

# TAX BRIEFING

## PAY AND FILE



### Pay and File Deadline 31 October 2002

From early this year Revenue have engaged in an extensive campaign to alert our customers to both the changes arising under the Pay and File system and the special arrangements Revenue have put in place for 2002, the first year of Pay and File. Recent editions of *Tax Briefing* (in particular Issues 47 and 48) set out the changes and the special arrangements in detail.

In short, the changes mean that the statutory date for filing the 2001 Tax Return, paying any balance of 2001 tax (including capital gains tax) and paying the current years income tax Preliminary Tax all now fall on the one day, **31 October 2002**. The once-off special arrangements effectively mean that the deadline can be extended by three weeks to 21 November where certain circumstances are met. The circumstances whereby you can benefit from the extended deadlines are set out in detail in *Tax Briefing* Issue 47 and are summarised in a separate article on Pay and File Payment Options on pages 8 and 9 in this issue of *Tax Briefing*.

All the indications are that there has already been a significant and improved change in the annual return-filing pattern when compared with earlier years, with a steady increased flow of returns being received daily. As at 5 October we have already received 40% of the total of the timely returns received last year. This is very encouraging and Revenue very much recognise and appreciate the co-operation on the part of practitioners in this welcome development in what has been a very busy year for us all, having regard to the changes involved, and the further complications of the change to a calendar tax year and the introduction of the euro.

For our part, not only are we well on target to meet the commitment we gave to process 'early filers' returns (those who filed before 31 August) but we have also made significant inroads into issuing assessments for returns filed after that date, with a view to issuing as many assessments as possible before the 31 October deadline. As at 5 October 84% of all returns filed have been issued with an assessment and we will continue to issue assessments before the 31 October deadline for as many cases as possible. Remember, however, if your client was not an 'early filer' (i.e. filed before the 31 August) the onus remains entirely with you and your client to ensure that the correct tax is paid by 31 October (or by 21 November if you qualify for the extended period) irrespective of whether or not we have issued an assessment before that date.

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## KEY DATES

### October

- 14 PAYE/PRSI**  
P30 monthly return and payment for September
- 14 DWT**  
Return and payment of DWT for month ended 30 September
- 14 RCT**  
RCT30 monthly return and payment for September
- 1-28 Corporation Tax**  
1st instalment Preliminary Tax for APs ending between 1-30 November  
2nd instalment Preliminary Tax for AP's ending between 1-30 April
- 1-31 Corporation Tax**  
Returns for APs ending between 1-31 January
- 1-31 Corporation Tax**  
Returns of Third Party Information for APs ending between 1-31 January
- 31 Income Tax**  
Preliminary Tax 2002
- 31 Income Tax**  
Balance of tax liability for 2001
- 31 Income Tax**  
Review of year - Return and payment date of any additional liability for 2000/2001
- 31 Income Tax**  
Return of Income for 2001
- 31 Capital Gains Tax**  
Payment for 2001
- 31 Capital Gains Tax**  
Return of Capital Gains for 2001

### November

- 14 PAYE/PRSI**  
P30 monthly return and payment for October
- 14 DWT**  
Return and payment of DWT for month ended 31 October
- 14 RCT**  
RCT30 monthly return and payment for October
- 19 VAT**  
VAT 3 return and payment for period September/October
- 21 Income Tax**  
Revised payment date for balance of tax for 2001 (conditions apply)
- 21 Income Tax**  
Revised payment date for Preliminary Tax for 2002 (conditions apply)
- 21 Capital Gains Tax**  
Revised payment date for tax due for 2001 (conditions apply)
- 1-28 Corporation Tax**  
Preliminary Tax for Aps ending between 1-20 May
- 20 Corporation Tax**  
1st instalment Preliminary Tax for APs ending between 21-31 December  
2nd instalment Preliminary Tax for AP's ending between 21-31 May
- 1-30 Corporation Tax**  
Returns for APs ending between 1-28 February
- 1-30 Corporation Tax**  
Returns of Third Party Information for APs ending between 1-28 February

### December

- 14 PAYE/PRSI**  
P30 monthly return and payment for November
- 14 RCT**  
RCT30 monthly return and payment for November
- 14 DWT**  
Return and payment of DWT for month ended 30 November
- 20 Corporation Tax**  
1st instalment Preliminary Tax for APs ending between 21-31 January  
2nd instalment Preliminary tax for AP's ending between 21-30 June
- 1-28 Corporation Tax**  
Preliminary Tax for AP's ending between 1-20 June
- 1-31 Corporation Tax**  
Returns for APs ending between 1-31 March



## PAY AND FILE DEADLINE

Continued from page 1

We strongly urge practitioners to continue filing returns as early as possible whether you are filing 'paper returns' to the Collector General's Office in Limerick or whether you are using the Revenue On-Line Service (ROS). If you are filing paper returns you are reminded of the special postal arrangements, including use of special SDS

labels and special return envelopes described in **Tax Briefing** Issue 48 (page 8). Additional requests for supplies of these special postal labels/envelopes may be referred to either the Collector-General's or to local tax offices.

## FARMING ISSUES

### Compulsory Disposals of Livestock-Section 668 TCA 1997

Section 668 TCA 1997 provides for special treatment in respect of profits arising from the disposal of livestock due to disease eradication measures. For disposals prior to 21 February 2001 a farmer may elect to have the profits arising on the compulsory disposal treated as arising in two equal instalments in the 2 accounting periods immediately after the period in which it arises (the deferral period). Alternatively the farmer can elect to have the profits treated as arising in two equal instalments in the period in which the disposal arises and the immediately succeeding period (the deferral period).

Stock relief of 100% is also available to the farmer in the deferral period. This is restricted to the taxable profit arising on the compulsory disposal of the livestock. Also if the full compensation proceeds are not re-invested by the end of the deferral period some of the profit arising from the compulsory disposal will be taxable. In a number of cases due to restrictions placed by Department of Agriculture, Food and Rural Development some farmers have been unable to commence restocking and have therefore been unable to restock within the required period. Consequently due to circumstances outside their control some of the profit arising on the compulsory disposal of livestock would be taxable. In these circumstances the following treatment will apply:

- ▼ The farmer may opt to have the second instalment of the profit arising on the compulsory disposal of the livestock treated as arising in the accounting period immediately succeeding the deferral period, and
- ▼ The period for restocking will be extended accordingly and the second part of the 100% stock relief will be granted for this accounting period.

#### Example 1

A farmer was required by compulsory disposal order to dispose of his herd in accounting period ended 31/3/98. He received €100,000 which gave rise to a profit of €40,000. He has elected to have the profits arising on this disposal spread over the years ended 31/3/99 & 31/3/2000 (€20,000 per year). Due to restrictions placed by Department of Agriculture, Food and Rural Development he is unable to restock fully by 31/3/2000. He has only reinvested €70,000. Balance is re-invested in the year ended 31/3/2001.

#### Strict Position

Year of assessment	98/99	99/00
A/c period ended	31/3/99	31/3/00
Profit on Compulsory Disposal	€20,000	€20,000
Stock Relief*	€14,000	€14,000
Taxable	€6,000	€6,000

$$*€20,000 \times \frac{€70,000}{€100,000}$$

*Position where farmer opts to extend deferral period:*

Year of assessment	98/99	00/01
A/c period ended	31/3/99	31/3/2001
Profit on Compulsory Disposal	€20,000	€20,000
Stock Relief	€20,000	€20,000
Taxable	€ nil	€ nil

#### Example 2

Figures same as above. Mr. Smith elects to spread profit from disposal over the period in which the disposal took place and the succeeding year i.e. 31/3/98 & 31/3/99. Due to restrictions imposed by Department of Agriculture, Food and Rural Development he is unable to restock by 31/3/99. Balance reinvested in year ended 31/3/2000.

