Chapter 16

Taxation

Unit 4

Higher Level

Past Exam notes (For this chapter)

TAXATION

These are paid by business to fund -

1. Schools
2. Hospitals and
3. Infrastructure

The revenue Commissioners is the state agency responsible for collecting taxes on behalf of the Government

Taxation Def This is a levy that is paid by business and household to the Government (Revenue). The money that is collected is used to run the country and provide essential services.

Reasons for Taxation

1. **Redistribution of wealth** – Taxation takes money form people in the form of VAT, PAYE, PRSI and USC. This is given to the Government who then divides it out to the less well off in society – for example Social Welfare payments.
2. **Government Revenue** – The money the government receives from taxation is used to run the country, provide essential services and pay back loans they owe.
3. **Discourages use of certain product** – When the Government place extra taxes it will make the product expensive so people will not use it as much – for example sugar tax, levy of plastic bags.

TYPES OF TAX

The following are the taxes that businesses pay -

2020 Question 6 (C)
2017 Short Question 4
2016 Short Question 9
2011 Question 5 (B)

1. Corporation Tax

Corporation Tax is an annual tax on **company's profits.** The corporation tax rate in Ireland is **currently 12.5%,** one of the lowest corporation tax rates worldwide. The tax is calculated based on a company's net profit position. It is seen as a major factor in attracting FDI in Ireland.

Implication for business (evaluation)

1. Corporation tax in Ireland is relatively low by international standards. This encourages Irish entrepreneurs and foreign investors to set up business here. If corporation tax was to increase it could act as a disincentive to FDI.
2. Corporation tax reduces the size of profits and consequently the amount available as retained earnings. This could put pressure on the business to borrow money, leading to high gearing.

2. Value Added Tax (VAT)

This is a tax on **goods and services** paid by both consumers and business/**tax on consumer spending**. The standard rate is 23%. There are various rates of VAT depending on the type of goods and services being sold e.g. 0% (Medicine, Food staples etc.). 9% is a special reduced VAT rate for tourism related activities including restaurants.

3. Capital Gains Tax

This is tax paid on profits earned from the sale or disposal of a business asset such as a premises.

4. Customs Duties

Are taxes levied on imports coming into the country from outside the EU.

5. Commercial Rates

These are taxes that are levied by local authorities on properties used for commercial purposes to help finance local government services.

6. Employer's PRSI

Is levied on firms for every person that they employ. If funds social welfare such as unemployment payments, pensions maternity benefit. It's calculated as a percentage of the employee's gross income

HOW DOES TAXATION AFFECT BUSINESS

The following are ways that taxation can affect a business -

1. <u>Lower Profits</u> Taxes reduce the final profits which in-turn reduce the amount of money that can be reinvest into the business and paid out to shareholders.
2. <u>Higher prices</u> Taxes such as VAT and customs duties increase the selling price of goods thus reducing profits.
3. <u>Human resources</u> High taxation of staff can reduce motivation which may result in them looking of higher wages.
4. <u>Incentives</u> Firms may locate their business in a particular area or country to take advantage of the tax incentives.

WHAT TAXES ARE PAID BY HOUSEHOLD

The following are the taxes that a households can pay -

2020 Question 6 (C)
2019 Short Question 3
2017 Short Question 4
2016 Short Question 9
2015 Short Question 2
2011 Question 5 (B)

1. <u>Pay as you Earn (PAYE)</u>

Income Tax is paid by all employees. All business must deduct PAYE tax form their employee wages before they get paid. It is deducted at source by the employer and passed onto the Revenue Commissioners.

Features of the PAYE tax system included -

Progressive – those who earn more pay more.

Efficient - Business collects the tax for the revenue.

Direct - It is a direct tax on income earned from employment.

<u>Implication for business (evaluation)</u>

1. The collection of PAYE is an administrative cost for business as they are collecting it and sending onto revenue

2. It is a progressive tax because the more income you earn the more tax you pay. High rates of

PAYE are a disincentive for people to do overtime, which affects a business's ability to meet sales orders

2. Self-Assessment Income Tax

This is paid by Sole traders on their incomes. They pay the same tax rates as PAYE tax payers but collection is different. Every year self-employed people must calculate their own tax liability. Random spots checks are carried out by the revenue commissioner to ensure that the correct payment is made.

