

Following the return to students of their scripts for Taxation I and Taxation II first interim exams, queries were raised by a number of students as to the tax treatment of covenants and pension contributions as our first interim exam solutions differed from the treatment applied in the ATI Taxation I and Taxation II manuals.

We subsequently wrote to Accounting Technicians Ireland indicating that the treatment applied to tax deducted from covenant payments and the treatment of pension deductions in income tax computations, as set out in the Taxation I and Taxation II manuals was incorrect. We received a reply from Accounting Technicians Ireland on 7 April 2010 which confirms that **the treatment applied by us is correct** and the treatment as set out in the Taxation I and Taxation II manuals **is incorrect**.

Covenants

The taxpayer's tax liability is calculated on his taxable income. This amount is then reduced by the non-refundable tax credits available to the taxpayer for the year. The tax deducted from the covenant payment is then added to the tax liability (net of non-refundable tax credits). This is the treatment set out in solution 3 to the Taxation II first interim exam. The amended page 54 of the Taxation I manual and the amended page 71 of the Taxation II manual which have been posted by Accounting Technicians Ireland on their website mirrors this.

Pensions

Pension contributions (including retirement annuity contributions) are deducted from the income class to which they relate and are *not* to be deducted as part of deductible reliefs of the taxpayer (i.e. not to be deducted from total income in arriving at taxable income). This issue arose in question 5 of our Taxation I first interim exam and questions 3 and 5 of our Taxation II first interim exam. **The treatment set out in the solutions to these questions in the first interim exam solution packs is correct.** Accounting Technicians Ireland have posted amendments on their website which confirms that allowable pension contributions are deducted directly from the relevant income class to which they relate (i.e. the income source which is designed to be replaced by the pension on retirement).

If you have any queries with regard to this matter, please do not hesitate to contact us.