

# Employees' Guide to PAYE



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# **I. Introduction**

This is a simplified guide to the PAYE system for employees, directors and people in receipt of pensions. Its purpose is to give PAYE taxpayers a basic understanding of the system under which they pay their tax. The guide deals with such matters as:

- ◆ How to get a Personal Public Service (PPS) Number
- ◆ How to get a Tax Credit Certificate
- ◆ What you must do when starting work for the first time
- ◆ What happens when you change employers or leave employment
- ◆ Returning to work with a previous employer.

All Forms and Leaflets referred to, can be viewed on our website at [www.revenue.ie](http://www.revenue.ie) and are available from:

- ◆ Revenue's Forms and Leaflets Service at Lo-Call 1890 306 706
- ◆ Any Revenue Office
- ◆ Your Regional Revenue Office, the number for which is listed at the end of this leaflet

## **1.1 What does PAYE stand for?**

PAYE stands for Pay As You Earn. As the name suggests, this means that every time your employer pays you your wages or salary he or she must deduct tax and pay it to Revenue. The PAYE system was devised to make it easier for employees, pensioners and directors to pay their tax by spreading the payment evenly over the tax year, rather than having to face a single tax bill once per year. The PAYE system continues to operate for pensioners upon retiring from pensionable employment.

## **1.2 When does the tax year start?**

The tax year runs on a calendar year basis i.e. from 1 January to 31 December. Prior to 1 January 2002 the tax year ran from 6 April to 5 April.

## 2. Starting In Employment

### 2.1 I am about to take up a job. What should I do?

If you are taking up a job as an employee, you will need to register for tax purposes. This is very simple as there are only two steps involved:

Step 1. Apply for a Personal Public Service (PPS) Number.

Step 2. Complete a Form 12A and send it to your Revenue Office

#### **Step 1. Applying for a Personal Public Service (PPS) Number.**

A PPS number is an individual's unique identification number for all dealings with the Public Service, including Social Welfare, tax, education and health services.

You may already have a PPS number, if you are an Irish National and:

- ◆ Were born in Ireland after 1971
- ◆ Registered for tax since 1979
- ◆ Were in receipt of Social Welfare Benefit payment
- ◆ Were issued with a Social Services Card.

If you do not hold a PPS Number, you must first register with the Department of Social and Family Affairs by:

- ◆ Calling in person to a Department of Social and Family Affairs Local Office . A list of your nearest or most convenient office can be found in the Government Departments section of the telephone directory
- ◆ Completing a PPS Number application Form REG 1 and
- ◆ Presenting documentary evidence as requested in the application form to verify your identity (long version of birth certificate, passport or your driving licence). Non-Irish nationals will be required to provide their "green card". You will be notified of your PPS Number by the issue of a Social Services Card.

**Your PPS Number is very important and you should keep a permanent record of it.**

Always quote the number when writing or calling to your Revenue office, or to the Department of Social and Family Affairs. This will avoid unnecessary delay.

## **Step 2. Complete a Form 12A and send it to your Regional Revenue Office.**

Upon notification of your PPS number from the Department of Social and Family Affairs, you should give the number to your employer and also complete the Revenue Form 12A. Your employer can supply any relevant information that you need to complete this form, e.g. their Employer's PAYE Registered Number. The completed form 12A should then be sent to your Revenue Office (see page 15).

Following receipt of your Form 12A, Revenue will send you a Certificate of Tax Credits and at the same time issue a Certificate of Tax Credits to your employer so that correct deductions of tax can be made from your salary.

## **2.2 When do I start to pay income tax?**

You will normally start to pay tax from your first payday. The amount of tax you pay depends on your level of pay, your standard rate cut-off point and the amount of your tax credits. If your tax liability on any payday is less than your tax credits, then you don't pay tax on that payday. If your tax liability is more than your tax credits, the tax due is the difference between the two.

