

FOLENS



SMART BUSINESS

Junior Cycle Business Studies

CH 4 Taxation 1: Personal Tax

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Personal Taxation

Tax

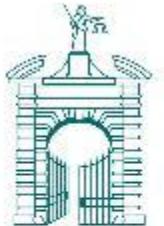
A **tax** is a compulsory payment made by households, consumers and businesses to the state to help meet the expenses of running the country.

Taxes 101 <https://www.youtube.com/watch?v=qyCXpr-ZDhE>



Revenue Commissioners

A special agency is responsible for the collection of all taxes on behalf of the Irish government. This agency is known as the Office of the Revenue Commissioners, or just Revenue for short.



Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

Resources Funded by the Government

The government finances the cost of running the following resources:

- Infrastructure
- Roads
- Parks
- Schools
- Hospitals
- Reservoirs
- Sewage systems
- Playgrounds
- Libraries
- Swimming pools



Key Personal Taxes and Charges

Direct Taxation

Direct taxation refers to any tax which is based on your income (the money you earn).

Examples include:

- Income tax (PAYE)
- Capital gains tax
- Capital acquisitions tax
- Deposit Interest Retention Tax (DIRT)
- Universal Social Charge (USC)



Key Personal Taxes and Charges

Indirect Taxation

Indirect taxation refers to any tax on goods or services you purchase.

- Customs duty
- Excise duty
- Local Property Tax
- Motor tax
- Stamp duty
- Value Added Tax (VAT)
- Vehicle Registration Tax (VRT)

Progressive Tax

- Most direct taxes are **progressive** taxes.
- Progressive taxes are taxes where the percentage rate of tax a person pays increases as income increases. In other words, higher earners will pay a higher percentage than lower earners.

Example

In Ireland we currently have two rates of income tax: 20% on all income earned up to €40,000 while all income above €40,000 that is taxed at 40%.

Your tax band/rate of tax can change each year when the new national budget is announced in October. It can also depend on whether you are single/married, have children etc.

<https://www.revenue.ie/en/personal-tax-credits-reliefs-and-exemptions/tax-relief-charts/index.aspx> Up to date tax bands

Regressive Tax

- Most **indirect** taxes are **regressive taxes**.
- Regressive taxes are taxes where **everybody** pays the same **percentage** rate of tax **no matter what their income is**.

Example

In Ireland we pay a tax called Value Added Tax (VAT) on goods and services. The rate of VAT on mobile phones, for example, is 23%. Everybody who wants to buy a mobile phone must pay the same rate of VAT, no matter what their level of income is.

Key Personal Taxes and Charges

Capital Acquisitions Tax (CAT)

- This tax is divided into two parts:
 - **Gift tax:** A tax on the value of gifts received by someone from another person who is still alive.
 - **Inheritance tax:** A tax on the current value of gifts received by someone from another person after they have died.
- The amount of tax you pay depends on how closely related you are to the other person.
- This tax must be paid on the value of *all* gifts and inheritance, even if they are not in cash, for example a house.

Key Personal Taxes and Charges

Example of Capital Acquisitions Tax (CAT)

Example

Stephanie Quinn died and left €80,000 to her nephew, Trevor McElroy.

Calculate how much tax Trevor will have to pay on his inheritance if there is an exemption (tax-free part) of €32,500 due to the aunt–nephew relationship. Assume a CAT rate of 33%.

Solution

Inheritance €80,000

Less exemption €32,500

Taxable sum €47,500

Tax

€47,500 @ 33% **€15,675** – This is the amount of CAT that Trevor must pay

Key Personal Taxes and Charges

Capital Gains Tax (CGT)

- Capital gains tax is paid on the profit made by an individual on the sale of an asset such as a painting or company shares or a second property.
- The profit is calculated by subtracting the cost price of the asset from the selling price and the tax is charged on the difference.
- Exemptions:
 - The first €1,270 of any gain
 - The total profit made on the sale of your main private home
 - All winnings from the National Lottery as well as other lotteries and games

Key Personal Taxes and Charges

Example of Capital Gains Tax (CGT)

Example

Bridie Moran worked for a large American company for over 30 years. She owned 50,000 shares in the company, which she bought at a special price of €1 per share. Calculate the tax payable by Bridie when she sold those shares after her retirement at €3 per share. Assume a CGT rate of 33%.

