

Corporation tax July Job Stimulus and COVID measures

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Grant Thornton

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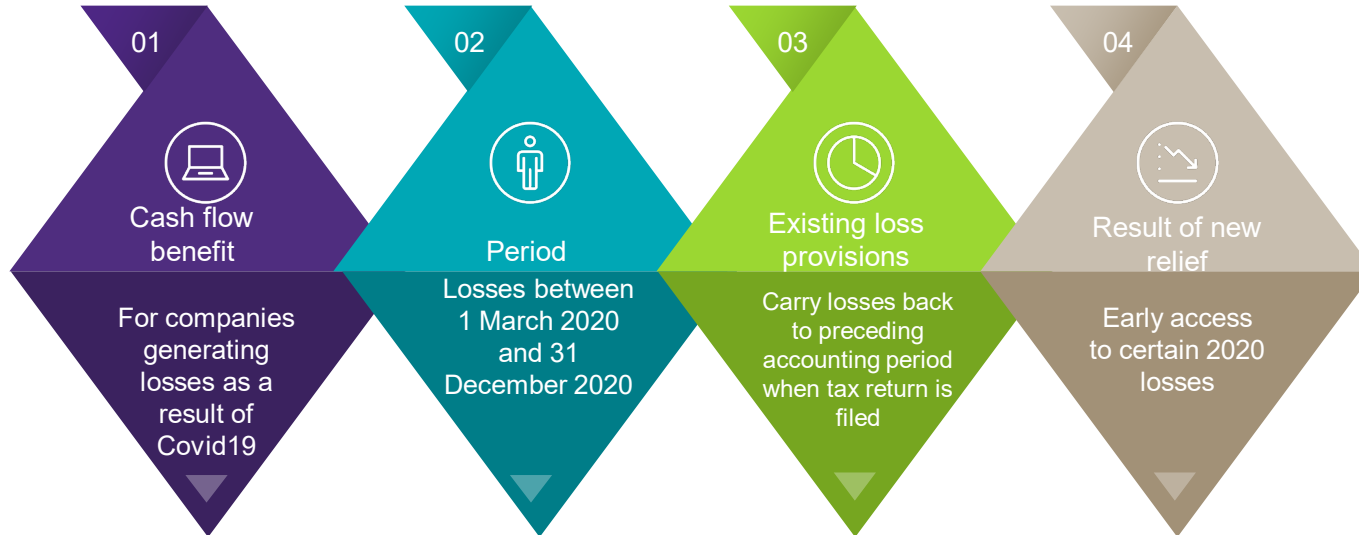
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Corporation tax accelerated loss relief

Covid Loss Relief



Corporation tax accelerated loss relief

- **Section 11 of the Financial Provisions (Covid-19) (No. 2) Act 2020**
 - New section **396D** inserted into the **TCA 1997**
- Section **396D TCA 1997** provides for a temporary acceleration of corporation tax loss relief
 - relief for companies which incur / incurred trading losses
 - permits an interim claim to be made for the carry back to the immediately preceding accounting period of trading losses incurred, or expected to be incurred
- “**cashflow**” measure

The relief

- All about making an ‘**interim claim**’
 - Carry back estimated trading losses incurred in a specified accounting period against profits of an immediately preceding accounting period on an accelerated basis
 - Treated as if it were a claim for relief under the existing loss relief provisions of **sections 396(2), 396A(3) or 396B TCA 1997**
 - rules applicable to those provisions apply
- Practical point – you do not need to wait until end of accounting period and/or when filing the relevant 2020 CT1 tax return

Which losses?

- **Section 396D(2)** ‘estimated non-relevant trading loss’ or ‘estimated relevant trading loss’
- An interim claim to carry back up to **50%** of the estimated losses (non-relevant or relevant) against profits of the immediately preceding accounting period

Relevant trading loss – definition from section 396A(3)
TCA 1997

- profits would be taxed at **12.5%**

Non relevant trading loss – from section 396 (2) TCA
1997

- excepted trade. Profits would be taxed at **25%.**

Specified accounting period

- **Section 396D(1) TCA 1997**
 - Any accounting period of a company carrying on a trade which includes some or all of the period commencing on **1 March 2020** and ending on **31 December 2020**



