Tax planning for individuals

Investing & Tax Planning for Individuals

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Investing of Tax Planning for Individuals

1. Domicile levy

2. High income earner's restriction

3. Tax treatment of investments

Domicile Levy

- Levy of EUR200,000
- 2010 tax year

“make a contribution to the State, especially during times of economic and fiscal difficulty”

Domicile Levy

- Section 531AA – 531AK TCA 1997
  - Irish domiciled in tax year
  - Irish assets > EUR5m
  - Worldwide gross income > EUR1m
  - Irish tax liability < EUR200,000

Domicile Levy

"it is difficult to estimate the number of individuals who satisfy these criteria, it is not possible to predict the number of individuals who will be subject to the levy".

Domicile Levy

Year	Returns EUR	Levy EUR
2010	23	3,161,454
2011	22	3,206,684
2012	14	2,237,811
2013	9	1,376,907
Total		9,982,857

Domicile Levy

- On-going compliance programme for the years 2010 to 2013
- These enquiries are being conducted on a number of levels, including full audit
- Large cases division
- KTA experience

Domicile Levy

Irish assets > EUR5m

Domicile Levy

- Includes property transferred to spouse or minor children at < market value
- Includes shares in foreign companies where greater part of value from Irish assets

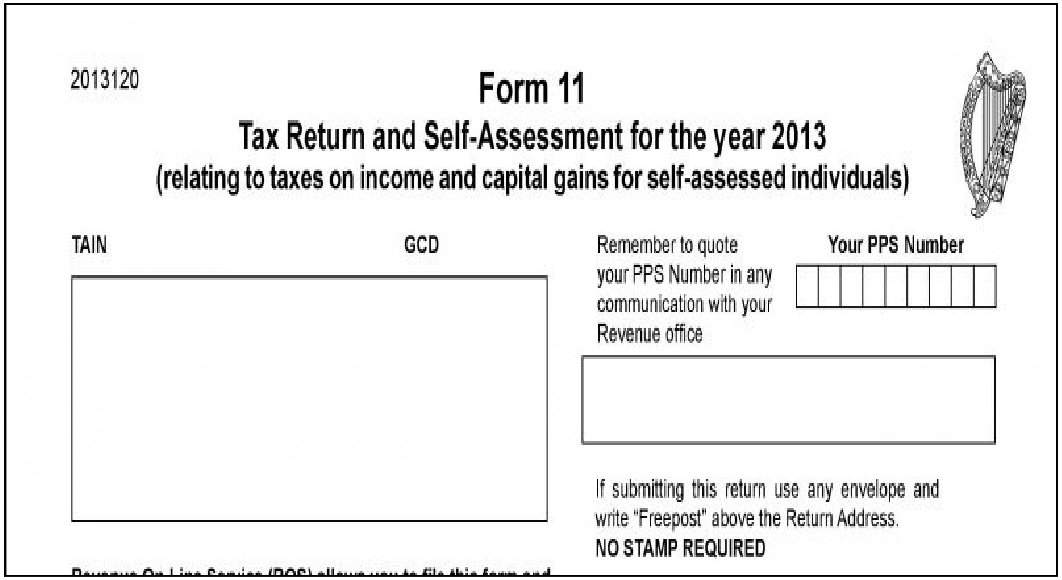
Domicile Levy

- Includes rights and interests of every description
- Excludes shares in trading company

Domicile levy

Case study 1

- Investment income > EUR1m
- Loss on active trade EUR1.5m
- Taxable profits are zero and client due a refund
- Domicile levy?


2013120

Form 11

Tax Return and Self-Assessment for the year 2013

(relating to taxes on income and capital gains for self-assessed individuals)

TAIN

GCD

Remember to quote your PPS Number in any communication with your Revenue office

Your PPS Number

If submitting this return use any envelope and write "Freepost" above the Return Address.

