Red Oak

TWSS EXPLAINED

(PUBLISHED ON 22/09/2021)

REVIEW OF YOUR UNDERPAYMENT OF TAX IN 2020 CAUSED BY RECEIPT OF THE COVID PAYMENT TWSS

RED OAK TAX REFUNDS

CONTENTS

01
TAX RESULT FOR 2020

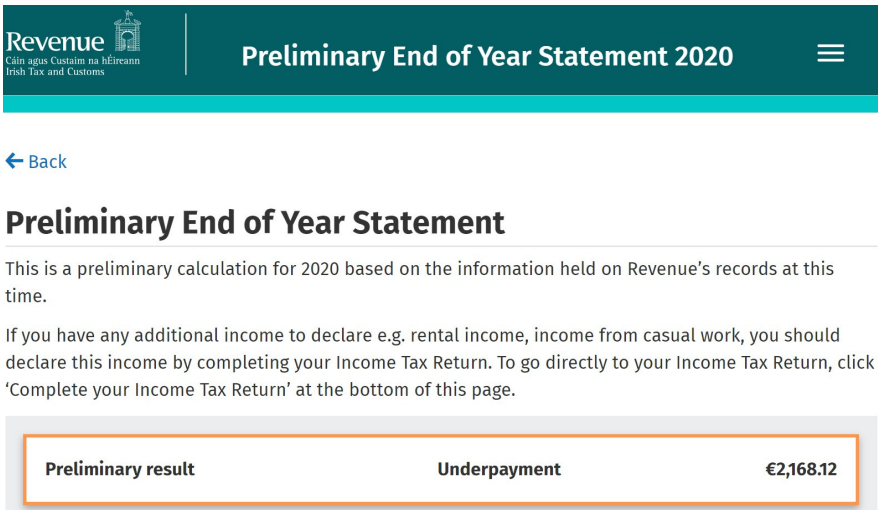
02
WHAT IS THE TWSS & FAQ

03
WHAT ARE YOUR OPTIONS

04
EXAMPLE

05
NEXT STEPS

01. TAX RESULTS FOR 2020



Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

Preliminary End of Year Statement 2020

← Back

Preliminary End of Year Statement

This is a preliminary calculation for 2020 based on the information held on Revenue's records at this time.

If you have any additional income to declare e.g. rental income, income from casual work, you should declare this income by completing your Income Tax Return. To go directly to your Income Tax Return, click 'Complete your Income Tax Return' at the bottom of this page.

Preliminary result	**Underpayment**	**€2,168.12**

** This image is an example of an underpayment result per Revenue for illustration purposes only*

UNDERPAYMENT

Your Preliminary result on Revenue shows as an underpayment - please check your email for the amount of this underpayment. This means you owe Revenue for underpaid taxes in 2020.

We have determined that the main factor in this result is the TWSS COVID subsidy you received in 2020.

Employment/pension income

[redacted] €38,393.40

Employment ID: 1

COVID-19 related incomes for Fort Wayne Metals (ireland) Ltd:

Employer Refund Scheme (ERS) €0.00

Temporary Wage Subsidy (TWSS) €6,066.64

Gross income for Income Tax **€44,460.04**

** This image is is an example of a TWSS amount on Revenue for illustration purposes only*

AMOUNT OF TWSS RECEIVED

Revenue shows that you were in receipt of TWSS in 2020 - the amount of TWSS you received is outlined in the email.

To find more details as to what the TWSS is, how does it relate to you and most importantly, what options have you got in order to deal with this please follow along with our report.

02. TEMPORARY WAGE SUBSIDY SCHEME

What is the TWSS?

The TWSS, or the Temporary Wage Subsidy Scheme was introduced on the **26th of March and it ran until the 31st of August, 2020 (24 weeks in total)**. It allowed employers significantly impacted by the pandemic to retain their employees at a reduced cost to the employer, while at the same time keeping the employee on the same net wage. **The maximum amount of TWSS was €410 per week but the exact rate depends on your average income pre-Covid**. Over a 24 week period this could amount up to **€9,840.**

How was it operated from your perspective?

From your perspective the TWSS it may have not made a difference to your net take home pay, however if you have a look at your pay slips over this period you will typically see the subsidy income marked as **GovCov19 WageSub**. Your personal rate of subsidy depended on your average weekly income from the months of **Jan & Feb of 2020.**

Was it taxable?

