Dependant allowance and income differentiated personal allowance (3/12/18)

In this article we take a look at how to claim a dependant allowance for personal income tax (PIT) purposes in 2018. We also offer practical advice to employers on applying the monthly personal allowance (PA) estimated by the State Revenue Service (SRS).

A summary of allowance levels and application procedures

In 2018 dependant allowances are set at €200 per person a month (€2,400 a year).

Dependant allowances are applied by the employer at the time of calculating wages for an employee with a wage tax book (except for microbusiness payers). If any dependant allowance is to be applied at source, the dependant(s) should appear on the person's wage tax book, meaning a statement of dependants should be submitted via the Electronic Declaration System (EDS).

If a taxpayer was entitled to a dependant allowance but it was not applied at source, then it can be applied for the entire tax year through the annual income tax return.

If the EDS fails to automatically calculate the level of the taxpayer's allowances at the time of preparing the income tax return, this means that the SRS has no information about the person's allowance entitlement. In that case it is the taxpayer who should calculate and report their allowance levels to the SRS. Along with the income tax return, the taxpayer should provide the SRS with information that proves the allowance entitlement (such as documentary evidence of the degree of relationship, a statement of dependants, or an application in free form).

Please note that these recommendations about documents to be attached are based on our experience of preparing customer income tax returns, not prescribed by legislation. The SRS may take a different approach to this issue, so if you are entitled to any allowance but are unable to claim it in practice for some technical reason, we encourage you to consult the SRS or PwC.

Practical advice on applying income-differentiated personal allowances (IDPA)

Our experience suggests that payroll accountants are concerned about applying the monthly PA estimated by the SRS from 1 January 2018 according to the employee's average gross employment income in the last period. Accordingly, each employee is subject to a PA calculated individually. Since this is based on wages paid in prior periods, employees might face a higher or lower PA than what is due to them.

If a higher PA is applied than what is due, the employee has to file an income tax return for the tax year and calculate an extra PIT liability. In practice the employee's salary exceeds the maximum income eligible for a PA. This makes it clear early on that the employee is not entitled to a PA and will be required to pay extra PIT for the year.

The legislation provides that in this case the employer may apply a 23% PIT on the employee's total income at their written request (keeping allowances at the same level as with a wage tax book filed) instead of applying a 20% PIT on employment income. In practice, however, this approach does not completely solve the problem with applying PA.

According to the SRS's publicly available recommendations, in this case the employer is allowed not to apply any PA at the employee's written request. This helps avoid situations where an employee is required to pay extra PIT as a result of applying the monthly PA estimated by the SRS.