# The taxation of deposit interest income: source, rates applicable and reporting obligations

## Part 08-04-12

This document should be read in conjunction with Chapter 3, Part 38 and Chapter 4, Part 8 of the Taxes Consolidation Act 1997

Document created June 2025

Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

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# 1 Introduction

When a person earns interest on a deposit/savings account, that interest is deposited into their account and is known as deposit interest income. In most cases[1] Irish resident individuals who earn deposit interest income must pay tax on that income.

The taxation of deposit interest income earned by an Irish resident individual will depend on:

a) where the financial institution, with which the deposit is placed, is located,

b) where that financial institution holds that deposit, and

c) whether the financial institution has deducted deposit interest retention tax (DIRT) from the deposit interest.

The purpose of this manual is to set out the position with respect to the taxation of deposit interest income received by Irish resident and Irish domiciled[2] individuals. The applicable tax treatment will depend on whether the deposit interest is Irish or foreign sourced deposit interest income and whether DIRT has been deducted from such interest income. The manual sets out guidance on how the source of deposit interest income should be determined as well as the tax rates, tax returns and reporting obligations that should apply in each case.

[1] Refer to the Revenue website (https://www.revenue.ie/en/additional-incomes/dirt/who-is-exempt-from-dirt.aspx) for details of the exemptions that can apply from the application of DIRT.

[2] Refer to https://www.revenue.ie/en/jobs-and-pensions/tax-residence/index.aspx for more details on these.

# 2 The basic charge to tax on deposit interest income

Deposit Interest Retention Tax (DIRT) is a withholding tax that is deducted by financial institutions on the deposit interest income earned on the various savings products and accounts that are offered by them. DIRT is deducted at source by the financial institution from deposit interest income paid or credited on the deposits of Irish residents. DIRT is a final liability tax meaning that where a financial institution operates DIRT on deposit interest income, there is no additional tax due by the individual (however, PRSI may apply). DIRT is deducted at the rate of 33%.

If the deposit interest income arises from a deposit in an account held with a non-Irish financial institution, DIRT may not be deducted by that foreign financial institution. Instead, the individual will have to declare the deposit interest income earned to Revenue. Exactly how it is taxed depends on whether the account is held in:

1) An EU/EEA country, such as an account held in Germany, Spain, Netherlands – known as EU/EEA sourced deposit interest income (refer to section 4.1 for more detail), or
2) An Other/Third country – such as an account held in the UK, US or other non-EU/EEA location – known as third country deposit interest income (refer to section 4.2 for more detail).

Therefore, knowing where the financial institution is located is necessary in order to determine the source of the deposit interest income and the applicable tax treatment of such income. The following scenarios show examples of how the source of deposit interest income may be determined and provides guidance to account holders in determining the taxation of that interest income:

**Scenario 1**

Mary has opened an online bank account but she is not certain where the bank is located. How does Mary find out the source of her deposit interest income?

- She should check if DIRT is being deducted from her deposit interest income, if so section 3 will apply.
- If not, then Mary needs to check for a banking licence of the financial institution with which her online account is held. If the banking licence is held in an EU/EEA country, then section 4.1 will apply.
- Where there is no such EU/EEA banking licence, then section 4.2 will apply.

**Scenario 2**

Mark has opened an online bank account with a foreign financial institution but he has been given an Irish IBAN in respect of the account. How does Mark confirm whether the deposit interest income he receives is to be taxed as Irish or foreign sourced income?

An Irish IBAN is not relevant to determining the taxation treatment of deposit interest income and the following checks are required:

- He should check if DIRT is being deducted from his deposit interest income, if so section 3 will apply.
- If not, then Mark needs to check for a banking licence. If the banking licence is held in an EU/EEA country, then section 4.1 will apply.
- If not, then section 4.2 will apply.

**Scenario 3**

Sarah has opened an online account with a bank that has an Irish presence (such as a bank with a physical branch in Ireland). How does Sarah determine whether the deposit interest income she receives is to be taxed as Irish or foreign sourced income?

An Irish branch is not determinative in ascertaining the source of the deposit interest income and the following checks are required:

- She should check if DIRT is being deducted from her deposit interest income, if so section 3 will apply.
- If not, then Sarah needs to check for a banking licence. If the banking licence is held in an EU/EEA country, then section 4.1 will apply.
- If not, then section 4.2 will apply.

