

Encashment Tax

Schedule 2, Part 5 TCA 1997

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Introduction

Encashment tax is system that requires that bankers and paying agents in the State who collect foreign dividends belonging to others are obliged to deduct and account for income tax at the standard rate when they cash the foreign dividend for their client.

The purpose of this manual is to outline the operation of that system.

1. Rules

The rules and regulations for encashment tax are contained in

- Sections 32-51 TCA 1997** -- public revenue dividends-- assessed Schedule C
- Sections 60-63 TCA 1997** -- foreign dividends-- assessed Schedule D
- Schedule 2 Parts 1 - 5** -- assessment, charge, payment and collection of tax

Since the 25th March 2005 a Bank that merely clears a cheque or arranges for the clearing of a cheque on behalf of a customer is not obliged to deduct Encashment Tax.

2. Practice

The Revenue Commissioners have the power under **Schedule 2 Part 5 TCA 1997** to relieve paying agents of the obligation to deduct encashment tax on foreign dividends payable to Irish residents in circumstances where they deem it appropriate.

In general exemption from encashment tax on foreign dividends belonging to Irish residents is confined to the following categories of persons:

- (a) approved charities,
- (b) wholly exempt pension schemes,
- (c) an Investment Undertaking within the meaning of Section 739B TCA 1997,
- (d) qualified companies within the meaning of S.446 TCA 1997.

The relief is granted by way of authorisation in letter form signed by an Assistant Secretary of the Revenue Commissioners absolving the paying agent of the obligation to deduct encashment tax in respect of a particular account owned by a particular person. Applications for exemption by qualified companies are made in letter form to the Office of the Revenue Commissioners, Collector Generals Division, Minor Taxes, Government Offices, Mill Lane, Listowel, Co Kerry.

Exemption in respect of approved charities and wholly exempt pension schemes and Investment Undertakings within the meaning of Section 739B TCA 1997 is allowed automatically by bankers and paying agents.

3. More than one paying agent

In some cases it may be necessary for an Irish based custodian to appoint another Irish based custodian as its sub-custodian for the holding of foreign stock on behalf of client funds. In these circumstances the obligation to deduct encashment tax on receipt of foreign dividend and interest income lies with the sub-custodian. However, the Revenue Commissioners are prepared to enter into an arrangement whereby the custodian may receive this income gross of encashment tax from the sub-custodian on the basis that the custodian is prepared to act as the person entrusted with the payment of the income and undertakes to accept responsibility in relation to encashment tax as imposed by Part 3, Chapter 1 or Part 4, Chapter 2 and Schedule 2 TCA 1997.

4. Sterling Dividends of British Commercial Companies

Encashment tax is not applied to sterling dividends of British commercial companies. However, dividends in respect of British Government Stocks are still subject to deduction of tax on encashment with the exception of 3.5% war loan stock.