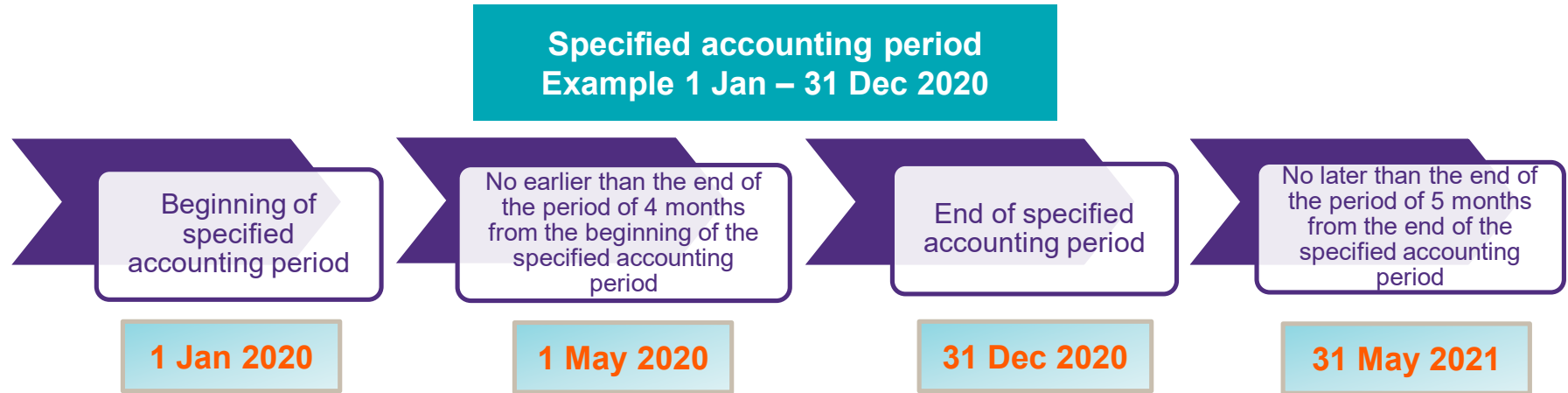
- Accounting periods ending in both **2020** and **2021** could be eligible for accelerated loss relief. However, accelerated loss relief may confer a benefit in only one of those periods
 - there would likely be no profits in the preceding **2020** period to offset the **2021** loss

Examples of specified accounting period

- Company has an accounting year end 31 December
 - The accounting period ending **31 December 2020** is a specified accounting period as it falls within the period **1 March 2020** to **31 December 2020**
- Company has an accounting year end 30 June
 - Both the accounting periods ended **30 June 2020** and **30 June 2021** are specified accounting periods as they include part of the period from **1 March 2020** to **31 December 2020**

Timing of interim claim

Section 396D(3)(a) TCA 1997



Eligibility

- 1 Declaration**

Company must make a declaration in the additional note panel on the CT1 for the period in which the loss is being claimed stating that it has incurred, or it will reasonably expect to incur, an estimated relevant or non-relevant trading loss in the specified accounting period - **section 396D(6)(a) TCA 1997**
- 2 Tax compliance**

Company must at the date of the claim have met all of its obligations with respect to the delivery of tax returns and the payment of all taxes (including any interest or penalties thereon) - **section 396D(6)(b) TCA 1997**
- 3 Supporting documentation**

Company must prepare and retain records evidencing the basis on which it has computed the amount of relief due under **section 396D(5)(a)(i) TCA 1997**

Interim claim revision

- Can revise an interim claim as the specified accounting period progresses (and up to 5 months after that period ends)
 - Includes increasing a claim where it is estimated that the loss will be greater than previously expected under **section 396D(4)(a) TCA 1997**
- If comes to company's notice that **50%** of the estimated loss is lower than the amount in respect of which an interim claim has been made
 - Required to reduce the claim by the excess amount without delay under **section 396D(4)(b) TCA 1997**
- **Section 396D(7) TCA 1997** - interest under **section 1080 TCA 1997** in respect of an excess claim can be applied – **0.0219%** per day or c. **8%** p/a
 - Timing of interest clock depends on whether or not deliberate or careless – generally should be from date on which claim is reduced until date of tax repaid by the company

Submitting a claim for relevant trading losses

01

CT1 for the preceding accounting period must be filed first – amend mode on ROS needed to display fields for **s396A** and **s396B**