#### Strict Position

Year of assessment	97/98	98/99
A/c period ended	31/3/98	31/3/99
Profit on Compulsory Disposal	€20,000	€20,000
Stock Relief*	€14,000	€14,000
Taxable	€6,000	€6,000

$$*€20,000 \times \frac{€70,000}{€100,000}$$

*Position where farmer opts to extend deferral period:*

Year of assessment	97/98	99/00
A/c ended period	31/3/98	31/3/2000
Profit on Compulsory Disposal	€20,000	€20,000
Stock Relief	€20,000	€20,000
Taxable	€ nil	€ nil



## FARMING ISSUES

(Continued from page 3)

Section 668 TCA 1997 has been amended by Section 29 Finance Act 2002. For disposals on or after 21 February 2001 a farmer may elect to have the profits arising on the compulsory disposal treated as arising in four equal instalments in the four accounting periods immediately after the period in which it arises. Alternatively, the farmer may elect to have the profits treated as arising in four equal instalments in the period in which the disposal arises and the three immediately succeeding period. This period should allow farmers sufficient time to restock even in circumstances where there are restrictions imposed by Department of Agriculture, Food and Rural Development.

### Foot and Mouth Restrictions - Effect on Farming profits

As a result of the restrictions imposed due to the foot and mouth outbreak some farmers were unable to restock before the end of their accounting period. This had the effect of increasing profits significantly in that accounting period. No special reliefs have been introduced as it is considered that the existing provisions of Section 657 TCA 1997 (income averaging) are adequate to deal with the matter.

Under this section a full-time farmer, as defined in Section 657 TCA 1997, is entitled to opt to be charged to tax on the average farming profits of a period of three years ended on the date in the tax year to which the farmer normally makes up farm accounts. This provision is designed to smooth out the effects of any unusual fluctuations in farming profits, which can arise for a variety of reasons in the case of farming, by spreading the effect over a period of three years. The restriction on the movement in livestock appears to have caused such a fluctuation in some cases.

A farmer who opts for averaging for a tax year must continue to submit tax returns on this basis for the following two years. Thereafter, the farmer may opt out of averaging, but where the farmer does so, the tax assessments for the preceding two years will be increased to the profits which would have been assessed for those years if averaging had not applied.

The option for averaging may be made up to thirty days after the date of receipt of a notice of assessment for that tax year in question. In practice the option is generally made when submitting the annual income tax return. ■

## TOPICAL QUESTIONS

### Deferral of income tax on the exercise of a Share Option(s)

**If an individual wishes to defer payment of the income tax due on the gain arising on the exercise of a share option(s) what information must be included on a Return of Income?**

An election to defer payment of income tax due on the gain arising on the exercise of a share option(s) must be made in writing to the Inspector by the normal return filing date, after the end of the relevant year of assessment.

The total amount chargeable to income tax, as a result of the exercise of a share option(s) for the individual and/or their spouse for the relevant year of assessment must be included on the Return of Income. The individual can then elect to defer payment of some or all of the income tax due for the individual and/or their spouse, by ticking the appropriate box on the Return of Income, or in writing to the Inspector and stating in either case the amount of income tax they wish to defer.

### Release of Share Options

**If a cash payment is received by an option holder on the release of a share option how is the income tax paid?**

Where a person realises a gain by the exercise, assignment or **release** of, a share option obtained by that person on or after the 6 April 1986, as a director or employee of a company, that person will be chargeable to tax under Schedule E for the year of assessment in which the gain is so realised, as a chargeable person.

Notwithstanding this any cash payment chargeable under Schedule E, by virtue of the release of a share option, should be paid through the company payroll and is subject to PAYE and PRSI in the normal manner. ■





## REGISTERED NURSING HOMES

### Registered Nursing Homes

#### Introduction

Capital allowances are available in respect of capital expenditure incurred on the construction, or refurbishment of buildings used as private registered nursing homes. The allowances are available in respect of expenditure incurred on or after 3 December 1997. (*Section 268 (1)(g) and (9)(d) TCA 1997*).

#### Registration

The nursing home must be a nursing home within the meaning of Section 2 of the Health (Nursing Homes) Act, 1990, which is registered under Section 4 of that Act. Each health board establishes and maintains a register of nursing homes in its functional area. These registers are available for inspection by members of the public. When a health board registers a nursing home, a certificate of registration is issued to the registered proprietor.

#### Qualifying Expenditure

The writing down allowance to be granted is at a rate of 15 per cent per annum for 6 years, and 10 per cent in year 7, of the capital expenditure incurred on the construction or refurbishment of the registered nursing home.

Construction costs include the cost of site renovation, preparation and landscaping. The cost of the site does not qualify for capital allowances.

Refurbishment means any work of construction, reconstruction, repair or renewal, including the provision of water, sewerage or heating facilities carried out in the course of the repair or restoration, or maintenance in the nature of repair or restoration, of the building or structure.

#### Housing units for the aged or infirm

*Section 33 Finance Act 2002* amends *Section 268 TCA 1997* to provide for a scheme of capital allowances for expenditure incurred in the five years commencing with the passing of the *Finance Act 2002* i.e. 25/03/2002, on the construction or refurbishment of housing units associated with a registered nursing home.

The housing units must be constructed on a site of, or on a site, which is immediately adjacent to the site of, a registered nursing home.

The writing down allowance to be granted will be at a rate of 15 per cent per annum for 6 years, and 10 per cent in year 7, of the capital expenditure incurred on the construction or refurbishment of the housing units.

### Qualifying premises

The conditions regarding housing units are as follows:

- The units must be operated or managed by a registered nursing home and an on site caretaker must be provided
- The nursing home must provide back-up medical care, including nursing care when required to the occupants of the units
- There must be a minimum of 20 housing units within the development. The units must be either single storey houses or comprised in a two-storey building.
- The units and any building in which they are comprised must be designed to meet the needs of persons with disabilities including those of individuals confined to wheelchairs
- Each unit must consist of one or two bedrooms, kitchen, living room, bath or shower facilities, toilet facilities, and a nurse call system linked to the nursing home
- The units must be leased only to those who are certified by a medical practitioner as requiring such accommodation by reason of old age or infirmity (qualifying individuals)
- There must be a day care centre on site complying with Health Board requirements. (Construction/refurbishment costs of the day care centre will not qualify for capital allowances.)
- At least 20% of the residential units must be made available to the tenants who are eligible for a rent subsidy from the Health Board, and the general rates charged must be reduced by at least 10% in respect of such tenants. There is no requirement that the Health Board actually take up all or any part of the units so made available. It is a matter for the Health Board to decide whether it wishes to do so.
- Capital allowances will not be available if any part of the construction/refurbishment costs is grant assisted.

### Management Company

The letting of the units to a management company, which sub-lets them to qualifying individuals, will not affect an investor's entitlement to relief providing all the other conditions of the scheme have been met.

### Balancing charge

Although the write-off period is 7 years, a balancing charge will arise if a qualifying nursing home or a qualifying unit is sold or ceases altogether to be used



## NURSING HOMES

(Continued from page 5)

within 10 years of first being used or, in the case of capital expenditure on refurbishment of a qualifying nursing home or a qualifying unit, within the 10 year period after the capital expenditure on the refurbishment was incurred.