Solution

Selling price (50,000 @ €3) € 150,000

Less cost price (50,000 @ €1) € 50,000

Gain € 100,000

Less single person exemption € 1,270

Taxable gain € 98,730

Tax

€98,730 @ 33% € **32,581** – This is the amount of CGT that Bridie must pay

Key Personal Taxes and Charges

Customs Duty

- **Customs duty** is a **tax** that we must pay **on goods** we bring in to Ireland from a country outside the EU (European Union), for example from the US, UK or China
- By charging a duty, **the imported goods become more expensive** compared to Irish goods, so Irish consumers are less likely to buy them.
- This will **protect Irish jobs** and may even help to create new jobs in Ireland.



Key Personal Taxes and Charges

Example of Customs Duty

Example

Meagan purchased a new coat for €160 online from Misguided. The cost of delivery was €25 and insurance was an extra €10. Calculate the total amount of duty that Meagan must pay. Assume a customs duty of 5%.

Solution

Cost of coat	€ 160.00
Delivery	€ 25.00
Insurance	€ 10.00
Total value of order	<u>€ 195.00</u>
Customs duty @ 5%	€ 9.75 - <i>This is the amount of customs duty that Meagan must pay</i>

Key Personal Taxes and Charges

Deposit Interest Retention Tax (DIRT)

- All financial institutions responsible for saving money for their customers are required to deduct Deposit Interest Retention Tax (DIRT) from any interest paid on these savings.
- This includes banks, building societies, credit unions and some savings with An Post.
- The institutions concerned are then responsible for passing this tax to the Revenue Commissioners.
- DIRT is currently deducted at a rate of 33%.
- Exemptions (excused) from paying DIRT, including people over the age of 65 and registered charities.



Key Personal Taxes and Charges

Example of Deposit Interest Retention Tax (DIRT)

Example

Selena (age 47) has been saving €400 per month for the last year with the EBS. Her mother, Barbara (age 76), has been saving €300 per month for the same period of time. Calculate how much DIRT they will each have to pay if Selena earned €75 interest and Barbara earned €61 interest.

Solution

Interest earned by Selena	€75.00	Interest earned by Barbara	€ 61.00
Less DIRT @ 39%	<u>€29.25</u>	Less DIRT @ 0%	<u>€ 0.00</u>
Interest paid to Selena	<u>€45.75</u>	Interest paid to Barbara	<u>€61.00</u>

Key Personal Taxes and Charges

Excise Duty

- **Excise duty is charged** on particular goods **either when they are manufactured or when they are sold.** Excise duties are usually charged on products that pose:
 - **Health risks** such as cigarettes or alcohol
 - **Environmental risks** such as petrol or diesel
 - **Social risks** such as gambling
- The government uses some of the money raised from excise taxes to offset the social costs of these products, such as anti-smoking campaigns, increased health spending and providing electric car-charging stations.
- The excise duty is included in the price of the product.



Key Personal Taxes and Charges

Income Tax (PAYE)

- All employed people are required to pay income tax on their earnings.
- The Irish system of income tax is known as **PAYE**, stands for **Pay as You Earn**.
- Each employer must deduct the appropriate amount of tax each week or month from their employees' wages before they pay them and then send this money to the Revenue.

Gross pay = Basic pay + overtime + commission + bonus

Net pay = Gross pay – deductions

Up to date rates:

<https://www.revenue.ie/en/personal-tax-credits-reliefs-and-exemptions/tax-relief-charts/index.aspx>

Taxes on Income (PAYE)

- Most people who earn an income pay tax on that income
- Taxes are usually deducted **before** employees receive their wage/salary
- The employer collects tax on behalf of the government
- Taxes on income are calculated on **gross pay**
- **Net pay** is your take-home pay after any deductions have been made

Gross pay = Basic pay + overtime + commission + bonus

Net pay = Gross pay – deductions

Income Tax (Self-Assessment)

- Self-employed people and those who do not pay all of their tax under the PAYE system must also pay income tax. The difference is that they must calculate the tax they owe themselves and pay it to the Revenue Commissioners, as they do not have an employer to do it for them.
- This is known as a **self-assessed income tax return**.
- Self-assessment taxpayers must submit their estimated tax to the Revenue Commissioners by 31 October or 15 November if they submit their return online.
- This is called preliminary tax and must be at least 90% of the final bill if interest is not to be charged.
- The balance of the tax due (if any) must be paid by 31 January.

Example 1: Anne O'Brien's PAYE

Anne O'Brien has started a new job working for MCB Promotions. She commences with a salary of €16,500.