NO STAMP REQUIRED

Answer

- Yes
- No deduction for Section 381 losses
- Credit against levy for Irish taxes **paid DIRT**
- Be careful with USC

Domicile levy

Case Study 2 – Wealthy non resident IRL domiciled ex-pat

- Planning opportunities

Wealthy ex-pats

- Salary > EUR1m
- UK tax PAYE c.EUR430k
- Irish assets > EUR5m
- No credit for foreign taxes on income
- Domicile levy applies
- Effective rate of tax c.63%
- Planning opportunities

Domicile Levy

Case study 3

Question

- Irish resident domiciled landlord

	EUR
Rental income	1,050,000
Capital allowances	200,000
Losses forward	<u>700,000</u>
Taxable	150,000

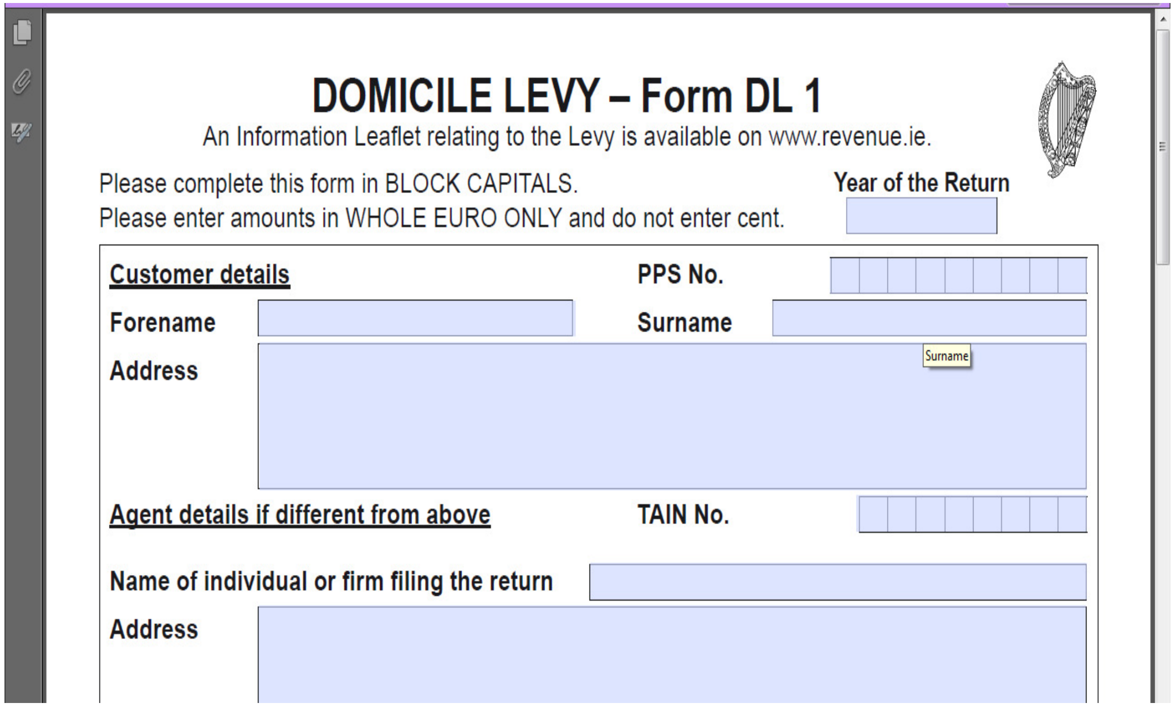
➢ Domicile levy?

Answer

- Yes
- No allowance for Case V Capital allowances or losses forward

Domicile Levy

- Return filing and payment deadline of 31 October in the following year of assessment
- Revenue can now request you complete a return



DOMICILE LEVY – Form DL 1

An Information Leaflet relating to the Levy is available on www.revenue.ie.

Please complete this form in BLOCK CAPITALS.

Please enter amounts in WHOLE EURO ONLY and do not enter cent.

Year of the Return

Customer details

PPS No.

Forename

Surname

Address

Surname

Agent details if different from above

TAIN No.