02

A claim can then be made by amending the CT1 for the preceding accounting period via ROS through entering an amount of **50%** of the estimated trading losses in the **s396A** or **s396B** fields of the CT1

03

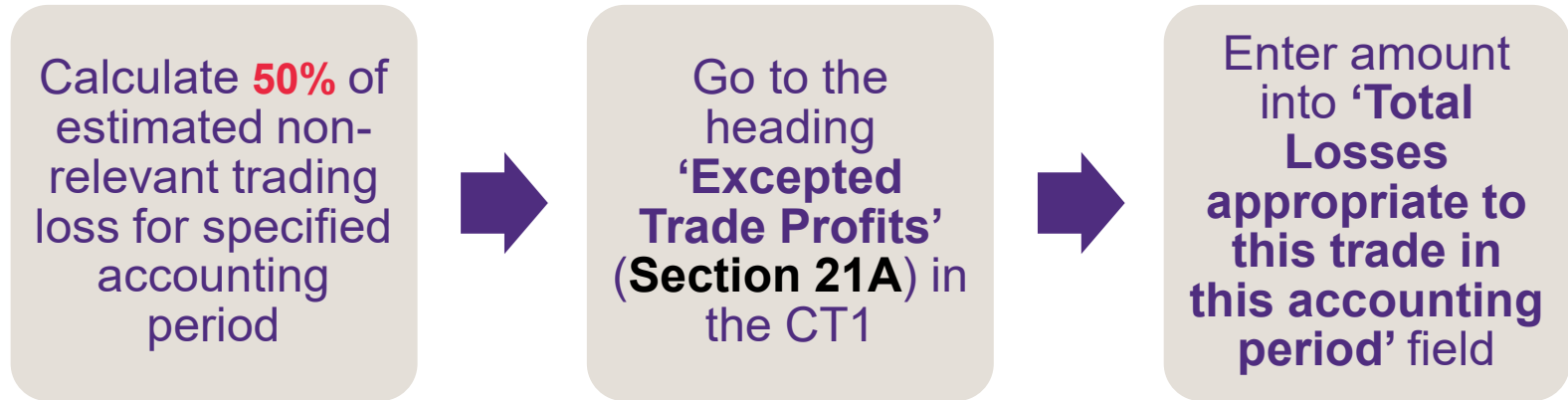
Claim can only be made **24 hours** (one day) **after** the preceding period's Form CT1 has been submitted, at the earliest

04

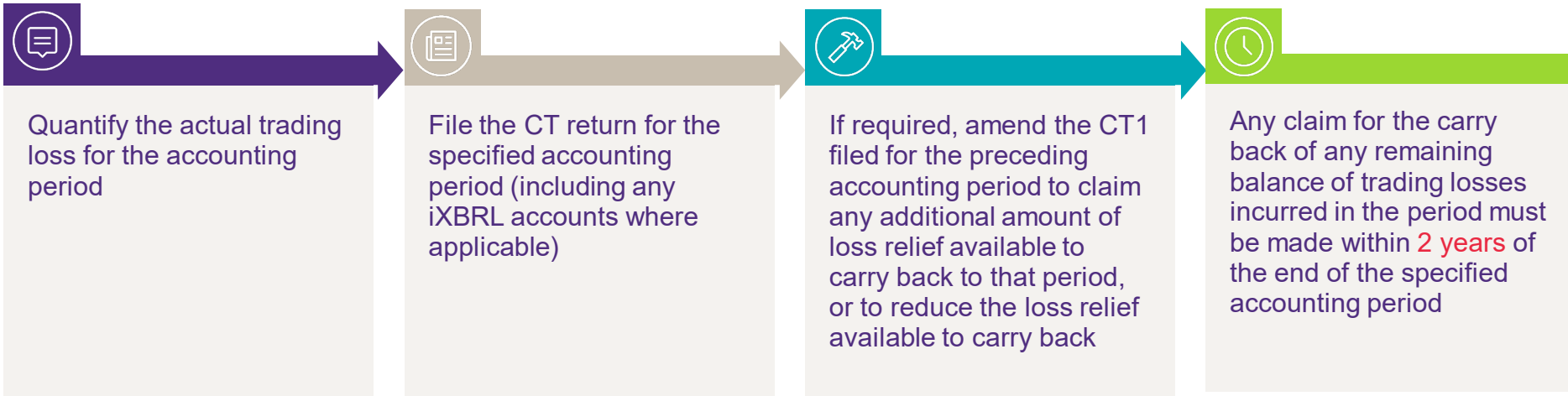
Must tell Revenue that the claim is a **s396D** claim by entering a note in the Additional Notes section – example in Appendix 2