A tax audit Def is a detailed examination by the revenue commissioner of a taxpayers financial Records

3. PRSI (Pay Related Social Insurance)

This is a compulsory insurance payment by employees to the state. It is calculated as a percentage of gross income

4. Universal Social Charge (USC)

This is a tax on gross income and is paid regardless of whether they pay income tax under the PAYE system or self-assessment income. IT is a progressive tax as the more you earn the more you pay

5. Value Added Tax (VAT)

VAT is an indirect tax charged on the sale of goods and services. Businesses register for VAT and receive a VAT number. VAT is remitted by the business every two months to the revenue commissioners. The VAT paid is the difference between the VAT paid on purchases and collected from sales. VAT is charged at different rates, depending on the type of goods or services involved.

Implication for business (evaluation)

1. The collection of VAT is a significant administrative cost for business.
2. High rates of VAT on raw materials and components increase the costs of production for business affecting margins and cash flows.
3. High rates of VAT increase the purchase price for consumers. This reduces the demand for goods and services of business.

6. Excise Duties

These are taxes that are added to the price of certain goods such as alcohol tobacco petrol.

7. Customs Duties

The are taxes on imports coming into the country from outside the EU.

8. Motor Tax

This is a tax that must be paid annually on all roadworthy vehicles and is collected by local Authorities

9. Capital Gain Tax (CGT)

This is a tax paid on profits from the sale of a fixed asset (Property/Shares). It doesn't apply to the sale of a private home, life assurance payments and lottery prizes.

10. Capital Acquisition Tax (CAT)

This is paid by those receiving money or assets as a gift or inheritance. Different rates apply but generally, the more you receive (about a certain level) the more you pay.

11. DIRT (Deposit Interest Retention Tax)

This is automatically deducted from all interest paid on bank and building society accounts and passed onto the revenue commissioner.

HOW DOES A PAYE INCOME TAX SYSTEM WORK

Every employee must pay tax on their wages under the PAYE System. Under this system there are 2 rates -

2012 Short Question 3

1. *Standard rate cut off point* A tax on all earning under a certain amount (e.g 20% tax on all income up to 20,000) (SRCOP)
2. *Top/Higher rate of tax* Applies to all income above the standard rate cut off point (e.g 41% on all income above 20,000)

The PAYE paid varies form employee to employee and will depend on it they are married, a home career. These are known as tax credit and reduce the amount of tax that is paid.
Under the tax credit system, a taxpayer is entitled to tax credits/range of allowances depending on their personal circumstances, which can change from year to year e.g. married person's tax credit or civil partner's tax credit, employee (PAYE) tax credit. These tax credits are used to reduce tax liability calculated on gross pay. Tax credits are nonrefundable.

1. Tax Credits

Tax rates: Income is taxed at two different rates. The rate at which tax is paid depends on the level of taxable income. The current tax rates are the standard rate of 20% up to a certain income and the higher rate of 41%. The standard or lower rate of 20% applies to the tax band of €32,800 and the higher rate 41% applies to the balance of taxable income.

Tax credits: Gross Tax less Tax Credits = Tax Payable.

2. Notice of credits

This is a document setting out the tax credits to which a taxpayer is entitle to and also the standard rate of cut of point that they are entitled to. A copy of this is sent to the employee and employer (to make sure they are deducting the correct amount) each year.

Before commencing work an employee should register Revenue online using their PPSN (Personal Public Service Number). They will have to create an account and give details of their Employer. Revenue will then calculate the employees tax band and credits and the employer will use these to make sure the correct tax is being paid. If this is not completed on time the employee will pay emergency tax until they receive them.

During their employment an employee can check Revenue online to make sure they are paying the correct tax and they can make a claim at the end of the year if they have paid too much tax. This is importance if the employee has paid emergency tax.

When the employee is leaving the job, they will till revenue their leaving date – and start again with a new employer using the same tax band and credits or use if to collect social welfare

2018 Question 6 (C)
2013 Question 5 (A)
2010 Short Question 10

NOTE - Remember you can also be asked to calculate the take home pay of an employee.

COMPARISONS OF HOUSEHOLD AND BUSINESS TAXATION

The following are the similarities and Differences of taxation between a household and a business

The Similarities include -

1. Liable - Both must pay tax and register with the tax office.

2. Records - Both must keep records in order and make sure the correct payments are made or Revenue and that they are made on time.

The Differences include -

1. Amount of tax payable - Business will pay larger amount of tax because they are bigger, Managers will have to factor this into their planning and cashflow forecasts.

2. Types of tax Payable - Business will have to pay a greater range of tax – Corporation tax. Authority rate. Households don't have to pay these.

