

# It is that taxing time of year again

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The deadline for tax returns is October 31st, or November 16th if you do it online

YES, IT'S that time of year again. With less than a month to go until the deadline of October 31st, if you are one of the 500,000 people who need to file a tax return, you had better get busy.

With taxpayers typically leaving it until the last minute - by the end of August a little over a fifth of returns had been filed - the rush to get returns in before the paper filing deadline of October 31st, or online deadline of November 16th, has started.

While most of the changes announced in the two budgets for this year, such as the introduction of the income levy, won't come into play until next year, this is the last year that taxpayers can avail of tax relief on pension contributions up to €275,239, while they should also include any losses they may have incurred on Anglo Irish Bank shares in their return.

## Who needs to file a tax return?

Self-assessment is largely associated with people who are self-employed or are company directors. However, the range of people who are obliged to file tax returns, or a form 11, each October is actually much wider than this. If you received income from an investment property, had investment income, foreign income or a foreign pension, paid tuition fees or earned profit by exercising various share options/share incentives, then you too must file a tax return.

Moreover, if you are separated and receiving maintenance payments, you must file a tax return to pay tax due if you are not receiving income through the PAYE system. Alternatively, if you are making the payments, you are entitled to a tax deduction.

## How will the latest budget changes affect my return?

As most of the Budget changes relate to income earned in 2009, you will not need to apply them for this year's return.

However, when making your preliminary tax payment for 2009, you may need to include the income levy. For the self-employed paying tax at the marginal rate, the tax rate is just 45 per cent for this year's returns. However, when all the new levies are factored in, the rate will rise to 54 per cent for income earned in 2009.

You have three options in calculating your preliminary tax:

- 1) pay 90 per cent of your final liability for the current tax year;
- 2) 100 per cent of your final liability to tax for the immediately previous year;
- 3) 105 per cent of your final liability for the year preceding the immediately previous year.

As paying 105 per cent of your 2007 liability will not be subject to the levy, Ciarán Medlar, a partner with BDO Simpson Xavier, recommends that people consider this approach, as it will mean a lower cash flow cost. However, he adds that as it must be done on a direct debit basis, it must be done quickly.

### **Are there any changes to a rental income return?**

If you own more than one property and you have just submitted your non-principal private residence (NPPR) charge of €200, next on your agenda will be filing a tax return for any income earned on the property.

While this year's budget has reduced the proportion of mortgage interest relief which can be used to offset your tax bill, from 100 per cent down to 75 per cent, effective as of April 7th, for the purposes of this year's return, you can still claim relief on 100 per cent of interest paid to service the mortgage on the property.

For next year's return, Brendan Allen, managing partner of Allen Morrissey & Co, notes that the restriction on interest relief only applies to the purchase of property, so if you have borrowed money to repair or renovate your property, you will still be able to claim the full 100 per cent relief on this.

In addition to mortgage interest relief, investors can also avail of a number of other allowable reductions to reduce their tax liabilities, including the cost of rates, maintenance, legal expenses in drawing up leases and advertising for tenants.

Investors can also claim an allowance of 12.5 per cent for furniture, fittings and equipment supplied by them to the property. While strictly speaking, registration with the Private Residential Tenancies Board is not an allowable deduction, Allen advises that by concession, the Revenue is allowing it, which means that each time you register a new tenant at the cost of €70, you can claim against it.

If you have recently turned the property into an investment, and originally claimed first-time buyer relief on it, you may also be obliged to pay stamp duty, if you purchased the property less than two years ago. If your rental investment has made a loss this year, as has happened to so many people, these losses can be claimed and carried forward against future Irish rental profits. But you should note that these losses cannot be set against other income from PAYE or overseas rentals.

### **How should I account for a capital gain/loss?**

If you disposed of an asset such as a house, which isn't your main residence, or shares, over the past year and made a gain on the transaction, then you will be liable for capital gains tax (CGT). For disposals made from midnight on April 7th, the rate has increased to 25 per cent. For transactions prior to this date, the rate is 22 per cent.