What is the tax rate for Anne and how much income tax is to be paid each year?

Answer:

Tax rate = 20%

20% of €16,500

= €3,300

Less Tax Credits

€3,300

Tax to pay:

NIL



Example 2: Anne O'Brien's PAYE

MCB are delighted with Anne's performance. The HR manager has offered Anne a permanent position with a salary of €40,000.

What income tax rate will apply to Anne now and what amount of tax will she have to pay per year?

Answer:

Income = €40,000	€
First 33,800 @ 20%	6,760
Remainder @ 40% ($€40,000 - 33,800$) = €6,200 @ 40%	2,480
Total PAYE	9,240
Less Tax Credit	3,300
Income Tax	5,940

Key Personal Taxes and Charges

Local Property Tax (LPT)

- **Local Property Tax** is an annual tax charged on all residential properties in the state, including houses, apartments, rented accommodation, social housing and local authority houses.
- The tax is calculated on the market value of the property (what it would currently sell for). It is up to the owner or occupier of the property to assess this value, calculate the tax and pay the correct amount to the Revenue Commissioners each year.
- The tax may be paid in one single payment, in a number of equal instalments or you may have it deducted from your salary if you are a state employee.



Key Personal Taxes and Charges

Motor Tax

- **Motor tax** must be paid by the owners of motor cars in order to drive the vehicle in a public place.
- The rate of tax is calculated by the government, but the tax is collected by the local authority, such as Dublin City Council.
- Drivers are required by law to pay motor tax on their vehicle and to display proof of this on their windscreen in the form of a motor tax disc.
- Drivers who do not have motor tax or who do not display the disc may face fines.
- The amount of motor tax you pay depends on a number of factors, including the size of your car's engine or the car's CO₂ emissions.



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BUSINESS**

Key Personal Taxes and Charges

Stamp Duty

- **Stamp duty** is charged on the use of certain items, such as cheques, credit and debit cards, and on the transfer of property, such as the purchase of a house or apartment.
- The rates of stamp duty vary depending on the item in question.

Example

Robert recently purchased a holiday home in Donegal at a cost of €450,000. Calculate the total cost of Robert's new home if the amount of stamp duty he must pay is 1%.

Solution

Value of property	€ 450,000
Stamp duty @ 1%	€ <u>4,500</u> - This is the amount of stamp duty that Robert must pay
Total cost of property	€ <u>454,500</u>

Key Personal Taxes and Charges

Universal Social Charge (USC)

- The **Universal Social Charge (USC)** is a tax on income that was brought in to raise revenue for the government to meet the extra expenses of running the government, especially the health service.
- People who earn less than €13,000 per year do not pay USC, but those earning above that amount pay USC on all of their income.
- The rates of USC range from 0.5% to 8%.

Vehicle Registration Tax (VRT)

- **VRT** is paid by any person who registers a new motor vehicle in Ireland.
- This is normally done by the seller of the motor vehicles (usually the motor dealer), but it can also be paid by individuals who import vehicles into Ireland themselves.
- Once a vehicle has been registered and the correct VRT paid, a registration plate will be issued with the unique registration number for that vehicle.

Key Personal Taxes and Charges

Value Added Tax (VAT)

- VAT is paid by consumers on certain goods and services that they purchase.
- The rates range from 0% to 23% depending on the type of good or service.
- Certain other goods and services are exempt (free of tax altogether).
- In Ireland, VAT is included in the price of goods or services by the seller before we purchase them.
- The seller is responsible for sending this on to the Revenue Commissioners.

Example

Marion buys a takeaway coffee each morning on her way to university at her local coffee shop for €1.50. VAT of 13.5% is already included in this price. Calculate the price of the coffee before the VAT has been added.

Solution

Price of coffee including VAT @ 13.5%	€1.50	113.5%
VAT @ 13.5%	<u>€0.18</u>	13.5%
Price of coffee excluding VAT	<u>€1.32</u>	100%

Statutory Deductions

Statutory deductions are items that are **compulsory**. They are taken away from your gross pay and given to the government.

There are three main types of **statutory** deduction:

- **Income tax (PAYE)**
- **PRSI (Pay Related Social Insurance)**
- **USC (Universal Social Charge)**

Non-Statutory Deductions

Non-statutory deductions are items that are **voluntary** and that you agree can be deducted from your gross pay.

