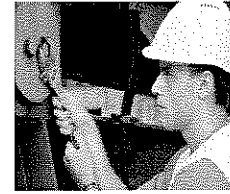


## Section 6: SCHEDULE D CASE I / II

<b>Schedule D Case I</b>	<ul style="list-style-type: none"> <li>Charges profits of a <b>trade</b> to income tax</li> <li>Examples of self-employment trades: shopkeepers, farmers, butchers, carpenters, electricians</li> </ul>
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<b>Schedule D Case II</b>	<ul style="list-style-type: none"> <li>Charges profits of a <b>profession or vocation</b> to income tax</li> <li>Examples of self-employment professions / vocations: accountants, solicitors, doctors, architects</li> </ul>
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### BASIS OF ASSESSMENT

- Dependent on the stage in the business cycle i.e. commencement, continuing or cessation

### SUMMARY – COMMENCEMENT RULES

Year of Assessment	Profits assessed in basis period		Option to Review
1	Actual	Profits from the date of commencement to the following 31 December (time apportioned where appropriate)	N/a
2	First twelve months profits	Profits for the first twelve months of trading	N/a
3	Current year basis of assessment	Profits of an accounting period of twelve months ending on any date in the third tax year	Reduction by excess of amount assessed in second year over actual profits of the second year
4	Current year basis of assessment	Profits of an accounting period of twelve months ending on any date in the tax year	N/a

### SECOND YEAR OF ASSESSMENT – ADDITIONAL CONSIDERATIONS

- Where only one set of accounts are prepared up to a date within the year of assessment and these are for a period of twelve months: - assessment to tax will be based on the profits for the twelve months ending on that date
- Where the accounts prepared are not for a period of twelve months **or** where more than one set of accounts are made up to different dates within the same tax year: - assessment to tax based on the full amount of the profits for the **twelve months ending on the latest accounting date ending in the second tax year**

### THIRD YEAR OF ASSESSMENT – ADDITIONAL CONSIDERATIONS

- The basis of assessment for the third tax year: - generally the profits of an accounting period of twelve months ending on any date during the third tax year
- Taxpayer has option to reduce third year assessable profits by the amount by which the assessment raised for the second year exceeds the amount of **actual** profits for the second tax year calculated for the 12 months ending 31 December
- Any unutilised excess may be carried forward to reduce the assessment for the fourth and following tax years in respect of taxable profits arising from the same trade

### SUMMARY – CESSATION RULES

Year of Assessment	Profits assessed in basis period	Option to Review
The penultimate year (2 <sup>nd</sup> last year)	Current year basis of assessment	Profits of an accounting period of twelve months ending on any date in the tax year Revenue may revise second last year to actual profits for the year to 31 December where actual profits exceed the original assessment based on the current year basis rule
Final	Actual	Profits from preceding 1 January to date of cessation (time apportioned where appropriate) N/a

### PENULTIMATE TAX YEAR – ADDITIONAL CONSIDERATIONS

- Original profit that will have been assessed in this year will have been calculated on a current year basis (i.e. the profits of 12 months accounts ending in that tax year)
- On cessation of trade: - Inspector of Taxes can review the assessment of the penultimate tax year and compare it to the assessed profits based on actual profits in the calendar year
- Where the **actual** profits for the penultimate tax year exceed the original assessment, the Inspector of Taxes may amend the original assessment to actual profits for that year

## Section 1.2: INCOME TAX COMPUTATIONS

### ALLOWANCES AND CHARGES ON INCOME



Deductible from Total Income in arriving at Taxable Income

Tax relief available at highest tax rate, either 41% or 20% depending on circumstances

#### The Carers Allowance

- Relief for cost incurred in employing someone to look after an incapacitated family member
- Incapacitated person can be:
  - The taxpayer
  - Taxpayer's spouse
  - Relative of taxpayer or their spouse's relative

Relief restricted to **lesser** of:

- Actual costs incurred, or
- €50,000

Cannot claim dependent relative or incapacitated child tax credit in relation to the same individual

#### Permanent Health Insurance (PHI)

- Insurance paid to provide the taxpayer with a replacement income in the event of their being unable to work for a prolonged period of time due to accident or illness

