

## **Employee (PAYE) Tax Credit**

### **Section 472 of the Taxes Consolidation Act 1997**

#### **Part 15-01-07**

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## 1. Application of the Employee (PAYE) Tax Credit

Section 472 of the Taxes Consolidation Act (TCA) 1997 provides for a tax credit known as the “Employee Tax Credit” or “PAYE Tax Credit” to an individual who is in receipt of emoluments to which the PAYE system of tax deduction at source applies or is applied. However, certain emoluments do not qualify for the credit - see Paragraph 2 below (Excluded emoluments).

The amount of the tax credit for 2018 is €1,650.

Where an individual’s income tax liability is less than €1,650 in 2018, the Employee Tax Credit is restricted to the amount of the liability.

### *Example*

Gross Pay 2018	€7,900
Tax due €7,900 @ 20% =	€ 1,580
Less	
Employee tax credit	<u>*€1,580</u>
Liability	Nil

\*The Employee tax credit is restricted to the amount of the liability.

Irrespective of the number of sources of emoluments to which the PAYE system of tax deduction at source applies, an individual is entitled to only one Employee Tax Credit. However, in the case of a husband/wife/civil partner on joint assessment, each individual is entitled to the Employee Tax Credit against his or her respective emoluments. This is provided such emoluments are not “excluded” emoluments - see paragraph 2.

## 2. Excluded emoluments

### 2.1 Overview

The Employee Tax Credit is not due against the income tax paid on certain emoluments i.e.:

- (a) the tax due on emoluments paid directly or indirectly by a company, or by anyone connected to the company, to a proprietary director of that company, or to the proprietary director's spouse/civil partner,\*child or child of the civil partner or,
- (b) the tax due on emoluments paid directly or indirectly by an individual (or by a partnership of which the individual is a partner) to the individual's spouse/civil partner,\*child or child of the civil partner.

\*Note: These exclusions do not apply to children of (i) proprietary directors or (ii) self- employed individuals in certain circumstances - see paragraph 2.2.

### 2.2 Exception for a child of a proprietary director or a self-employed individual

Where certain conditions are met, the Employee Tax Credit may be granted against the tax due on emoluments paid (i) to the child\* of a proprietary director of a company, (ii) to the child of a self-employed individual and (iii) to the child\* of a partner in a partnership where the emoluments are paid by the partnership. The conditions are:

- a) (i) the child is a Specified Employed Contributor (see paragraph 2.3),  
or  
(ii) the employer complies with the requirements of the PAYE system and deducts tax on the emoluments paid to the child for the year of assessment,
- b) the terms of the employment are such as to constitute a full-time employment and the child actually engages in the employment on a full-time basis, and
- c) the emoluments from the employment must be not less than €4,572.

Students and others employed on a part-time or temporary basis do not qualify for the credit

**\*Note:** The credit is not of course due if the child is a proprietary director of a company or a partner in a partnership.

## **2.3 Specified Employed Contributor**

A specified employed contributor means an individual who is an employed contributor for the purposes of the Social Welfare Consolidation Act 2005, but does not include the following:

- (i) an individual who is insurable for occupational injuries purposes only,
- (ii) a civil servant or a member of the Garda Síochána or the Defence Forces, and
- (iii) certain public servants who were appointed prior to 5 April 1995 and who pay modified PRSI rates.

### **3. Social Welfare Pensions**

#### **3.1 Irish social welfare pensions**

An Irish social welfare pension qualifies for the Employee Tax Credit even though the PAYE system of tax deduction is not applied to the pension.

Note: Where an individual in receipt of a social welfare pension has an increase to the pension for a 'qualifying adult dependent', only one Employee Tax Credit is due against the total pension (section 126(2B) TCA 1997).

#### **3.2 Social welfare pensions from other EU Member States**

Irish residents receiving a social welfare pension from another EU Member State may claim the Employee Tax Credit, even though a system similar to the PAYE system of tax deduction may not have been applied to the pension.

#### **3.3 Social welfare pensions from elsewhere**

Social welfare or equivalent pensions from non-EU member States do not qualify for the Employee Tax Credit unless the following conditions are met:

the pension:

- (a) is chargeable to tax in the country in which it arises and is subject to a tax deduction system similar in form to the PAYE system which is provided for in Chapter 4 of Part 42 TCA 1997,
- (b) is chargeable to tax in full in this country under Schedule D (self assessment), and
- (c) would, if arising in the State, and the individual making the payment were resident here, qualify for the tax credit.

#### **4. Foreign Occupational Pensions**

Where a foreign pension is chargeable to tax in the State by virtue of a Double Taxation Agreement, the Employee Tax Credit may be granted. Where however, there is no Double Taxation Agreement in place between this State and the country that pays the pension, then the conditions in (a) to (c) in Paragraph 3.3 above must be satisfied before the credit can be granted.

#### **5. Cross-frontier workers**

Under section 472(3) TCA, Irish residents can also claim the Employee Tax Credit in respect of the tax due on profits or gains from an office or employment held or exercised outside the State if the profits or gains from that office or employment:

- (a) are chargeable to tax in the country in which they arise and are subject to a tax deduction system similar in form to the PAYE system which is provided for in Chapter 4 of Part 42 TCA 1997,
- (b) are chargeable to tax in full in this country under Schedule D (self assessment), and
- (c) would, if arising in the State and the office or employment were held or exercised in the State and the individual making the payment were resident here, qualify for the tax credit.

#### **6. Staff of Foreign Embassies in Ireland**

Where the salary/wages of a foreign embassy employee working in the State (generally non-diplomatic staff) are chargeable to tax in the State, by virtue of his or her employment being exercised here, such employee is due the Employee Tax Credit against the tax paid on his or her emoluments, even though the PAYE system of tax deduction may not have been applied to the salary.