



## PAYE Settlement Agreement

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Employers often 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 €750 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 €750 without needing to pay Benefit-in-Kind.

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