Relief restricted to **lesser** of:

- Actual PHI premium paid, or
- 10% of **Total Income**

#### Charitable Donations

- Minimum donation of €250 to any one charity

Relief depends on taxpayer's status:

- PAYE Earner – no tax relief
- Self Employed – claim relief

<p><b>Pension Contributions</b></p> <p>Contribution qualifying for tax relief depends on taxpayers <b>Net Relevant Earnings and age</b></p> <p>Net Relevant Earnings (NRE) comprise:</p> <ul style="list-style-type: none"> <li>• PAYE Earner <ul style="list-style-type: none"> <li>- Salary</li> <li>- Bonuses</li> <li>- BIK's</li> </ul> </li> <li>• Self Employed <ul style="list-style-type: none"> <li>- Case I / II Income</li> </ul> <p style="margin-left: 20px;">Less:</p> <ul style="list-style-type: none"> <li>- Capital allowances</li> <li>- Charges</li> <li>- Case I / II Losses</li> </ul> </li> </ul>	<p>Relief restricted to <b>lesser</b> of:</p> <ul style="list-style-type: none"> <li>• Contribution paid x NRE%, or</li> <li>• €150,000 x NRE%</li> </ul> <p>Never included in calculating NRE</p> <ul style="list-style-type: none"> <li>• Schedule D Case III, IV, V income</li> <li>• Schedule F income</li> </ul> <p>In addition to contributions actually made in the 2009 tax year, relief may be claimed for pension contributions paid up to and including 31 October 2010 when preparing the taxpayers 2009 tax return</p> <p>Unutilised contributions are carried forward to subsequent tax years</p>
<p><b>Medical Insurance Premiums</b></p> <ul style="list-style-type: none"> <li>• Tax relief is given at source and reflected in the premium paid by the taxpayer to BUPA, VHI etc</li> </ul>	<ul style="list-style-type: none"> <li>• Employee Pays – No further tax relief due DO NOT INCLUDE ON TAX RETURN</li> <li>• Employer Pays – BIK/Tax credit due INCLUDE ON TAX RETURN</li> </ul>
<p><b>Covenants</b></p> <ul style="list-style-type: none"> <li>• Contract under which one party is legally bound to make payments to another</li> </ul>	<p>Tax relief available where covenant is for 6 years or more</p>
<p><b>Covenants to Minor Children</b></p> <ul style="list-style-type: none"> <li>• Child must be permanently incapacitated</li> <li>• Cannot be taxpayers child</li> </ul>	<ul style="list-style-type: none"> <li>• Tax relief on GROSS payment</li> <li>• 20% tax stopped on payment</li> </ul>
<p><b>Covenants to Adults</b></p> <ul style="list-style-type: none"> <li>• Must be permanently incapacitated adult, or</li> <li>• Adult aged over 65 years</li> </ul>	<ul style="list-style-type: none"> <li>• Tax relief on GROSS payment</li> <li>• 20% tax stopped on payment</li> <li>• Tax relief restricted to 5% of Total Income</li> <li>• 20% tax stopped on payment</li> </ul>

