve the right to withdraw them in the event that they are being abused.

COMPLETION OF TAX RETURNS

With the return filing date for the 2000/2001 Form 11 approaching on 31 January 2002, this is an opportune time to note some of the common errors/omissions made when completing these forms. Properly completed forms ensure that compliance costs are kept to a minimum. They eliminate unnecessary contacts with taxpayers/agents and reduce the need for additional/amended assessments. To help reduce these unnecessary contacts/delays when processing the forms a list of the most common errors/omissions are outlined hereunder:

- ▼ PPS numbers and names not matching
- ▼ No signature
- ▼ Returns signed in firm's name rather than in the authorised person's name within the firm.

Sections 1/2 Page 2 (Losses)

- ▼ Boxes not ticked for claim under Section 381/382
- ▼ Section 19 (Expenses) - Other Expenses claimed when it should be Schedule E only.

Section 32 (Retirement Annuities)

- ▼ Boxes for non-pensionable earnings and date of birth left blank.

Section 40 (One-Parent Family /Widowed Parent/Increased Exemptions, etc.

- ▼ This section only partially completed. Replies under all headings to be given.

Piecemeal filing and notations such as "see accounts", "per computations", "per schedule" may lead to rejection of tax return and possibly a surcharge.

CASUAL EMPLOYER

For many years, an employee, who was normally employed by an employer for a period of **less** than a week and who was **not** paid weekly, was regarded as a Casual Employee and taxed under the Casual Employer System. Although the system was cumbersome, it suited the many employees who were paid on that basis at the time.

As the number of employers, who employed staff on a "casual" basis has dropped considerably over the years, it has been decided that the system will be abolished with effect from 1 January 2002. All employees involved will be taxed under the PAYE system, with effect from that date. All employers currently involved in the Casual Employer System have been advised of the change.



REVENUE PROSECUTIONS

In *Tax Briefing Issue* 43 of April 2001 we brought you up to date on developments in the Revenue Prosecution Area.

By April 2001, there had already been two prosecutions completed since the start of the year for serious evasion, leading in one case to a 12 months (suspended) prison sentence and in another to a 2-year prison sentence.

Since then three further convictions have been secured one with a 6 months prison sentence (which is under appeal), one with a 6 months (suspended) prison sentence, and the other with a three-month prison sentence.

The following are the details for 2001 to date:

- In January 2001, Sean Travers (engaged in demolition and materials salvage), The Rath, Ardcath, Co. Meath, received a twelve month suspended sentence in the Circuit Criminal Court, Trim, for making a VAT repayment claim based on a false invoice
- On 6 April 2001, Ignatius Forde (an accountant), Killeslin Rd., Graigcullen, Co. Carlow, a director of Bradford Productions Ltd. (in liquidation), was sentenced to twelve months imprisonment in the Circuit Criminal Court for submitting false PAYE returns
- In June 2001 Patrick Kelly (security business), 139 Orwell Park View, Templeogue, Dublin was convicted in the Dublin District Court for delivering incorrect information and returns

and failing to keep proper records. He was sentenced to 6 months imprisonment and fined £1,500. He has appealed against his sentence.

- In October 2001 Patrick Byrne (a builder), Sunray House, Ballymany, Newbridge, Co. Kildare, was convicted in the District Court, Newbridge, and received a 6 months (suspended) prison sentence and was fined £2,500 arising from the submission of incorrect VAT and PAYE returns in respect of his company Ballymany Construction Ltd. The company was fined £6,000.

- In November 2001 James Howard (carrying on the business of plumbing and heating maintenance), 14 Forest Fields Rd., River Valley, Swords, Co. Dublin, was sentenced to 3 months imprisonment in the Circuit Criminal Court in relation to the submission of false Value Added Tax Returns and repayment claims.

Of the 18 prosecutions completed since 1995, convictions have been obtained in seventeen and there has been one acquittal (after legal argument). Prison sentences have been imposed in the last six cases for which convictions have been obtained (suspended in two cases and under appeal in a third).

Plans for the creation of a new Revenue Prosecutions Division are in the hands of a separate Project Team reporting to the Board and are well advanced.