## **2.3 What do I pay tax on?**

You pay tax on earnings of all kinds arising from your employment, including bonuses, overtime and non-cash payments known as Benefit-in-Kind e.g. use of company car, etc. (See leaflet IT 20A). For further information on how tax is paid on these incomes under the PAYE system, see paragraph 9.3.

### **You also pay tax on:**

- ◆ Social Welfare pensions, allowances and most benefits. Leaflet IT 22 outlines the Taxation of Disability and Short-Term Occupational Injury Benefits and Leaflet IT 24 outlines the Taxation of Unemployment Benefit.

### **You do not pay tax on:**

- ◆ Certain scholarship income, Interest from Savings Certificates, Savings Bonds and National Instalment Savings Schemes with An Post
- ◆ Payments to approved pension schemes.

## 2.4 How are overtime pay, bonuses, etc. taxed?

Your weekly/monthly tax credits are set against your full weekly/monthly tax liability on your pay. If you earn overtime or bonus pay, etc., these amounts are included as part of your pay for that week or month. You do not get any additional tax credits against these additional earnings.

## 2.5 Do I pay tax on everything I earn?

Yes, but you will be given a Tax Credit depending on your personal circumstances. See paragraph 3 below.

# 3. Tax Credits.

## 3.1 What are Tax Credits?

With effect from 6 April 2001 Tax credits **replaced** tax-free allowances. Under the tax credit system, you are entitled to tax credits depending on your personal circumstances, e.g. married person's tax credit, employee (PAYE) tax credit, etc. These tax credits are used to reduce the tax calculated on your gross pay. Tax credits are non-refundable. However, any unused tax credits in a pay week or month are carried forward to subsequent pay period(s) **within** the tax year.

## 3.2 What is a Standard Rate Cut-Off Point?

A standard rate cut-off point is the amount of your personal standard rate tax band as adjusted - decreased for any non-PAYE income and increased for any tax reliefs available at the higher rate of tax. For each pay period, you pay tax at the standard rate of tax up to your cut-off point. Any income over the cut-off point is taxed at the higher rate.

## 3.3 What must I do to get my Tax Credits?

**When you commence in employment for the first time**, complete a Form 12A (see paragraph 2.1), send it to your Revenue Office and you will receive a Certificate of Tax Credits and Standard Rate Cut-Off Point.

**On an ongoing basis**, you will receive a certificate of Tax Credits before the beginning of each tax year. This will be issued by reference to the latest information on record, given by you, together with Budget changes automatically granted without request.

**Remember, your Revenue Office can only give you your correct tax credits if you give them correct information about your circumstances. To ensure that you do not pay either too much or too little tax, always check that your tax credits are correct.**

### **3.4 How do I get the benefit of my tax Credits and how is my tax calculated?**

Your tax credit entitlement is for a full tax year. So, whether you start work in the first week of the tax year or six months into the tax year, you still qualify for a full year's tax credits. As tax deductions are spread evenly throughout the year under the PAYE system, the total tax due is divided into 52 weekly/12 monthly amounts, depending on frequency of pay.

Your employer calculates the tax due in respect of each pay period by applying the information on the certificate of tax credits, against the gross pay (less superannuation and contributions to a Revenue approved permanent health benefit scheme) as follows:

- ◆ The standard rate of tax is applied to gross pay, up to the standard rate cut-off point for that week or month
- ◆ Any balance of pay over that amount in that pay period is taxed at the higher rate of tax.

The sum of these two figures gives the gross weekly/monthly tax. This gross tax is reduced by your **tax credits** to arrive at the net tax payable.

**Gross Tax less Tax Credits = Tax Payable.**

### **3.5 What happens if my Tax Credits change during the year?**

Your tax credits may change during the year, if for example, you submit a claim for an additional relief.

Where they change, your Revenue Office will send an amended certificate to you and to your employer advising of any change. Your employer will make any adjustments necessary. If the change gives rise to an increase in your tax credits you will pay less tax for the remainder of the year. Likewise, if the change gives rise to a reduction in your tax credits you will pay more tax for the remainder of the year. These adjustments will mean that, by the end of the tax year, you will have paid the correct amount of tax.