## NON REFUNDABLE TAX CREDITS

<b>One Parent Family Tax Credit</b>	<ul style="list-style-type: none"> <li>• Single or Widowed</li> <li>• Maintaining a <b>qualifying child</b> <ul style="list-style-type: none"> <li>- Under 18 years</li> <li>- Over 18 years, in full time education for at least 2 years</li> <li>- Incapacitated</li> </ul> </li> <li>• Ceases if remarried / cohabiting</li> </ul>
<b>Widowed Parent Tax Credit</b>	<ul style="list-style-type: none"> <li>• Available for 5 years following tax year of bereavement</li> <li>• Allowed in addition to One Parent Family Tax Credit</li> <li>• Maintaining a qualifying child (see One Parent Family Tax Credit)</li> <li>• Ceases if remarried / cohabiting</li> </ul>
<b>Home Carer Credit</b>	<ul style="list-style-type: none"> <li>• Married couple, jointly assessed</li> <li>• One spouse caring for <b>dependant person</b> <ul style="list-style-type: none"> <li>- Child in respect of whom child benefit receivable</li> <li>- Incapacitated individual</li> <li>- Person aged 65 years or over</li> </ul> </li> <li>• Dependant living with the claimants or within 2 km's with direct system of communication</li> <li>• Carers income &lt; €5,080</li> <li>• No relief where carers income &gt; €6,880</li> <li>• Reduced credit where carers income between €5,080 and €6,880</li> </ul>
<b>Age Tax Credit</b>	<ul style="list-style-type: none"> <li>• Available on attaining 65 years of age at <b>any time</b> in tax year</li> <li>• Married persons age credit allowed when either spouse reaches 65 years in the tax year</li> </ul>
<b>Blind Persons Credit</b>	<ul style="list-style-type: none"> <li>• Available where taxpayer or spouse blind</li> <li>• Doubled where both spouses blind</li> </ul>
<b>Employee (PAYE) Tax Credit</b>  Max:  <ul style="list-style-type: none"> <li>• €1,830 (€9,150 x 20%)</li> <li>or</li> <li>• Emoluments x 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Available to employees in receipt of Schedule E income</li> <li>• Not available to a proprietary director (controlling 15% or more of the share capital of a company) or their spouse</li> <li>• Not available to spouse working in their spouses self employed business</li> <li>• Available to the child of a proprietary director/self employed individual where child working full time in parents business and provided Schedule E income exceeds €4,572</li> </ul>
<b>Incapacitated Child Tax Credit</b>	<ul style="list-style-type: none"> <li>• Allowed in respect of each <b>incapacitated child</b> <ul style="list-style-type: none"> <li>- Under 18 years and permanently incapacitated</li> <li>- Over 18 years and incapacitated before age 21 or while in full time education</li> </ul> </li> </ul>
<b>Dependant Relative Tax Credit</b>  <ul style="list-style-type: none"> <li>• Available where maintaining relative at own expense</li> </ul>	<ul style="list-style-type: none"> <li>• Own or spouses incapacitated relative</li> <li>• Own or spouses widowed parent</li> <li>• Dependant relatives income cannot exceed €13,837</li> </ul>

<p><b>Rent Tax Credit</b></p> <p>Available where principle private residential accommodation is rented</p>	<ul style="list-style-type: none"> <li>• Age and marital status dependent</li> <li>• Tax relief is <b>lesser of</b>:   <math>\text{Rent paid} \times 20\%</math>                       Or   <math>\text{Threshold} \times 20\%</math> </li> </ul>
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<p><b>Third Level Fees Tax Credit</b></p> <p>Exam and course registration fees do not qualify for relief</p>	<ul style="list-style-type: none"> <li>• Course must be provided by an approved college</li> <li>• College situated in Ireland or EU member state</li> <li>• Full time or part time undergraduate courses of minimum 2 years</li> <li>• Postgraduate course of &gt; 1 yr but &lt; 4 yrs</li> <li>• Tuition fees only</li> <li>• Tax relief is <b>lesser of</b>:   <math>\text{Fees paid} \times 20\%</math>                       Or   <math>\text{€5,000} \times 20\%</math> </li> </ul>
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<p><b>Service Charges Tax Credit</b></p> <p>Claim for amounts paid to local authorities or private contractors</p> <ul style="list-style-type: none"> <li>- Supply of water</li> <li>- Domestic refuse collection</li> <li>- Domestic sewage disposal</li> </ul>	<ul style="list-style-type: none"> <li>• Relief is given for charges paid on <b>prior year</b> basis</li> <li>• Tax relief is <b>lesser of</b>:   <math>\text{Charges paid} \times 20\%</math>                       Or   <math>\text{€400} \times 20\%</math> </li> </ul>
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<p><b>Trade Union Subs Tax Credit</b></p> <p>€70 tax credit irrespective of subs paid</p>	<ul style="list-style-type: none"> <li>• Available to all taxpayers who are members of a trade union</li> </ul>
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<p><b>Medical Expenses Tax Credit</b></p> <p>Tax relief is:   <math>\text{Expenses paid} \times 20\%</math></p>	<ul style="list-style-type: none"> <li>• Relief available in respect of qualifying unreimbursed medical and non routine dental expenses                     <ul style="list-style-type: none"> <li>- GP Visits</li> <li>- Consultants</li> <li>- Prescriptions</li> <li>- Prescribed physiotherapy</li> <li>- Prescribed medical appliances</li> </ul> </li> <li>• Exclude costs reimbursed by local authorities, VHI/BUPA etc and by way of insurance compensation</li> </ul>
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## 2009 INCOME TAX COMPUTATION

