
PRACTICE NOTE

PN 1/85

Date: 18th November 1985

**INTEREST ON OVERDUE TAX - THIS PRACTICE NOTE WAS REPLACED BY
PN 30/90 DATED 8th OCTOBER 1990**

Section 9 Income Tax, etc. (Amendment) Act, 1985 introduced a new section, Section 111A, into the 1970 Income Tax Act. Under the terms of this legislation an interest charge is imposed on tax which is not paid within 31 days of the date on which the tax becomes due and payable.

A rate of interest of 12% per annum has been prescribed by the Finance Board and will apply from 1st January, 1986. No interest charge will arise before this date.

The intention behind the legislation is to encourage the early payment of tax; it is not intended to be a revenue raising device. Nevertheless, where tax is paid late it will impose a penalty for the late payment based on an interest calculation.

An important concession is contained in Section 111A(5) whereby the Assessor has the authority to remit any amount of interest payable under this Section.

Tax On Which Interest Is Charged

The interest charge arises on the late payment of the following:

- i. Income Tax including Non-Resident Tax
- ii. Class IV N.I.C.
- iii. Company Registration Tax

It will not apply to I.T.I.P. due from the employer by virtue of the Income Tax (Instalment Payments) Act, 1974.

Due And Payable Date

Interest starts to accrue from the 31st day after the date on which the tax becomes due and payable until the tax is paid.

(a) due and payable date -

- i. Income Tax (including Class IV N.I.C.) will normally be due and payable on the 1st January in the year of assessment for which the tax is due, or the seventh day after the assessment was made, whichever is the later of the two.
- ii. Company Registration Tax is due and payable 30 days after the date of the notice of assessment.

(b) date on which tax is paid - this will be the date the payment is received by the Treasury or the Income Tax Office.

Special Cases

The normal rule will not apply in I.T.I.P. cases nor is it appropriate with default assessments.

a). I.T.I.P the due and payable date remains the same as for any other income tax assessment. However, by concession, where that date falls before the 1st August in the year following the year of assessment any interest which has arisen will be remitted.

b). Default Assessment

the due and payable date will be the date on which the assessment becomes final and conclusive; this date being either

- i. when the extension date has expired and the relevant Return has not been submitted; or
- ii. where no extension application has been made and the time for making such an application has expired.

Revised Assessments

The revision of an assessment on which all or part of the tax has not been paid will not alter the due and payable date established by that assessment in respect of the tax remaining to be paid following the revision. Where a revision results in an increase in the tax payable, the due and payable date for the additional tax will be determined by reference to the date of issue of the revised assessment following the normal rules. The above provisions apply whether or not the revision arises out of an appeal against an assessment.

Assessments Issued Before 1/1/86

Where an assessment is issued before 1/1/86, interest will be charged from the later of:

- a. 1st January, 1986; and
- b. the thirty first day after the due and payable date.

Method Of Calculation

Interest will be calculated on a day to day basis. The starting point will be the 31st day after the due and payable date and will continue to run until the date the tax is paid. Tax will be treated as paid on the day the money is received by the Treasury or the Income

Tax Office. Payments allocated to a particular year of assessment will be first set-off against the tax payable and the balance against the interest charged.

NO ACTION WILL BE TAKEN TO COLLECT AN INTEREST CHARGE WHERE THE TOTAL INTEREST DOES NOT EXCEED £30.00 IN RESPECT OF THAT YEAR OF ASSESSMENT.

Instalment Payments

The normal rules will apply albeit the interest calculation will be more complex.

Notification Of An Interest Charge

Demand notices will not contain details of the accrued interest charge. This is because interest arises on a day to day basis and can only be finally determined at the time the overdue tax is paid. If a person has reason to believe that they have incurred an interest charge in excess of the £30 de minimis limit they should obtain an interest notice from the Income Tax Office confirming the interest to be paid. Where payment of the tax is made without an interest notice being obtained, one will be sent to the taxpayer and normal collection procedures followed until the interest is paid. Payment should be made at the same time the tax is paid. An interest charge is not a preferential debt, nor does it qualify for tax relief.

EXAMPLES

Due and Payable Dates

Ex.1. Assessment issued for 1985/86 on 8/8/85. Due and payable date will be 1st January, 1986.

Ex.2. Assessment issued for 1985/86 on 6/2/86. Due and payable date will be 12/2/86.

Revised Assessments (assuming no tax has been paid)

Ex.3. Original assessment for 1985/86 issued on 10/9/85 showing tax payable of £1,600. Following a claim for relief under Section 3 (3) Income Tax Act 1970 the assessment is subsequently revised on 6/5/86 showing tax payable of £1,400 which is then paid on 21/5/86.

Interest will be due on £1,400 tax from 1/2/86 to the 20/5/86.

Ex.4. Details as for Ex.3. but £800 had been paid on the original assessment on 24/1/86.

Interest will be due on the £600 tax still remaining to be paid i.e. from 1/2/86 to 20/5/86 subject to the £30 de minimis limit.

Ex.5. Provisional assessment issued for 1985/86 on 4/11/85 showing tax payable of £1,500. When the Return is received a revised assessment is issued on 10/3/86 showing tax payable of £1,800. No tax was paid until 1/5/86.

1. Original assessment - due and payable 1/1/86.

Interest on £1,500 from 1/2/86 to 30/4/86.

2. Revised Assessment - due and payable date 16/3/86.

Interest on £300 from 16/4/86 to 30 April 1986.

Ex.6. Default assessment issued for 1985/86 on 4/11/85 showing tax payable of £4,000. Extension application agreed to 28/2/86 but return not received until 12/3/86. Assessment concessionally revised on 14/6/86 showing £3,200 tax payable which is paid on 12/8/86.

Due and payable date will be 1/3/86 and interest will be charged from 1/4/86 to 11/8/86 on the tax of £3,200.