

[4.5.3] Computation of income: application of income tax principles

The general rule is that income for corporation tax purposes is to be computed under the same Schedules and Cases as for income tax and in accordance with the rules applicable to those Schedules and Cases.

Except as otherwise provided in the Tax Acts, ordinary **income tax principles** are to apply to the **computation of income**, the following being determined in accordance with “income tax law and practice” as if accounting periods were years of assessment:

- (a) amounts which are or are not to be -
 - (i) taken into account as income or in computing income;
 - (ii) charged to tax as a person’s income;
- (b) the time when any such amounts arise.

It should be noted that, in accordance with Section 76(7) Taxes Consolidation Act 1997 (TCA), certain provisions of Section 71 TCA do not apply for corporation tax, i.e. the remittance basis of assessment is not carried over to corporation tax.

“Income tax law” is defined as the law applying to the charge on individuals of income tax for the year of assessment in which the company’s accounting period ends, except that it includes any income tax enactment making special provision for companies and excludes any income tax enactment making special provision for individuals.

Any provision of the Income Tax Acts or any other statute which -

- (a) exempts certain income from income tax has the like effect for corporation tax, e.g., companies which are charities are exempt from corporation tax on their income to the same extent as that income would be exempt for income tax purposes; (the words “or of any other statute” in section 76(6) TCA carry into corporation tax the exemption accorded to the Central Bank under the Central Bank Act, 1942);
- (b) charges a person to income tax on any amount whether expressed to be income or not and whether an actual amount or not has the like effect for corporation tax, e.g. section 100, which charges the vendor of land with a right to reconveyance to tax under Case IV of Schedule D but does not express the amount assessable to be income.

Notwithstanding the general rule, the computation for corporation tax is to be by reference to the income arising in the accounting period, and is not (as it may be for income tax) to be measured by the income arising in some other period, except in apportioning the income of a whole period to its parts.

Income tax law relating to basis periods has therefore no relevance to corporation tax.

A separate computation should be made of the income arising from each source in the accounting period. Such income, although it is to be aggregated, together with chargeable gains, to arrive at the total profits for assessment to corporation tax, remains Case I income, Case II income, Case III income and so on.

Section 76(8) TCA, ensures that any provision of the Income Tax Acts applied to corporation tax will work properly in a case where it has to apply to both. Where provisions of the Income Tax Acts apply to both taxes, the two taxes are, as far as possible, treated as if they were one, so that any matter regulating the income tax effect of a transaction between two individuals liable to income tax equally governs a transaction between an individual and a company for the purpose of the income tax of the individual and the corporation tax of the company. For example, a premium required to be paid on the granting of a lease is to be treated as rent receivable by the lessor (under section 98 TCA) and as rent payable by the lessee (under section 102 TCA). Where one of these is an individual and the other is a company, this treatment will apply for income tax in the case of the individual and for corporation tax in the case of the company.

As regards a company paying a dividend or making a distribution, the dividend or distribution, -

(a) is inadmissible as a deduction in computing income from any source
Section 76(5)(a) TCA;

and

(b) cannot be a charge on income and is accordingly not deductible against total corporation tax profits.

In general, corporation tax is not charged on dividends and other distributions made by a company resident in the state and such dividends and distributions are not taken into account in computing income for corporation tax purposes – see Section 129 TCA. The exceptions to this general rule enable dividends and other distributions to be taken into account in computing the income of life insurance companies – see sections 714, 717 & 726 TCA.