
1.4

Managing Resources

Key Personal Taxes

Learning Outcome Notes

LO 1.4 - Explain key personal taxes and charges and suggest the occasions when and why they might arise

CHAPTER QUESTIONS

By the end of this learning outcome you should be able to do the following

1. Describe the role that taxation plays in our economy.
2. Explain the different household and personal taxes in Ireland.
3. Understand the impact that taxation has on the household and individuals.
4. Calculate a tax liability (1.11)

WHAT ARE TAXES

Tax ^{Def} This is a compulsory payment to Government. It is charged on income, business profits or added to the cost of goods and services.

The state agency responsible for collecting tax is the Office for Revenue and Commission. The business will deduct it from an employee's pay and sends it to the Office for Revenue Commission. This money is used by the Government to pay their expense and run country.

WHY PAY TAXES

1. Government uses the income to fund essential public services. For example, Health, Education, Transport
2. The Government uses the tax to distribute wealth within a economy.
3. The government uses the tax to promote or discourage certain activities. For example, lower tax to increase consumer spending and job creation but if they higher tax on cigarettes people may not smoke.

If the Government want to increase the level or range of service, they may need to increase the tax that is already there or introduce a new tax. High tax means that people have less money to spend. The level of taxation will depend on the money the government available. What they think is important and how willing the people to pay.

Tax Liability ^{Def} This means that a certain amount of money must be paid to the Government. It is the responsibility of each person to make sure that they pay the correct tax.

Without this income Government will not be able to fund public service. This will have impact on people who have a low income. As you get older your income and expenditure will change so too will the amount of tax that you pay. This will affect your future financial planning.

Tax Avoidance ^{Def} This is a legal way of reducing the amount of tax that you must pay. For example, you can claim tax credits which will reduce your tax bill.

Tax Evasion ^{Def} This is illegal and usually happens when people fail to declare some or all their tax. Those found guilty will pay interest and penalties or may go to jail.

COMMON HOUSEHOLD AND PERSONAL TAXES

The following are some of the taxes that household pay

PAYE ^{Def} This is known as Pay As You Earn and is paid by employees on their wages, salaries, BIK, bonus or overtime. The employer will deduct this before paying the employee and send it to Revenue. Worker on an income may be exempt for paying PAYE

Self-Assessment Income Tax ^{Def} This is tax that is paid by self-employed. The person calculates how much tax they have to pay and send it to Revenue. To make sure they are paying the correct tax Revenue will conduct regular Tax Audits.

Tax Audits ^{Def} This is when revenue check that a business is paying the correct tax. They do this by looking the business accounts.

Universal Social Charge ^{Def} This is also known as USC. It is paid on income over a certain level. It is paid at different level, and it is an extra tax on top of PAYE.

Value Added Tax ^{Def} This is also known as VAT and is a tax on goods and services. VAT is usually included in the price of the product or service. The rate of tax at present in Ireland is 23%. Some items are exempted from tax - for example Children's clothing.

Custom Duties ^{Def} This is a tax on goods from outside the EU.

Excise Duties ^{Def} This is a tax that is levied on certain goods. For example, petrol, heating oil, natural gas, Alcohol

Local Property Tax	Def This is a tax that is paid on property. The tax paid depend on the value of the house. This is a self-assessment tax, so the homeowner calculates how much they pay.
Stamp Duty	Def This is a tax on certain documents. It is usually associated with the purchase of property. It is also charged of Debit, Credit and ATM cards (Government Stamp Duty)
Motor Tax	Def Tis a compulsory tax for all owners of motor vehicles. It is calculated on an annual basis and paid to the local County Council.
Vehicle Registration Tax	Def This is also known as VRT. It is paid on cars that are purchases outside on the country.
Deposit Interest Retention Tax	Def This is a tax that is paid on the interest earned on savings. IT is deducted by the bank and sent off to Revenue.
Capital Gains Tax	Def This is a tax on profits earned from the sale of assets and investments. It doesn't include the main residence. The tax is on the profit they make form the sale and not the full price.
Capital	Def T This is the wealth in the form of money.
Capital Acquisition Tax	Def This is tax that is paid on gifts and inheritance. This is when something if left to a person following the death of someone. The tax is only paid when the value is above a certain amount.