Examples include payments to:

- **Pension scheme**
- **Trade union subscriptions**
- **Health insurance**

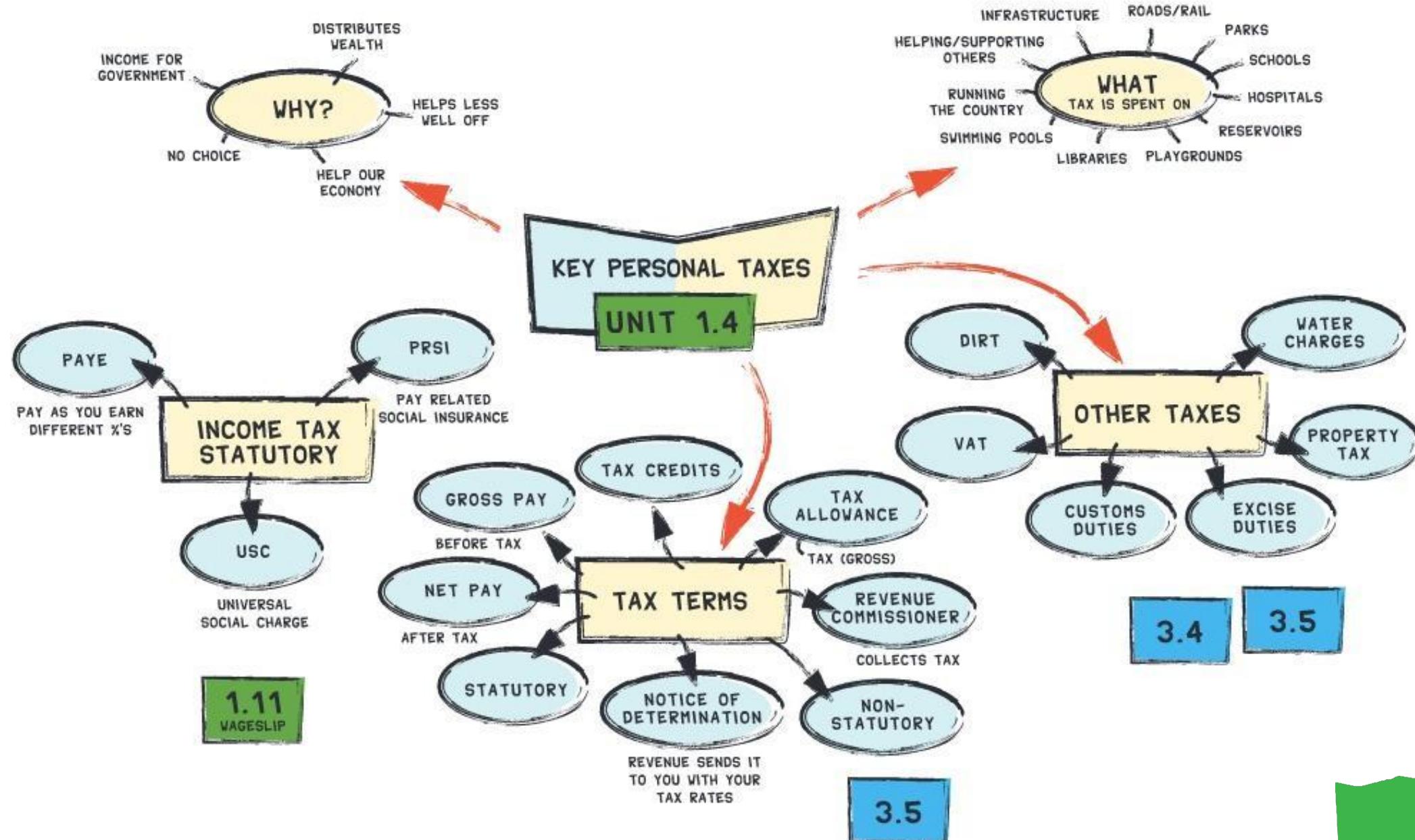


Top Tip

Tax rates will change depending on government decisions.

It is really important in your third year of this course to be aware of different rates, new taxes and even taxes that might be abolished. It is all about managing information and thinking.

BE TAX AWARE...



Key Words



- Corporation tax
- Customs duties
- Excise duty
- Gross pay
- Net pay
- Non-statutory deductions
- PAYE
- Property tax
- PRSI
- Revenue Commissioners
- Statutory deductions
- Tax allowances
- Tax credit
- Tax rates
- Taxation
- Union subscription
- USC
- VAT
- Wage slip