As demonstrated in the scenarios above, the fact that a deposit account may have an Irish IBAN or is held with a financial institution with an Irish branch is not determinative in ascertaining how deposit interest income in respect of that account is taxed. The first factor to consider is whether DIRT has been applied to the deposit interest income. If this is not the case, the location of the financial institution must then be determined.

Of note, where foreign withholding tax (e.g. tax withheld at a rate of 15%) has been applied on deposit interest income arising in another country, double tax relief may be available in respect of the foreign withholding tax. Please refer to section 5 for details of double tax relief that may be available.

# 3 Deposit interest income taxed through the operation of DIRT

Where an individual earns deposit interest on an account, and that interest income is taxed through the operation of DIRT, the appropriate tax is paid to Revenue on their behalf.

## 3.1 What tax applies?

Unless the account holder is entitled to an exemption from DIRT, the financial institution, being the bank, credit union or An Post, will automatically deduct DIRT at a rate of 33%.

USC does not apply and PRSI may apply.

## 3.2 What returns are required?

Where deposit interest income has been taxed through the operation of DIRT, the account holder does not need to make a tax return, unless they are already filing one[3].

Where the deposit interest income has been taxed through the operation of DIRT and the account holder is already making a tax return, the deposit interest income should be included as follows:

- for self-assessed taxpayers who file an Income Tax Return (Form 11), deposit interest income subject to DIRT should be included in section G - “Irish Other Income”, under the “Irish Deposit Interest / Credit Union Dividends” heading on the Form 11.
- for PAYE taxpayers with taxable non-PAYE income (including income subject to DIRT) of less than €5,000, deposit interest income subject to DIRT should be included on the Income Tax Return (Form 12) under the “Irish Deposit Interest/ Credit Union Dividends” heading on the Form 12. When making a return of income through MyAccount, this is categorised under “Other Income”.

[3] For more information about who is a chargeable person, self-assessment and the criteria for filing a return see TDM Part 41A-01-01.

The following screen shots of MyAccount show where deposit interest income should be included:

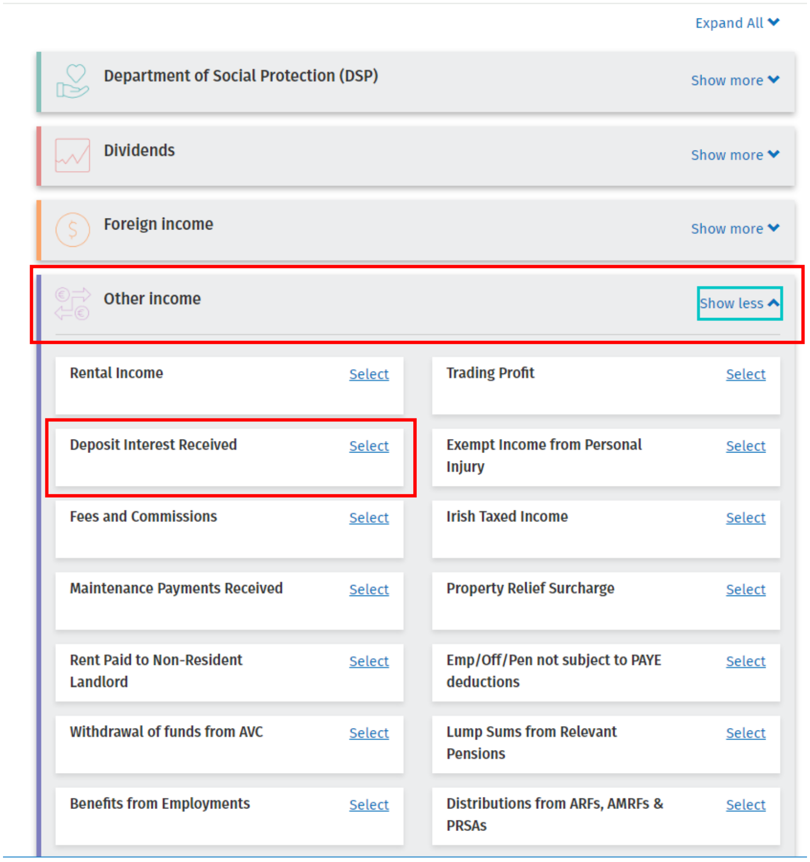


Figure 1: Deposit Interest Income

When Deposit Interest Received is selected the following screen is returned.

