



Introduction to the Irish Tax System

Parfrey Murphy Advisory Article 7 - 9
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Registering for Tax Purposes

If you are taking up employment as an employee for the first time you will need to register for tax purposes by applying for a Personal Public Service (PPS) number with the Department of Social & Family Affairs. This can be done by calling into your local Social Welfare office and completing a Form REG 1. You will need to bring documentary evidence to verify your identity e.g. a passport.

Once you receive your PPS number you must notify your employer of same. You will then be asked to complete a Form 12A. This will allow you to be registered as your employer's employee.

This form will then be submitted to the local branch of the Revenue Commissioners. The Revenue Commissioners will then issue you and your employer with a "Certificate of Tax Credits & Standard Rate Cut-Off Point" so that the correct deductions of income tax can be made from your salary every time you are paid.

It should be noted that until your employer receives confirmation of your PPS number the emergency basis of taxation will be applied in calculating your net salary (gross salary less income tax equals net salary).

Calculation of Income Tax on your Salary

Employees pay income tax under the Pay as You Earn (PAYE) system which means that income tax is deducted by the employer weekly, fortnightly or monthly depending on how frequently you are paid.

Standard Rate Cut Off Point (See Appendix 1)

An individual pays income tax at the standard rate (20%) up to the "Standard Rate Cut Off Point". Any income earned over and above the cut-off point is taxed at the higher rate of income tax (41%). The level of the standard rate band varies according to the marital status of the taxpayer and whether one or both spouses are working.

For example, in 2007, a single person, Sean Murphy pays 20% income tax on the first €34,000 of salary he earns during the income tax year (i.e. income tax of €6,800). If he is on a salary of €40,000 per annum the €6,000 over the cut off point is then liable to income tax at 41% (i.e. additional income tax of €2,460). Therefore overall Sean would be liable to income tax of €9,260 before taking into account his income tax credits.

Income Tax Credits (See Appendix 1)

An individual is entitled to various income tax credits in a particular income tax year depending on his/her personal circumstances e.g. in 2007 the single person's income tax credit is €1,760 and the employee's income tax credit is also €1,760. These tax credits are used to reduce the income tax calculated on an individual's gross pay. Therefore (using the previous example) presuming Sean can claim these income tax credits his overall income tax liability is reduced to €5,740 (€9,260 - €3,520). Sean is paid monthly therefore this income tax liability of €5,740 is also collected from him monthly by his employer over the 12 months.

His payslip would typically show a gross monthly salary of €3,333.33 (€40,000 / 12) and income tax deducted of €478.33 (€5,740 / 12) leaving a net monthly salary of €2,855.

In relation to individuals coming to work in Ireland for the first time from abroad, they are only entitled to a portion of tax credits. However residents of another Member State of the EU are entitled to full personal tax credits in respect of any tax year in which 75% or more of their worldwide income is taxable in Ireland.

If you take up employment in Ireland and become Irish tax resident and your spouse remains non tax resident and has no income in his/her own right, then you may be entitled to claim the married person's tax credit and the increased rate band provided that your salary in Ireland is the only source of income.

Worked Example 1

Jack Smith earns a salary of €65,000 from his employer in 2007. He is married and his wife Mary is currently staying at home to mind their newborn baby. Jack incurred medical expenses of €1,000 in 2007 as Mary and the baby were ill. The family currently rent a house for €9,000 per annum and Jack paid refuse charges of €300 in 2006.

	€
Salary (Jack)	<u>65,000</u>
Total Income	65,000
Less: Medical Exp	<u>(750)</u>
Taxable Income	<u>64,250</u>
Tax Payable:	
€43,000 @ 20%	8,600
€21,250 @ 41%	<u>8,713</u>
	17,313
Less:	
Married Tax Credit	(3,520)
Employee Tax Credit	(1,760)
Home Carer's Credit	(770)
Rent Credit	(720)
Service Charges	<u>(60)</u>
Tax Due	<u>10,483</u>

Worked Example 2

John Murphy earns a salary of €55,000 from his employer in 2007 and his wife, Ann, earns a salary of €50,000 in 2007. Ann incurred medical expenses of €1,200 in 2007. They paid refuse charges of €250 in 2006 and college fees in respect of their daughter of €1,000.