Absolutely. But no tax was charged to it through the payroll system. It was in effect designed to result in you having an underpayment of taxes at the end of the year. The scheme was designed to result in an underpayment of taxes in the year.

How much is it taxed at?

The TWSS is subject to **both PAYE tax as well as USC**. Same as any other income, it is taxed at your marginal rate (*see example on page 4*).

Why did the government introduce a scheme that results in liability?

At the time it was introduced the government was very concerned to avoid large scale redundancies due to the lockdown. Giving you the subsidy tax free, but taxable, deferred the cost of part of the subsidy.

Is it my fault?

The short answer is **NO!** Many of our customers are worried that they have done something wrong. **You haven't!** The scheme deliberately meant you would have an underpayment at the end of the year.

Is it my employer's fault?

In order to participate in the scheme employers had to operate it in the prescribed way. But they may be able to help with the resulted underpayment (*see next page*)

03. WHAT ARE MY OPTIONS TO DEAL WITH THIS?

Option A - **Employer may pay the liability**

Employers have the option (but is not required)to pay the underpaid tax due to TWSS. They can do this any time before the end of September.

We recommend you do not review your 2020 taxes before the end of September to give the employer the fullest of time to consider paying the liability.

(relevant to 31st of September, 2021)

For the employer to pay the liability they will generally need some information from you regarding your taxes. There is some variance in how employers are operating the scheme, but they will need either your preliminary result or a statement of liability.

Option B - **Do Nothing**

There are a number of reasons why it may be best to take no immediate action with your taxes - for now.

- Your 2020 tax result is not official yet and is not official until a Statement of Liability is issued. Revenue will not take steps to collect the underpayment until the result is official.

- There have already been a number of changes in how TWSS is treated (such as introducing the ability for the employers to pay) and much uncertainty as to amounts (with many adjustments to the amounts on revenue). We do not rule out more changes to approach or the numbers. So we suggest a cautious approach and wait until Revenue either make your result official, or formally ask you to review your preliminary result and make it official.

***Disclaimer** - The above constitutes general advice and does not constitute personal financial advice as it does not take into account your personal circumstances and there may have been changes since the publish date. For personal financial advice, see our service options on section 5.*

03. WHAT ARE MY OPTIONS TO DEAL WITH THIS?

Option C - **Review your taxes to look to reduce the liability**

If your employer was not in the position to pay the liability, it is very worthwhile checking for missing tax credits and income deductions that could reduce your tax liability.

Tax credits are available depending on your personal circumstances, and the type of work and work benefits you receive and should be reviewed each year.

Option D - **You pay the liability**

This can be done in 2 ways:

Pay in full now

Once the result - and underpayment - are made official, it can be paid off in full through MyAccount, the Revenue employee tax portal.

In order to do so you will need to login, then go to section payments. Select 'PAYE Employee' and follow the guide. When it asks what type of payment you are making select 'Tax'. Once completed your record for 2020 will be balanced.

Spread the liability

Underpayments due to the TWSS can be collected by reduction of your tax credits for the next 4 years starting from 2022 till 2025.

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04. EXAMPLE

Brian is is single and was on **TWSS for 14 weeks** from start of April up until the middle of July. His wages were subsidised at the maximum rate of €410 per week. This gives a total **TWSS of €5,740**.

By the end of the year Brian earned a Total of **€43,740** through his employment with the TWSS included.

Brian's ***Marginal Rate** is 40% for Income Tax as well as 4.5% for USC.

As the TWSS amount was not taxed at payroll, Brian could have a shortfall on his taxes of **€2,554** (as per figure on the right). This consists the following:

- **Income Tax – €2,296** (5,740@40%)
- **USC – €258** (5,740@4.5%)

Brian's employer is not in a position to cover his liability, so he needs to pay this by himself.