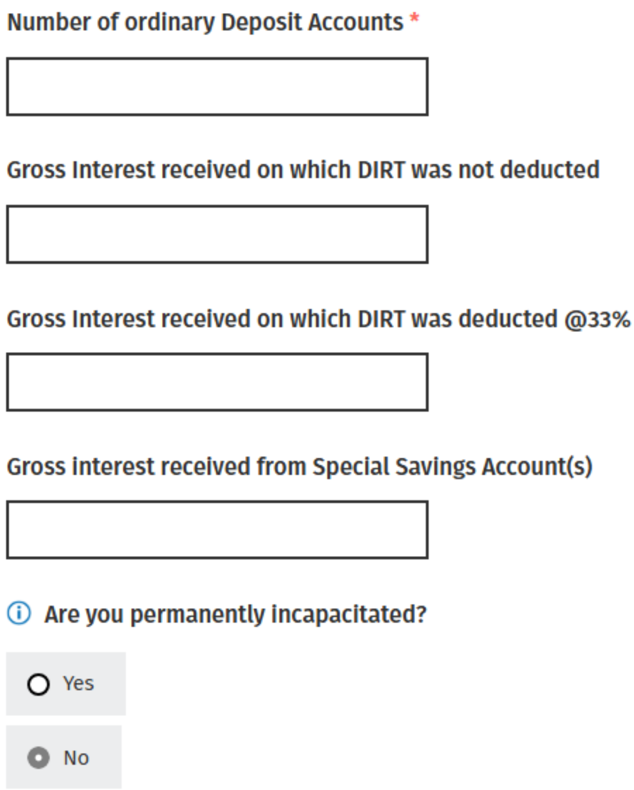


Figure 2: Deposit interest received

Details of deposit interest income received both with and without the deduction of DIRT should be entered into the relevant boxes.

## 3.3 Returns of information by Irish Financial Institutions

Irish financial institutions must file returns with Revenue containing information about their customers (these are known as Third Party Returns). Banks, building societies, credit unions, post office saving banks and European Union (EU) passported banks submit an annual Return to Revenue with details of payments of deposit interest made by them to their customers in respect of the previous calendar year.

Under regulations[4] financial institutions are required to report, in respect of larger accounts[5], the following –

- the name, address and tax reference number of the financial institution
- the name of the account holder
- the address of the account holder
- the date of birth of the account holder (if an individual)
- the tax reference number of the account holder (after all reasonable efforts to obtain)
- the account number
- the amount of the relevant deposit interest payments to the account and where applicable the appropriate tax which was deducted from the payment

[4] Being S.I. No. 136 of 2008, S.I. No. 254 of 2009 and S.I. No. 56 of 2015. Full guidance on these third party returns is available in TDM 38-03-34.

[5] Larger accounts, as set out in TDM 38-03-34 are in general those that pay interest of more than €300 in a year.

# 4 Deposit interest not taxed through the operation of DIRT

If an individual has deposit interest income and DIRT is not being deducted at source by the financial institution in respect of that income (otherwise than in circumstances where the individual is entitled to a DIRT exemption), the applicable tax treatment will depend on whether the account is held in a financial institution located in the EU/EEA or in a third country located outside of the EU/EEA. In either case, the individual will have to return their deposit interest income to Revenue and pay the appropriate amount of tax.

## 4.1 Deposit interest income earned on EU/EEA accounts

Where an individual has an account that is held in the EU/EEA, and deposit interest arising on the account is not taxed through the operation of DIRT, they will have to return that deposit interest income to Revenue and pay the appropriate tax.

### 4.1.1 What tax applies?

The applicable tax in respect of EU/EEA sourced deposit interest income depends on whether or not it is correctly returned to Revenue.

- Where the deposit interest is correctly included in a return that is filed in a timely manner, the deposit interest income will be taxed at the DIRT rate in force at the time the interest was paid (i.e. 33%).
- Where the deposit interest is not included in a return that is filed on time, the deposit interest income will be subject to a higher rate of tax (i.e. 40%).

USC will not apply but PRSI may apply.

### 4.1.2 What returns are required?

All individuals with EU/EEA sourced deposit interest income must inform Revenue of the income.

- Where the individual is a self-assessed taxpayer who is filing a Form 11, EU/EEA sourced deposit interest income should be included in section F – “Foreign income” under “EU Deposit Interest” in the Income Tax Return (Form 11).
- Where the individual is not a self-assessed taxpayer, they must inform Revenue of their EU/EEA sourced deposit interest income by filing a Form 12. EU/EEA sourced deposit interest income should be included under “EU Deposit Interest”. When making a return of income through MyAccount, this is categorised under “Foreign Income”.

