



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.

Office locations:

Dublin

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

Galway

Deloitte
Galway Financial Services Centre
Moneenageisha Road
Galway
T: +353 91 706000
F: +353 91 706099

Cork

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

Belfast

Deloitte N.I. Limited
19 Bedford Street
Belfast, BT2 7EJ
Belfast, Northern Ireland
T: +44 (0)28 9032 2861
F: +44 (0)28 9023 4786

Limerick

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

deloitte.com/ie



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Contact us:

Daryl Hanberry

Partner, Global Employer Services

T: +353 1 417 2435
E: dhanberry@deloitte.ie

Sarah Conry

Director, Global Employer Services

T: +353 1 417 2374
E: sconry@deloitte.ie

Colin Forbes

Director, Global Employer Services

T: +353 1 417 2993
E: cforbes@deloitte.ie

Annette Kelly

Director, Global Employer Services

T: +353 1 417 2299
E: annkelly@deloitte.ie

Breda Mullaney

Director, Global Employer Services

T: +353 1 417 3622
E: brmullaney@deloitte.ie

Jonathan Warnes

Director, Global Employer Services

T: +353 1 417 2477
E: jwarnes@deloitte.ie

www.deloitte.ie