



Employment taxes update

PAYE Settlement Agreement

PAYE Settlement Agreement

In today's economic climate, where salary reductions and freezes are the norm, employers find themselves limited in their options when it comes to rewarding employees for that 'extra mile' that they may have taken on behalf of the employer. If an award is put through the payroll the employee is liable to tax (as it would be considered a Benefit-in-Kind). The full benefit of the award may not be felt by the employee if they are required to pay tax on it. Employers, therefore, may decide to 'pick up the tab' and pay the tax on behalf of the employee.

One option available to an employer is a PAYE Settlement Agreement ("PSA").

Certain non-cash gifts / awards / expenses incurred or received by employees which would otherwise come under the liability of Benefit-in-Kind taxation, may be considered qualifying emoluments. These payments, however, must be minor and irregular, they must not be in the form of money, (i.e. a non-cash gift/award such as a voucher) and they must not be significant or frequent.

To arrange a PSA, an employer needs to make an application to the Revenue Commissioners in writing, which must be received by them on or before 31 December in the relevant tax year. We would be happy to contact Revenue on your behalf to arrange such a PSA. The income tax due on the awards, which will be based on the grossed up amount, will need to be paid in full by 15 February following the end of the relevant tax year to avoid interest and penalties.

Calculation

The calculation of the income tax must take into account the individual employee who has received the qualifying emolument and the tax band applicable. It also takes into account a further amount reflecting the income tax on the benefit the employee received without liability to tax, i.e. gross-up.

Example:

If an employer wished to grant a non-cash award of €500 to an employee under the PSA, it would be necessary to 'gross-up' this amount, so as to work out how much tax the employer should pay to Revenue. The resulting grossed up tax value then needs to be multiplied by the total percentages of employee PAYE, USC, PRSI and the employer PRSI combined. That resulting amount is the sum the employer pays to Revenue. The employee therefore receives the full €500 without needing to pay Benefit-in-Kind.

Although there are Small Benefit Exemptions available, these only relate to single non cash awards (e.g. voucher / gift) of up to €250 to an employee tax free. Where the Small Benefit Exemption does not apply, a PSA can be used to ease the administration of processing items via payroll.

Contacts

For more details please contact:

Ian McCall
GES Practice Leader
T: +353 1 417 2442
E: ixmccall@deloitte.ie

Dan O'Donovan
Partner
T: +353 61 435504
E: dodonovan@deloitte.ie

Michael Sheehan
Partner
T: +353 21 490 7032
E: micsheehan@deloitte.ie

Sarah Connellan
Director
T: +353 1 417 2432
E: sconnellan@deloitte.ie

Francis Farrell
Director
T: +353 1 417 2406
E: ffarrell@deloitte.ie

Dublin
Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork
Deloitte & Touche
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick
Deloitte & Touche
Deloitte & Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

www.deloitte.com/ie

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/ie/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte's 1,200 people in Dublin, Cork and Limerick provide audit, tax, consulting, and corporate finance to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 182,000 professionals are committed to becoming the standard of excellence.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, Deloitte Global Services Limited, Deloitte Global Services Holdings Limited, the Deloitte Touche Tohmatsu Verein, any of their member firms, or any of the foregoing's affiliates (collectively the "Deloitte Network") are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

© 2012 Deloitte & Touche. All rights reserved