The following MyAccount screen shots show where EU/EEA sourced deposit interest income should be returned:


Figure 3: EU/EEA sourced deposit interest income

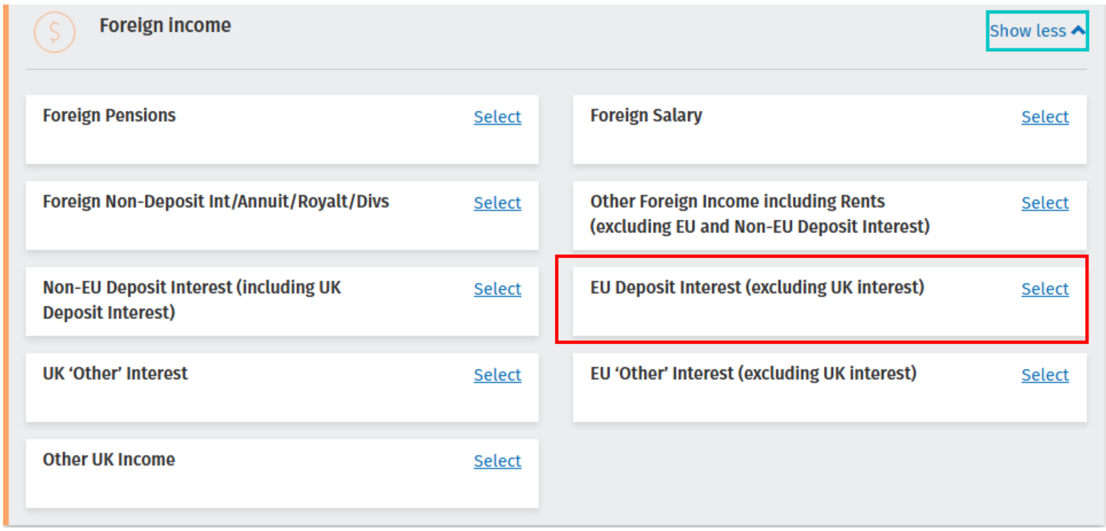


Figure 4: EU Deposit Interest

When EU Deposit Interest (excluding UK Deposit Interest) is selected the following screen is returned:

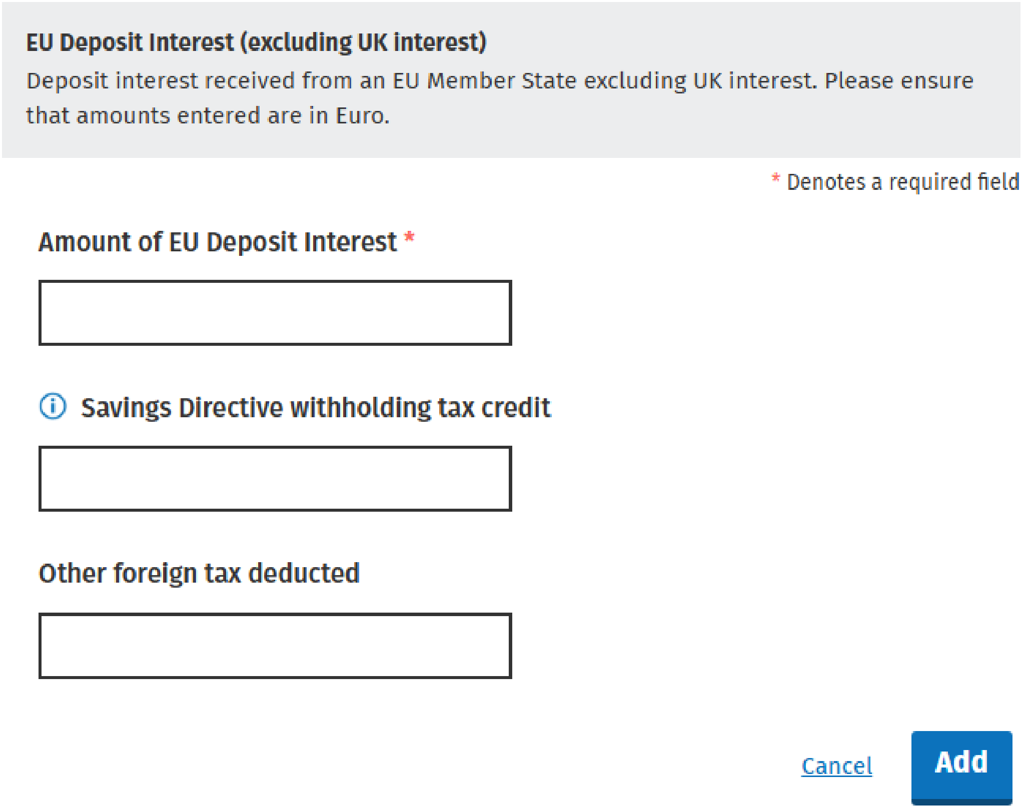


Figure 5: Amount of EU Deposit Interest

If foreign tax is withheld on the interest income, there may be double tax relief available – see section 5.

