

# Chapter 9- Taxation and Insurance

## PAST TAXATION QUESTIONS

<p><b>2019 - WHAT DO THE FOLLOWING LETTERS STAND FOR</b></p> <p>PAYE Pay AS You Earn            USC Universal Social Charge            PRSI Pay Related Social Insurance            DIRT Deposit Interest Retention Tax            CGT Capital Gains Tax</p>	<p><b>2018 - CALCUALTE THE PAYE TO BE PAID</b></p> <p>GROSS PAY            55,000 + 5,000 = 60,000 (A)</p> <p>PAYE            34,550 * 20% = 6910            25,450 * 40% = <u>10180</u> 17090 (60000 - 34500)            Less TC = 1650                              1650                              <u>70</u>           <u>3370</u>            PAYE                                   13720 (B)</p>	<p><b>2018 - CALCUALTE THE USC TO BE PAID</b></p> <p>12,012 * .5%           60.06            7,360 * 2%            147.20            40628 * 4.75%       <u>1,929.83</u> 12012 + 7360 = 19372 - 60000                                                      2,137.09 (D)</p>
<p><b>2018 - CALCUALTE THE PRSI TO BE PAID</b></p> <p>60,000 * 4%            = 2,400 (C)</p>	<p><b>2018 - CALCUALTE THE TAKE HOME PAY</b></p> <p>GROSS PAY                                   60,000            LESS TAX            B                                           13,720            C                                            2,400            D                                            <u>2,137.09</u>                   <u>18,257.09</u>            Net Annual Take Hone Pay               36,742.91</p>	<p><b>2016 - DISTINGUISH BETWENE VAT and COPORATION TAX</b></p> <p>Value Added Tax is a tax on goods and services. It is a tax on spending paid by business and households. The standard rate is 23% but there are various rate depending on the product and service.            Corporation tax is a tax on profits paid by businesses. It is 12.5% in Ireland. This is one of he lowest rate worldwide and is one of the reason to attract FDI</p>
<p><b>2015 - WHAT DOES PAYE STAND FOR AND GIVE TWO FEATURES</b></p> <p>PAYE Pay As You Earn</p> <p>Features</p> <ol style="list-style-type: none"> <li>1. Progressive - The more you earn the more you pay</li> <li>2. Efficient - business collects it for revenue</li> <li>3. Direct - it is deducted at source</li> <li>4. Form based</li> </ol>	<p><b>2013 CALCULATE AUDREY'S TAKE HOME PAY</b></p> <p>GROSS PAY            78,000 + 2,000 = 80,000 (A)</p> <p>PAYE            32,800 * 20% = 6,560            47,200 * 41% = <u>19,352</u> 25912 (80000 - 32,800)            Less TC = 1650                              1650                              <u>320</u>           <u>3,620</u>            PAYE                                   22,292 (B)</p>	<p><b>2013 - CALCUALTE AUDREY'S PRSI TO BE PAID</b></p> <p>80,000 * 4%            = 3,200 (C)</p>
<p><b>2013 - CALCUALTE TAUDREY'S USC TO BE PAID</b></p> <p>10,036 * 2%           200.72            5,980 * 4%            239.20            63,984 * 7%         <u>4,578.88</u> (10,036 + 5,980 = 16,016 - 80,000)                                                      4,918.44 (b)</p>	<p><b>2013 - CALCUALTE THE TAKE HOME PAY</b></p> <p>GROSS PAY                                   80,000            LESS TAX            B                                           22,292            C                                            3,200            D                                            <u>4,918.44</u>                   <u>30,410.80</u>            Net Annual Take Hone Pay               47,589.20</p>	<p><b>2008 - MANAGING A BUSIESS IS SIMILAR TO MANAGING A HOSEHOLD DISCUSS</b></p> <ol style="list-style-type: none"> <li>1. Finance</li> <li>2. Taxation</li> <li>3. Identify Risk</li> <li>4. Fill out Forms</li> <li>5. Keep Forms safe</li> </ol>

# Chapter 9- Taxation and Insurance

## PAST INSURANCE QUESTIONS

### 2018 - IDENTIFY THE MAIN TYPES OF INSURANCE A BUSINESS SHOULD HAVE

**Employers Liability** - protects the business against claims made by employees  
**Public Liability** - protects the business against claims made by members of the public  
**Product Liability** - insures the business against claims made by customers  
**Fidelity Guarantee Insurance** - insurance against fraud, theft or dishonesty of employees