This year the periods for payment of the tax have changed. If the asset was disposed before November 30th, then the tax will be due by December 15th in that tax year, while if it is sold in December, it must be settled by the end of January in the following tax year.

As there are many reliefs and exemptions available to reduce your CGT liability, you should examine this carefully, or take advice, before submitting your payment. For example, the first €1,270 of taxable gains by an individual in a tax year is exempt, while there is also retirement and indexation relief. CGT is not payable on Irish Government securities, such as prize bonds, savings certificates and bonuses payable under the National Instalment Savings Scheme.

If, on the other hand, you made a capital loss during the year, for example on Anglo Irish Bank shares or on an investment property, then this capital loss may be set against chargeable gains of the same year of assessment.

For example, if you spent €10,000 buying shares in Anglo three years ago, you can claim a "negligible value" loss on this amount and set it against any gains you may have made this year, or you can carry the loss forward and set it against future gains.

If, following the appointment of an assessor to Anglo Irish Bank, some value is attributed to Anglo Irish Bank's shares and the loss has already been used, then this gain will be fully chargeable to CGT. So, if you use up the loss, and you end up receiving €5,000 back on your shares, then this amount will be subject to CGT.

Allen urges people to be sure to make a return in order to offset any losses against capital gains. "There is a tendency if you've made a loss not to make a tax return, but if you don't get it in, you will lose that loss," he says.

### **Should I file even if I don't have to?**

While you aren't obliged to submit a tax return if all your income comes through the PAYE system and you're not a company director or you don't have a capital gain/loss to declare, you can do so in order to ensure that you are availing of all tax credits, reliefs and exemptions that you are entitled to, such as medical expenses, service charges, rent relief, medical insurance premiums and trade union subscriptions. As Allen says, "you should claim for everything".

Remember that this is the last year that medical expenses can be claimed at the higher rate of 41 per cent, as from 2009 on, relief will only be available at the standard rate of tax of 20 per cent for medical expenses.

Moreover, you could also consider submitting a P21, or balancing statement, for the past four years to double check that you paid the right amount of tax. In general, the majority of people come out having paid more tax than was necessary.

If you have been made redundant and received a redundancy payment, Mairéad O'Grady, a taxation partner with Russell Brennan Keane, says that further relief might be available on this payment, to ensure that the tax paid was not at a higher rate than an average of the last few years. If you are considering re-investing this lump sum by setting up a new business, she adds that further tax relief might be available in the form of seed capital relief, which enables you to claim a tax deduction of the invested amount and get a tax refund over the previous six years.

### **Do I need an accountant?**

Up to three-quarters of people appoint an accountant to submit their tax returns. Doing so will cost you anything from €500 plus, but may be a wise investment if they can reduce your tax liability. Alternatively, depending on the complexity of your return, you may not need to. If you have just one investment property or your income is largely PAYE derived, you may be able to do it yourself,

If you're looking for some extra advice, [www.paylesstax.ie](http://www.paylesstax.ie) offers online tax calculators and advice for an annual fee. Moreover, in conjunction with The Irish Times, it is running a series of free seminars which cover the completion of self assessment tax returns. The next session is planned for tomorrow, October 3rd.

### **What if I'm late?**

The deadline for tax returns is October 31st, or November 16th if you do it online. If your tax return is submitted late, you will be liable to a surcharge for late submission. If you get your return in within two months of the filing date, then you will be liable for 5 per cent of the tax up to a maximum of €12,695. After this date, the penalty goes up to 10 per cent of the tax up to a

maximum of €3,485. So, if you owe the Revenue €25,000 in tax, if you leave it until after the deadline to file your return you will be fined €1,250, or €2,500 if you leave it more than two months.

Moreover, if you fail to pay preliminary tax and are liable to pay it, you will be liable to interest at just under 10 per cent per annum.