Name of individual or firm filing the return

Address

Points to watch

- Checklist
- Irish resident clients with income > EUR1m
- Are you asking about domicile levy?
- Wealth analysis profiling
- For one off clients have you asked the question
- Consider impact when making new investments

High Income Earner’s Restriction

High income earner's restriction

- Income EUR400k
- Tax relief EUR400k
- Taxable EUR0

What reliefs are restricted?

- Property Incentives
- Artists Exemption
- Patent Royalties
- Full list Sch 25B TCA 1997
- No restriction for pension contributions/EII

High income earner’s restriction

- Rules tightened in 2010
- Earnings > EUR400,000
  – tax rate not < 30%

High income earner's restriction

Sections 485C-485G TCA 1997

Income threshold amount

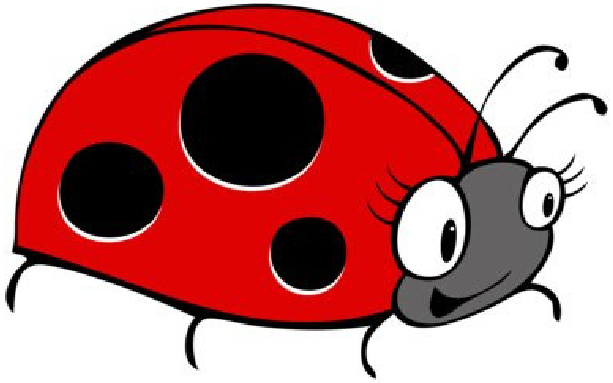
Relief Threshold Amount

Adjusted income

Ring Fenced income

Specified reliefs

High income earner’s restriction



- From 2010, restriction does not apply to reliefs < EUR80,000
- Earnings < EUR125,000
  – no restriction

High income earner's restriction

Example of EUR125k client

- Rent EUR125,000
- Restricted reliefs EUR105,000
- Client expecting taxable income EUR20,000
- Taxable income EUR45,000

➤ What to tell client?

High income earner’s restriction

Example of EUR125k client

- Rent EUR124,000
- Restricted reliefs EUR105,000
- Taxable EUR19,000

➢ Restriction does not apply!

High income earner's restriction

High income earner restriction

Ask 3 Questions

1. Is income* >= EUR125,000?
2. Are reliefs used >= EUR80,000
3. Are reliefs used > 20% of income*

If “**Yes**” to all 3 Restriction Applies

*adjusted income

Restriction of reliefs 2014

- Rental income €400,000
- Property based allowances €300,000
- Taxable €100,000

1. Is income >= €125,000? **YES**
2. Are reliefs used >= €80,000? **YES**
3. Are reliefs used > 20% of income? **YES**

Restriction of reliefs 2014

• Rental income	€400,000
• Reliefs restricted to	€80,000
• Taxable	€320,000
• Tax	€124,000
• Tax rate	30%

- No effect for PRSI or USC
- What happens to the EUR220k of reliefs?

Restriction for high earners

- Caitlyn

- Disallowed reliefs carried forward to future years

- Excess relief forward

Restriction for high earners

- Husband and wife are treated separately

Restriction for high earners

RESTRICTION OF SPECIFIED RELIEFS FOR HIGH EARNERS AND TAXATION OF MARRIED COUPLES

Restriction applies to each spouse in isolation, even if jointly assessed

Income is aggregated after restriction is applied to each spouse separately

S 485 TCA 97

Restriction for high earners

	David EUR	Evanne EUR	Total EUR
Rent	400	50	450
Allowances	(400)	0	(400)
Taxable	0	50	50

Restriction for high earners

- Husband and wife are treated separately

	David EUR	Evanne EUR	Total EUR
Rent	400	50	450
Allowances	(80)	0	(80)
Taxable	320	50	370

Restriction for high earners

- Opportunity to transfer income to other spouse

	David EUR	Evanne EUR	Total EUR
Rent	200	250	450
Allowances	(80)	(80)	(160)
Taxable	120	170	290