### Limit on offset of allowances for passive investors

There is a restriction on the amount of capital allowances a passive investor may set against non-rental income. The amount of the capital allowances for the year of assessment, which may be set off against an individual's other income in such cases, is restricted to €31,750. (Section 409A TCA 1997.)

A passive investor is an investor who lets the property to an operator or is an individual who is not an active partner in a partnership trade of operating or managing the nursing home. An active partner is a partner who works for the greater part of his/her time on the day-to-day management or conduct of the partnership trade. ■

## MUTUAL ASSISTANCE ON RECOVERY

European Communities (Mutual Assistance for the Recovery of Claims relating to Certain Levies, Duties, Taxes and Other Measures) Regulations 2002 (S. I. No. 462 of 2002)

On 25 September 2002 the Minister for Finance made regulations under the European Communities Act 1972 to give effect in national law to the provisions of Council Directive No. 76/308/EEC of 15 March 1976 as amended by Council Directive No. 2001/44/EC. Statutory Instrument No. 462 of 2002 refers. The Directive provides for mutual assistance between member states of the European Communities on the provision of information in respect of, and the recovery in member states of, claims made by other member states in respect of debts due to that state in respect of certain levies, duties, taxes and other measures.

In view of the major changes made to the 1976 Directive by the 2001 Directive, the Regulations rescind all existing legal instruments separately implementing the 1976 directive in respect of Customs duties and agricultural levies (S.I. No. 73 of 1980), VAT (S. I. No. 406 of 1980) and certain excise duties (section 108 of the Finance Act 2001) and replaces

them with a single instrument which now applies for all taxes, duties and levies covered by the Directive. The levies, duties taxes and other measures covered by the Regulations are-

- Refunds, interventions and other measures forming part of the system of financing the European Agricultural Guidance and Guarantee Fund (EAGGF)
- Levies and other duties provided for under the common organisation of the market for the sugar sector
- Import duties
- Export duties
- Value-added tax
- Excise duties on manufactured tobacco, alcohol and alcoholic beverages and mineral oils
- Taxes on income and capital
- Taxes on insurance premiums and
- Interest, administrative penalties and fines, and costs incidental to these claims with the exclusion of any sanction in respect of which the act or commission giving rise to the sanction if committed in the State would be criminal in nature. ■

## SUBSISTENCE RATES

From 2002

### Domestic Subsistence Rates Effective From 1 January 2002

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	124.11	114.42	62.04	35.17	14.34
B - Rate	111.52	95.38	55.78	35.17	14.34
C - Rate	93.27	77.17	46.68	35.17	14.34
D - Rate	80.69	68.09	40.36	26.56	13.14
E - Rate	66.10	54.81	33.01	26.56	13.14

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



## DIRECTORS' REMUNERATION

### Introduction

**Tax Briefing** Issue 43 included an article on the treatment of the short tax year and Company Directors. The purpose of this article is to provide further clarification following enquiries received from practitioners. The article also contains some useful examples.

### Directors chargeable on the Accounts Basis

The following administrative arrangement only applies to directors who have traditionally submitted returns on the accounts basis.

Historically, the accounts basis has been accepted to overcome the difficulties with apportionment of accounting period figures and possible notional underpayments arising, and on the basis that taking one year with another there should be no overall substantial difference between the figures assessable and those assessed.

The basis of computation of directors' remuneration, which is acceptable for tax purposes, is as follows: -

A company's accounting period of one year ending within a year of assessment may be taken as the equivalent of that year of assessment for the purposes of computing liability under Schedule E. In effect, the remuneration computed by reference to the company's accounts year may be treated as payable for the tax year in which the accounts year ends, and need not be apportioned.

A typical example of the position, which prevailed, is set out hereunder.

A/P	Directors Remuneration charged	Year of assessment	Assessable figure
31/1/1998	€160,000	1997/98	€160,000
31/1/1999	€180,000	1998/99	€180,000
31/1/2000	€200,000	1999/00	€200,000

### Short Tax Year

With the introduction of the changes in the Finance Act 2000 and the changeover to the short tax year, transitional arrangements as set out in **Tax Briefing** Issue 43, are necessary for the year of assessment 2001. The amended position is set out hereafter.

### Example 1

**Accounting Periods ending between 1 January and 5 April**

A/P	Directors Remuneration charged	Assessable	Assessment
31/1/2001	€160,000	2000/01	€160,000
31/1/2002	€180,000	2001	€133,200*
31/1/2003	€200,000	2002	€180,000+
		2003	€200,000

\*As there is no A/P ending in the period 6/4/2001 to 31/12/2001, 74% of the remuneration charged in the company accounts ending in the period 6/4/2001 to 5/4/2002 is the amount assessable for the short tax year.

The PAYE tax credit for offset against the remuneration assessable in the short tax year will be the PAYE tax actually deducted (if any) and remitted for the period 6/4/2001 to 31/12/2001.

+ The PAYE tax credit for offset against the remuneration assessable in the year 2002 will be the PAYE tax actually deducted and remitted for the period 1/1/2002 to 31/12/2002. As this may, in some cases, only amount to 26% of the tax due on the remuneration assessable for the tax year 2002, practitioners should ensure that sufficient preliminary tax is paid for 2002 to address any shortfall.

### Example 2

**Accounting Periods ending between 6 April and 31 December**

A/P	Directors Remuneration charged	Assessable	Assessment
30/4/2000	€160,000	2000/01	€160,000
30/4/2001	€180,000	2001	€133,200*
30/4/2002	€200,000	2002	€200,000
30/4/2003	€220,000	2003	€220,000

\*The A/P ended 30/4/2001 forms the basis period for the short tax year and 74% of the profits for the year ended 30/4/2001 are assessable in the year 2001.

**As previously advised, this is purely an administrative arrangement that is not intended to create a tax advantage. The strict statutory position will be applied by Revenue in cases where the application of this arrangement would give rise to a tax advantage.**



## DIRECTORS REMUNERATION

Continued from page 7

### Example 3 - Revision to Strict Statutory Basis

A/P	Directors Remuneration charged	Assessable	Assessment
30/6/2000	€160,000	2000/01	€160,000*
30/6/2001	€1,500,000	2001	€1,110,000*
30/6/2002	€200,000	2002	€200,000
30/6/2003	€220,000	2003	€220,000

\* The application of the administrative arrangement gives rise to a tax advantage. Therefore, the strict statutory basis is applied and the assessments are revised as follows: -

A/P	Directors Remuneration charged	Assessable	Assessment
30/6/2000	€160,000	2000/01	€1,165,000*
30/6/2001	€1,500,000	2001	€475,000*
30/6/2002	€200,000	2002	€200,000
30/6/2003	€220,000	2003	€220,000

* 2000/01	€160,000 x 3/12 =	€40,000
	€1,500,000 x 9/12 =	€1,125,000
		€1,165,000
2001	€1,500,000 x 3/12 =	€375,000
	€200,000 x 6/12 =	€100,000
		€475,000

## PAY AND FILE PAYMENT OPTIONS

### Introduction

Previous editions of *Tax Briefing* (Issues 47, 48 and 49) carried articles on the changes (known as "Pay and File") to the Self Assessment Income Tax system being introduced this year. The articles also outlined the special transitional arrangements that Revenue have put in place for the first year of Pay and File and also provided detailed responses to the most frequently asked questions which arose at the Pay and File seminars earlier this year.