If these adjustments are not made during the year, any refunds or underpayments of tax arising will be dealt with by your Revenue Office, on submission of your income tax return after the end of the tax year.

## 4. Form P60

At the end of each tax year your employer must give you a certificate of Pay, Tax and PRSI deducted during the year. This certificate is called a Form P60 and comes in two parts. It is your record of:

- ◆ The pay you received from your employer
- ◆ The tax deducted under PAYE and
- ◆ The PRSI contributions deducted.

If your liability to tax for any year needs to be reviewed, you will need to send one part of the Form P60 to your Revenue Office. If you need to claim a Social Welfare benefit, you should send the second part to the Department of Social and Family Affairs as evidence that you have paid PRSI contributions.

**The Form P60 is an important document, so please keep it safe.**

## 5. The Emergency Basis Of Tax Deduction

### 5.1 Emergency Tax

If your employer does not hold a Tax Credit Certificate for you or a P45 from your previous employer which shows your tax credits (see Part 6), he/she must deduct Emergency Tax. Emergency Tax is operated in the following way :

Tax is calculated on taxable pay. This is gross pay less any superannuation contributions and permanent health benefit contributions. Different rules apply depending on whether or not the employee provides an employer with his/her PPS Number. The tables below outline the tax credits and cut off points applicable for 2006.

#### Where Employee does not provide a PPS Number

Week or Month	Standard Rate Cut-Off Point	Tax Credit
All	€0.00	€0.00

Where Employee provides a PPS Number

Weekly Paid	Weekly Standard Rate Cut-Off Point	Weekly Tax Credit
Weeks 1 to 4	€616	€32
Weeks 5 to 8	€616	€0.00
Weeks 9 onwards	€0.00	€0.00

Monthly Paid	Monthly Standard Rate Cut-Off Point	Monthly Tax Credit
Month 1	€2,667	€136
Month 2	€2,667	€0.00
Month 3 onwards	€0.00	€0.00

Emergency Tax usually results in excessive tax deductions. It is in your interest to obtain your Tax Credit Certificate as soon as possible to avoid having too much tax deducted.

## 5.2 What do I do if I take up a second employment?

To avoid being taxed on the emergency basis, if you have a second employment or pension, you will require a certificate of tax credits for this employment or pension also. To arrange for the issue of this certificate you can phone your Revenue Office, the LoCall number for which is listed at the end of this leaflet, along with your PPS Number and your new employer's PAYE registered number. A certificate of tax credits will then be issued.

Unless you advise your Revenue Office to issue new certificates to each employer, dividing your tax credits and standard rate cut off point as required, your employer will operate the emergency basis. This will mean that you will benefit from more tax credits than you are entitled to, resulting in an underpayment of tax, which will have to be paid by you at the end of the tax year.

## 6. Changing Jobs and Periods of Unemployment

### 6.1 What should I do if I change jobs?

Whenever you leave a job, other than on special leave without pay, you should get a Form P45 (see paragraph 6.2) from your employer. You will need this to either give to your new employer, claim a refund of tax from Revenue or claim a Social Welfare benefit.

Your new employer will operate PAYE in accordance with the details of tax credits contained on the Form P45, until he or she receives a Certificate of Tax Credits and Standard Rate Cut-Off Point, from Revenue.

If you do not give your new employer your Form P45 from your previous employment, emergency tax will be deducted (see paragraph 5).

### 6.2 What is a Form P45?

A Form P45 is a certificate given by an employer to an employee on cessation of employment. This form certifies the employee's Pay, Tax and PRSI contributions from the start of the tax year to date of cessation and also certifies that the deductions have been made in accordance with the instructions given by Revenue.