Restriction for high earners

Excess relief forward

	David EUR	Evanne EUR	Total EUR
Income	400	120	520
Allowances	(80)	(120)	(200)
Taxable	320	0	320

Restriction for high earners

PPS Number ☐☐☐☐☐☐☐☐☐

A. Computation of Adjusted Income[3]

	Self	Spouse or Civil Partner
A1. **Joint Assessment cases only:** Insert joint taxable income calculated on the basis that limitation on use of reliefs does not apply[4]	.00	
A2. **Each individual's taxable income calculated on the basis that limitation on use of reliefs does not apply**[5] (***NB***: *Transfer amount of taxable income for self (and, where married or in a civil partnership, for spouse or civil partner) to your 2014 Form 11 at Panel J, Line 602)*	.00	.00
A3. Aggregate of Specified Reliefs This is the sum of the amounts of Specified Reliefs used in 2014 as listed in Panel G[6]	.00	.00
A4. Ring-fenced income (if none show **0.00**) This is the sum of the income sources listed in Panel F	.00	.00
A5. **Adjusted Income** [(Line A2 + Line A3) - Line A4]	.00	.00

B. Computation of Income Threshold Amount[7]

	Self	Spouse or Civil Partner
B1. If no ring-fenced income, then the Income Threshold Amount is	125,000.00	125,000.00
B2. If ring-fenced income involved, then the Income Threshold Amount is the amount given by the formula: €125,000 X Line A5 / (Line A2 + Line A3)	.00	.00

Restriction for high earners

Points to note:

- Can we reduce income below EUR125k?
- Make sure excess relief is not lost
- Can you transfer assets to joint names?
- Make sure form is completed correctly

Tax treatment of investments


"GET RICH OR DIE TRYIN"
By 50Cent

Tax treatment of investments

Bonds

ETF

ETN

Equities

Spider

ETC

REITs

Tax treatment of investments

2014120 **ANY PANEL(S) OR SECTION(S) THAT DO NOT REQUIRE AN ENTRY SHOULD BE LEFT BLANK.**

PPS Number

	Self	Spouse or Civil Partner

319. **Offshore Funds** (Part 27 Ch 4). Give the following details in respect of any material interest in 'regulated offshore fund(s)' (those coming within S. 747B(2A)) **in the EU or EEA, or in a Member State of the OECD with which Ireland has a Double Taxation Agreement**

	Self	Spouse or Civil Partner
(a) Relevant payment taxable at 41% (S. 747D(a)(i)(I)(B))	.00	.00
(b) Relevant payment (personal portfolio) taxable at 60% (S. 747D(a)(i)(I)(A))	.00	.00
(c) Non-Relevant payment taxable at 41%(S. 747D(a)(i)(II)(B))	.00	.00
(d) Non-Relevant payment (personal portfolio) taxable at 60% (S. 747D(a)(i)(II)(A))	.00	.00
(e) Gain taxable at 41% (S. 747E(1)(b)(ii))	.00	.00
(f) Gain (personal portfolio) taxable at 60% (S. 747E(1)(b)(i))	.00	.00

And in respect of any such material interest acquired in 2014 give the following additional details:

	Self	Spouse or Civil Partner
(g) Name & address of offshore fund(s)		
(h) Date material interest was acquired (DD/MM/YYYY)	/ /	/ /
(i) Amount of capital invested in acquiring the material interest	.00	.00
(j) Name & address of intermediary (if any) through whom the material interest was acquired		

320. **Other Offshore Products** (S. 896). Give the following details for each material interest acquired in 2014 in (i) other offshore products (including foreign life assurance policies) **outside the EU or EEA, or outside a Member State of the OECD with which Ireland has a Double Taxation Agreement** and in (ii) 'unregulated funds' (those not coming within S.747B(2A))

Equities

- Direct equities

- Dividends: income tax at marginal rate - 55%
- Return is CGT 33% (or zero if losses)