Submitting a claim for non-relevant trading loss

- For excepted trades this is different – required CT1 field is available in both input and amend mode on ROS



Finalising a claim – specified accounting period ended



Example 1

- Outdoor Events Limited has a year end of **31 December**.
- It had relevant trading profits of **€100,000** for the accounting year ended **31 December 2019** (“FY19”) and a tax liability of **€12,500**.
- Outdoor Events Limited anticipates that, based on its best estimate, it will have relevant trading losses of **€60,000** in the accounting year ended **31 December 2020** (“FY20”), which is a specified accounting period.
- Outdoor Events Limited makes an interim claim under **section 396D** in **September 2020** to carry back **€30,000** (**€60,000 x 50%**) of its estimated relevant trading loss for FY20 for offset against its profits in FY19
- As a result of the claim, the FY19 relevant trading profits are reduced to **€70,000** (**€100,000 - €30,000**), with a resulting tax liability of **€8,750**, and therefore a refund of **€3,750** due from the original liability of **€12,500**.

Example 1 Cont'd

- In **November 2020**, Outdoor Events Limited carries out another review and now estimates that the company will have relevant trading losses of **€80,000** in FY20.
- Outdoor Events Limited makes a revised interim claim under section 396D in **November 2020** to carry back an additional **€10,000** (**€40,000 - €30,000**) of its estimated loss for FY20 for offset against its profits in FY19.
- As a result of the claim, the FY19 relevant trading profits are reduced to **€60,000** (**€100,000 - €30,000 - €10,000**) with a resulting tax liability of **€7,500**, and therefore an additional refund of **€1,250** due from the previous liability of **€8,750**.
- The claim will be finalised after the end of the accounting period, once the actual loss figure is known.

Example 2

- Cinema limited has an accounting year end of **31 July**. Both the accounting years ended **31 July 2020** (“FY20”) and **31 July 2021** (“FY21”) are specified accounting periods, as they include part of the period from **1 March 2020** to **31 December 2020**.
- The relevant trading profits for FY20 are **€60,000**, with a resulting tax liability of **€7,500**.
- Cinema Limited anticipates that, based on its best estimate, it will have relevant trading losses of **€50,000** in FY21, which is a specified accounting period. The earliest date a claim can be made is **1 Dec 2020**.
- Cinema Limited makes an interim claim under **section 396D** in **April 2021** to carry back **€25,000** (**€50,000 x 50%**) of its estimated loss for FY21 for offset against its profits in FY20. As a result, the FY20 profits are reduced to **€35,000** (**€60,000 - €25,000**), with a resulting tax liability of **€4,375**, and therefore a refund of **€3,125** is due from the original liability of **€7,500**.

Example 2 Cont'd

- In **June 2021**, on review of its trading position, Cinema Limited estimates it will have relevant trading losses of **€30,000** in FY21.
- As it has come to the company's notice that **50%** of the estimated loss is lower than the amount in respect of which an interim claim has been made, the company is required to reduce the claim by the excess amount without delay.
- An adjustment of **€10,000** is required to the interim claim ($(\text{€50,000} - \text{€30,000}) * 50\%$).
- As a result of the adjustment, the FY20 profits are increased to **€45,000** ($\text{€60,000} - \text{€25,000} + \text{€10,000}$), with a resulting tax liability of **€5,625**. The additional liability of **€1,250** will attract interest only from the date of the revised claim, provided neither deliberate nor careless and remedied without delay. Otherwise interest will run from the date of refund.