### 2016 - Question 4

Column 1: Terms	Column 2: Explanations
1. Insurable Interest	A. Applies if item is insured against the same risk with more than one insurance company.
2. Average Clause	B. The insured person cannot make a profit from insurance.
3. Subrogation	C. The insured person must gain from the item's existence and suffer financially from its loss.
4. Contribution	D. Applies if an item is under-insured and there is a partial loss.
5. Indemnity	E. The insured person must declare all material facts about the item being insured.
	F. Once compensation has been paid any legal right to the item recovered passes to the insurer.

### 2015 - OUTLINE THE FUNCTION OF AN INSURANCE PROPOSAL FORM.(i)

1. Insurance Proposal forms are used to apply for insurance cover and of the risk against which the insurance protection is desired.  
 2. Insurance Proposal form helps the insurance company to calculate the premium based on all the potential risks in relation to the insurance policy.

### 2015 - EXPLAIN THE PRINCIPLE OF INSURANCE REFERRED TO IN THE EXTRACT (ii)

**Utmost Good Faith:** All material facts must be revealed. The person taking out the insurance must answer all the questions truthfully. Failure to do so can make the insurance cover worthless. If the insurance contract is obtained by way of fraud or misrepresentation it is void e.g. a driver should declare truthfully the number of penalty points on his licence..

### 2008 - OUTLINE TWO OTHER PRINCIPLES OF INSURANCE (iii)

**Indemnity:** An insured person cannot make a profit from an insurance claim i.e. insurance can at best put an insured person in the same financial position as they were prior to a loss occurring.  
**Insurable Interest:** The insured must gain from the existence of the exposure unit and suffer from its loss. You can insure your own car but not your neighbours.

### 2008 - OUTLINE TWO OTHER PRINCIPLES OF INSURANCE (iii)

**Subrogation:** If a third party is responsible for damaging your car in an accident and you are compensated by your own insurer, your insurer can then sue the other driver  
**Contribution:** This principle states that if you hold more than one insurer liable for your losses, they have to share the loss.

### 2014 - EXPLAIN 'UNDERINSURED' AND OUTLINE ONE POSSIBLE EFFECT

Underinsured means the business has inadequate insurance cover. The insured fails to insure for the full value of the policy. In the event of a claim for total loss may result in economic losses to the policy holder  
 Result in financial crisis      Lower premium  
 Increase profits

### 2012 - POSSIBLE BUSINESS RISK AND APPROPRIATE INSURANCE

1. Risk of structural damage - Building insurance
2. Damage to stock - Contents insurance
3. Involved in a traffic accident - motor insurance
4. Losing an important member of staff - key person insurance
5. Risk of customer injuring themselves - Public liability insurance
6. Risk of worker injuring themselves - Employer Liability insurance

### 2009 - DISTINGUISH BETWEEN PUBLIC LIABILITY AND FIDELITY GUARANTEE

Insurance cover for the business which protects the business against claims by members of the public for injury or loss resulting either from an accident on the business premises (Public Liability)  
 Insurance cover for the business which protects the business against financial losses, as a result of theft or fraud by an employee. (Fidelity)

### 2008 - INSURANCE CALCULATION CLAIMS

$\text{Value insured} \times \text{Loss} = \text{Compensation}$   
 Value of House  
 $300,000 \times 63,000$   
 35,0000  
 54,000

Principle of Indemnity.

### 2008 - EXPLAIN THE TERM RISK MANAGEMENT & METHODS

A planned approach to the handling of the risk that the individual or business is exposed to is known as risk management. It involves Identification of risks cause of loss, likelihood of it occurring  
**Insurance:** Transfer the risk to an insurance company  
**Safe Procedures:** The manner/act of doing something Strictly  
**Training of personnel in health and safety**  
**Install Security systems**  
**Regular safety inspections/audits.**