	€
Salary (John)	55,000
Salary (Ann)	<u>50,000</u>
Total Income	105,000
Less: Medical Exp	<u>(1,075)</u>
Taxable Income	<u>103,925</u>
Tax Payable:	
€68,000 @ 20%	13,600
€35,925 @ 41%	<u>14,729</u>
	28,329
Less:	
Married Tax Credit	(3,520)
Employee Tax Credit (x 2)	(3,520)
College Fees	(200)
Service Charges	<u>(60)</u>
Tax Due	<u>21,029</u>

PRSI and Levies

PRSI is a contribution made up of Social Insurance and Health Contribution. The Social Insurance part goes to the social insurance fund to pay for social welfare benefits and pensions for the citizens of Ireland. An individual's PRSI Class is determined by their personal circumstances however usually individuals will pay PRSI under Class A. For example under Class A1, the first €127 gross earned per week is taxed @ 2%, from €127.01 to €1,925 the rate is 6% and any balance is taxed @ 6.5%.

The Health Contribution portion goes to the Department of Health and Children to help fund the Health Services. Your employer deducts these contributions from your wages.

Salary and Benefits

An employee is taxed on his/her salary, fees, wages, commissions, bonus etc. as well as any benefits from the employment. Benefits-in-kind include private use of a company car, free or subsidised accommodation and preferential loans. PAYE, PRSI and the Health Contribution are levied by an individual's employer on the taxable value of the benefit and paid over to the Revenue Commissioners.

Buying/Renting a House/Apartment in Ireland

Mortgage Interest Relief

When you move to Ireland you may decide to buy your own home. If you take out a loan to buy your own home you may qualify for some income tax relief. Income tax relief is available on the interest paid on a loan used to purchase your principal place of residence. The relief is not available on repayments of the principal originally borrowed. The income tax relief is granted at source. This means that the income tax relief will be "built into" your monthly mortgage repayment (once Form TRS1 has been completed).

The overall annual limits are as follows:

	First-Time Buyers	All Others
Single Persons	€8,000	€3,000
Married/Widowed	€16,000	€6,000

Stamp Duty

If you buy a house when you move to Ireland you may have to pay Stamp Duty on the purchase of the property. The rate applicable will depend the value of the property. A reduced rate of stamp duty will be payable if you are deemed to be a "first

time buyer". A first time buyer is defined as an individual who has not on any previous occasion, either individually or jointly, purchased or built on his/her own behalf a house in Ireland or abroad.

The stamp duty rates are as follow:

Purchase Price	First Time Buyer Rate	Full Rate
Less than €127,000	Exempt	Exempt
€127,001 - €190,500	Exempt	3%
€190,501 - €254,000	Exempt	4%
€254,001 - €317,500	Exempt	5%
€317,501 - €381,000	3%	6%
€381,001 - 635,000	6%	7.5%
Over €635,000	9%	9%

Example (1): Purchase of a second hand house for €150,000.

	First Time Buyer	Owner/ Occupier
Stamp Duty:	Exempt	€150,000 X 3% = €4,500

Example (2): Purchase of a second hand house for €500,000.

	First Time Buyer	Owner/ Occupier
Stamp Duty:	€500,000 X 6% = €30,000	€500,000 X 7.5% = €37,500

Rent Relief

If you decide to rent a property from a landlord, you may qualify for income tax relief on the rent paid. Relief is due at the standard rate of income tax (20%) and is subject to the following maximum annual limits:

	Single	Married / Widowed
Under 55 Max	€1,800	€3,600
Over 55 Max	€3,600	€7,200

Rent A Room Scheme

If you buy your own home and then decide to rent out rooms in it then you may be able to avail of the Rent-a-Room scheme. This is where a room or rooms in a person's principal private residence are let out as residential accommodation. Gross annual rental income of up to €7,620 will be exempt from income tax under the scheme. Income tax relief at source on your mortgage will not be affected if you decide to rent out under the scheme.

If the scheme is implemented you are obliged to submit an income tax return.

Capital Gains Tax

If you decide to sell your home you are potentially within the charge to capital gains tax (CGT). CGT is a tax on the sale of certain assets (e.g. property or shares) and is calculated at 20% of the difference between the sales price and what it originally cost. However if you have lived in the house throughout its entire period of ownership as your principal private residence then no CGT would be payable on the disposal as principal private residence relief (PPRR) would be available.

