

Def: Tax – is a levy charged by the government on individuals and companies to finance government expenditure.

The main taxes paid by households

The PAYE system. Employers deduct the tax automatically from their employee's wages and pass it on to the revenue commissioners. This system is progressive, so the more you earn, the greater income tax has to be paid.

Employee PRSI – This is a compulsory insurance payment by the employees to the state. Money goes towards unemployment payments, pensions, maternity benefits.

VAT - Is a tax paid by consumers on certain goods and services. Goods are bought, VAT is paid. The two main VAT rates are 13 % and 21 ½ %.

Excise duties are taxes levied on certain types of goods within the state, e.g. alcohol and tobacco

Motor Tax is a tax on all roadworthy vehicles. The amount of tax varies with the size of the vehicle

Capital gains tax is a tax paid on the profits made by an individual/family from selling an asset, e.g. selling property.

Capital Acquisition Tax (CAT)- CAT is made up of two parts- gift and inheritance tax.

Gift tax is the tax on the value of goods received by a person from another person who is still alive.

Inheritance tax is a tax on the value of an inheritance received by a person from another person who has died. A certain amount of each gift or inheritance is exempt from this tax. The amount of the exemption depends on the closeness of the relationship between the giver & the recipient.

DIRT – This is deducted from all the interest paid on bank and building society accounts and passed on to the revenue commissioners

The main taxes paid by businesses

Corporation Tax

This is a tax on company's profits. The govt. has reached an agreement with the

European Commission for the introduction of a 12 ½ % corporate rate on trading income since 1st January 2003. This is seen as quite a low percentage but it is necessary to attract foreign investment in this country.

Capital gains tax is a tax paid on the profits made by a company from selling an asset, e.g. selling property.

Customs duties are taxes levied on certain types of goods imported into this country. This does not apply to imports from the other EU member states. This only applies to countries outside this free trade area.

Employers' PRSI – This is a compulsory insurance payment levied on firms for every employee they have. Money goes towards unemployment payments, pensions, maternity benefits.

The PAYE system. This is the system of tax collection used in Ireland. Businesses do not have to pay this tax but they must register as an employer with the revenue commissioners. Employers deduct the tax automatically from their employee's

wages and pass it on to the revenue commissioners.

VAT - Is a tax paid by consumers on certain goods and services. When goods/services are bought, VAT is paid. The two main VAT rates are 13 % and 21 ½ %.

The SELF-ASSESSMENT SYSTEM

Applies to all self-employed people (e.g., accountants, carpenters, electricians, painters, taxi drivers). It makes sure that all self-employed people are responsible for the calculation & payment of tax. In October the collector general sends each self employed person a notice of **preliminary tax** due. These taxpayers must submit their estimated tax to the revenue commissioners by 31st October.

Preliminary tax is the estimated of how much taxpayers think they owe during the tax year.

A **tax audit** is a detailed look at the taxpayer's financial records by the revenue commissioners.

Definitions:

- ✓ Direct tax – is a tax on income or wealth. All the taxes such as DIRT, CGT. CAT is examples of these.
- ✓ Indirect Tax – is any tax on goods and services. An indirect tax is paid when spending money. Examples of this would be VAT, Customs duties, stamp duties.

Operation of the PAYE system:

1. Form P.12A

Before starting work, each employee must contact their local tax office and complete a form 12A. This calculates the credit due.

2. Notice of Tax Credit system

The inspector of tax will send out a notice to all taxpayers, setting out all the credit to each taxpayer

3. Tax Credit Certificate

A tax credit certificate is sent out to all employers, informing them of employees tax credit and tax rates. In the ABSENCE of a tax credit certificate, emergency tax

must be deducted.

4. Tax deduction card –used by managers to keep a record of all payments and deductions made for each employee

5.P.60

At the end of tax year 31/dec each employer must issue employees with a P.60 form. This shows amount of pay, income tax and PRSI contribution made during the year.

6.P.45

If employee leaves during the year, their employers should give this to them. This form is also known as the “cessation certificate” and shows all pay, income tax and PRSI made by workers.

7.P.35

Is a document, prepared by an employer, which shows all income paid and all tax and PRSI collected by Tax office?

8. Form 12

At end of tax year this form is filled in, completed so then a detailed tax return is given to the Inspector of Taxes.

9.P. 21 – BALANCING STATEMENT

The tax office issues this; it compares the total tax paid by PAYE workers with the amount that should have been paid on his/her income.

If there has been underpayment, tax must be paid within 3 months. If there has been overpayment there will be a tax refund.