Dividend tax credits

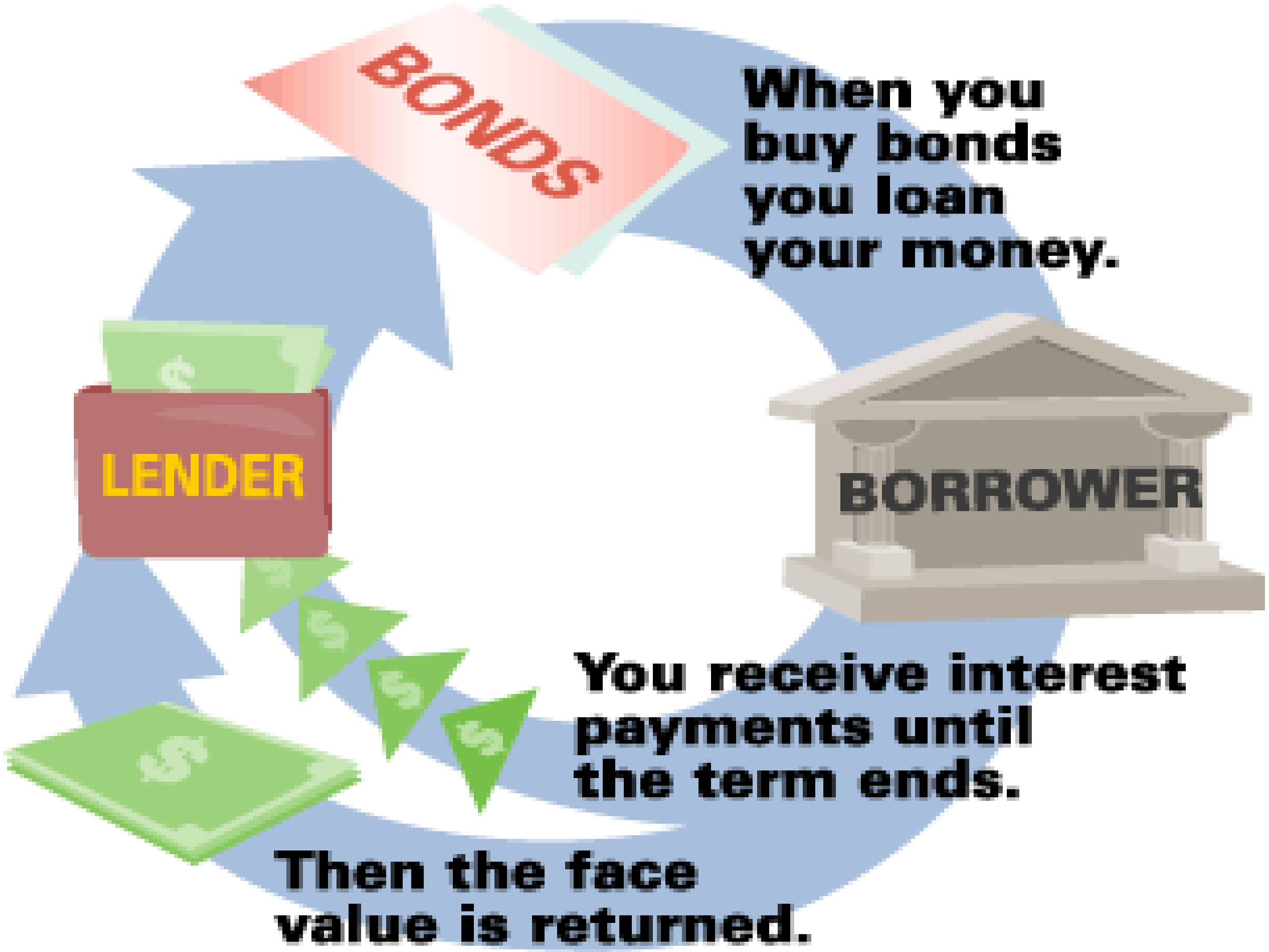
Foreign tax (up to 15%)

"Underlying" credit (including 15% above)

- France 43%
- Japan 44%
- Belgium 44%
- Luxembourg 34%

UK REITs – 15% UK tax credit is a "real" credit

Bonds



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Bonds

- Corporate/Government
- Income – top rate 55%
- Gain – CGT (or zero if losses)
- Irish Government, Bord Gáis, Irish Water etc. CGT exempt
- EU government bonds – can treat gain as exempt?