The main feature of the new system is that there will only be one major date in the self-assessment calendar each year - **31 October**.

For the future 31 October will be

- The payment date for the Preliminary Tax for the current tax year
- The payment date for any balance of tax due for the previous tax year
- The payment date for any Capital Gains tax due for the previous tax year
- The filing date of the tax return for the previous tax year.

All payments will be aggregated on a single personalised payslip and the return and payment will be filed either -

- ▼ On line - using the Revenue On-line Service (ROS) or

- ▼ By post to the Office of the Collector-General in Limerick.

### Transitional Arrangements for 2002

A number of transitional arrangements have been introduced, which will apply in 2002 only, to facilitate the smooth introduction of Pay and File.

The main transitional measure is the extension of the payment and filing date by 3 weeks to 21 November 2002 for certain customers. These are:

- Customers who pay and file through the Revenue On-line Service (ROS)
- Customers whose aggregate tax payment is less than €5,000 - provided the payment is made by a single debit authority (SDA)
- Customers who make their payment through ROS, even though filing a paper return.

Also available as a transitional arrangement is an extension of the (paper) return filing date to 21 November provided the tax itself is paid by 31 October.

### Payment methods

There are a number of methods by which customers can pay their tax - using ROS, Single Debit Authority or cheque payment.





## PAY AND FILE PAYMENT OPTIONS

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### Revenue On-Line Service (ROS)

ROS allows customers and practitioners to transact their business with Revenue over the internet, including making payments and filing returns. The system also provides easy access to a wide range of customer information. As indicated earlier, for the purposes of Pay and File, using the ROS system for payment means that the deadline for filing and payment is extended to 21 November 2002. Where customers pay through ROS, payments will not be deducted from customers accounts before 21 November regardless of when the payment instruction is filed.

### Within ROS there are three different payment options.

- The first of these is the ROS Debit Instruction (RDI) under which the customer advises Revenue in advance of the bank account from which the customer would like tax payments to be made. This can be done by completing an RDI on-line on ROS or alternatively by completing an RDI and forwarding it to the Office of the Collector-General, Apollo House, Tara Street, Dublin 2. To facilitate the setting up of RDI's on ROS, from early October this year, a facility is available which allows agents to complete and submit RDI's on-line with their clients bank account details. The agent should retain their clients written authority in all instances.

Then, when a return is being made and payment is due, the customer simply authorises Revenue (through ROS) to deduct the specific amount from the nominated bank account. An agent acting on behalf of the customer can direct Revenue (through ROS) to make the deduction.

- ROS now also caters for customers to make payments (Income Tax and CGT **only**) through some on-line banking services. Full instructions on how to use the service have been circulated in advance to all ROS customers. This option will operate in conjunction with the banks on-line products. It is intended to develop this option to cover all taxes in the near future.

- A further payment method available in ROS is Laser Card. Under this method the customer authorises each individual payment by providing his/her Laser Card details on-line together with the amount to be paid. The tax is then debited from the taxpayer's account by Revenue in accordance with the authorisation given.

### Non ROS payment methods

- Outside of ROS, the payslip provided for Pay and File now accommodates a new method of payment called Single Debit Authority (SDA). This avoids the need to provide a cheque, by allowing customers to specify the amount of tax to be paid and authorising Revenue to debit that specific amount from the customers' bank account (details of which are provided on the SDA). All customers can use the SDA method of payment but, where the amount payable under Pay and File is less than or equal to €5,000, customers who pay by SDA also benefit from the extension of the filing and payment date from 31 October to 21 November. Irrespective of when an SDA is submitted the amount due will only be debited from the customers bank account on the actual due date (i.e. 31 October normally, or 21 November for customers who qualify for the extension).

- Revenue of course continues to accept payment by cheque. In order to ensure that cheque payments are appropriated promptly and correctly, customers should ensure that the cheque is accompanied by the correct personalised payslip. (Please note that using an "amended" payslip belonging to another customer virtually guarantees that the payment will misappropriate giving rise to difficulties for the customer at a later date). The right hand side of the payslip need only be completed. The left hand side, which is the SDA authorisation (see above), should be left blank. Under Pay and File the due date for all cheque payments is 31 October. A Guide to completing a Pay and File Payslip is given on Page10. ■

Continued on page 10



## PAY AND FILE

## A Pay and File Payslip

## Statement of Net Liabilities

The Statement of Net Liabilities should be completed whether payment is being made by cheque or Single Debit Authority. If there is no liability due for any of the years shown, enter a single '0' in the relevant field. Do not enter NIL, or return a blank Statement of Net Liabilities.

## Income Tax Preliminary Tax 2002

The amount of Preliminary Tax you have calculated as being liable for the current year.

**Income Tax Balancing Amount**  
**2001**

Any outstanding balance of Income Tax due for the year of assessment 2001. If you have calculated that there is a refund due to you for this year, enter the amount of the credit and tick the box to indicate that the value is a credit.

### Refund Tick Box

This box should be ticked only if you have calculated that there is a refund due to you for the year of assessment 2001. Please ensure that the tick is a distinct '✓' - do not insert an 'X'. Leave the refund tick box blank where you owe tax for 2001 or if there is no liability due for that year.

### Total Net Liability

The sum of all the amounts shown on the Statement of Net Liabilities. If there is no Liability due for the years shown, enter a single '0' in this field. Do not enter NIL, or return a blank Statement of Net Liabilities. See over for completed examples.


## Net Refund

Where you are in a net refund position, enter the net refund amount in the total net liability field. Do not use brackets ( ) or a minus sign -.

## Capital Gains Tax 2001

Any liability to CGT that has arisen in the year of assessment 2001.

**€ Payslip**

**Revenue** 

Date : \_\_\_\_\_

---

**€ STATEMENT OF NET LIABILITIES**

Income Tax Preliminary Tax 2002					.00	Tack how know if 2001 value is a refund
Income Tax Balancing Amount 2001					.00	
Capital Gains Tax 2001					.00	
<b>TOTAL NET LIABILITY</b>					<b>.00</b>	P&F11 02/1



## PAY AND FILE PAYMENT OPTIONS

### How to complete the Pay & File Payslip when making Payment by Single Debit Authority

Single Debit Authority		€ STATEMENT OF NET LIABILITIES		Tick box below if 2001 value is a refund
Do not complete this authority if you are making payment by cheque.				
Please debit my account no earlier than 31 October 2002 with the single amount specified.				
Branch Sort Code	9 9 1 0 5 5	Income Tax Preliminary Tax 2002	, 8 , 0 0 0 .00	
Account Number	1 2 3 4 5 6 7 8	Income Tax Balancing Amount 2001	, 1 , 0 0 0 .00	<input checked="" type="checkbox"/>
€		Capital Gains Tax 2001	, 1 , 0 0 0 .00	
DEBIT AMOUNT	, 8 , 0 0 0 .00	TOTAL NET LIABILITY	, 8 , 0 0 0 .00	

#### Do:

- complete the Branch Sort Code, Account Number and Debit Amount Fields if you are making a payment by Single Debit Authority.
- complete the Statement of Net Liabilities if you are making a payment by Single Debit Authority.
- enter a single '0' in the 'Total Net Liability' field if you have no liability for the years shown.
- enter whole euro amounts only.
- enter a tick ✓ if the Income Tax Balancing Amount 2001 is a credit.
- sign and date the payslip.