ITP

Integrated Taxation Processing - Repayments

Repayment Delays

Practitioners may be aware of a delay, which occurred in the issue of Income Tax repayment cheques in the period 31 October to 10 November 2001. Underlying issues relating to the inclusion of Income Tax, Corporation Tax and Capital Gains Tax in the ITP environment from 18 September 2001 inadvertently gave rise to the delay. These issues were resolved for the production of repayment cheques from 10 November 2001.

Issue of Repayment Notification (Statement of Account)

ITP is currently set to issue the Statement of Account in relation to repayments to the customer, rather than the agent. While this can be adjusted in the district to issue to the agent, refunds automatically produced by the system do not have such facility. Arrangements are being made to ensure that a copy of the Statement of Account issues to both agent and customer. This should be in place for the end of January 2002.



STAMP DUTY

Monetary Amounts Applicable to Deeds Executed on or After 1 January 2002

Residential Property - Consideration bands and rates of stamp duty - Conveyance or transfer

Exceeding	Not Exceeding	First Time Buyer Rate	Full Rate
€0.01	€127,000	Exempt	Exempt
€127,000	€190,500	Exempt	3%
€190,500	€254,000	3%	4%
€254,000	€317,500	3.75%	5%
€317,500	€381,000	4.5%	6%
€381,000	€635,000	7.5%	7.5%
€635,000		9%	9%

Non-Residential Property - Consideration bands and rates of stamp duty - Conveyance or transfer

Exceeding	Not Exceeding	Rate of Duty
€0.01	€6,350	Exempt
€6,350	€12,700	1%
€12,700	€19,050	2%
€19,050	€31,750	3%
€31,750	€63,500	4%
€63,500	€76,200	5%
€76,200		6%

The correct value to be inserted in the transaction certificate within the deed should be selected from the appropriate second column titled "Not Exceeding". Premiums for Leases are liable to stamp duty at the same rates shown above. Amounts of duty are rounded down to the nearest euro.

Fixed amounts of stamp duty

Collateral	€12.50
Counterpart	€12.50
General deed	€12.50
Rent review clause	€12.50
Assignment of life policy	€12.50
Credit cards and charge cards	€19.00
Cash cards	€6.25
Memorial (Registry of Deeds Fee)	€44.00

Fixed amount - late payment

Statutory penalty	€25.00
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Fixed amounts - thresholds

Mortgage not exceeding €254,000	exempt
Mortgage - maximum chargeable	€630.00
Transfer of site from parent to child - exemption threshold	€254,000

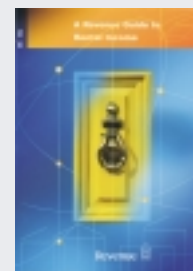
The legal basis for the above amounts may be found within the Finance Act 2001, principally schedule 5 part 6 and, in respect of the Registry of Deeds Memorial, the Euro Changeover (Amounts) Act 2001, section 1 (1) and schedules 1 and 2.

REVENUE NEWS

New and Updated Leaflets

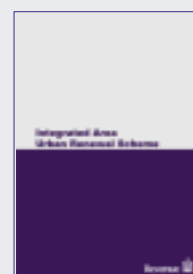
A Revenue Guide to Rental Income

A new leaflet IT 70 - A Revenue Guide to Rental Income has been published.



Integrated Area Urban Renewal Scheme

A new leaflet IT26A - Integrated Area Urban Renewal Scheme has been published. The scheme provides income tax and corporation tax reliefs for expenditure on certain residential and commercial/industrial developments.



Budget Summary 2002

A leaflet outlining the main Budget 2002 highlights was published on 6 December 2001.



Copies of the above leaflets are available from the **Revenue Forms & Leaflets Service at 01-8655002** or from our website at www.revenue.ie.

Case I and Case II Basis of Assessment

An article covering this subject was carried in **Tax Briefing** Issue 45. It was our intention to outline the treatment of losses in this issue. However, due to unforeseen circumstances we regret that we are unable to provide the article and hope to cover the subject in the next **Tax Briefing**.

VAT 58 Claim Forms

All VAT Claim Forms, including VAT 58, for both IR£ and Euro are available on the Revenue website and can be downloaded by using the following address:

www.revenue.ie/publications/curntfms/curfrms.htm

Once correctly in the Internet scroll down until you come to VAT 58 forms.