Bonds

Example: EUR100k loan stock 7% interest
Interest paid in March of each year

1. Buy bond in Apr for EUR100k.
2. Sell in Feb next year for EUR106k.
3. Interest paid March next year EUR7k to new holder.

- Real return EUR6k before tax
- Consider anti-avoidance rules

Bonds – if holding directly

- Hold for < 2 years: is part of proceeds taxable as income?

- Hold for very short period: make sure not during a coupon payment

Bonds

Example: EUR100k loan stock 7% interest

Interest paid in March of each year

1. Buy bond in Feb for EUR106k.
2. Interest paid March EUR7k.
3. Sell April for EUR100k.

➢ Real return EUR1k before tax

Bonds

Example: EUR100k loan stock 7% interest

Interest paid in March of each year

1. Proceeds + coupon EUR107k.
2. Paid EUR106k.
3. Profit EUR1k.

- Top rate income tax on EUR7k
- CGT loss (EUR6k)

Funds – the issues

- What is a fund?

Funds – the issues

The tax definition:

- Non-resident company, unit trust scheme or co-ownership type arrangements, where
- Investor has a reasonable expectation of realising value within 7 years
- The value of the person's interest is reasonably approximate to the value of the portion of the fund's assets

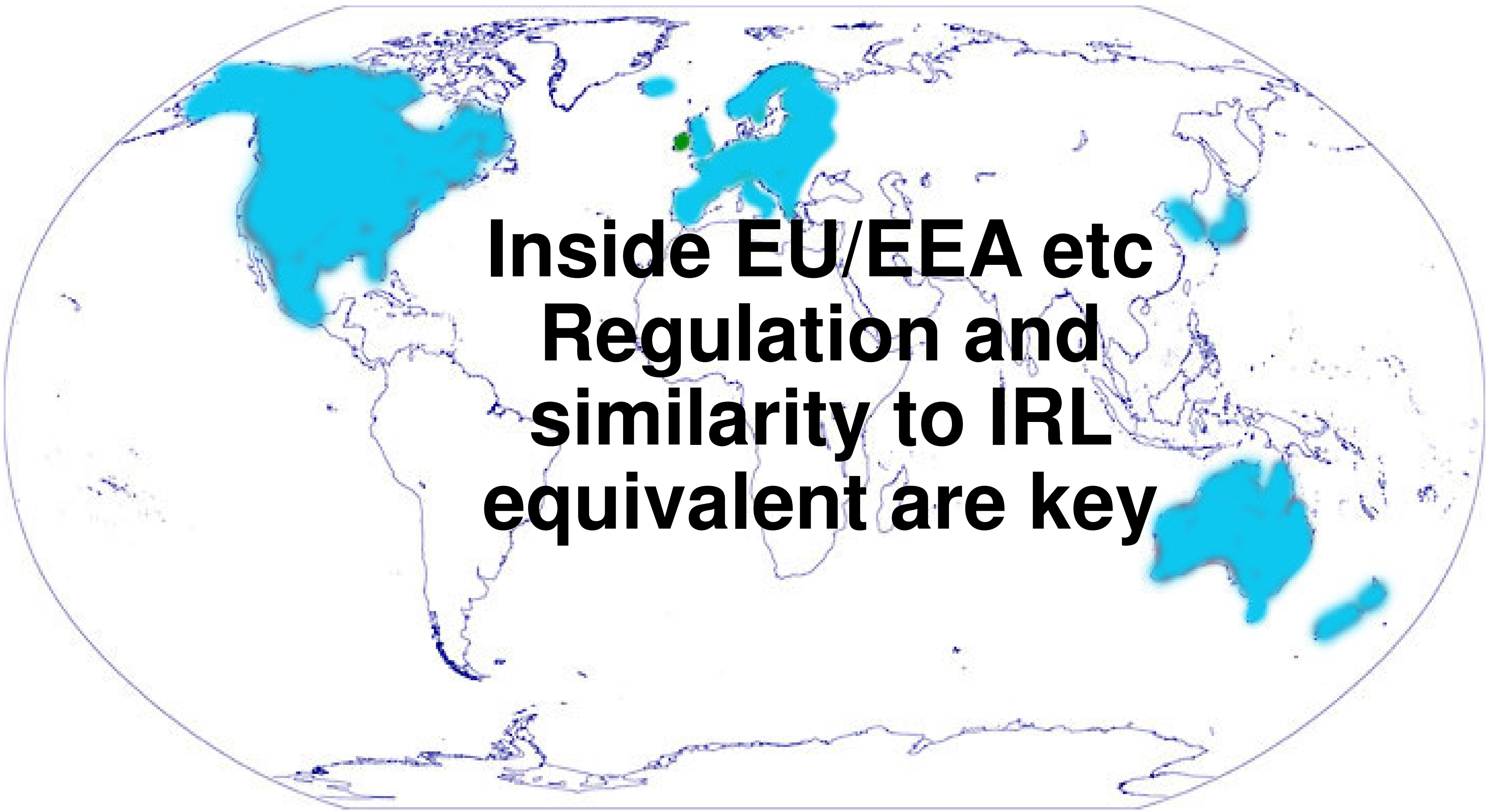
Funds – the issues

- Investor has 1% of a fund
- Fund has invested in German index
- German index goes up 10%, investor's investment will go up 10%

Identifying a fund

- Irish – administrator deducts tax
- EU/EEA/Certain OECD - 41%
- Offshore - 55%

Identifying a fund inside EU/EEA



Funds – the issues

When is a fund not a fund?

When it is CGT

Identifying a fund

Inside EU/EEA etc

- If UCITS regulated, definitely a fund
