

# **taxmagic 2018**

**ALAN MOORE**

THE SUNDAY BUSINESS POST



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# Contents

<b>Chapter 1 Tax basics .....</b>	<b>7</b>
The Irish tax system .....	7
<b>Chapter 2 Income tax.....</b>	<b>11</b>
Persons liable to income tax.....	11
Residence.....	12
Domicile.....	12
Ordinary residence .....	15
Non-residents .....	16
Case study: Arabian nights.....	17
Summary of residence, ordinary residence and domicile.....	18
Computing your income tax.....	19
Income tax computation for the tax year 2018 .....	21
Case study: Pension at the point of retirement.....	31
Case study: drive time .....	40
Case study: Losses have their uses.....	58
<b>Chapter 3 PRSI.....</b>	<b>83</b>
The PRSI system.....	.83
Employed contributors.....	.84
Self-employed contributors.....	.89
Universal social charge (USC) .....	.91
<b>Chapter 4 Capital gains tax.....</b>	<b>92</b>
Persons liable to capital gains tax .....	.92
Residence, ordinary residence, and domicile.....	.94
Case study: CGT holiday.....	.95
Case study: Hidden CGT problem.....	.95
Married couples.....	.96
Computing your CGT.....	.97
Case study: development land .....	.105
<b>Chapter 5 Corporation tax .....</b>	<b>111</b>
Persons liable to corporation tax.....	111
Company residence.....	112
Incorporating a business.....	114
Case study: income-splitting.....	121
Case study: love Ulster.....	121
Case study: PPR.....	122
Computing your corporation tax .....	122
Sale and purchase of a business carried on by a company.....	140
<b>Chapter 6 Value-added tax (VAT).....</b>	<b>145</b>
Persons who must register for VAT .....	145
VAT rates.....	150
VAT on property transactions.....	156
Computing VAT liability .....	157
Case study: trapped VAT .....	161

<b>Chapter 7 Capital acquisitions tax .....</b>	<b>162</b>
Capital acquisitions tax.....	162
Persons liable to capital acquisitions tax.....	164
Computing CAT liability .....	164
CAT planning .....	179
Case study: giving it all away .....	180
Case study: giving it all away II .....	180
Case study: tax-free gift.....	180
Case study: Domicile and CAT .....	181
<b>Chapter 8 Stamp duties .....</b>	<b>183</b>
Documents and transactions liable to stamp duties .....	183
Computing your stamp duty.....	184
<b>Chapter 9 Farmers.....</b>	<b>191</b>
Tax planning for farmers.....	191
Income tax.....	192
Corporation tax.....	195
Capital gains tax .....	196
VAT .....	197
Capital acquisitions tax .....	198
Stamp duties .....	199
<b>Chapter 10 Charities.....</b>	<b>200</b>
Regulation of charities.....	200
Charitable purposes .....	201
Acquiring charitable exemption .....	202
<b>Chapter 11 Marriage breakdown .....</b>	<b>205</b>
General issues.....	205
Tax consequences of marital breakdown .....	206
<b>Chapter 12 The inspector calls.....</b>	<b>208</b>
Proper records.....	208
Revenue powers.....	209
Revenue audit .....	213
Case study: The 1993 Act hasn't gone away .....	222
<b>Chapter 13 Wealth magic .....</b>	<b>224</b>
Reality check .....	224
Financial plan .....	230
Wealth creation.....	231
Risk management.....	233
Estate planning.....	235
<b>Chapter 14 The tax magic formula .....</b>	<b>238</b>
Tax planning .....	238
The tax magic formula .....	240
<b>Chapter 15 Pensions .....</b>	<b>246</b>
Personal pension plans .....	246
Personal Retirement Savings Account.....	250
Company pension schemes .....	254
Tax treatment of contributions and benefits.....	260
Retirement options .....	265
<b>Index .....</b>	<b>270</b>

# Chapter 1 Tax basics



" If you've a problem, see the Inspector. His door is always open."

## IN A NUTSHELL

The simplest way to avoid tax is to live off your capital or borrowings, and if you must pay tax, pay capital gains tax (33%) rather than income tax (40%), PRSI (4% for self-employed) and universal social charge (up to 10%).

## The Irish tax system

The Irish government imposes a wide range of taxes to pay for its day-to-day expenditure.

### 1.01 Income tax rates

The tax year 2018 runs from 1 January 2018 until 31 December 2018. The following rates and rate bands apply for 2018:

**Exempt.** Income below:

**€18,000** (individual aged 65 or over),

**€36,000** (married couple, one of whom is aged 65 or over).

This exemption limit increases by €575 for your first child, €575 for your second child, and €830 for each subsequent child.

**20%** (standard rate). This applies to earnings of up to:

**€34,550** (individual),

**€38,550** (one-parent family), and

**€43,550** (married couple) – in the case of a dual income couple, this €43,550 band may be increased by the lower income, or €25,550, whichever is lower.

The standard rate also applies to income earned by an unincorporated body (a club or society), a trustee or personal representative.