The Form P45 shows:

- ◆ Gross pay to date of leaving
- ◆ Tax deducted to date of leaving
- ◆ PRSI deducted to date of leaving and number of insurable weeks
- ◆ PRSI Class
- ◆ The amount of the tax credits and standard rate cut-off point in operation
- ◆ Date of cessation and commencement (if after 1 January).

**The Form P45 is a very important document and is needed for:**

- ◆ Claiming a refund of tax during unemployment
- ◆ Claiming Social Welfare benefits
- ◆ To give to your new employer to avoid paying emergency tax

**IF YOU DO NOT GET A FORM P45 WHEN LEAVING, ASK YOUR EMPLOYER FOR ONE.**

### **6.3 Am I entitled to repayment of tax if I become unemployed?**

If you remain unemployed for **four weeks** (or eight weeks if in receipt of taxable payments from the Department of Social and Family Affairs- see paragraph 6.4) you can claim a refund of any tax overpaid from your Revenue Office by using your unused tax credits. You can do this every four weeks (or eight weeks if receiving taxable Social Welfare payments) until all tax has been repaid or your unused tax credits are absorbed. You cannot carry unused tax credits forward from one tax year to the next.

If emergency tax was deducted, you may apply immediately on cessation for a refund.

To claim a refund you should ask Revenue for a Form P50 and send it along with your Form P45 to your Revenue Office.

If you have not paid tax, you cannot claim a refund.

### **6.4 If I am in receipt of Unemployment Benefit while unemployed how will this affect my claim for a tax refund?**

Unemployment Benefit is a taxable source of income. However, the child dependent element and the first €13 per week of benefit are exempt from tax. When you make a claim for a tax refund the taxable portion of the Unemployment Benefit will be added to your pay and the appropriate refund, if any, will be made. You should note that if the weekly tax liability on your Unemployment Benefit exceeds your weekly tax credit, you are not entitled to a refund. Leaflet IT 24 outlines the taxation of Unemployment Benefit.

### **6.5 What happens if I am in receipt of short-term Disability Benefit and not in employment?**

The first 6 weeks of Disability Benefit and short-term Occupational Injury Benefit are non-taxable. The child dependent element of these benefits is also exempt from tax. If you make a claim for a tax refund while out of work, the taxable portion of the Disability Benefit will be added to your pay and the appropriate refund, if any, will be made. Leaflet IT 22 outlines the taxation of Disability Benefit and short-term Occupational Injury Benefit.

## **6.6 What happens if I am in receipt of short-term Disability Benefit while still in employment?**

If you are absent from work due to illness and receive Disability Benefit, your employer will take the necessary steps to ensure that the taxable portion of the benefit is taxed.

## **6.7 What happens when I return to work?**

If you were not in receipt of any income while out of work you should give your previous Form P45 to your new employer.

If you were in receipt of taxable Social Welfare income while out of work, you should contact your Revenue Office when you resume employment. Revenue will then inform your new employer of your earnings and tax deducted up to the date you resume employment. The taxable element of the Social Welfare income will be taken into account by restricting your tax credits, or by issuing your Certificate of Tax Credits and Standard Rate Cut-Off Point, on a non-cumulative basis.

## **6.8 If I take a career break or special leave, what happens to any unused tax credits I may have?**

Where you have taken a career break and you are not prohibited from working for yourself or taking up another job then your tax position is the same as if you left work permanently. Your employer will give you a Form P45. See paragraph 6.2 where Form P45 is explained and different situations, which could arise, are outlined.

If you are on special leave without pay, and your employer is satisfied that you are not employed elsewhere then you are not considered to have ceased employment. Accordingly you do not receive a Form P45. The benefit of the tax credits, not being used while you are not receiving pay, can be obtained in any one of the following ways:

- ◆ Normally the unused tax credits will be credited against the tax payable on your first pay date after resuming employment, if you resume in the same tax year
- ◆ If you have paid tax up to the time you leave, you can claim a refund of tax from your employer based on your unused tax credits from the date you left or received the last refund to what would normally be your next pay day. Refunds can be claimed until the end of the tax year, or until all tax has been repaid, whichever is sooner

- ◆ If you are married and jointly assessed you can transfer the unused tax credits, (other than your PAYE tax credit and expenses tax credit), to your spouse if he or she pays tax under PAYE
- ◆ You can apply to your Revenue Office at the end of the tax year for any refund due. You should submit your own and, if applicable, your spouse's Form P60 (see paragraph 4 ) with a return of income form so that your tax liability can be reviewed.