#### Don't:

- complete the Branch Sort Code, Account Number and Debit Amount Fields if you have no tax liability for the years shown on the payslip.
- enter a € symbol in any field.
- enter 'NIL' in any field.
- enter cent in any of the amount fields.
- mark the tick box if the Income Tax Balancing Amount 2001 is a debit or '0'. Leave it blank.

### How to complete the Pay & File Payslip when making Payment by Cheque

Single Debit Authority		€ STATEMENT OF NET LIABILITIES		Tick box below if 2001 value is a refund
Do not complete this authority if you are making payment by cheque.				
Please debit my account no earlier than 31 October 2002 with the single amount specified.				
Branch Sort Code		Income Tax Preliminary Tax 2002	, 8 , 0 0 0 .00	
Account Number		Income Tax Balancing Amount 2001	, , 0 .00	
€		Capital Gains Tax 2001	, , 0 .00	
DEBIT AMOUNT	, , .00	TOTAL NET LIABILITY	, 8 , 0 0 0 .00	

#### Do:

- complete the Statement of Net Liabilities if you are making a payment by cheque.
- Enter a single '0' in the 'Total Net Liability' field if you have no liability for the years shown
- enter whole euro amounts only in the amount fields.
- enter a tick ✓ if the Income Tax Balancing Amount 2001 is a credit.
- sign and date the payslip

#### Don't:

- complete the Branch Sort Code, Account Number or Debit Amount Fields if you are making a payment by cheque.
- cross out or mark the Single Debit Authority if you are making a payment by cheque. Leave it blank.
- enter a € symbol in any field.
- enter 'NIL' in any field.
- enter cent in any of the amount fields.
- mark the tick box if the Income Tax Balancing Amount 2001 is a debit or '0'. Leave it blank.

**Please do not return a blank payslip or amend the printed Name or P.P.S. Number details**





## FINANCE ACT 2002

## Rental Income

### Rental Income - Deductibility of Loan Interest and Related Issues

#### Restoration of relief for residential premises 1 January 2002

Detailed articles on Finance Act (No.2) Act 1998 and Replacement Borrowings were contained in **Tax Briefing** - Issues 32 and 33, respectively. *Section 1 of the Finance (No.2) Act 1998* introduced a restriction on the deductibility of interest on borrowed money used on or after 23 April 1998 in the purchase, improvement or repair of a residential premises, in arriving at the taxable rent (or allowable loss) in respect of that premises. This restriction applied to individuals, companies, trusts and partnerships.

*Section 17 FA 2002* amends *Sections 97 and 248A TCA 1997* so as to restore interest as a deductible expense in calculating tax on rental income (or an allowable loss) from residential property. The interest in question is interest on borrowed money employed in the purchase, improvement or repair of such property and which accrues on or after 1 January 2002. This applies to foreign residential premises in the same manner as it applies to premises in the State. The restoration of relief not only applies to individuals, but also applies to interest on borrowed money invested in, or lent to, a company or partnership to the extent that the money is used, directly or indirectly to purchase, improve or repair rented residential premises.

#### Queries from practitioners

We have received a number of queries from practitioners on whether interest will be available as a deduction against rental income from 1 January 2002 in relation to rented residential premises:

- ▼ Where a loan employed in the purchase, improvement or repair of rented premises is replaced by another loan

- ▼ Where existing loans are amalgamated
- ▼ Where a loan is secured on the borrower's private residence, but the money is used to purchase a property for letting.

#### Previous Practice

The article in **Tax Briefing** Issue 33, which was written in the context of the restrictions on borrowings introduced by the Finance (No. 2) Act 1998, confirmed that Finance (No.2) Act 1998 did not affect the treatment for tax purposes of interest on replacement loans. It also confirmed Revenue's practice to look at claims for deduction in respect of interest on replacement loans on a case-by-case basis. It outlined the circumstances in which interest on replacement loans would be allowed and provided that the existing practice of apportioning loans would be discontinued.

#### Current Practice

This article sets out current Revenue practice on interest on replacement or amalgamated loans in calculating rental income. Practitioners should note that the treatment of interest on residential and non-residential property, i.e. commercial property, is not the same. Commercial borrowings are looked at on a case-by-case basis, while taxpayers with residential borrowings need not seek pre-clearance provided they come within the paragraph dealing with Replacement Loans - Residential Property.

#### Borrowings for Residential property

##### Existing Borrowings

Generally, interest on an existing qualifying loan for residential property will qualify as a deduction where there is a variation of the terms of such a loan, e.g. repayment period extended. It will be a question of fact in each case as to whether the existing qualifying loan still exists or

whether a new replacement loan has been taken out.

Generally, where

- There is a variation in the basis on which payments are allocated between interest and capital or
- The period of the loan is extended for genuine commercial reasons on an arm's length basis and not for the avoidance of tax the existing loan will be treated as continuing.

#### Example - extension of term of loan

John has an existing qualifying rented residential property, which has been let since 1997. He purchased this property with a 5-year mortgage carrying an interest rate of 6%. He now wishes to refinance and extend the term of the loan to 15 years. Will this affect the deductibility of the mortgage interest?

No. As long as the original loan was used for one of the purposes specified, i.e. the purchase, repair of the premises, the interest is deductible.

#### Replacement loan - residential property

Revenue recognise that some taxpayers wish to take out replacement loans on residential property to enable them to avail of a more beneficial interest rate or a more suitable method of repayment. The practice outlined in **Tax Briefing** Issue 33 of

- Requiring a replacement loan to do no more than replace the outstanding balance on the existing loan and
- The term of the replacement loan being no longer than the term of the existing loan

is being discontinued from 1 January 2002 where the existing loan is being replaced for genuine commercial reasons on an arm's length basis and not for the avoidance of tax.



## FINANCE ACT 2002

### Amalgamation of loans - residential property

It would be preferable if separate loans rather than amalgamated loans were taken out where existing borrowings are refinanced and further amounts are borrowed or a number of loans are refinanced at the same time. However, in refinancing situations it is increasingly common for financial institutions to require the amalgamation of all existing loan facilities into one separate loan as part of their security requirements. In practice, interest on amalgamated borrowings which accrues on or after 1 January 2002 will qualify for relief where:

- The capital and interest in respect of the each rented residential property can be readily identified and traced back to the original borrowings and
- Borrowings were amalgamated for genuine commercial reasons on an arm's length basis and not for the avoidance of tax.

### Apportionment of borrowings between qualifying and non-qualifying purposes-residential property

In all cases the onus is on the taxpayer to make a just and reasonable apportionment of qualifying interest and non-qualifying interest especially where loans are amalgamated and there is a subsequent sale of a property. In the case where the taxpayer financed the purchase of property with amalgamated loans he/she cannot claim any further interest as a deduction in respect of the part of the amalgamated loan that referred to the property that has been sold. The fact that the borrowings were not secured on this particular property is not relevant, as it is the application of the borrowings that is relevant. The remaining qualifying interest after apportionment will be deductible.

### Example

Jenny has three properties, a principal private residence and two other houses, which are let. Originally her principal private residence and one of the rental properties were secured by two separate loans on each of the properties. She purchased the third property by refinancing and releasing equity in her principal private residence. Jenny subsequently amalgamated the two loans into one single loan to obtain a lower mortgage interest rate. She then sold the first rental property. What interest will qualify as a rental deduction in that event?

The amalgamated loan will be treated as if it were three separate loans as follows:

- The original loan used to purchase the principal private residence
- The original loan used to purchase the first rental property
- The equity release in the principal private residence used to purchase the third rental property. (The security of the borrowings is irrelevant, it is the application of the borrowings that is the relevant).

