

# Student summer work: do I file annual income tax return? (3/13/19)

With the 2018 annual income tax filing season in, some people begin wondering about the personal income tax (PIT) treatment of a dependent student employed in the summer. There are quite a few questions about this, but the aggregated answers are nowhere to be found. In this article, we will answer a few topical questions, for example:

- How does a student's work affect the parent's PIT liability?
- Can a student recover any overpaid PIT and to what extent?
- Has such work created an underpayment or overpayment of tax?

The legal framework: relief for the student

Sections 12(4) and 12(4.1) of the PIT Act provide that –

- an individual may claim an income-differentiated personal allowance (IDPA) only for the part of the year in which that individual was not another taxpayer's dependant and in which that other person did not claim any dependant allowances, but
- there is an exception for up to 19 years old dependants who are studying at an establishment of general, professional, higher or special education and receive income subject to wage tax (students) during the tax year from 1 June to 31 August. They may apply an IDPA for the part of the tax year (from 1 June to 31 August) in which they received income subject to wage tax and were another taxpayer's dependants. The dependant may also claim a dependant allowance for that period.

Under the Cabinet of Ministers' Regulation No. 676, *Calculating personal allowance and other income tax allowances*, a person taking care of a dependent child up to 19 years old who is studying at an establishment of general, professional, higher or special education, may keep the dependant allowance for the entire tax period if work is done only during summer holidays (from 1 June to 31 August) regardless of the amount of pay received.

How does a student's work affect the parent's PIT liability?

Under the above rules, the parent continues to claim the dependant allowance (EUR 230 a month from 1 January 2019) for the period during which a child works in summer if the summer work lasts for the period from 1 June to 31 August. The parent is not required to notify the State Revenue Service (SRS) separately.

Under section 13(3) of the PIT Act, the only exception when the parent cannot keep the allowance for a dependent student is if the student is employed by a microbusiness taxpayer. So the parent's income does not qualify for tax relief in respect of children's summer work.

How is the student affected?

Under these rules, the student may recover some of the unclaimed IDPA for the time worked in the summer (1-3 months depending on the employment period) through the annual income tax return for 2018. In this case, the student will have a PIT overpayment if an IDPA was not fully applied for PIT purposes on the income at source for the particular period or if a higher rate of PIT (23%) was charged.

## Case study

To illustrate how student summer work differs in terms of PIT treatment and potential benefits, let us explore four situations.

### Case 1. General: a student works outside the summer period

A person that has never worked begins work in November 2018.

The SRS personal allowance estimate is one-twelfth of the maximum annual personal allowance (EUR 200 a month), but the person has never received any employment income before, so the salary calculation uses only half the monthly IDPA, i.e. EUR 100 in 2018.

Under section 12(1) of the PIT Act, the person may claim the IDPA for the entire year through the annual income tax return, even though the employment lasted only two months in the tax year. In determining the applicable IDPA for the year, the total income gained over the entire year should be considered under the PIT Act. If the income is below EUR 440 a month, the person would qualify for the maximum annual personal allowance, i.e.  $\text{EUR } 200 \times 12 = \text{EUR } 2,400$ . The person would have no PIT to pay because the total annual income of EUR 880 is below the IDPA of EUR 2,400. So the person can seek a tax refund through the annual income tax return.

### Case 2. A student works for three summer months (June–August)

A student that has never been employed begins work on 1 June 2018. In this case, too, the SRS personal allowance estimate is one-twelfth of the maximum annual personal allowance, i.e. EUR 100.

The student may claim an IDPA appropriate for the annual income through the annual income tax return. For example, if the student's income was below EUR 440, then an IDPA of EUR 200 should be applied for each month worked. The annual income tax return shows a tax overpayment:

$$(200-100) \times 20\% = \text{EUR } 20 \text{ a month, totalling EUR } 60 \text{ for a three-month period.}$$

### Case 3. A student works for only one summer month

If a student worked only one month (e.g. June), then one month's IDPA (i.e. EUR 100) is applied when charging PIT at source. Assuming the criteria of Case 2, a tax overpayment of EUR 20 is recoverable (see the calculation above).

### Case 4. A higher rate of PIT is applied to a student's salary

Let us suppose a student worked only one summer month (e.g. July) and their income was EUR 2,800. A wage tax book has been filed with the employer. An IDPA of EUR 100 was correctly applied to the income of up to EUR 1,667. Any slice of income over and above EUR 1,667 attracted a PIT rate of 23%. Since in this case the student's annual income is below EUR 20,004, the applicable rate is 20% (and not 23%). This creates a PIT overpayment:

$$\text{PIT with employer} = ( (1,667-100-308) + (2,800-1,667) ) \times 23\% = \text{EUR } 512.39$$

PIT through annual income tax return =  $(2,800 - 200 - 308) \times 20\% = \text{EUR } 458.4$

Difference  $512.39 - 458.4 = \text{EUR } 53.99$  is recoverable PIT.

The annual income tax return for 2018 can be filed voluntarily between 1 March 2019 and 16 June 2022 via the Electronic Declaration System, or on paper by visiting one of the SRS customer service centres. Any PIT overpayment will be refunded within three months after filing the annual income tax return.