

Income Tax Explained: The PAYE Worker

(PAYE means **Pay As You Earn**)

The following information has been downloaded from the Revenue Commissioners' Website www.revenue.ie. Read the extracts carefully and then answer the questions.

Extract 1

Tax on income you earn from employment in Ireland is deducted directly from your salary/wages by your employer. This tax is then paid by your employer directly to the Revenue Commissioners who collect taxes on behalf of the Irish Government.

The 'tax year' in Ireland operates on the calendar year basis (i.e., January - December). At the start of each 'tax year', you will receive a statement from the Revenue Commissioners. This statement is called a "Notice of determination of tax credits and standard rate cut-off point". The Notice, shows you the value of your *tax credits* and your *standard rate cut off point*.

Source: www.revenue.ie

Comprehension check

Who deducts your tax from your salary or wages every week or every month?

When does the tax year begin and when does it end?

What is sent to you at the start of each tax year?

What information is contained in this notice?

Extract 2

Tax Credits

Tax credits reduce the amount of income tax that you have to pay. Your gross tax is calculated depending on your income. Tax credits are then deducted from the gross tax to give the amount of tax that you have to pay.

Tax credits consist of various allowances and reliefs which you may be able to claim, depending on your circumstances. (Every individual can claim a personal allowance for example, and you can also claim relief for items such as private health insurance premiums, mortgage interest etc.). Details of all the main allowances and reliefs (including the amount due for the current year) are given on the explanatory leaflet issued to you each year from the Revenue Commissioners with your certificate of tax credits.

Source: www.revenue.ie

Comprehension check

What do tax credits do for PAYE workers?

What are tax credits?

Give examples of the tax credits that workers claim.

Where can you get more information on tax credits?

Extract 3

The Standard Rate Cut-off Point:

The standard rate cut-off point in 2006 was €32,000. This means that, **after** tax reliefs and allowances, income up to €32,000 is taxed at 20% and income over €32,000 is taxed at 42%.

For each pay period, you pay tax at the standard rate (20%) up to your standard rate cut-off point.

Your standard rate cut-off point is calculated by the Revenue Commissioners by adjusting your standard rate band (downwards for any non-PAYE income and upwards for any tax reliefs available at the higher rate of tax). Any income above your Standard Rate Cut-Off Point is taxed at 42%.

Source: www.revenue.ie

Comprehension check

What percentage is the standard rate tax?

What percentage is the higher rate tax?

If a person earns €28,000 per year, what percentage income tax does he or she pay?

If a person earns €35,000 per year, what percentage income tax does he/she pay? (this worker is taxed at 2 different rates, can you explain how)

Extract 4

Look at this example of income tax paid by a single person who earns €33,000 per year.

Example

Example of a single person without dependent children earning 33,000 euro over a full tax year.

Step 1 - Calculate Gross Tax on 33,000 euro

Tax 32,000 euro @ 20% (Standard Rate Band is 32,000 euro in 2006 and there are no adjustments so standard rate cut-off point is 32,000 euro) = 6,400 euro.

Tax the remaining 1000 euro @ 42% = 420 euro

Total gross tax = 6,820 euro

Step 2 - Tax Payable

Total Gross = 6,820 euro

Less tax credits = 1,630 euro

Tax Payable = 5,190 euro

Total Gross Tax = 6,820 euro

The above is based on a full tax year.

Source: www.revenue.ie

Your views

Why do people have to pay income tax?

Is income tax in Ireland too high?

What does income tax pay for?

Is it a crime in Ireland to evade paying income tax?