She must apportion the borrowings on a pro-rata basis between the property that was sold, the property retained and the rental property. She may make a deduction in computing rental income for the interest relating to the remaining rental property only. Mortgage interest relief may be claimed in the normal way for the part of the borrowings relating to the principal private residence only.

### Stamp duty and legal fees

Loans which include the additional costs of stamp duty and legal fees incurred on the purchase of a property will have to be apportioned as there is no provision in the legislation for deduction of interest

on part of the loan relating to stamp duty or legal fees. Taxpayers may claim a deduction for the interest relating to the purchase price of the property only.

### Security for loan on another property

It is not necessary that the security offered should be the premises, which is let, in order that the interest is deductible. For example, where an individual obtains a loan which is secured on his/her principal private residence, which is used to defray the cost of purchase, improvement or repair of premises, which is in turn let, the interest qualifies as a deduction.

### Other issue - fines on loans

The issue of interest caps/payments was considered in *Tax Briefing* Issue 25. The interest cap is part of the interest relating to the loan. An issue has arisen as to the correct tax treatment of a once off payment/cap fee. In such a case the payment should be spread over the term of the loan in accordance with normal accounting practice so that the payment is matched to the periods to which it relates.

### Replacement Borrowings for Commercial Property

Generally, in the context of commercial borrowings it will be a question of fact in each case as to whether an existing loan still exists or whether a new replacement loan has been taken out. Borrowings on commercial property will be looked at on a case-by-case basis. Subject to this, the general position is that interest on a loan, which directly replaces an existing loan on a rented commercial property, may be allowed where:

- The replacement loan was for genuine commercial reasons
- Is not part of a scheme or arrangement the main purpose of which is the avoidance of tax.



## FA 2002 Continued

Practitioners with queries in individual cases relating to commercial borrowings only should contact the Office of the Chief Inspector of Taxes and submit the following details:

- The full name, address and tax reference number of the parties to the transaction
- The date the original loan was acquired
- The interest rate applicable over the term of the original loan
- The amount outstanding on the original loan
- The projections regarding the payment of the original loan, if any
- The rate of interest applicable to the replacement borrowings
- The business purpose behind the replacement of borrowings and details of any prior or further steps involved.

Additional information may be required. ■

## HEALTH EXPENSES

### Qualifying Health Expenses

*Tax Briefing* Issue 33, September 1998, set out detailed guidelines and procedures in relation to the Health Expenses claims under *Section 469 TCA 1997*. The following is an update in respect of certain expenses.

### Dental Treatment

Revenue are prepared to treat any expenditure incurred on the removal of impacted wisdom teeth by a dentist in a dentist's surgery, as **not** constituting 'routine dental treatment'. Consequently, income tax relief will be granted in respect of such expenditure. ■

### Revenue Lo-call (1890) Numbers

<b>PAYE Employee SERVICE</b> For all employee contacts related to PAYE e.g. <ul style="list-style-type: none"> <li>■ General queries</li> <li>■ Claims for additional entitlements</li> <li>■ Requests for a certificate of Tax Credits in respect of a new employment, etc.</li> </ul>	<b>1890 60 50 90</b>
<b>FORMS AND LEAFLETS</b> Use this number to request Tax and other Revenue Forms, Information Leaflets or Public Notices (available 24 hours a day, 7 days a week).	<b>1890 306 706</b>
<b>Disabled Driver's (Fuel Refund, Vat, VRT, Road Tax Exemption)</b> <ul style="list-style-type: none"> <li>■ VRT Repayments</li> <li>■ Leasing / Car Hire / Demonstrations</li> <li>■ Customs and Excise Repayments</li> </ul> Central Repayments Office, Customs & Excise, Coolshannagh, Monaghan Town.	<b>1890 60 60 61</b>
<b>COLLECTOR-GENERAL</b> <ul style="list-style-type: none"> <li>■ To check correspondence or forms</li> <li>■ Returns and Payments Enquiries (VAT/ PAYE/ PRSI/ Self-Assessment)</li> <li>■ Payment Accounting Section</li> <li>■ Tax Clearance Section</li> <li>■ Enforcement Section.</li> </ul> Office of the Collector-General, Sarsfield House, Francis St., Limerick. Apollo House, Tara St, Dublin 2.	<b>1890 20 30 70</b>
<b>VAT REPAYMENTS (UNREGISTERED) SECTION</b> Revenue Commissioners, Government Buildings, Kilrush Rd., Ennis, Co. Clare.	<b>1890 20 20 33</b>
<b>VAT REPAYMENTS (REGISTERED) SECTION</b> Revenue Commissioners, Government Buildings, Kilrush Rd., Ennis, Co. Clare.	<b>1890 20 20 33</b>
<b>INTERNATIONAL CLAIMS AND RESIDENCE UNIT, CHARITIES UNIT</b> <ul style="list-style-type: none"> <li>■ Refunds for Non-Residents under Double Taxation Agreements</li> <li>■ Charitable Bodies claiming exemption under Section 207 TCA 1997</li> <li>■ Sporting Bodies claiming exemption under Section 235 TCA 1997.</li> </ul> Revenue Commissioners, Government Offices, Nenagh, Co. Tipperary.	<b>1890 25 45 65</b>



## REVENUE Lo-call (1890) NUMBERS

Continued from page 15

Revenue Lo-call (1890) Numbers	
<b>VIMA</b> (VIES, Intrastat, Mutual Assistance) Revenue Commissioners, Government Offices, Millenium Centre, Dundalk.	<b>1890 25 10 10</b>
<b>P35 RETURNS</b> <ul style="list-style-type: none"> <li>■ Employers P35 Returns</li> <li>■ P35 Helpline</li> <li>■ Overpayments</li> <li>■ Diskette Returns</li> </ul> Government Offices, Nenagh, Co. Tipperary.	<b>1890 25 45 65</b>
<b>REVENUE ON-LINE SERVICE (ROS)</b> <b>Save Time - File On-Line</b> <ul style="list-style-type: none"> <li>■ Easier Access to Tax Details</li> <li>■ Digital Certificates</li> </ul> 2nd Floor, Trident House, Blackrock, Co. Dublin.	<b>1890 20 11 06</b>
<b>TAX RELIEF AT SOURCE/SPECIAL SAVINGS INCENTIVE ACCOUNTS</b> <ul style="list-style-type: none"> <li>■ Information on Tax Relief at Source for Medical Insurance and Mortgage Interest</li> <li>■ Information on Special Savings Incentive Accounts</li> </ul> Sarsfield House, Francis St., Limerick.	<b>1890 46 36 26</b>
<b>CAPITAL TAXES</b> <ul style="list-style-type: none"> <li>■ Capital Acquisitions Tax</li> <li>■ Companies Capital Duty</li> <li>■ Residential Property Tax</li> </ul> Dublin Castle, Dublin 2	<b>1890 20 11 04</b>
<b>STAMP DUTY</b> Assessment and Stamping of all legal documents Dublin Castle, Dublin 2.	<b>1890 482 582</b>
<b>CUSTOMS CONFIDENTIAL FREEPHONE FOR INVESTIGATION BRANCH AND DRUGS TEAM</b>	<b>1800 295 295</b>

## ROS and Pay and File Deadline

[www.revenue.ie](http://www.revenue.ie)

In view of the increased volumes of calls to the ROS Information Desk in recent weeks with Pay and File enquiries, additional officers have now been assigned to take calls in the short term. The ROS Information Desk hours are also being extended until the 21 November as follows :

Monday to Thursday    8.30am - 7.30pm  
Friday    8.30am - 6.00pm

Furthermore, ROS Liaison Officers (RLOs ) have been appointed to each Tax District to assist you with enquiries. If your enquiry relates specifically to tax issues i.e. completion of forms, uploading of forms, client lists, etc.,

your first point of call should be to your local RLO directly.