**40%** (higher rate). This applies to on income you earn in excess of the standard rate band.

### 1.02 PRSI rates

Employees: You are liable to PRSI as follows:

**Exempt**: Earnings of up to €352 per week (€18,304 per annum).

**4%**: Above €352 per week all earnings.

Self-employed: you are liable at **4%** on all earnings. You must make a minimum contribution of €500 per year.

Employers:

**8.5%**: Earnings of up to €376 per week (€18,512 per annum).

**10.75%**: Earnings above €376 per week.

### 1.03 Universal social charge (USC)

Whether employed or self-employed, you are liable to universal social charge as follows:

**Exempt**: Income below €12,012.

**0.5%**: The first €12,012 of earnings.

**2%**: The next €7,360 of earnings.

**4.75%**: The next €50,672 of earnings.

**8%**: Remainder. The rate is 11% in respect of non-employment income in excess of €100,000 (reduced to 8% if the earner is aged 70 or over).

A **5%** USC charge applies to income sheltered by area-based property incentives (accelerated capital allowances and “section 23” reliefs).

The **3%** rate applies if you are:

(a) aged 70 or over, or

(b) a medical card holder aged under 70,

with income less than €60,000.

### 1.04 Capital gains tax rates

You are liable at **33%** on the gain you realise when you sell or dispose of an asset (for example, a house or shares). You are allowed indexation relief (to remove the element of a gain attributable to inflation), but only up to 2003.

You may be liable at 40% in certain rare cases, involving disposal of an interest in an offshore fund located in a country outside the EU and the EEA, with which Ireland does not have a tax treaty.

A special rate of 10% applies if you sell a business, or shares in a business (see Entrepreneur Relief in Chapter 4).

The first €1,270 of gains in a tax year are exempt.

### 1.05 Corporation tax

Trading income is taxed at **12.5%**. Foreign dividends derived from trading income are also taxed at 12.5% (previously 25%).

In the case of a company that commences trade and is not taking over any other trade, up to €40,000 of corporation tax can be relieved for each of the first three years of trading, but the relief is linked to the amount of employer PRSI paid, subject to a maximum of

€5,000 per employee. The relief does not apply to trades carried on by associated companies.

Non-trading income (for example, interest, income from foreign property, miscellaneous income and rental income) is taxed at **25%** (the higher rate).

A company that does not distribute its investment and estate income within 18 months of the end of its accounting period, is liable to a **20%** surcharge on half of the amount not distributed.

A service company that does not distribute its income within 18 months of the end of its accounting period is liable to a **15%** surcharge on half of the undistributed service income. This means the effective surcharge is **7.5%**.

Company chargeable gains are taxed at **33%**.

## **1.06 VAT rates**

VAT applies to almost all goods and services provided within Ireland. The rate depends on the goods or services in question:

- 0%** (zero rate),
- 4.8%** (agricultural “livestock” rate),
- 13.5%** (low rate), but **9%** for certain services,
- 23%** (standard rate).

The following activities are exempt from VAT: financial services, vocational education, professional medical and dental services, dental technician services, hospital or nursing home care, non-profit childcare, welfare type services, admission to live theatre, concert and circus shows, travel agents, insurance agents, insurance, passenger transport, betting, lotteries, admission to sports events, funeral undertaking.

## **1.07 Capital acquisitions tax rates**

Gift and inheritances: If you receive a gift or inheritance, you are liable at **33%** on the balance in excess of the threshold amount. The group threshold depends on your relationship with the donor (or deceased where you inherit property):

- (a) **€310,000** (Group 1), where your relationship to the disposer is: son or daughter, minor child of a predeceased son or daughter, parent (in the case of a non-limited interest taken on the death of a child). Child includes a foster child and an adopted child.
- (b) **€32,500** (Group 2), where your relationship to the disposer is: lineal ancestor, lineal descendant (not within (a)), brother or sister, nephew or niece.
- (c) **€16,250** (Group 3), where your relationship to the disposer is: cousin or stranger.

Asset passing into a discretionary trust, are subject to a once-off **6%** tax, and **1%** annually thereafter.

## **1.08 Stamp duties - rates**

The rates of stamp duty are:

- (a) non-residential property, at **6%**,
- (b) residential property, at
  - (i) **1%** on the first €1,000,000 of consideration, and at
  - (ii) **2%** on the remainder.

When you acquire a leasehold interest in property, you pay stamp duty on both the rent and the premium.

## **Chapter 1: The Irish tax system**

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**Premium:** You pay the same duty as would apply to a transfer of land or buildings, i.e., 2%.

**Rent:** If the lease is for an indefinite term, or for less than 35 years, the rate of duty is **1%** of the average annual rent. But if the lease relates to a house or apartment, and the annual rent is less than €30,000, the lease is exempt.

If the lease is for a term between 35 and 100 years, you pay duty at **6%** of the average annual rent.

If the lease is for a term exceeding 100 years, you pay duty at **12%** of the average annual rent (Schedule 1).

In brief, the government, through a system of triple taxation, ensures that it takes a percentage of your money when you earn it or realise it (direct taxes on income and gains), when you spend it (indirect taxes), when you buy property, and when you die (capital taxes).