

22/05/12 Income Tax Questions

* nb for exam!!

Larry has a gross income of €60,000 a year. His standard rate cut-off point is €36,400. The standard rate of tax is 20% and the higher rate is 41%. He has a tax credit of €2,400. He is in class A1 for PRSI. (Assume a 52-week year).

(i) what is his PRSI contribution per week?

(ii) what is his employer's PRSI contribution per week?

(iii) what is his annual take home pay after all deductions?!

PRSI	First €127	Balance
Employee %	0	4
Employer %	10.75	10.75

Solution

$$\begin{aligned}
 (i) \quad & \frac{60,000}{52} = 1,153.85 \text{ per week.} \\
 & \quad \quad \quad - \quad 127 \quad (\text{doesn't have to pay PRSI on this}) \\
 & \quad \quad \quad \hline
 & \quad \quad \quad 1,026.85 \\
 & \quad \quad \quad \times \quad 4\% \quad (\text{rate of PRSI}) \\
 & \quad \quad \quad \hline
 & \quad \quad \quad \text{€ } 41.07 \rightarrow \text{PRSI contribution per week.}
 \end{aligned}$$

(ii) Larry earns €1,153.85 per week.

$$€127 \times 10.75\% = €13.65$$

on balance:

$$(1,153.85 - 127) \times 10.75\%$$

$$= 1,026.85 \times 10.75\%$$

$$= €110.39$$

∴ Employers total PRSI:

$$€13.65 + €110.39$$

$$= €124.04$$

(iii) Gross Income: €60,000

SRCP: €36,400

SR tax: 20%

HR tax: 41%

Tax credit: €2,400

PRSI for year: $(€41.07 \times 52)$

$$= €2,135.64$$

$$= €2,135.64$$

Tax

SR (Standard rate):

$$€36,400 \times 20\% = €7,280$$

HR (Higher rate):

$$(€60,000 - €36,400) \times 41\%$$

$$€23,600 \times 41\% = €9,676$$

$$\text{TOTAL TAX: } €7,280 + €9,676 = €16,956$$

TAX PAYABLE: TOTAL TAX - TAX CREDIT

$$= €16,956 - €2,400 = €14,556$$

Net Income = Gross Income - tax payable
- deductions

$$= €60,000 - €14,556 - €2,135.64$$

$$= €43,308.36 .$$