Resident / Ordinarily Resident / Domicile

Residence, ordinarily residence and domicile are very important concepts under Irish tax law as they decide to what extent an individual is liable to Irish taxes in the first place.

Resident

Whether an individual is Irish tax resident or not depends on the number of days spent in Ireland in a given tax year. You will be tax

resident in Ireland for an income tax year in either of the following circumstances:

- If you spend 183 days or more in Ireland during an income tax year, or
- If you spend 280 days or more in Ireland over a period of 2 consecutive income tax years, you will be regarded as resident for the second tax year.

Ordinarily Resident

The term ordinarily tax resident refers to an individual's residence over a number of years. If you come to Ireland for the first time and remain Irish tax resident for 3 consecutive income tax years, you will become ordinarily tax resident from the beginning of the 4th tax year.

Domicile

Domicile is a concept of general law. In general terms, an individual is regarded to be domiciled in a country in which they have their permanent home and have the intention of residing permanently. An individual will normally keep their original domicile (domicile of birth) unless they have taken steps to abandon it and take on another domicile.

If you become tax resident in Ireland during an income tax year and can show that you intend to remain resident here in the following income tax year, you will not be subject to Irish tax on earnings from an employment outside Ireland, prior to the date of arrival (split year residence relief).

As a result of becoming resident in Ireland, you are liable to Irish income tax on all Irish and UK source income and also on any foreign income which is remitted to Ireland. The provisions of a Double Taxation Agreement between Ireland and your home country may operate to ensure that you do not pay tax twice on the same income. This will operate by either:

- Exempting the income from tax in one of the countries, or

- Allowing a credit in one country for the tax paid in the other country on the same income.

Pension

Some employers run occupational pension schemes for their employees whereby the employer and/or the employee contribute to the scheme to provide retirement and/or other benefits for the employee.

The type of occupational pension scheme run by one employer can vary to that implemented by another employer e.g. defined benefit scheme, defined contribution scheme, contributory schemes, non - contributory schemes, etc and each one would have to be examined separately. However the tax benefits are essentially the same.

Tax Benefits

- Any contribution made by the employer to the scheme to provide benefits for an employee is not treated as a benefit in kind for the employee concerned.
- Any contribution made by the employer to the scheme is tax deductible as a business expense against trading profits in the accounting period in which the contribution is paid.
- Any personal contributions made by the employee to the scheme are deductible for income tax within the prescribed limits.
- Any personal contributions made by the employee to the scheme are deductible for PRSI and Health Levy against earnings.
- Investment returns of the scheme are exempt from capital gains tax and income tax. Therefore funds accumulate tax free within the scheme.

AVCs

An individual can increase the amount of the fund available to them on retirement by making an Additional Voluntary Contribution

(AVC). An AVC is a means for a member to provide additional retirement and other benefits at their own expense, i.e. in addition to those provided by their employer's occupational pension scheme.

There are limits on the amount that an individual can contribute. The limits are related to the individual's "net relevant earnings" which are an individual's relevant earnings reduced by any charges on income and any business losses or capital allowances related to an individual's trade. Where an individual's only source of income is their Schedule E income then their relevant earnings are their non - pensionable salaries. The amount of their relevant earnings can be increased by fees, commission, bonuses and BIK.

The limits are as follows:

Age	Tax Relief Limit
Less Than 30	15%
30 - 39	20%
40 - 49	25%
50 - 54	30%
55 - 59	35%
60 and over	40%

We would be delighted to meet with you at any time to discuss the above or any other matters that require expert and professional advice. Feel free to call today.

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Appendix 1

2007 Tax Credits

Single	€1,760
Married	€3,520
One Parent Family Credit	€1,760
Employee Credit	€1,760
Incapacitated Child	€3,000
Dependant Relative Tax Credit	€80
Rent Credit – single	€360
Rent Credit – married	€720
Home Carer's Credit	€770

Standard Rate Tax Bands (20%)

Single	€34,000
One Parent Family	€38,000
Married – one income	€43,000
Married – two incomes*	€68,000

*Maximum transfer between spouses is €43,000.