

Industrial and Provident Societies - Special Computational Provisions

Part 25-01-03

This document should be read in conjunction with section 700 of the Taxes Consolidation Act 1997

Document last reviewed January 2021

Introduction

This manual explains the special computational provisions which apply to Industrial and Provident Societies. Credit Unions registered under the Credit Union Act 1997, or deemed to be so registered, are included for this purpose.

A worked example is provided for illustrative purposes.

Treatment of payments made by registered societies

The following are not treated as distributions for corporation tax purposes: -

- a) Share and loan interest paid by a registered industrial and provident society
- b) Any dividend or bonus within the meaning of section 699 TCA 1997, granted to members of a trading society

Share and loan interest paid by an industrial and provident society (unless payable to a person whose usual place of abode is outside the State) is payable without deduction of tax and is chargeable under Case III of Schedule D. Depending on the purpose for which it is incurred, such interest will be treated either as an expense deductible in computing income or as a charge on income.

As it is necessary for an annual general meeting of the society to approve payment of share interest, there may be a delay in crediting the interest in the books of the society and/or the shareholder. In practice, where such a delay is not excessive, both share and loan interest may be regarded as paid as at the date to which the interest is calculated.

If share or loan interest paid by a society is wholly and exclusively laid out or expended for the purposes of the society's trade, it is allowable as a deduction in computing the trading income of the accounting period in which it is paid [section 699(1)(b) TCA].

Where the income before deduction of the interest is less than the interest, the deduction should be regarded as giving rise to a loss available for relief under section 396(1) or (2) TCA.

Example

The accounts of a co-operative society, for the 12-month accounting period to 31 March 2018 include -

- Payment of share interest of €800,000
- Payment of loan interest of €300,000
- Trading income (before deduction of interest) of €900,000
- Other corporation tax profits of €150,000.

The net corporation tax profits of the preceding accounting period (12 months to 31 March 2017) are nil.

Corporation Tax Computation to 31 March 2018

Trading Income	€900,000
Less share and loan interest	<u>€1,100,000</u>
Loss	(€200,000)

The loss may be used to reduce the other profits of the accounting period – €150,000 to nil under section 396(2), leaving a balance of €50,000 to carry forward under section 396(1).

Alternatively, if there is no claim under section 396(2) the whole of the loss - €200,000 may be carried forward under section 396(1) against future trading income.

Where share or loan interest paid by a society does not fall to be dealt with as a Case I or Case V expense (for example where it is paid by a society which was formed for the purpose of holding investments or by a trading society which has also acquired investments), the interest is treated as a charge on income whether or not it is yearly interest - section 700(2) refers. The total amount of interest, including share and loan interest as well as any other interest, which can be treated as a charge on income, is restricted to payments of interest coming within section 243(8) TCA.

If in such a case the share and loan interest paid in an accounting period exceeds the corporation tax profits of the period, the net corporation tax profits chargeable are reduced to nil, but the excess of charges over income is not normally available for relief against any corporation tax profits of any other accounting period. However, if the society is an “investment company”, the excess may be available for carry-forward under section 83(3) TCA.

Submission of Returns

An industrial and provident society is obliged to deliver to the Inspector, on or before 31st January each year, a return showing the name and address of every person to whom it paid share or loan interest of €90 or more in the previous year of assessment and of the amount of each such payment - section 700(3). Failure to make this return debars a society from obtaining relief for any interest which should have been included in the return either as an expense in computing income or as a charge on income.

Investment Companies

An industrial and provident society which is an “investment company”, i.e. a company whose business consists wholly or mainly of the making of investments and the principal part of whose income is derived therefrom, is entitled to a deduction for management expenses in accordance with legislative provisions - section 83 TCA refers.

For further guidance see [Tax and Duty Manual Part 04-06-11](#)

Close Company Provisions

An industrial or provident society is not a “close company” for the purposes of the close company surcharge, nor is it liable on expenses paid for participators or interest paid to directors under sections 436 and 437 TCA.

However, loans to participators are liable to income tax on the grossed-up amount [section 438(8) TCA 1997].