### **How can I reduce my bill?**

One way to reduce your bill is to take advantage of the current relief given on pensions. At present, relief is given at your rate of tax, so if you're paying tax at the higher rate, you can reduce your tax by putting money into your pension. And, when PRSI and the income levies are factored in, the relief is even greater. Given that the Commission on Taxation has recommended a significant reduction on this relief for higher earners, it may be the last year that you can get full benefit.

Moreover, the Government cut the annual earnings limit for pension tax relief purposes from €75,239 to €50,000 in the last Budget. As such, Medlar warns that this year's return will be the last time you can get relief on the higher amount, so is urging tax payers to put the maximum amount into their pension if they have the money.

If you have paid fees for a third-level course, for either yourself or someone else, you can claim tax relief on these fees by submitting your tax return. Relief is available at the standard rate of income tax, 20 per cent, and there is a cap on the amount of relief that may be claimed. For the academic years 2008/ 2009 and 2009/2010, the maximum that can be claimed is €5,000. To qualify for the relief, courses must be carried out in an approved college (for a list of approved colleges see: [www.revenue.ie](http://www.revenue.ie)), while undergraduate courses should take at least two years, and a post-graduate course at least one year.

Other options include the BES scheme, which allows you to buy shares in a firm and get 41 per cent tax back on the investment, if you are a higher rate tax-payer. So, if you invest €100,000 in a BES scheme, it will only cost you €59,000.

O'Grady also recommends that to minimise the amount of tax you pay at the higher rate, you should look at transferring some income-generating assets to low- or no-income persons such as your spouse or children, or arrange for some income to be reflected in their names.

In addition, you can also see if you can receive any tax-exempt income, such as certain leases of farmland, renting out a room in your house, certain childminding, artistic income and interest from certain saving certificates or bonds.

## **FILING YOUR TAX RETURN**

### **How do I submit my form?**

FILING TAX returns online is the most popular method of doing so, as it entitles the filer to two extra weeks of credit.

Last year, more than 300,000 returns were filed online.

If you wish to start filing online, you will need to register for ROS beforehand, a three-stage process that can take some time, as you will need to receive passwords separately by post.

According to the Revenue, the process is currently taking eight days.

If you are already a customer, but cannot find your passwords, you can request ROS to reissue your password by clicking on the "forgotten your password" link on the ROS log-in page and following the instructions.

Your password will be sent by post to your registered address within three working days.

For those submitting form 11 via the post and who want the Revenue to assist in calculating your tax liability, it is recommended that you do so at least two months in advance, so if you haven't already done this, it might be too late.

### **What happens next?**

ONCE YOU file your return through ROS, you will immediately receive an acknowledgement of receipt and you will also get an immediate and accurate calculation of your tax liability.

You will receive a Notice of Assessment, which shows your total tax liability, within a few days.

If you have filed a paper return, you will also receive your assessment, but it will take longer, particularly if you have left it late in the tax year.

### **Can I appeal my tax bill?**

IF YOU wish to appeal your assessment, you can do so by writing to your tax inspector within 30 days from the date on the notice of assessment.

When making your appeal, you must identify the specific matter with which you do not agree and you must have paid the amount of tax not in dispute.

If you and your inspector fail to resolve the matter, you can appeal to the Appeal Commissioners and, if necessary, you can take your appeal further to the courts.

### **By when do I have to pay?**

TAX IS paid in a lump sum on October 31st, if paper filing, or on November 16th if filing online.

If you are unable to pay your bill in full this year – given the difficulty in borrowing money – it might be possible to put in place an instalment arrangement with the Revenue.

However, the Association of Chartered Certified Accountants is warning that if you find yourself in this position, you will need to file before the initial deadline, October 31st, as the Revenue wants an instalment plan to be agreed and in place by this time.

The association also warns that while the Revenue is amenable to an instalment plan, usually over 12 months, for a first-time offender, if it is your second or subsequent time, it is looking less kindly on such an option.

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