# Chapter 9- Taxation and Insurance

## Taxation

### SAMPLE CALCUALTION OF INCOME

A. Gross Income		X
B. Calculate PAYE Income Tax		
€16,000 @ 20%	X	
€0 @ 40%	X	
	X	
Less Tax Credits	X	
	X	
C. Calculate Employee's PRSI		
PRSI (€16,000 @ %)	X	
D. Calculate Universal Social Charge		
€10,000 @ 2%	X	
€16,000 @ 4%	X	
€0 @ 7%	X	
Total USC Payable	X	
E. Calculate Net Income		
Gross Income (A)		X
Minus PAYE Income Tax (B)	X	
Minus Employee's PRSI (C)	X	
Minus USC (D)	X	
Total Deductions (B + C + D)	X	
Net Income		X

### SUCCESS CTITERIA

1. Calculate total income (A)
  2. Calculate the PAYE -
    - multiply the gross income by the lower SRCOP.
    - The take the SRCOP away from the total salary and multiply it by the higher SRCOP rate (B)
    - Add these two figures together (B)
    - Take the tax credit away (B)
  3. Calculate the PRSI using gross income multiply by PRSI rate (C)
  4. Calculate the USC - using the gross income - use the different rate correctly (D)
  5. Add all the taxes together B + C + D and take it away from A
- Use the diagram on the left for the layout

### TYPES OF TAXATION

**Corporation Tax** - This is tax paid on profits earned by companies. It is 12.5% which is low for international standards but is needed to attract foreign transnational companies to Ireland. It also provides a incentive for Irish entrepreneurs to take the risk of setting up a company.

**Value Added Tax (VAT)** - This is a percentage tax that is added to the price of certain goods and services. Most business except those with very small scale have to register for VAT.

**Capital Gains Tax** - Tax paid on profits earned from the sale or disposal of a business asset

**Customs Duties** - Are taxes levied on imports coming into the country from outside the EU

**Commercial Rates** - These are taxes that are levied by local authorities on properties used for commercial purposes to help finance local government services.

**Employer's PRSI** - Is levied on firms for every person that they employ. It funds social welfare such as unemployment payments, pensions maternity benefit. It's calculated as a percentage of the employee's gross income

### HOW DOES TAXATION AFFECT BUSINESS

**Lower Profits** - Taxes reduce the final profits which in-turn reduce the amount of money that can be reinvest into the business and paid out to shareholders

**Higher prices** - Taxes such as VAT and customs duties increase the selling price of goods thus reducing profits

**Human resources** - High taxation of staff can reduce motivation which may result in them looking of higher wages

**Incentives** - Firms may locate their business in a particular areas or country to take advantage of the tax incentives

### COMPARISON OF HOUSEHOLD AND BUSINESS TAXATION

Similarities	Difference
Liabile - both pay tax	Amount paid
Records - both must keep records	Types of Taxes paid
	Tax refund and write off
	Tax collection

### TAXATION DOCUMENTS

**Tax Credits** - This is an allowance form the Government that reduce the amount of tax owed. An employee they should fill in a Form 12A when they a job for the first time to get the correct tax credits

**Form 12A** - used by revenue to calculate the rate of tax that will apply to an employee and the tax credits that they are to receive

**Notice of credits** - This is a document setting out the tax credits and the standard rate of cut of point an employee is entitled to. A copy of this is sent to the employee and employer each year

**Form P60** - Employees receive this at the end of each year. It shows the amount of pay, income tax and PRSI paid by the employee for the year

**Form P21 (balancing Statement)**. This form is sent to the Revenue if they have paid too much tax in a year. If they have they will receive a rebate employer.

**P45 (Cessation Certificate)** - This is given by the employer to the employee when they leave a job.

### TAXES PAID BY A BUSINESS

**Pay as you Earn (PAYE)**- Income Tax is paid by all employees. All business must deduct PAYE tax form their employee wages before they get paid. This money is then forward onto the Revenue

**Self-Assessment Income Tax** - This is paid by Sole traders on their incomes. Every year self-employed people must calculate their own tax liability. Random spots checks are carried out by the revenue commissioner to ensure that the correct payment is made

**PRSI (Pay Related Social Insurance)** - This is a compulsory insurance payment by employees to the state. It is calculate as a percentage of gross income

**Universal Social Charge (USC)** - This is a tax on gross income and is paid regardless of whether they pay income tax under the PAYE system or self-assessment income.

