



# KARL DEETER

Ireland's money expert

karl.deeter@notw.ie or follow me on Twitter @karldeeter

## The real price of family loans

I'VE been asked by several readers about the tax implications of loans between relatives and close friends.

The basic rule is that interest rates are considered 'fair market rates' for a loan, as long as you're not the employee of a financial institution getting a staff rate or it's done at "arms length". The latter doesn't apply to family members so here are the rules.

If a person gives another person money at no cost, or less than full cost, then the person getting the money is deemed to have received a "gift", and therefore may be liable for gift tax every year the loan exists.

The value of the gift is the best price you could get on the open market for the use of the money, usually the rate the lender would get if he or she put the money on deposit. So if you lent money at two

per cent and you could get four per cent on deposit then the gift the borrower is getting is almost equivalent to one per cent of the loan amount (that's minus DIRT tax of 27 per cent).

If after this the annual gift or benefit is less than €3,000 there's no liability because every person can have up to €3,000 per year tax free as a gift.

Even if it does go over that amount there may still be no liability as there are lifetime limits you have to surpass for a further liability to exist.

The limits have recently been reduced, allowing the Revenue to collect more inheritance tax. They are €332,084 for a parent to a child or grandchild, down from the high point of €542,544 back in early 2009. For brothers or sisters it's €33,208 and for non-relatives it's €16,604.



Gifted...but check tax

### THESE certainly are taxing times for us all, but dealing with one of life's major financial headaches doesn't have to be a nightmare.

Not being able to pay your taxes or even being unsure of whether you're paying too much or too little can seem very daunting, after all no one welcomes the tax man delving into their affairs.

The good news is that the Revenue Commissioners in Ireland are a fairly effective bunch, no real surprise I suppose when it's their duty to make sure we all pay up.

The staff are well briefed and well aware businesses and taxpayers are having a hard time meeting their obligations.

Their message is clear, if you think you have a problem then approach them early and often.

The Collector-General, Gerry Harrahill said: "Early, honest and realistic engagement with those difficulties maximise the possibility for successfully applying remedial measures to manage and overcome those difficulties."

#### HARDSHIP

In plain English that means the Revenue will work with people in genuine cases of hardship, so it's better to get in touch than bury your head in your hands. It may also stop you from being hit with senseless penalties and surcharges.

These vary in size and rate but the standard rate of penalty interest on late tax return payments is five per cent after the first month overdue and 10pc after that.

When we called the Revenue a spokesman told us they can and often do put alternative arrangements in place for customers in difficulty, but it is definitely not to be used as a lender of last resort.

There's no easy way out, you will still have to pay all of your taxes, it's just that you could end up paying more if you don't take charge of the situation.

If you reckon you're headed into financial trouble that may affect your ability to pay tax then visit the Tax Payment Difficulties section in the A-Z menu on [Revenue.ie](http://Revenue.ie).

Self-employed people with an accountant should use the Revenue Online Service. Your tax deadline is October 31, 2011, although if you know that you'll be due a refund you can complete your return any time between now and then.

In fact, refunds can come in handy when it comes to organising your tax affairs.

If you run a business and are waiting for a statutory redundancy rebate in order to pay taxes due, then the Revenue will accept this as part of a deferment package. Just make sure you fill in an application form which the Revenue will then use to verify your

## BE REALISTIC AND AVOID A NASTY SHOCK



Act now... don't ignore problems

# Taxing times..

details with the Department of Enterprise, Trade and Innovation.

For Ireland's million PAYE workers there are also times where you might be due a refund or have a liability.

For instance, if you inherited a lump sum of €100,000 from a friend then you'll have a Capital Acquisition Tax bill for the amount over and above €16,604 at a rate of 25pc, which works out at just under €21,000.

An interesting fact is that there is also an online system for PAYE workers called PAYE Anytime, which a whopping 580,000 workers have signed up to.

You can join them by going to [Revenue.ie](http://Revenue.ie) and clicking the icon on the bottom left-hand side of the page.

At any time, if you are not sure about your tax situation then get in touch with the Revenue either directly or via a professional qualified intermediary

such as an accountant, lawyer or tax advisor and explain your situation to them, it will help to avoid pain down the line.

If you still are not sure you can always send in an Expression of Doubt letter to them (usually to cover any potential liability for Capital Acquisition Tax) and in the future if you are wrong then there are no surcharges or penalties, you just have to pay the tax due.

This will create a situation whereby being upfront protects you from additional demands on your money.

Don't forget, even if you are a PAYE worker you should still do a tax return. You can get money back on medical expenses, bin charges and many other items.

It might be tough to pay taxes, but it is even harder to know that there are literally hundreds of millions in unclaimed taxes waiting for you to claim.

**Q** I RECENTLY had a debt written off because I lost my job two years ago and the credit card company settled with me.

**B**ut now a friend of mine says that it could be seen as a gift and I may be liable for tax, is that true?

**A** WHILE you have received a benefit in the debt write-off, I doubt that the credit card company's intention was to bestow you with a "gift".

Gift tax normally doesn't come up in relation to commercial arms-length transactions where neither party is intending to provide a gift to the other. Usual examples of gifts are presents of cash, a car or a transfer of a house or land.

From the details you've given I'm satisfied to say you don't have a liability.

However, if you are worried you can write to Revenue with an 'expression of doubt' (see the main article for details).

## Q&A

### Will credit deal cost me cash?

ADVISORS.IE

Karl Deeter is operations manager at **Advisors.ie**, a firm of accountants and financial advisors.

## Join Team FB!



Fighting Blindness



Run / walk / jog the

Flora Women's Mini Marathon in aid of

## Fighting Blindness

Dublin, Bank Holiday Monday, June 6, 2011



Bring hope to people living with sight loss & help fund our world-leading research into cures for blindness.

For your free t-shirt, sponsor cards & support please contact us today.

### Sign up now!

Call: 01 709 3050 Email: [fundraising@fightingblindness.ie](mailto:fundraising@fightingblindness.ie)

Text: 087 970 0100 Visit: [www.fightingblindness.ie](http://www.fightingblindness.ie)

1 Christchurch Hall, High St, Dublin 8.

Fighting Blindness. Research. Counselling. Cures.



Fighting Blindness Registered Charity No. CHY 6784