

Payroll accountant's homework to handle changes in 2018 (2 of 3) (1/48/17)

This article picks up where we left off [last week](#).

A differential personal allowance (DPA)

From 1 January 2018, the employer will be required to apply a DPA the State Revenue Service (SRS) has forecast according to the employee's income in the past period. For example, in 2018 the DPA forecast will be calculated and reported as follows:

DPA application period	1 January through 31 July 2018	1 August through 31 December 2018
Qualifying income	Taxable income received over the period from 1 October 2016 to 30 September 2017	Taxable income received over the period from 1 December 2017 to 31 May 2018
Date of calculation	15 December 2017	20 July 2018
Reporting deadline	by 1 January 2018	by 1 August 2018

The same timing principles will be used for calculating and reporting the SRS DPA forecast in subsequent tax years.

The employer will be required to apply the SRS DPA forecast for the relevant period to employees that have filed their payroll tax book.

Since the person's income may vary, the DPA notified to the employer may be inconsistent with the current level of salary. For example, if the employer applies a DPA that is too high for the current salary, the employer can inform the employee about the following options:

1. The person will be required to file the annual tax return in order to pay additional PIT; or
2. The employee can remove their payroll tax book, which means that the DPA, other allowances and the rate of 20% is not applied. In this case the person can voluntarily file the annual tax return in order to recover any overpaid PIT; or
3. The person can file a request to the employer for applying only the rate of 23%,¹ thus balancing the application of too high a DPA by not applying the reduced rate of 20% to income of up to €1,667 a month. In this case either the PIT surcharge would drop or an overpayment would arise.

When filing the annual tax return, the total PIT applied to the employee will be the same in any case, but the employee should assess whether it's more convenient to receive a lower net salary each month in order to recover the overpayment through the annual tax return, or a higher salary each month and pay additional PIT through the annual tax return.

Scope for planning income

According to [the Finance Ministry's estimates](#), employees earning up to €6,000 a month will receive a higher net salary from next year. According to PwC estimates, persons earning in excess of €6,000 will experience a proportionally small drop in net salary. So it might not be efficient to make substantial changes to the employment income structure based on the reform alone. At the same time, it's possible to

consider making changes to salaries of management and staff in order to use any incentives eligible for a more favourable package of employee taxation.

(to be completed)

¹ Under amendments to the PIT Act that Parliament supported in their first reading on 26 October 2017.