If you intend emigrating, your residence position for the tax year will have to be examined. You should contact your Revenue Office for information about how to claim a refund, if any, before you leave.

## 6.9 What do I do if I decide to become self-employed?

If you are becoming self employed, you should contact your Revenue Office and you will be advised on how to register as a self-employed individual. A Self Assessment system operates for self-employed people. Leaflets explaining the tax treatment of the self-employed are available on request.

## 7. Understanding Your Payslip

You will receive a payslip each time you are paid, whether weekly, fortnightly or monthly. It is in your own interest to form a habit of checking the deductions made from it.

### How to check your Pay Slip:

- ◆ Apply **the standard rate of tax** to your gross weekly/monthly pay, up to your **standard rate cut-off point** for that pay week or month
- ◆ Apply the **higher rate of tax** to any balance of pay over that amount, in that pay period
- ◆ The sum of these two figures gives the **gross weekly/monthly tax**.
- ◆ Check the **tax credit** granted in your payslip, against the most recently issued **Certificate of Tax Credits**. If they are the same, reduce the **gross tax** by the **tax credit** to arrive at the **net tax payable**.

Your Pay Related Social Insurance (PRSI) is deducted from your gross pay less pension contributions and Permanent Health Benefit. PRSI does not reduce the amount of income on which you pay tax.

Cumulative details are usually shown on your payslip i.e. totals from the beginning of the tax year to the date shown on the payslip. Taxable income details on your final payslip for the tax year should agree with your Form P60 details (see paragraph 4) in respect of that year .

## **8. Will my employer get information about me from Revenue?**

No. All communication between you and Revenue is confidential. While you get a detailed notice setting out your tax credits each year, the only information given by your Revenue Office to your employer is your annual tax credits, the corresponding weekly and monthly amounts and standard rate cut-off point. Your employer does not receive a detailed breakdown of the tax credits you have claimed, or any other information.

### **8.1 Keeping details of previous pay confidential**

If you change employment and do not wish your new employer to know details of your previous earnings, do not give him or her your Form P45. Send it to your Revenue Office instead and tell them that you do not want your new employer to know your previous earnings. Revenue will then issue a Certificate of Tax Credits and Standard Rate Cut-Off Point, effective from the date of issue only. Any adjustment necessary will be made by Revenue at the end of the tax year.

## **9. How much can I earn without paying tax?**

If your weekly/monthly gross tax liability is less than your weekly/monthly tax credit, you will not have to pay tax - but you must apply for a Certificate of Tax Credits, so that your employer will know that they need not deduct tax.

**Only your Revenue Office can advise your employer that no tax is deductible.**

### **9.1 Are people on low incomes exempt from tax?**

Yes. Depending on your circumstances and income levels you may be entitled to exemption from income tax. Information Leaflet IT 8, available from any Revenue office, sets out the full details of the income levels below which exemption applies.

## **9.2 Holiday work - am I taxable?**

Yes. The same rules apply in relation to holiday employment as to any other employment. However, if your gross pay is less than the relevant exemption limit, you will not have to pay tax - provided you have received a Certificate of Tax Credits and Standard Rate Cut-Off Point. If you have paid tax but you are entitled to exemption you may claim a refund of some or all of the tax paid.

In calculating whether you are entitled to exemption or to a refund of tax, all of your income must be taken into account - e.g. holiday pay, income received from a Deed of Covenant, etc. However, scholarship income is not included.