3. Tax refund and write offs - Business can write off legitimate expenses against their profits which can reduce their overall tax liability. Business can also reclaim certain taxes from VAT, unlike households.

4. Tax Collections - Business must collect taxes such PAYE Income tax from their employees and VAT from Customers. They then send these onto Revenue.

Chapter 16

Taxation

Unit 4

Higher Level

Past Exam Questions

(For this chapter)

SHORT QUESTION

2020 – Question 4

Circle the correct option in the case of each of the following statements.

(i) The profit from the sale of an asset is subject to capital acquisitions tax / capital gains tax.

(ii) The Universal Social Charge (USC) is an example of a progressive / regressive tax.

(iii) Tax credits increase / reduce the amount of PAYE paid by an employee.

(iv) Value Added Tax (VAT) is an example of a direct tax / an indirect tax.

(v) A holiday voucher worth €3,000 given as a benefit-in-kind is / is not treated as taxable income.

2019 – Question 3

In the context of business, what do the following letters stand for

PAYE	
USC	
PRSI	
DIRT	
CGT	

2015 – Question 4

Write true of false after each of these statements -

	Sentences	True or False
1	Custom duty is a tax on goods imported from outside the EU	
2	Corporation tax is applied to profits made by every business in Ireland	
3	A p45 is given to employees when their employment is terminated	
4	The existence of Tax Credits reduces the amount of Universal Social Charge to be paid	

5	Capital Acquisition Tax is a tax on the profits made on the sale of assets	

2016 – Question 9

Distinguish between VAT and Cooperation tax.

2015 – Question 2

What do the letters PAYE stand for? Write the answer in the space provided.

PAYE	

Outline two main features of the PAYE tax system.

(i)
(ii)

2012 – Question 3

Explain the Difference between the terms tax rates and tax credits.

2010 – Question 10

From the following figures calculate the net pay of Hazel Dunne.

Gross pay €50,000, Tax Credits, €6,000

Standard Tax Rate 20%

Higher Rate 41%

Cut off point €36,400.

Workings

2004 – Question 3

Illustrate your understanding of the term 'Taxation Credit'.

LONG QUESTION

2022 – Question 6

The increase in numbers of employees now working remotely from home has changed the traditional office beyond recognition. The role of the Human Resource (HR) Manager has never been more important.

(C) Compare the similarities and differences for business and household in relation to taxation. Use any three of the following headings to structure your answer.

Corporation Tax PAYE Capital Gains Tax Local Property Tax (LPT)

(20)

2018 – Question 6

Read the information supplied and answer the question which follows –

Ben Caffery is a manager at fun to go holidays Ltd and earns a gross annual salary of €55,000. His employer provides him with a holiday voucher worth €5,000. This is treated as income for tax purposes and is taxed accordingly.

Ben's tax information is shown in the following table.

PAYE		
20% on the first €34,550	40% on the balancing of his gross income	
Tax credits		
Single person €1,650	PAYE €1,650	Dependent Relative €70
USC		
.05% on the first €12,012	2% on the next €7,360	4.75% on the balancing of his gross income
PRSI		
Ben pays employee PRSI at 4%of his gross income		

Calculate each of the following (show your working)

(i) The PAYE which Ben has to Pay (ii) the total amount of PRSI

(iii) The total amount of USC (iv) Ben's net annual take home pay

(20)

2013 – Question 6

Audrey Stapleton is an employee at BAT Resources Ltd and earns a gross annual salary of €78,000. Her employer provides her with a holiday voucher worth €2,000. This is treated as a benefit-in-kind for tax purposes and is taxed accordingly. The standard rate band for a single taxpayer is €32,800. (This means that the first €32,800 is taxed at the 20% standard tax rate, and the remainder is taxed at the higher tax rate of 41%.) Audrey has the following tax credits: Single Person Tax Credit €1,650, PAYE Tax Credit €1,650 and Rent Tax Credit €320. The Universal Social Charge (USC) rates on Audrey's gross income are 2% on the first €10,036, 4% on the next €5,980 and 7% on the balance of her gross income. Audrey pays employee PRSI at 4% of her gross income.

(A) Calculate Audrey Stapleton's net monthly take home pay (20)

2011 – Question 5

(B) Pay As You Earn (PAYE), Value Added Tax (VAT) and Corporation Tax are example of taxes relevant to a business

(i) Explain each of the underline words

(ii) Evaluate the implications of each tax for a business (25)