Example 3

- Wholesale Limited has a year end of **31 December**
- It has the following taxable profits in the year ended **31 December 2019** ("FY19"):
 - Relevant Trading Profits **€100,000**
 - Case V Rental Profits **€50,000**
 - Total Tax Liability **€100,000 x 12.5% + €50,000 x 25% = 25,000**
- Wholesale Limited anticipates that, based on its best estimate, it will have relevant trading losses of **€300,000** in the accounting year ended **31 December 2020** ("FY20"), which is a specified accounting period
- Wholesale Limited makes an interim claim under **section 396D** in **September 2020** to carry back **€150,000** (**€300,000 x 50%**) of its estimated relevant trading loss for FY20 for offset against its profits in FY19

Example 3 Cont'd

- Its revised taxable profits for the year ended **31 December 2019** ("FY19") are now:
 - Relevant Trading Profits **€100,000 - €100,000** claim under **section 396D = Nil**
 - Case V Rental Profits **€50,000**
 - Corporation Tax Payable **€50,000 x 25% = €12,500**
 - Less Value Based Relief from FY20 under **396D** (**€50,000 x 12.5%**) = **(€6,250)**
 - Corporation Tax Liability **€6,250**, and therefore a refund of **€18,750** due from the original liability of **€25,000**.
- The claim will be finalised after the end of the accounting period, once the actual loss figure is known
- In addition to the actual FY20 losses position, any investment income earned in FY20 will also need to be factored into the final loss relief calculation.

R&D Tax Credit

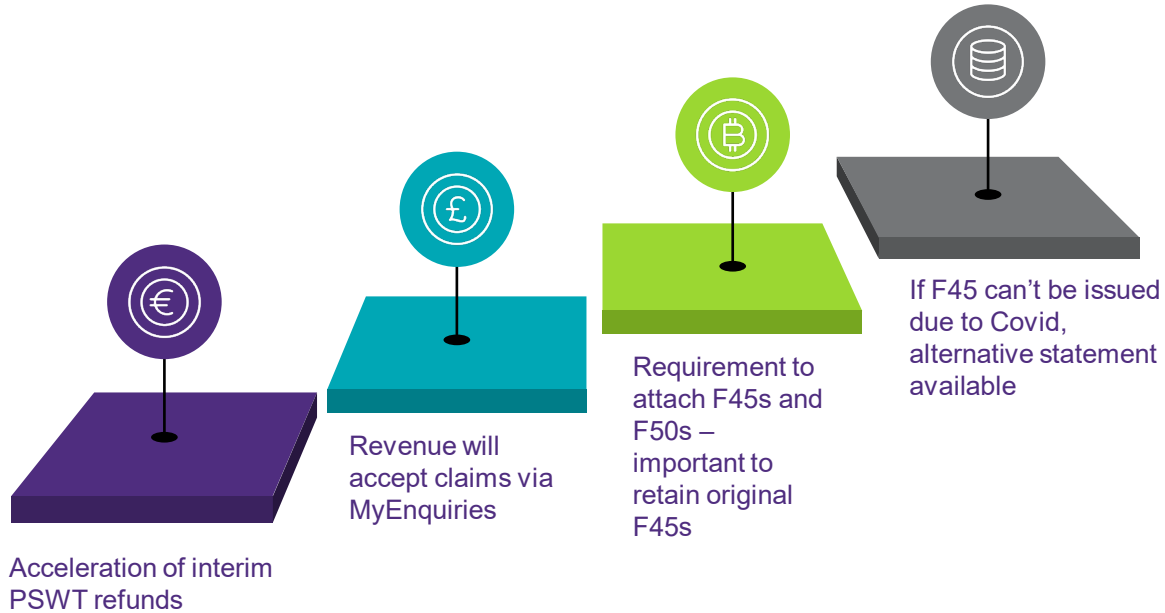
R&D Tax Credit

- Expedited refund in respect of amounts due to be paid as part of **FY19** tax return to include:
 - last instalment from **FY17**, second for **FY18** and first instalment for **FY19**
- No requirement to wait until filing deadline and for iXBRL accounts
- Request to be made via MyEnquiries when tax return has been filed
- Appropriate checks may continue to be made by Revenue
- Change to guidelines around inclusion of rental costs

- Recommendation:
 - **Early preparation of R&D tax credit reports**
 - **Expedite the finalisation of the Form CT1 and related tax computation for **FY19****

PSWT (professional services withholding tax)

PSWT Refunds



Recommendation:

- **Submit early PSWT refund claims where in a refund position**
- **Retention of documentation is key**

Close Company Regime

Close Company Provisions



Requirement to pay dividends to avoid surcharge on professional / investment income



Window – **18 months** from end of period in which the income was earned



Recognition that companies may wish to retain cash to support their business

Thus, Revenue will, on application, extend the **18 month** period for distributions by a further **9 months**