A list of all the RLOs and their contact details is available by accessing the ROS homepage, click "Help" at either the top or bottom of the page, click ROS Liaison Officer and all details are displayed. A hyperlink is available on this page via the RLO's email address.

All the RLO details are also available on the Revenue website: [www.revenue.ie](http://www.revenue.ie) click services, click electronic services, and click the Revenue On-Line Service (5th. item). ■





## EMERGENCY BASIS OF TAX

## PAYE

### Current position

The Emergency Basis of tax deduction must be used when:

- The employer has not received, in respect of the employee, either a Certificate of Tax Credits and Standard Rate Cut-Off Point or a tax deduction card or a Form P45 from a previous employer or
- The employee has given the employer a completed Form P45 indicating that the Emergency Basis applies,

Under current legislation the system operates in the following manner:

### Weeks 1 -4 or Month 1 if paid monthly

Tax is calculated on the gross pay (after deduction of superannuation contributions and permanent health contributions where relevant) at the standard rate of tax (currently 20%).

The tax as calculated is reduced by a tax credit which is equivalent to 1/52nd of the personal tax credit for a single person (currently €29.23 if weekly paid or €126.67 if paid monthly).

### Weeks 5 - 8 or Month 2 if paid monthly

Tax is calculated on the gross pay (after deduction of superannuation contributions and permanent health contributions where relevant) at the standard rate of tax (currently 20%) - there is no tax credit due.

### Each subsequent Week or Month if paid monthly

Tax is calculated on the gross pay (after deduction of superannuation contributions and permanent health contributions where relevant) at the higher rate of tax (currently 42%) - there is no tax credit due.

### Amendments

The purpose of this article is to outline amendments to the Emergency Basis of tax deduction which come into effect from 1 January 2003.

The **first amendment** (Statutory Instrument No 559 of 2001) relates to the treatment of an employee who on taking up employment does not provide the employer with his or her Personal Public Service Number (PPSN).

In these circumstances, the employer will be obliged to calculate the tax on the gross emoluments (after deduction of superannuation contributions and permanent health contributions where relevant) at the higher rate of tax and there will be no tax credits due.

The **second amendment** will see the introduction of a Standard Rate Cut-Off Point into the Emergency Basis of tax deduction. With effect from the 1 January 2003, the system will operate in the following manner:

### Weeks 1 -4 or Month 1 if paid monthly

Tax will be calculated on the gross pay (after deduction of superannuation contributions and permanent health contributions where relevant) at the standard rate of tax up to an amount equal to 1/52nd of the Standard Rate Cut-Off Point for a single individual if weekly paid or 1/12th if monthly paid (currently €538.46 per week or €2,333.34 per month) and any balance at the higher rate of tax.

The tax as calculated will be reduced by a tax credit which is equivalent to 1/52nd of the personal tax credit for a single person if weekly paid or 1/12th if monthly paid.

### Weeks 5 - 8 or Month 2 if paid monthly

Tax will be calculated on the gross pay (after deduction of superannuation contributions and permanent health contributions where relevant) at the standard rate of tax up to an amount equal to 1/52nd of the Standard Rate Cut-Off Point for a single individual if weekly paid or 1/12th if monthly paid (currently €538.46 per week or €2,333.34 per month) and any balance at the higher rate of tax. There will be no tax credit due.

### Each subsequent Week or Month if paid monthly

Tax will be calculated on the gross pay (after deduction of superannuation contributions and permanent health contributions where relevant) at the higher rate of tax (currently 42%) - there will be no tax credit due.

### Example

(Based on current values for tax credits and rates of tax)

#### Weeks 1 -4

Gross Pay		€700
Standard Rate Cut Off Point	€538.46 @ 20%	€107.69
Balance	€161.54 @ 42%	€67.84
Gross Tax Due		€175.53
Tax Credits	(1/52nd of Single Personal Tax Credit)	€29.23
Net Tax Due		€146.30

#### Weeks 5 - 8

Gross Pay		€700
Standard Rate Cut Off Point	€538.46 @ 20%	€107.69
Balance	€161.54 @ 42%	€67.84
Gross Tax Due		€175.53
Tax Credits		Nil
Net Tax Due		€175.53

#### Subsequent Weeks

Gross pay		€700
Gross Tax Due	€700 @ 42%	€294
Tax Credits		Nil
Net Tax Due		€294



## PERSONAL RETIREMENT SAVINGS A/CS PRSA's

### Personal Retirement Savings Accounts (PRSA's) - PAYE Net Pay Arrangement

#### Introduction

**Tax Briefing** Issue 47 - April 2002 contains a detailed article on PRSA's. The purpose of this article is to outline the treatment of PRSA contributions deducted by an employer through the payroll, and related matters.

#### Net Pay Arrangement

Under the Pensions (Amendment) Act, 2002, employers, who do not provide an occupational pension scheme for their employees will be obliged to provide access to at least one Standard PRSA, and to make deductions from the payroll **at the employee's request** in respect of the employees' contributions to the PRSA.

As outlined in **Tax Briefing** Issue 47, where PRSA contributions are made through the payroll, income tax relief will, where appropriate, be given through the 'net pay arrangement'. Before operating the 'net pay arrangement', the employer will have to satisfy himself/herself that the PRSA is approved by the Revenue Commissioners. In this regard, the employer must obtain a **PRSA (Net Pay) Certificate** from the employee and retain that certificate.

[The 'net pay arrangement' operates such that the employer deducts the PRSA contribution before calculating PAYE, PRSI and Health Contribution due on the employee's emoluments for the relevant pay period].

#### PRSA Certificates

The relevant PRSA provider will issue a certificate to an individual contributor to an approved PRSA product. There will be three types of certificates. Employers should only use certificates with the term 'net pay' in the title as a basis for operating the 'net pay arrangement'.

**PRSA 1 Certificate** - This certificate will be issued to individuals taking out a PRSA product not linked to an Occupational or Statutory Pension Scheme. **There will be no income tax relief due on contributions made to this type of PRSA if the individual is a member of an Occupational or Statutory Pension Scheme.**

Where an employee or director, who **is** a member of an Occupational or Statutory Pension Scheme, requests his or her employer to make deductions through the payroll in respect of contributions to a PRSA on foot of PRSA 1 certificate, **the employer should not operate the 'net pay arrangement'**. The contributions should be deducted from the employee's or director's pay after deduction of PAYE, PRSI and the Health Contribution), as there is no income tax relief on such contributions.

**PRSA 1 (Net Pay) Certificate** - This certificate will be issued to employees and directors who are not members of an Occupational or Statutory Pension Scheme. Where an employer makes deductions through the payroll in respect of contributions to a PRSA for which the employer has received a PRSA1 (Net Pay) Certificate, the employer **must** operate the 'net pay arrangement' in respect of those contributions. The maximum contributions on which the net pay arrangement can be applied are set out below.

