

Taxation of credit union dividends and interest

Part 08-05-01

This document should be read in conjunction with Chapter 5 of Part 8
Taxes Consolidation Act 1997

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Introduction

Credit unions as “relevant deposit takers” must deduct Deposit Interest Retention Tax (DIRT) from dividends and/or interest paid or credited to all accounts on, or after, 1 January 2014. This manual sets out the treatment of interest/dividends paid by credit unions.

1. Term Share Accounts

Term Share Accounts which could be opened in the period 1 January 2002 to 16 October 2013, will cease to be Term Share Accounts

- 3 years after the account was opened in respect of Special Medium Term Share Accounts
or
- 5 years after the account was opened in respect of Special Long Term Share Accounts.

Section 23 Finance (No. 2) Act 2013 refers.

1.1. Special Medium Term Share Account (3 year)

Prior to the enactment of Finance (No. 2) Act 2013, the first €480 of dividends and/or interest posted annually to a Special Medium Term Share Account were exempt from DIRT. Any dividends and/or interest paid or credited in excess of €480 were liable to DIRT.

The above provisions will still apply to Special Medium Term Accounts that are yet to reach the 3 year anniversary of account opening.

For example: A Special Medium Term Share Account was opened on 12 September 2013. The €480 exemption will still apply to any annual dividends and/or interest paid or credited to the account until 11 September 2016.

Any annual dividends and/or interest paid or credited to the account after 11 September 2016 will be liable to DIRT (currently 41%).

Special Medium Term Share Accounts that had already reached their 3 year anniversary date are liable to DIRT in respect of any annual dividends and/or interest paid or credited to the account after 1 January 2014.

The DIRT deduction is a final liability in respect of the dividend paid to the Special Medium Term Share Account.

1.2. Special Long Term Share Account (5 year)

Prior to the enactment of Finance (No. 2) Act 2013, the first €635 of dividends and/or interest posted annually to a Special Medium Term Share Account were exempt from DIRT. Any dividends in excess of €635 were liable to DIRT.

The above provisions will still apply to Special Long Term Accounts that are yet to reach the 5 year anniversary of account opening.

For example: A Special Long Term Share Account was opened on 12 September 2013. The €635 exemption will still apply to any annual dividends and/or interest paid or credited to the account until 11 September 2018.

Any annual dividends and/or interest paid or credited to the account after 11 September 2018 will be liable to DIRT at the DIRT rate in force at that time.

Special Long Term Share Accounts that had already reached their 5 year anniversary date are liable to DIRT in respect of any annual dividends and/or interest paid or credited to the account after 1 January 2014.

The DIRT deduction is a final liability in respect of the dividend paid to the Special Long Term Share Account.

1.3. Special Medium Term Share Account (3 year) converted to a Special Long Term Share Account (5 year) prior to the 3 year anniversary of account opening

The €635 exemption applied to a Special Medium Term Share Account (3 year) that was converted, by election, to a Special Long Term Share Account (5 year) prior to the 3 year anniversary of the opening of the Special Term Share Account (3 year). The €635 of exemption was applied to dividends and/or interest posted annually to Long Term Share Account (5 year) in the year of assessment after the election to convert the Medium Term Share Account was made.

For example: A Special Medium Term Share Account opened on 1 February 2012 was converted, by election, to a Special Long Term Account on 1 September 2013. The €635 exemption applies to any annual dividends and/or interest paid or credited to the account on, or after, 1 January 2014.

The above provisions will still apply to a converted Special Long Term Accounts that are yet to reach the 5 year anniversary of the opening of the Special Medium Term Share Account (3 year).

For example: A Special Medium Term Share Account was opened on 12 September 2013 and converted to Long Term Share Account on 1 March 2016. The €635 exemption will still apply to any annual dividends and/or interest paid or credited to the account for the period 1 January 2017 until 11 September 2018.

The €480 exemption applies in respect of any annual dividends and/or interest paid or credited to the account for the period 12 September 2013 to 31 December 2016.

Any annual dividends and/or interest paid or credited to the account after 11 September 2018 will be liable to DIRT at the DIRT rate in force at that time.

The DIRT deduction is a final liability in respect of the dividend paid to a converted Special Long Term Share Account.

2. Conditions that applied to Special Medium Term Share Account (3 year) and Special Long Term Share Account (5 year)

In order to qualify as a Special Medium Term Share Account, or a Special Long Term Share Account, the following conditions had to be satisfied:

- a) The account when opened had to be designated as a Special Medium Term Share Account or a Special Long Term Share Account by the credit union.
- b) The account holder had to be over 16 years of age. An account could not be held in the name of an individual who is under 16 years of age.
- c) The Account had to be in the name of the person beneficially entitled to the interest. Nominee Accounts were not allowed.
- d) An individual could only open either a Special Medium Term Share Account or a Special Long Term Share Account. They could not open both. However, a married couple could hold two joint accounts in their names.
- e) An account could not be held by more than two individuals.
- f) All shares in the account had to be held on the same terms, the rate of interest paid on the account could not be fixed for more than 12 months and the interest payable on the account could not be linked to any stock exchange performance.
- g) At the time of opening the Special Medium Term Share Account, or a Special Long Term Share Account, an individual could transfer all or part of existing credit union savings to the Account.
- h) The maximum that may be deposited in a Special Medium Term Share Account in any month is/was €635. However, an individual may make a once off deposit of not more than €7,620 once during the lifetime of the account.
- i) Funds deposited in a Special Medium Term Share Account had to be left on deposit for 3 years from the date the funds were deposited before they are withdrawn without penalty. This provision did not apply where the account holder, or one of the account holders in the case of a joint account, dies.
- j) Funds deposited in a Special Long Term Share Account had to be left on deposit for 5 years from the date the funds were deposited before they are withdrawn without penalty. This provision did not apply where the account holder, or one of the account holders in the case of a joint account, dies.
- k) An account holder aged over 60 years of age could make one withdrawal from a Special Medium Term Account or Special Long Term Account if the account was opened when the account holder was under 60 years of age.

- l) Dividends credited to a Special Medium Term Share Account or Special Long Term Share Account could be withdrawn without penalty providing the withdrawal is made within 12 months of being credited to the account.

- m) If an individual withdrew funds from a Special Medium Term Share Account which have not been on deposit for 3 years (5 years in the case of a Special Long Term Share Account) the Account ceased to be a Special Medium Term Share Account and all dividends paid since the account was opened will be subject to DIRT.