## 4.2 Deposit interest income on Other/Third country accounts

Where an individual earns deposit interest income on an account held outside of the EU/EEA (such as the United Kingdom or the United States of America), they will have to return that income to Revenue and pay the appropriate tax.

### 4.2.1 What tax applies?

The applicable tax in respect of Other/Third country sourced deposit interest income is taxed depends on whether or not it is correctly returned to Revenue.

- Where the deposit interest is correctly included in a return that is filed in a timely manner, the deposit interest income will be taxed at the higher of the DIRT rate and the individual's marginal rate of tax. This means that if the individual is a standard rate[6] (20%) taxpayer, their deposit interest is taxed at the DIRT rate (33%) but if they are a higher rate (40%) taxpayer, their interest will be taxed at 40%.
- Where the deposit interest is not included in a return that is filed on time, the deposit interest will be subject to the higher rate of tax which is 40%.

USC will not apply but PRSI may apply.

**Example:**

John is an Irish resident and domiciled individual who earns €52,000 and is a higher income tax rate taxpayer. John earned an additional €6,000 in deposit interest from a US bank. The US deposit interest income is taxable in Ireland.

Since the deposit interest income is from an Other/Third country, and his income is above the standard rate cut off point, the deposit interest income is taxed at John's higher [marginal] tax rate of 40%. John's tax liability on the €6,000 US deposit interest is €2,400 (€6,000 x 0.40 = €2,400). USC does not apply and PRSI may apply.

If US tax is withheld on the US interest income, there may be double tax relief available – see section 5.

### 4.2.2 What returns are required?

All individuals with Other/Third country deposit interest income must inform Revenue of the income.

- Where the individual is a self-assessed taxpayer who is filing an Income Tax Return (Form 11), Other/Third country sourced deposit interest income should be included in section F – "Foreign income" under the "Non-EU Deposit Interest (includes UK Deposit Interest") heading on the Form 11.
- Where the individual is not a self-assessed taxpayer, they must inform Revenue of their Other/Third country sourced deposit interest income by filing an Income Tax Return (Form 12). Other/Third country sourced deposit interest income should be included under the "Non-EU Deposit Interest (includes UK Deposit Interest)" heading on the Form 12.

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[6] Refer to https://www.revenue.ie/en/personal-tax-credits-reliefs-and-exemptions/tax-relief-charts/index.aspx for more details on the standard rate cut off point and tax rates.

- Where the individual is making a return of income through MyAccount, Other/Third country sourced deposit interest income is included under the "Foreign Income" category.

  The following MyAccount screen shots show where Other/Third country sourced deposit interest should be returned:


Figure 6 : Other/Third country sourced deposit interest

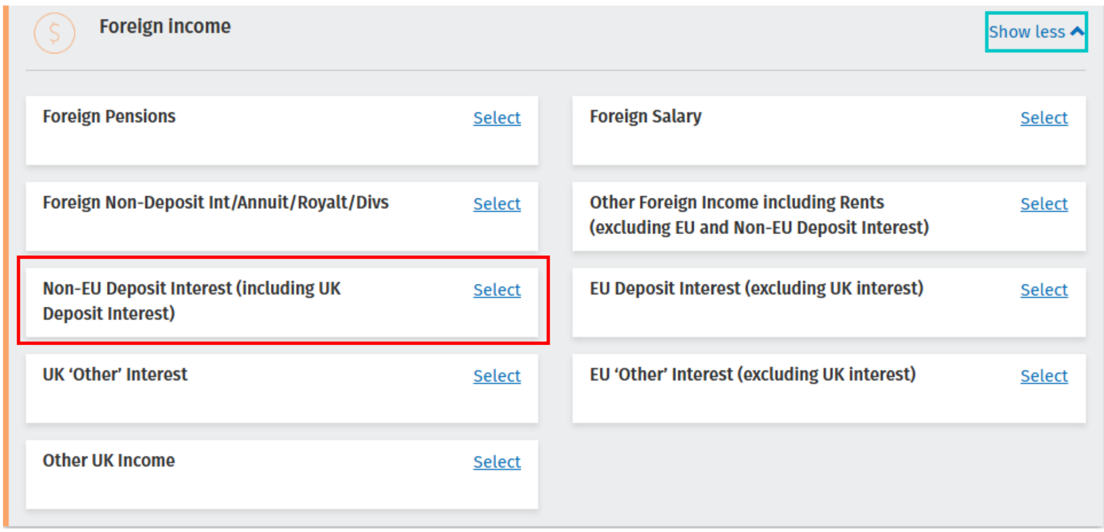


Figure 7: Other/Third country

When Non-EU Deposit Interest (including UK Deposit Interest) is selected the following screen is returned:

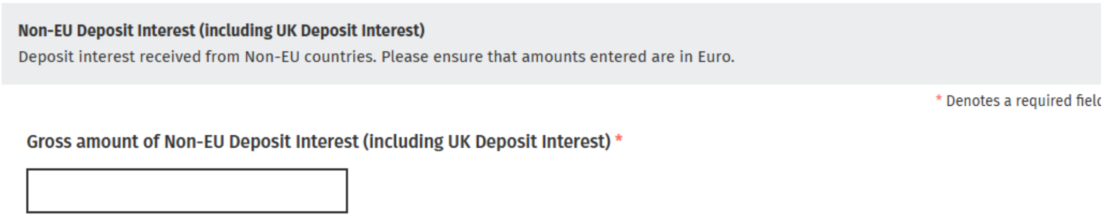


Figure 8: Non-EU Deposit Interest

The gross amount of all Non-EU Deposit Interest (including UK Deposit Interest) should be entered.

## 4.3 Automatic Exchange of Information (AEOI)

In the context of Irish individuals opening accounts abroad, there is an international framework for exchange of financial account information.

Ireland has AEOI agreements in place to exchange financial account information under three frameworks:

- Foreign Account Tax Compliance Act (FATCA) - FATCA is a bilateral agreement between Ireland and the United States,
- Common Reporting Standard (CRS) - The CRS is the global standard for the exchange of financial account information and provides for exchanges with over 100 jurisdictions,
- Directive for Administrative Cooperation (DAC) – DAC2 provides for mandatory exchange of taxpayer information between the tax administrations of all EU Member States.

These obligations involve cross border collection and exchange of information, and details on the various obligations can be found on the Revenue website. Please see AEOI for further information.

Under these three frameworks, Irish financial institutions (banks, credit unions etc.) must report details of financial accounts (including balances and payments such as interest income) to Revenue in respect of accounts owned by non-Irish residents, which Revenue then shares with the country in which those account holders are resident.

Equally, Revenue receives the same information (balances, payments etc.) from our partner countries in respect of financial accounts that Irish residents hold in financial institutions in those other countries.

There are additional tax reporting obligations on an individual who opens an account in a country other than one which exchanges information with Revenue under DAC2/CRS/FATCA. In the year in which an individual opens an account in a non DAC2/CRS/FATCA country, that individual must file a tax return (a Form 11) and in that tax return they must notify Revenue of certain details of the offshore account that has been opened. This applies to an individual who would not otherwise have to file a tax return. Further information on this can be found in TDM Part 38-03-35 - Foreign accounts.

# 5 Relief for foreign tax

Ireland has a network of double taxation agreements ("DTAs").

DTAs set out which State has the right to tax certain cross border income. Under the terms of a DTA, interest income of an Irish resident may be taxable only in Ireland or it may be taxable in both Ireland and the other country that is party to the DTA.

Where deposit interest income is taxable in both countries under the terms of a DTA, the rate of tax which the country in which the deposit account is held (which is known as the "source country") is limited by the DTA.

**Example:**

An Irish resident individual earns €100 of interest in Portugal in respect of a deposit held in a bank account with a Portuguese bank.

The DTA between Ireland and Portugal limits the Portuguese tax on such interest to 15%. Ireland (being the country of residence) will then give a credit for the tax already paid in Portugal (the source country).

The Irish tax position is:

| | |
|---|---|
| Interest income | €100 |
| Tax @ 33% | €33 |
| Less Portuguese tax | <u>(€15)</u> (being 15% as set out in the DTA) |
| Irish tax due | €18 |

Where the source country withholds tax in excess of the rate set out in the relevant DTA, account holders will have to contact the tax authority in that country to claim any refund of tax due.

In all cases, the specific terms of the relevant DTA should be consulted.