Reduced interest rate

Reduced interest rate

3% per annum
(0.0082% per day)

Current rate of interest on late corporation
tax payments

8% per annum
(0.0219% per day)

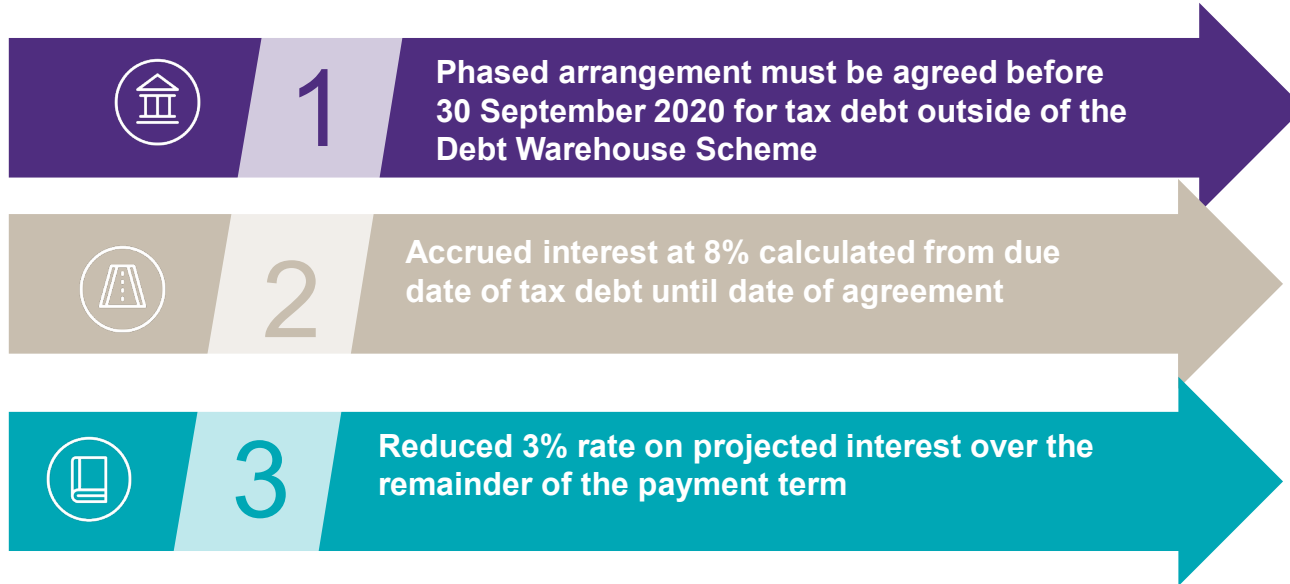
Applicable from **1 August 2020**

General terms

- Applies to declared but unpaid tax debts
 - Tax debts that fall outside of the Debt Warehouse Scheme
- Must agree a Phased Payment Arrangement (“PPA”) with Revenue on or before **30 September 2020**
- Existing PPAs can avail of the **3%** rate of interest
- **Impact for tax clearance if no PPA**
 - Eligibility for the Employment Wage Subsidy Scheme
 - Accelerated loss relief, and other measures