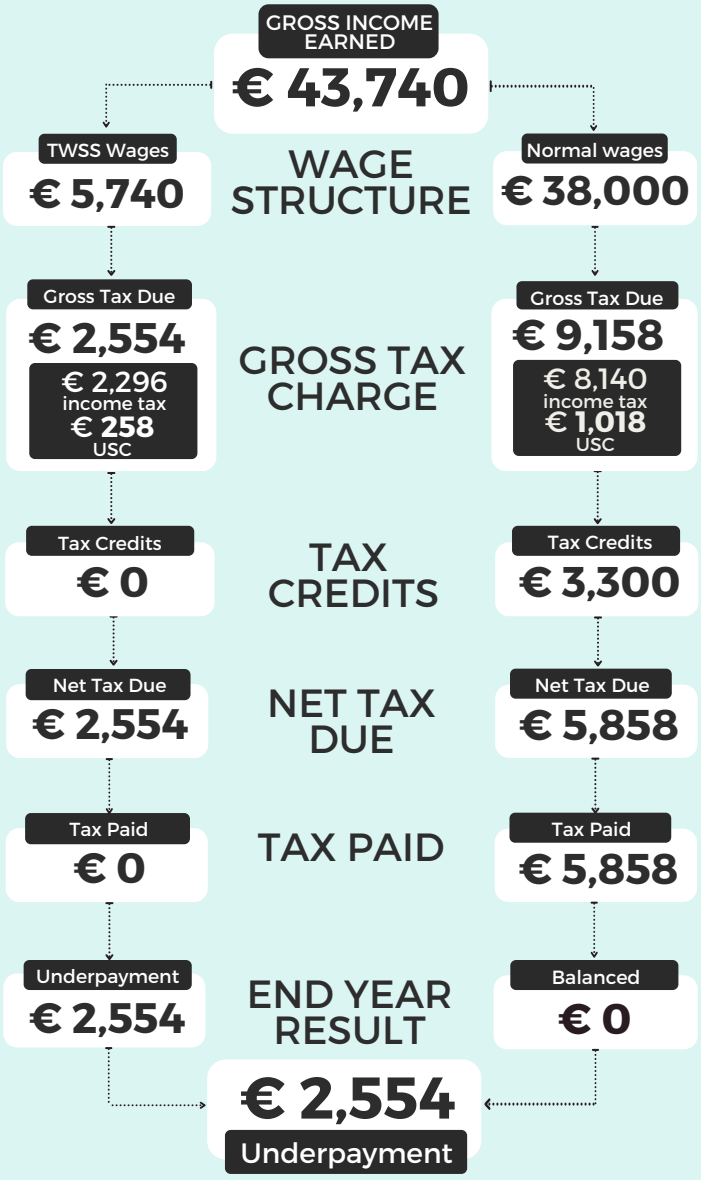
Of course, as his Tax Agent, **Red Oak** is reviewing his taxes in an effort to reduce his overall liability. Following the review, Brian obtained additional **€400** of tax credits by claiming Medical Expenses and VHI.

Now Brian's liability has been reduced to €2,154 and he's got 2 options:

1. Brian can pay this off in full immediately in a single payment.

2. Have it collected through reduction of his tax credits by €538.50 in each of the next 4 years (2022, 2023, 2024, 2025). This will effectively reduce his net pay each week in those years by €10.36 per week.

2020 DEDUCTIONS



The **Marginal rate is basically the brackets for taxation. This depends on the income earned and the individual's basis of assessment. For a single person the standard rate band is €35,300, so amount of income above that is charged at 40%. In the case of USC, amounts between €20,484 and €70,044 are typically subject to USC at 4.5%.*

05. NEXT STEPS

Service option:

As there is an underpayment we cannot perform this on a commission basis (*as we would earn no fee*), but need to do so on a fixed fee basis.

Our offer includes the following:

- Review of your current tax liability, and how much of it is due to the TWSS.
- Review of your tax credits and income deductions to ensure correct ones are being received and to claim any more that may reduce your underpayment.
- Work with you to ensure your pay amounts and TWSS have been submitted to Revenue correctly
- Supply any Revenue documentation required by your employer if they choose to meet the underpayment.
- Support you in explaining any Revenue documentation regarding your 2020 liability
- Submitting your 2020 tax return when required
- Supporting you in arranging the appropriate payment option (*pay the liability now or have them reduce your future tax credits*)

€99 (VAT Inclusive)

**We reserve our right to withdraw/change our offer at any stage depending on the specific circumstances following assessment of your records.*