- If not UCITS regulated and not authorised/regulated, not a fund
- If authorised/regulated but not UCITS regulated, more analysis required
- Revenue – North American ETFs not materially similar to IRL equivalent

EU/EEA/OECD funds – the issues

- Low tax – not anymore! (41%)
- 8 year fund charge
- Reporting on tax return
- Why not suitable for some clients?
- Clients with CGT losses – gain is income
- Clients on remittance basis (investments outside Ireland) – EU funds do not qualify
- Elderly clients

8 year charge

- EU fund
- Bought February 2006 for EUR100,000
- Worth EUR130,000 in February 2014
- Deemed disposal after 8 years
- Gain EUR30,000 must be shown on 2014 return and taxed at 41%
- Consider gifting to child to offset tax

Example – “EU” funds tax

	EUR
Fund value	2,000,000
Original cost	-800,000
Gain	1,200,000
41% tax	492,000

Example – "EU" fund to child

	EUR
Fund is worth	2,000,000
Threshold	-225,000
Taxable	1,775,000
CAT	585,750
Credit for income tax	-492,000
Net CAT (4.7%)	93,750

Funds – the issues

Non funds – clients with losses
(investments after 20 February 2007)

- ETCs
- Certificates
- Notes
- REITs (unregulated)
- North American ETFs

Funds – “real” offshore funds

Funds – “real” offshore funds

- Rates of tax are high – up to 55% income tax
- Losses are allowable for CGT
- Must report acquisition and disposal on tax return
- No 8 year fund charge “real” gross roll up
- Suitable for non domicile clients
- Suitable for client who plan on retiring abroad

Points to watch

- EU/EEA etc funds: 41% IT not CGT
- EU/EEA etc funds: 8 year charge
- EU/EEA cannot offset CGT losses
- “Offshore” funds: top rate income tax

Thank you