TYPES OF TAX

There are tow types of tax. These are

1. direct Tax and
2. Indirect tax

1. Direct Tax

This is tax that is put (Levied) on income as it is earned - it is deducted as source. This means that the tax is calculated, collected and sent to revenue by the person who is paying the income rather than the person who has earned it. For example, DIRT (calculated, collected and sent to revenue by the Bank) PAYE (calculated, collected and sent to revenue by the business)

2. Indirect Tax

These are taxes that are put (Levied) as money is spent on goods and services. For example, VAT, Excise Duty and Custom Duty.

Indirect tax is the same for all no matter how much you earn. This can put pressure of low income because this tax takes a greater proportion of their income that someone who has high income.

Regressive Tax

^{Def} This tax that is paid the same by all no matter how much their income is.

Progressive Tax

^{Def} This is a system where people earning a higher income pay a higher tax

IMPACT OF TAX ON HOUSEHOLD AND INDIVIDUALS

1. Cost of living will rise.
2. households will have less disposable income.
3. Households will have less to invest.
4. Household cashflow will be affected by having less net cash.
5. Government will be receiving less tax this means that there is less money to distributed to the public

If taxes were to be abolished (Gotten rid of) households would have more disposable income but will probably have to pay for service that are free

GETTING STARTED WITH INCOME TAX

1. When you start a new job, the employer will need you PPSN to send to Revenue to inform them that you as starting employment with them.
2. Once you have you PPSN you will have to register with revenue to make sure you are paying the correct tax
3. Once your registration is completed Revenue will see you a certificate of tax credit and standard rate cut off point.
4. If you don't register with revenue, you will pay emergency tax on your income which in about 50%

Tax Rate ^{Def} This is a percentage of tax that is levied on your income. There are 2 rates -
1. Standard rate of 20% and a higher rate of 40%

Standard Rate Cut Off Point ^{Def} This is also known as SRCOP. This is a document that is sent
by revenue that show how much will be taxed at the standard
rate cut off point and how much will be taxed at the higher rate
cut off point.

Tax Credit ^{Def} This is the amount by which your tax bill will be reduce by. Your Tax credit
are sent by revenue and are different depending on the person circumstances

Gross Pay ^{Def} This is the amount of pay before any deductions.

Net Pay ^{Def} This is Gross Pay less any Deductions. It is also known as Take home pay

Deductions ^{Def} These are l lth payments that are taken away from gross pay. It included
Statutory Deduction - these must be paid and are sent to Revenue (PAYE, PRSI
and USC) and Voluntary Deduction - these are deduction that the employee
chooses (VHI, Savings, Pension)

Have a look at the videos for learning outcome 1.4 on how to calculate a tax liability.

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Past Exam Questions and Answers

NOTE - Very Important

It is very important when answering exams question use the following steps -

1. That you know the information for the learning outcome
2. That you understand the information from the learning outcome
3. That you can apply the information from the learning outcome to the question
4. Be able to give at least two full sentences for your answer (Fill up the space)

Questions are changing from rote learning to applying the knowledge to the Question

QUESTIONS

2019 - Sample Paper (SEC) - Question 13

Employee No 15	Grainne Dwyer	Week 20	Date 19 May 2018	
Pay	€	Deductions	€	
Basic	544.00	PAYE	77.07	T and M Motor Ltd
Overtime	168.00	PRSI	28.48	
		USC	22.71	
		Cycle to work	15.00	Nett Pay
Gross Pay		Deductions		

SUGGESTED SOLUTION

2019 - Sample Paper (SEC) - Question 13

Employee No 15	Grainne Dwyer	Week 20	Date 19 May 2018	
Pay	€	Deductions	€	
Basic	544.00	PAYE	77.07	T and M Motor Ltd
Overtime	168.00	PRSI	28.48	
		USC	22.71	
		Cycle to work	15.00	Nett Pay
Gross Pay	712.00	Deductions	143.26	568.74

Workings

PAY		Deductions		Nett Pay	
Basis	544.00	PAYE	77.07	Pay	712.00
Overtime	<u>(+)168.00</u>	PRSI	28.48	Deductions	<u>(-)143.26</u>
	712.00	USC	22.71		
		Cycle to work	<u>(+)15.00</u>		
			143.26		