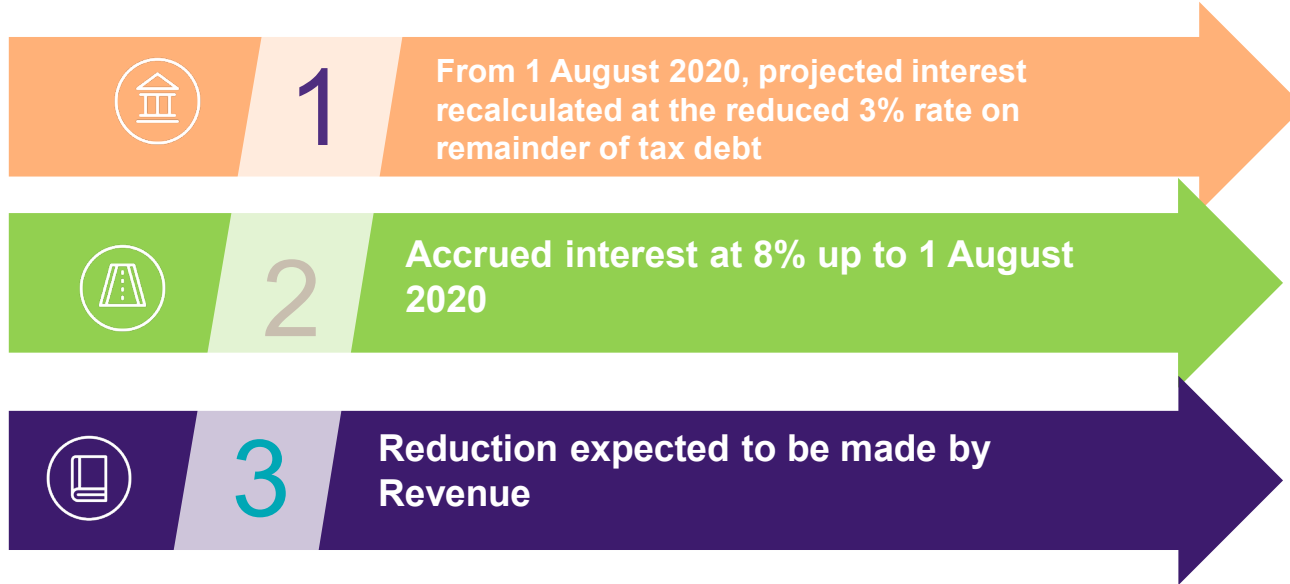
How will it work

For new PPAs



How will it work

For existing PPAs



How to avail of the reduced interest rate

- Applications for a PPA must be made via Revenue Online Service PPA process

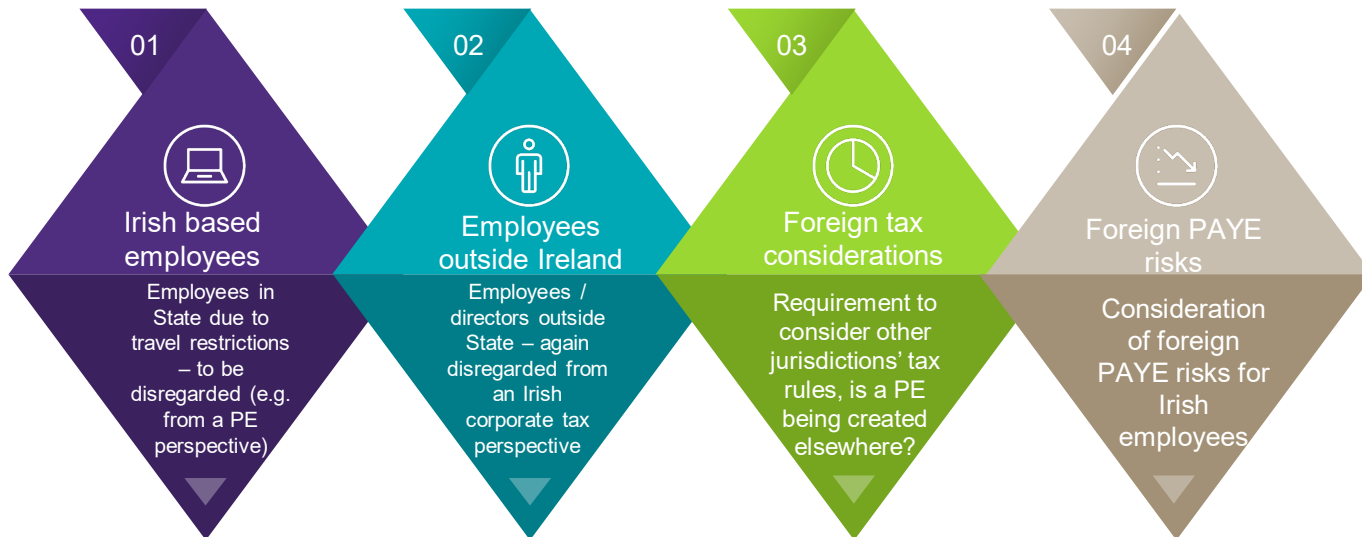
- Contact us to learn more



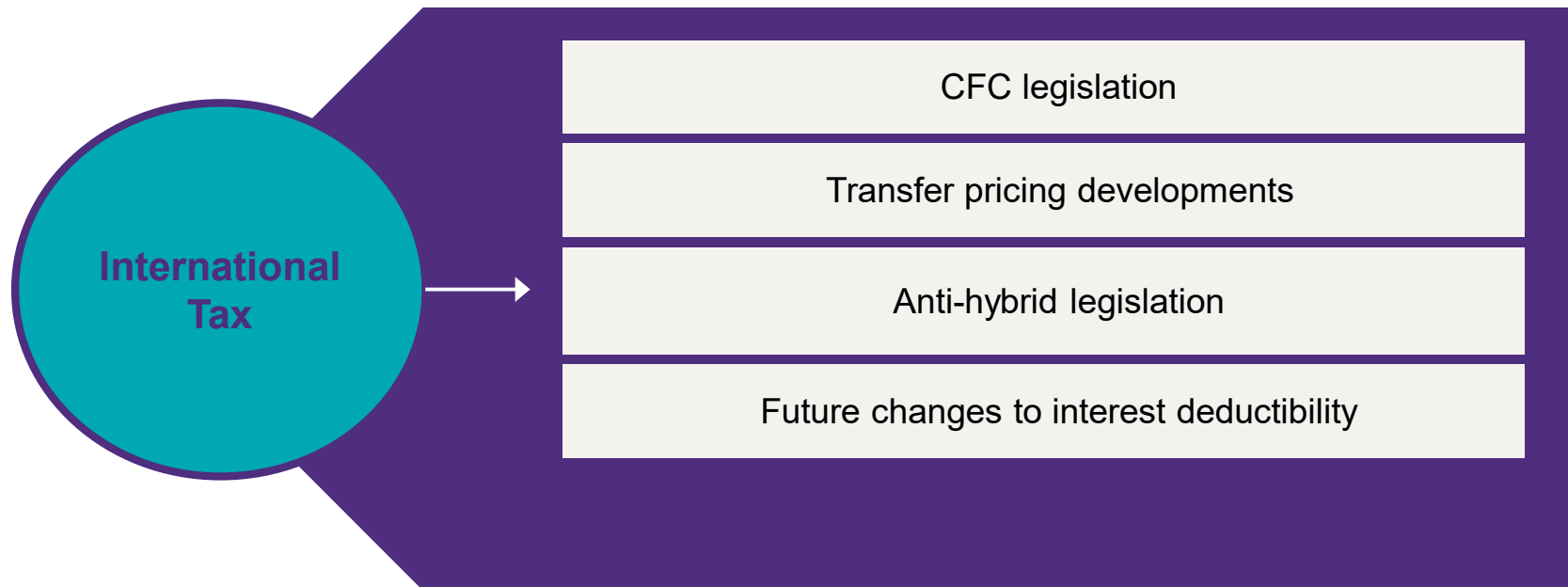
Keep an eye out for our webinar on 10 September 2020 – Debt Warehouse Scheme and Reduced Interest Rate

Other Considerations

Tax residence



International Tax considerations



Appendix I useful links

- Financial Provisions (Covid-19) (No. 2) Act 2020 – [Irish Statute Book](#) and [Oireachtas website](#)
- [Revenue press release on July Jobs Stimulus](#)
- [Revenue eBrief No. 150/20 – July Jobs](#)
- [Revenue Tax & Duty Manual: Accelerated Loss Relief for Companies](#)

Appendix II – sample declaration (contained in Appendix One of Revenue manual)

Notification of an interim claim for the purpose of section 396D for accelerated loss relief claims under section 396, 396A and section 396B

A claimant company must state the following information in the additional note panel on the CT1 for the accounting period in which the accelerated loss is being claimed under section 396D:

1. The specified accounting period²⁹ is from: ___/___/___ to: ___/___/___
2. The accelerated loss relief claim under section 396D is being made as if a section 396, section 396A and/or section 396B (**delete section as appropriate**) claim is being made;
3. The section 396D interim claim amount(s)³⁰ is (**enter amount here**) as if it was a section 396, section 396A and/or section 396B (**delete section as appropriate**) claim;
4. This is an amendment to an interim claim previously submitted claim under section 396D (**delete if appropriate**);
5. (**Name of Company**) is tax compliant³¹ as at ___/___/___ (**Date when the interim claim is made or an amendment to an interim claim is made**); and
6. (**Name of Company**) has incurred, or reasonably expects to incur, an estimated non-relevant trading loss and/or an estimated relevant trading loss (**delete as appropriate**), in the specified accounting period referred to above.

Questions or comments