**PRSA 2 AVC (Net pay) Certificate** - This certificate will be issued to employees and directors taking out a PRSA AVC product which is linked to an Occupational or Statutory Pension Scheme. Where an employer makes deductions through the payroll in respect of contributions to a PRSA for which the employer has received a PRSA2 AVC (Net Pay) Certificate, the employer **must** operate the 'net pay arrangement' in respect of those contributions. The maximum contributions on which the net pay arrangement can be applied are set out below.

The **PRSA Certificates** will contain the employee's date of birth and PPS Number. The employer will need to know the employee's date of birth for the purposes of calculating the maximum amount of contributions on which to apply the 'net pay arrangement'.

#### Limits

The maximum allowable contributions (and the maximum amount to which the employer can operate the 'net pay arrangement') are as follows:

#### Contributions [employee's plus employer's (if any)] to a PRSA only

Age	% Net Relevant Earnings
Under 30	15%
30 - 39	25%
40+	30%

An earnings cap of €254,000 will also apply. For example if an employee aged 40 earns €300,000. The maximum allowable contribution will be €76,200.

An employee will be entitled to tax relief on a contribution of €1,525 paid even if this exceeds the normal income-based limit.

For example, if an employee aged 23 earns €9,525, the normal income-based limit will be 15% of €9,525 i.e. €1,429. If the employee pays €1,600 the maximum relief that can be granted through the 'net pay arrangement' will be €1,525.



## PERSONAL RETIREMENT SAVINGS A/CS Continued

### Contributions to an Occupational or Statutory Scheme and to a PRSA linked to such a scheme (PRSA AVC).

Age	% Net Relevant Earnings
Under 30	15%
30 - 39	20%
40 - 49	25%
50 +	30%

These limits will apply to the combined total of the employee contributions to the PRSA and the Occupational/Statutory Pension Scheme.

### Contributions to a PRSA by employees in 'specified' occupations and professions

In respect of the following categories of individuals who are in employment:

Athletes  
Badminton Players  
Boxers  
Cyclists  
Footballers  
Golfers  
Jockeys  
Motor Racing Drivers  
Rugby Players  
Squash Players  
Swimmers  
Tennis Players

the maximum allowable contribution will be 30% of the net relevant earnings, irrespective of age.

**For the purposes of operating the 'net pay arrangement', the maximum limits outlined above should be reduced by the employer's contribution to the employee's PRSA - See example over.**

### Investment Companies

Earnings as a proprietary director or as a proprietary employee of an investment company are not regarded as relevant earnings for the purposes of income tax relief for PRSA contributions. Employers **must not** apply the 'net pay arrangement' in respect of contributions made through the payroll by such directors or employees.

### Employers Contributions to a PRSA - Benefit - in - kind

An employer may make contributions on behalf of an employee to a PRSA. The employer's contribution will be treated as a benefit-in-kind in the employee's hands. However, the employee will be entitled to income tax relief (subject to the overall relevant limit) in respect of such contributions.

In practice this means that a benefit-in-kind charge will only arise where the combined contribution (employer's and employee's) exceed the relevant limits. This is unlikely to occur in most cases.

Employers will be required, on request by the Revenue Commissioners, to return particulars of PRSA contributions made on behalf of employees' on the form P11D (Return of benefits -in- kind and other perquisites). Employees will also be obliged to make a return of such contributions on their own individual returns of income.

### Example

Employee's monthly salary is €10,000. The employee is aged 45 years and makes monthly PRSA contributions of €2,500. The employer makes a monthly contribution to the employee's PRSA of €1,000. The amount of the employee's contribution to which the employer may apply the 'net pay arrangement' is:

Employee's Salary	€10,000
Employer's contribution (treated as a benefit-in-kind)	€1,000
Total	€11,000
Less Employer's contribution	€1,000
'Net Pay Arrangement' to apply to	€2,300

The employee can carry the balance (€200) forward and get income tax relief through his/her tax credits in future years. The relief will be granted by the tax office on submission of a claim by the individual. ■



## REVENUE NEWS

## Update

### New and updated leaflets

#### VAT Treatment of Cultural, Artistic and Entertainment Services Supplied by Non-Established Persons

A new information leaflet, 'VAT Treatment of Cultural, Artistic and Entertainment Services Supplied by Non-Established Persons' (VAT No. 3/02), was published in September 2002. The purpose of this information leaflet is to outline the changes which took effect from 25 March 2002 to the VAT treatment of cultural, artistic and entertainment services (e.g. concerts, theatrical performances, comedy shows, etc.) supplied by non-established persons in the State.

Copies are available from the Revenue website at [www.revenue.ie](http://www.revenue.ie) or from

VAT Interpretation Branch,  
Stamping Building,  
Dublin Castle,  
Dublin 2

Tel: 6475000  
Fax: 6795236  
e-mail: [vat@revenue.ie](mailto:vat@revenue.ie)

The following leaflets have been updated and are available on the Revenue Website at [www.revenue.ie](http://www.revenue.ie):

**Leaflet IT20** Benefits from Employments

**Leaflet IT21** Lump Sum Payments on Redundancy

**Leaflet IT22** Taxation of Disability Benefit ■

**VAT Interpretation Branch is in the process of updating VAT Information Leaflets. The following new and updated leaflets are available on the Revenue website at [www.revenue.ie](http://www.revenue.ie) or from VAT Interpretation Branch, Stamping Building, Dublin Castle, Dublin 2. Tel. 01-6745000 or Fax. 01-6795236.**

Intra-Community Acquisitions and postponed accounting	7/01
Distance Sales in the Single Market	8/01
Fourth Schedule Services	9/01
Printing and Printed Matter	10/01
Government Departments, Local Authorities, Health Boards, Hospitals, Educational Bodies and other Non-Taxable entities acquiring goods from other EU Member States	11/01
Farmers and intra-EU Transactions	12/01
Financial Institutions, Insurance Companies, Theatres, Providers of Passenger Transport and other exempt persons acquiring goods from other EU Member States	13/01
VAT and Gifts	14/01
VAT and Solicitors	15/01
VAT Treatment of goods Transport and Ancillary Services between EU Countries	16/01
VAT Treatment of Second-Hand Goods - The Margin Scheme	17/01
Repayments to Unregistered Persons	18/01
Rates of VAT on Food and Drink	19/01
VAT on Dances	20/01
Zero-Rating of Goods and Services in accordance with Section 13A of the VAT Act.	21/01
Monies Received Basis of Accounting	22/01
Agricultural Services	23/01
Horticultural Retailers	24/01
Intra-Community Supplies	26/01
VAT and Footwear	31/01
Transfer of a business or part thereof	1/02

## ACCOUNTS MENUS

Revenue are currently in the process of designing the paper Form 11 for 2002. As accounts menus are mandatory for the 2002 Income Tax Return, paper filers will be required to complete accounts menus similar to those in ROS. The accounts menus will be incorporated into the return. Accounts menus will be mandatory for Corporation Tax for accounting periods ending in 2003 and will be incorporated into the Form CT1.

Given the necessity to ensure the maximum use of personalised and barcoded returns in a Pay and File environment, it is not feasible to use the four accounts menus in the paper returns at this stage. Revenue have decided, as a transitional measure, to use only the "small" accounts menu for the first two years. This will simplify the introduction of the accounts menu for our Self-assessment customers.

This decision has implications for ROS filers in that it is not desirable that electronic filers would have a more onerous filing requirement than paper filers. In this context Revenue have decided that ROS filers will be required to complete the "small" accounts menu regardless of turnover for the transitional period. ■