If you have paid tax and are returning to school or college, you may be able to claim a refund from Revenue of some or all of the tax paid, depending on your level of unused tax credits. To claim a refund, you should ask your Revenue Office for a Form P50 and return it along with your Form P45.

## **9.3 If I have income other than pay, how do I pay tax on it?**

Tax on other incomes such as dividends, rents, etc. can be effectively paid under the PAYE system where the amount involved is small. All such incomes should be shown on your Form 12A when you make your initial application for a Certificate of Tax Credits. If the amount of income changes, you should advise your Revenue Office on their LoCall number, or on your annual tax return (Form 12).

Your Revenue office will reduce both your tax credits and your standard rate cut-off point, by an amount equal to your other income. Your other income will now effectively be taxed under PAYE by virtue of the reduction of your tax credits and standard rate cut-off point.

If your other income is sizeable it may not be possible or practical to tax it through the PAYE system. If this is the case, your Revenue Office will advise you that it will be necessary for you to pay tax on the other income under the Self Assessment system.

If your employer provides you with a benefit-in-kind (e.g. the private use of a company car, luncheon vouchers, etc.), with effect from 1st January 2004, PAYE, PRSI and the Health Contribution will be deducted by your employer from your salary or wages, in respect of these benefits. Previously most benefits-in-kind appeared as a deduction on the Certificate of Tax Credits and Cut Off Point.

## 9.4 Can I claim expenses?

Expenses are only due if incurred wholly, exclusively and necessarily in the performance of your duties. In most cases where expenses are due, a standard amount has been agreed with Revenue. No expense allowance is due for travelling to and from work.

## 10. Where is my Revenue Office and when is it open?

As a PAYE employee, your tax affairs are dealt with in the region where you live. In all correspondence issued by Revenue and on all Certificates of Tax Credits, the address of your Revenue Office and the Revenue LoCall telephone number will be given. These details are also shown in the State Directory pages, at the front of the telephone directory.

You can contact Revenue by phoning (within the Republic of Ireland only) your Revenue Office, the LoCall number of which is listed below.

- ◆ **Border Midlands West Region** **1890 777 425**  
Cavan, Donegal, Galway, Leitrim,  
Longford, Louth, Mayo, Monaghan,  
Offaly, Roscommon, Sligo, Westmeath
- ◆ **Dublin Region** **1890 333 425**  
Dublin (City and County)
- ◆ **East & South East Region** **1890 444 425**  
Carlow, Kildare, Kilkenny, Laois  
Meath, Tipperary, Waterford,  
Wexford, Wicklow
- ◆ **South West Region** **1890 222 425**  
Clare, Cork, Kerry, Limerick

If you are calling from outside the Republic of Ireland, please telephone 00 353 (1) 647 4444.

Remember to always quote your PPS number when contacting your Revenue Office.

Information facilities for personal callers are available in certain Revenue offices. These offices provide a service to answer your queries and you can also have your tax credits updated while you wait. Correspondence, which cannot be dealt with while you wait, for example, end of year reviews, will be sent to your Revenue Office for attention. Information leaflets are also available at these offices.

The Revenue offices, which are located in Dublin, are :

- ◆ Central Revenue Information Office, Arus Brugh, Cathedral Street, (Off Upper O'Connell Street) Dublin 1.
- ◆ Revenue Information Office, Level 2, The Square, Tallaght, Dublin 24.

These, together with the 'Local Enquiry Offices' in county offices are open to the public, Monday to Friday, between the hours of 9.30am and 5.00pm, including lunch hour.

Offices without a 'Local Enquiry Office' open between the hours of 9.30am and 5.30pm (5.15pm Friday), including lunch hour.

You can also get information by visiting Revenue's website at [www.revenue.ie](http://www.revenue.ie)

## **Revenue Commissioners Revised February 2006**

While every effort is made to ensure that the information given in this leaflet is accurate, it is not a legal document. Responsibility cannot be accepted for any liability incurred or loss suffered as a consequence of relying on any matter published herein.