<b>Schedule D</b>	
<b>Case I/II</b>	<ul style="list-style-type: none"> <li>• Self employed tax adjusted profits for 2009               <ul style="list-style-type: none"> <li>- Pension contributions</li> </ul> </li> </ul>
<b>Case III</b>	<ul style="list-style-type: none"> <li>• Gross foreign deposit interest / Credit Union ordinary share account dividends/deposit interest / Irish government securities interest</li> </ul>
<b>Case IV</b>	<ul style="list-style-type: none"> <li>• Gross deposit interest subject to DIRT / Covenant income</li> </ul>
<b>Case V</b>	<ul style="list-style-type: none"> <li>• Net Irish rental income (Gross rental – expenses – interest x 75%) / Do not deduct pre-letting expenses (with exception) or capital expenditure and do not include rental income from rent a room scheme where total &lt; €10,000</li> </ul>
<b>Schedule E</b>	<ul style="list-style-type: none"> <li>• Salary, fees, commissions, bonuses earned, round sum expenses, pensions               <ul style="list-style-type: none"> <li>+ BIK motor vehicles, preferential loans, accommodation</li> <li>- Expenses reimbursed by employees to employer</li> <li>- Employee pension contributions (lesser of amount paid or NRE% x Schedule E income)</li> </ul> </li> </ul>
<b>Schedule F</b>	<ul style="list-style-type: none"> <li>• Gross dividend income from Irish companies</li> </ul>
	<b>= GROSS INCOME</b>
<b>Less: Charges</b>	<ul style="list-style-type: none"> <li>• Covenants (Incapacitated – in full)</li> <li>• Covenants (Adult &gt; 65 years – restrict to 5% Total Income)</li> </ul>
	<b>= NET STATUTORY INCOME</b>
<b>Less: Allowances</b>	<ul style="list-style-type: none"> <li>• Charitable donations (&gt; €250)</li> <li>• Permanent Health Insurance (lesser of amount paid and 10% total income)</li> <li>• Carers Allowance (lesser of amount paid and €50,000)</li> </ul>
	<b>= TAXABLE INCOME</b>
<b>Taxed</b>	<ul style="list-style-type: none"> <li>• Applicable Standard Rate Tax Band x 20%</li> <li>• Gross Case IV Deposit Interest subject to DIRT x 23%/25%</li> <li>• Balance x 41%</li> </ul>
	<b>= TOTAL TAX</b>
<b>Less: NRT Credits</b>	<ul style="list-style-type: none"> <li>• Single / Married / Widowed / One Parent / Home Carer / Age (&gt; 65 claim, double if married) / Blind Person / Employee PAYE (€1,830 or Schedule E x 20%) / Incapacitated Child / Dependant Relative / Rent / Third Level Fees / Service Charges / Trade Union Subs / Medical Expenses / DIRT (&lt; 65 yrs)</li> </ul>
	<b>Total Tax – NRT Credits Can NEVER be Negative or Tax Refund</b>
<b>Less: RT Credits</b>	<ul style="list-style-type: none"> <li>• Schedule E PAYE at source</li> <li>• Schedule F DWT</li> <li>• DIRT (&gt; 65 yrs but income dependent)</li> </ul>
<b>Add: Covenant</b>	<ul style="list-style-type: none"> <li>• 20% Tax on Covenants Paid</li> </ul>
	<b>= TAX LIABILITY 2009</b>
	- Preliminary Tax Paid (Paid 31 October 2009)
	<b>= BALANCE OF TAX DUE / (REFUNDABLE) – 31 October 2010</b>

