

Computation of Income – Miscellaneous Provisions

Part 04-05-04

This document should be read in conjunction with sections 18, 76, 77, 81, 89 and 92 of the Taxes Consolidation Act 1997

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Introduction

Generally, the amount of income brought into charge to corporation tax is to be computed according to income tax rules.

This manual outlines some miscellaneous provisions and special rules which apply for the computation of income for corporation tax purposes.

1. Miscellaneous provisions for computation of income

Section 76(5)(a) and (b), specifically prohibit any deduction in computing income for corporation tax purposes in respect of the following:

- dividends or other distributions,
- any yearly interest, annuity, or other annual payment,
- payments mentioned in section 104 - certain mining and other rents,
- payments mentioned in section 237 - patent royalties,

but not including sums chargeable under Case V of Schedule D - as section 97(2)(e) allows deduction for certain interest.

Also, section 77(3) effectively allows deduction of yearly interest which is wholly and exclusively laid out for trade purposes in computing income from a trade – essentially interest on a loan for business purposes.

Charges on income

Annual payments such as yearly interest, for example, may be relieved as a charge on income and deducted from profits on a paid basis [sections 243, 243A and 243B TCA refer].

Amounts received under deduction of income tax

Annual interest, royalties and other payments received under deduction of income tax from other persons - which includes other companies - are income for corporation tax purposes. The income tax borne on the net payment received is therefore available for repayment or set off against corporation tax for the relevant accounting period.

Payments received by non-resident companies

A non-resident company, not trading in the State, continues to be within the charge to **income tax** - subject to double taxation agreement provisions.

This also applies to payments received by non-resident companies who are trading in the State - unless the payments are income from property or rights used by, held by, or for the branch/agency through which the trade is carried on - in which case they may be chargeable to corporation tax.

See Tax and Duty Manual [Part 02-02-04](#) for further information.

2. Computation of income: special rules

Where a company begins or ceases to carry on a trade, the company's income from the trade is to be computed as if the trade had commenced or discontinued, even though it may previously have been carried on or will be carried on by some other person.

This gives effect to the **special rules** which apply on commencement or discontinuance of a trade provided for in section 89 TCA - valuation of trading stock on discontinuance of a trade - and in section 92 TCA - receipts and losses accruing after change treated as discontinuance.

This also applies where a company begins or ceases to be within the charge to corporation tax in respect of a trade.

However, specific provisions can override the above general provisions, for example, a balancing allowance relating to dredging expenditure has application only where the trade is permanently discontinued, as section 303(3) TCA specifically disapplies the general income tax rules.

Other

A lessor in receipt of income from the letting of rights to work minerals in the State, can claim a deduction for any sums disbursed wholly, exclusively and necessarily, as expenses of management or supervision of those minerals. This deduction is given by way of a specific claim for repayment of tax, which the lessor has already paid or suffered in respect of the income received [section 77(4) and section 111 TCA refer] - the cost of collection may be included in these expenses.

Where a company has been charged to income tax under Case III of Schedule D in respect of a trade carried on wholly abroad, the income from the trade is to be computed for corporation tax purposes in accordance with the rules applicable to Case I of Schedule D [section 77(5) refers] - the charge to corporation tax is on income arising in the accounting period, whether, or not remitted to the State.

In computing the amount of income arising to a company from foreign securities and possessions a deduction is allowed in respect of foreign income tax on that income - to the extent that such a deduction cannot be made under, and is not forbidden by, the income tax principles for the purposes of corporation tax [section 77(6) refers].