



23 April 2009

Mr Vincent Palmer  
Department of Finance  
Government Buildings  
Upper Merrion Street  
Dublin 2

Dear Vincent

## **Re: Income Levy increases in Supplementary Budget 2009**

Further to our telephone conversation and discussions with Revenue at Main TALC last Friday, 17 April, I am writing to you as requested in relation to the income levy increases. It was suggested at Main TALC that we copy any correspondence on the levy to Revenue.

We have a number of concerns on the scope of the income levy increases and on Financial Resolution No. 1, which was passed on Budget night.

### **Retrospective effect**

Despite the Minister's statement on Budget night that the measure would take effect from 1 May 2009, the use of the composite rate set out in the Financial Resolution creates, in effect, retrospective taxation across a number of income categories. It has always been a cornerstone of our tax law, that we do not adopt retrospective legislation. This has served us very well to date, both in terms of fairness for our taxpayers and certainty for the inward investment community and it is not something that we should alter lightly. One significant retrospective change creates doubt that more will follow.

### **Use of the arithmetic composite rate**

The composite rate set out in the Financial Resolution is a form of arithmetic average rate to be applied for the year. Consequently, the composite rate as applied to PAYE and certain non-PAYE income will not result in the same tax liability as would arise using the actual levy rates intended, unless the taxpayer's income is spread evenly throughout the

year. This principle is acknowledged in the Department's statement on the matter (16 April 2009). There will be numerous circumstances where a taxpayer's PAYE income is not spread evenly over the year e.g. a pay-cut or pay rise, overtime, benefit in kind, redundancy etc. If this happens, then based on the Financial Resolution, the taxpayer and/or the employer may now be required to make an adjustment at year end and possibly file a tax return where this would not otherwise be required. This clearly adds to the complexity of the system and certainly will add to the administrative burden for business.

### **Conclusion**

We would ask that the legislation governing the income levy increases is re-examined and amended in the Finance Bill. The use of a composite rate should not result in a different levy arising on PAYE or non-PAYE income from that which is due based on the actual rates for 2009.

We would welcome the opportunity to discuss these issues further.

Yours sincerely

A handwritten signature in cursive script that reads "Cora O'Brien".

**Cora O' Brien**  
**Director**  
**Irish Taxation Institute**

Cc Norman Gillanders – Revenue