**Excise Duties** - These are taxes that are added to the price of certain goods such as alcohol

**Motor Tax** - This is a tax that must be paid annually on all roadworthy vehicles and is collected by local Authorities

Capital Gain Tax (CGT)

Capital Acquisition Tax (CAT)

Customs Duties -

Value Added Tax (VAT)

# Chapter 9- Taxation and Insurance

## Insurance

### KEY WORDS

**Fidelity Guarantee Insurance** - This provides business cover against dishonesty of fraud by an employee against the firm

**Public Liability** - The cover a business against claim if a member of the public is injured in an accident that is the fault of the business

**Employer's Liability** - Protects a business against claims arising from accidents, injuries and illness suffered by employees as a result of their work

**Consequential Loss** - Provides financial compensation for loss of income in the event of a risk occurring

**Whole life assurance** - the insured pays an annual premium for the rest of their life and compensation will be paid out when death occurs

**Endowment life assurance** - Under this policy compensation is paid out if you reach a certain age or death occurs which ever happens first

**Term-Life assurance** - this provides cover for an agreed period of time such as 20 years no lump sum is paid unless death occurs within that period

**Proposal form** - This is an application form which is completed by the person who is applying for insurance

**Loading** - Extra charge for higher risk - Smoker

### STEPS INVOLVED IN BEING INSURED

1. Contact an insurance company - a Broker or Agent
2. fill in a proposal form - an application from. Identify the item being insured (Exposure unit)
3. Risk is assessed and premium is calculated - fee to be paid is calculated based on level of risk, value, Loading
4. Policy is issued - this sets out what is insured and for how much
5. Make a claim if the insured event occurs - a claim form is filled in setting out what happened

### WHAT IS RISK MANAGEMENT

It is a planned approach to handling the risk that an individual or business is exposed to. It means identifying key business risks, their likely effect on the business and then putting in place a strategy to minimise them occurring and if they do to resolve them as quickly as possible

### METHODS TO REDUCE RISK

Insurance	Safety procedures	Safety statement
Training	Security Alarms	Regular safety Audits
Appoint a health and safety officer		

### WHAT IS INSURANCE

Insurance companies collect premiums from a large number of people. Only a small number of these risk will actually happen causing the insurance company to pay out. This allows the insurance company to pay out compensation but also have money left over for a profit

### IMPORTANCE OF INSURANCE

Business	Household
Survival is protected	Financial security
Improve Cash flow	Piece of Mind
Make exporting easier	Enhanced savings
May be a legal requirement	

### PRINCIPAL OF INSURANCE

Insurable Interest	Utmost Good Faith	Indemnity	Contribution	Subrogation
must benefit for the existence of the item being insured and suffer from the loss. you can only claim compensation on something for which you have taken out insurance. This is known as Proximate clause.	This is also known as Uberrima Fidei. It means that the insured must give truthful information and give all relevant facts when applying for insurance. A relevant fact is anything that could influence the insurer's decision to take on the risk and calculate the premium	The insured can't make a profit from an insurance claim and no compensation is paid for sentimental loss Life assurance is an exception to the principal of insurance.	This principal states that if insurance is taken out with 2 insurance companies, the insurance companies will divide the total cost of the claim between them. are not they money will have to be paid back	This principal states that the insurers who pay out full compensation for an item insured are entitled to take possession of the item involved and sue a third party who caused the loss

### WHAT IS INSURANCE

This rule applies to partial loss when a loss is suffered. For example - If you insure your house for 25% of the value of the house then insurance. Company will only pay you 25% of the loss suffered

**Insured value**                      X                      **Damage**  
Value of the assets

### SIMILARITIES AND DIFFERENCE

Similarities	Difference
Identify risks	More risk
Insure against loss	Suffer greater loss
Fill out forms	Pay PRSI for employee
Keep policies safe	Treat as an Expense

### TYPES OF INSURANCE

Business	Household
Third part fir and theft	House insurance
Comprehensive insurance	Motor Insurance
Health Insurance	Mortgage protection insurance
PRSI	Permanent Health insurance
Key Person Insurance	Personal accident insurance
Fidelity guarantee	Whole life insurance
Public liability	Endowment Insurance
Employers Liability	Term-life insurance
Consequential loss	