**SCHEDULE D CASE I/II ALLOWABLE EXPENDITURE**

Expenditure	Comment
<ul style="list-style-type: none"> <li>• Expenditure incurred wholly and exclusively for business purposes</li> <li>• Staff wages</li> <li>• Family wages provided family members are bona fide employees of the trade or profession</li> <li>• Capital asset repair and maintenance costs</li> <li>• Trade subscriptions, journals and magazines</li> <li>• Legal fees – employee related, product liability, warranty claims</li> <li>• Staff lunches and Christmas parties</li> <li>• Staff redundancy costs</li> <li>• Staff courses and training costs</li> <li>• Premises rent and rates</li> <li>• Business element of overheads:               <ul style="list-style-type: none"> <li>- Light and Heat</li> <li>- Telephone</li> <li>- Motor Expenses</li> </ul> </li> <li>• Insurance               <ul style="list-style-type: none"> <li>- Trade premises</li> <li>- Public liability</li> <li>- Vehicles</li> </ul> </li> <li>• Stock losses as a result of theft</li> <li>• Bank interest and charges</li> <li>• Interest charged on business loans (revenue and capital loans) and overdraft facilities</li> <li>• Patent and licensing fees</li> <li>• Pension contributions <b>PAID</b> made in favour of staff</li> <li>• Professional fees – accountancy etc</li> </ul>	<p style="text-align: center; vertical-align: middle;"> <b>ALL ALLOWABLE NO ADJUSTMENTS REQUIRED</b> </p>

**SCHEDULE D CASE I/II DISALLOWED EXPENDITURE**

Expenditure	Comment
<ul style="list-style-type: none"> <li>• Expenditure not wholly and exclusively incurred for business purposes</li> <li>• Depreciation</li> <li>• Sole traders drawings, "wages or salaries"</li> <li>• Capital expenditure</li> <li>• Legal and other professional fees associated with:               <ul style="list-style-type: none"> <li>- the acquisition of capital assets</li> <li>- private transactions</li> <li>- investment properties</li> </ul> </li> <li>• Customer / supplier / potential clients lunches or entertainment</li> <li>• Personal element of business overheads and domestic expenditure:               <ul style="list-style-type: none"> <li>- Light and Heat</li> <li>- Telephone</li> <li>- Motor Expenses</li> </ul> </li> <li>• Private insurances               <ul style="list-style-type: none"> <li>- Home insurance</li> <li>- Investment property insurances</li> <li>- Income protection and life assurance premiums</li> </ul> </li> <li>• Personal Pension Contributions and Employee Contributions <b>ACCRUED</b> but not paid</li> <li>• Sole trader Income Tax payments made to Revenue</li> <li>• Interest and penalties on late payment of taxes AND other fines, penalties etc</li> <li>• Interest on personal loans, credit cards and overdrafts</li> <li>• Capital repayments on bank loans</li> <li>• Political and charitable donations</li> <li>• Personal subscriptions               <ul style="list-style-type: none"> <li>- Gym membership</li> <li>- Golf Club</li> </ul> </li> </ul>	<p><b>DISALLOWED ADJUSTMENTS REQUIRED</b></p>

## Section 7: TEMPLATES

Accountants & Co,  
Any Town  
Any County

Any Client  
Any Business  
Any Town  
Any County

X Month 2009

**Re: (INCOME TAX / PAYE / VAT) QUERIES**

Dear Client,

We refer to our recent meeting (telephone conversation / your recent correspondence) and the various Income Tax / VAT / PAYE queries raised. In this regard we set out our response(s) to follow:

Issue 1 – Discussion etc

**Or**

We refer to our recent meeting at which you requested advice / assistance / guidance on the following matters:

1. Matter 1, and
2. Matter 2

We set out hereunder our preliminary response in relation to each of the above:

1. Matter 1 – Discussion etc

Should you wish to discuss any of the above in greater detail, please do not hesitate to contact us

Yours sincerely

Accountants & Co

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### **Memorandum**

**To:** Any Client  
**From:** Accountants & Co  
**Date:** X Month 2009  
**Re:** VAT / Income Tax / PAYE Queries