

Payments under Restrictive Covenants

Section 127 Taxes Consolidation Act (TCA) 1997

Part 05-05-14

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1. Introduction

Section 127 TCA 1997 sets out the tax treatment for payments made, or valuable consideration given, under a restrictive covenant between an employer and an individual who holds, has held or is about to hold an office or employment.

2. Restrictive Covenant

A restrictive covenant, for the purposes of section 127 TCA 1997, is an agreement between an employer and an employee under which the employee, arising out of the holding of the employment, gives an undertaking to his or her employer which restricts his or her conduct or activities. For example, the employee may undertake not to divulge the nature and content of research work being carried out.

3. Payments made or valuable consideration given

Payments made, or valuable consideration given, to an employee or any other person under a restrictive covenant are deemed to be emoluments from the office or employment and are chargeable to tax for the year of assessment in which the payment is made, or the valuable consideration is given, under either:

- (a) Schedule E, in cases where the profits or gains from the office or employment are or would be chargeable to tax under Schedule E PAYE system (income tax, USC and PRSI, as appropriate), or
- (b) Case III of Schedule D, in cases where the profits or gains from the office or employment are or would be chargeable to tax under Case III of Schedule D.

3.1 Payments otherwise than in the form of cash

Where valuable consideration otherwise than in the form of money (e.g. an allotment of shares) is given, the value equal to that consideration is chargeable to tax under either Schedule E or Case III of Schedule D, as appropriate.

3.2 Deduction available to payer in computing taxable profit

Where any payment is made, or valuable consideration is given under a restrictive covenant it is chargeable to tax under Schedule E or Case III of Schedule D. The payer may obtain a deduction in respect of the payment made, or the valuable consideration given, in computing taxable profit for the purposes of Schedule D:

- (a) in the case of a person liable to income tax, for the basis period, or
- (b) in the case of a person liable to corporation tax, for the accounting period, in which the payment is made, or consideration given.