

## **Section 700 TCA 1997: Industrial and Provident Societies - Special computational provisions**

1. The following are not treated as distributions for corporation tax purposes: -
  - (a) Share and loan interest paid by a registered industrial and provident society
  - (b) Any dividend or bonus within the meaning of **section 699 TCA 1997**, granted to members of a trading society.
2. Share and loan interest paid by an industrial and provident society (unless payable to a person whose usual place of abode is outside the State) is payable without deduction of tax and is chargeable under Case III of Schedule D. Depending on the purpose for which it is incurred, such interest will be treated either as an expense deductible in computing income or as a charge on income.

It is necessary for an annual general meeting of the society to approve payment of share interest and for this reason there may be a delay in crediting the interest in the books of the society and/or the shareholder. In practice, where such a delay is not excessive, both share and loan interest may be regarded as paid as at the date to which the interest is calculated.

3. If share or loan interest paid by a society is wholly and exclusively laid out or expended for the purposes of the society's trade, it is allowable as a deduction in computing the trading income of the accounting period in which it is paid (**section 699(1)(b) TCA 1997**).

Where the income before deduction of the interest is less than the interest, the deduction should be regarded as giving rise to a loss available for relief under **section 396(1) or (2) TCA 1997**.

**Example**

In the accounting period of twelve months to March 31, 2015, a co-operative society -

- (a) pays share interest of €800,000 and loan interest of €300,000;
- (b) has a trading income (before deduction of interest) of €900,000 and other corporation tax profits of €150,000.

The net corporation tax profits of the preceding accounting period (12 months to March 31, 2014) are nil.

The corporation tax computation for the accounting period of 12 months to March 31, 2015, is: -

	€ Euro
Trading income	900,000
Less share and loan interest	<u>1,100,000</u>
Loss	200,000

The loss may be used to reduce the profits of the accounting period (€150,000) to nil under **section 396(2) TCA 1887**, leaving a balance of €50,000 to carry forward under **section 396(1) TCA 1997**.

Alternatively, if there is no claim under **section 396(2)** the whole of the loss (€200,000) may be carried forward under **section 396(1)** against future trading income.

4. Where share or loan interest paid by a society does not fall to be dealt with as a Case I or Case V expense (for example where it is paid by a society formed for the purpose of holding investments or by a trading society which has also acquired investments), the interest is treated as a charge on income whether or not it is yearly interest (**section 700(2) TCA 1997**). The total amount of interest, including share and loan interest as well as any other interest, which can be treated as a charge on income, is restricted to payments of interest coming within **section 243(8) TCA 1997**.

If in such a case the share and loan interest paid in an accounting period exceeds the corporation tax profits of the period, the net corporation tax profits chargeable are reduced to nil, but the excess of charges over income is not normally available for relief against any corporation tax profits of any other accounting period. If the society is an “investment company”, however, the excess may be available for carry-forward under **section 83(3) TCA 1997**.

5. An industrial and provident society is obliged to deliver to the Inspector, on or before 31<sup>st</sup> January each year, a return showing the name and address of every person to whom it paid share or loan interest of €90 or more in the previous year of assessment and of the amount of each such payment (**section 700(3) TCA 1997**). Failure to make this return debars a society from obtaining relief for any interest which should have been included in the return either as an expense in computing income or as a charge on income.
6. An industrial and provident society which is an “investment company”, i.e. a company whose business consists wholly or mainly of the making of investments and the principal part of whose income is derived therefrom (**section 83(1) TCA 1997** see **par.2 of Tax Instruction [Part 4.6.11](#)**), is entitled to a deduction for management expenses in accordance with the instructions in **Tax Instruction 4.6.11**.
7. An industrial or provident society is not a “close company” for the purposes of the close company surcharge, nor is it liable on expenses paid for participators or interest paid to directors under **sections 436 and 437 TCA 1997**. However, loans to participators are liable to income tax on the grossed-up amount (**section 438(8) TCA 1997**).