Derek Madden & Company

Accountants & Registered Auditors

New Business Kit

...Financial, Tax and Accounting Considerations of Starting a New Business

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Derek Madden & Company

cpa Certified Public Accountants APPROVED TRAINING PARTNER

FINANCIAL, TAX AND ACCOUNTING CONSIDERATIONS OF STARTING A NEW BUSINESS

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Before Starting Up

It is the ambition of many people to run their own business. In recent years, this dream has become a reality for some, whilst others may decide to start up in business to be more independent and to obtain the full financial reward for their efforts or needs must due to the current economic circumstances.

Whatever the reason for considering setting up in business, a number of dangers exist.

A major concern must be the risk of business failure despite considerable effort and finance having been put into the venture. Time spent in making the decision and thinking through your plans will minimise the risk of failure.

Think carefully about ceasing to be someone else's employee. Certainty of income, both in terms of quantity and regularity, disappears, whilst fixed outgoings, such as mortgage repayments, remain. Similarly, other benefits of employment may be lost, such as life assurance cover, a company pension, medical insurance, a company car, regular hours and holidays.

Consider the views of your family and friends. Their support is essential. It is important they understand that the administrative and financial requirements of running a business can be time consuming and stressful.

Success in business depends on many factors; most important is the need to critically review all aspects of the business proposition before progressing too far.

This kit highlights many of the practical points that require consideration before trading begins. It cannot cater for every possibility and decisions should be supported by appropriate professional advice that Derek Madden & Company can provide.

June 2010

Notes and to do's

Reference	Matter	Cleared

Notes and to do's

Reference	Matter	Cleared

Selecting a Legal Entity for your business

Selecting a Legal Entity for your business

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree this decision may be dictated by the way you have organised your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by taxation rules and regulations. There are three basic forms of business organisations. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Sole Proprietorship

A sole proprietorship is typically a business owned and operated by one individual, or very often by a husband and wife. A sole proprietorship is not considered to be a separate legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. The profit or loss of a sole proprietorship is combined with the other income of an individual for income tax purposes.

A sole proprietorship is perhaps the easiest form of business to own and operate because it does not require any specific legal organisation, except, of course, the normal requirements such as licenses or permits. A sole proprietorship typically does not have any rules or operating regulations under which it must function. The business decisions are solely the result of the owner’s abilities.

Partnership

In a partnership, two or more individuals join together to run the business enterprise. Each of the individual partners has ownership of company assets and responsibility for liabilities, as well as authority in running the business. The authority of the partners, and the way in which profits or losses are to be shared, can be modified by the partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners, but partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts.

The rights, responsibilities and obligations of partners are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership.

A partnership is a legal entity recognised under the law and, as such, it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money. When a partnership is small, most creditors require a personal guarantee of the general partners for credit.

A partnership is also required to file an income tax return. A partnership typically does not pay income tax; the information from the tax return is combined with the personal income of the partners to determine their overall tax liability.

Limited Company

A limited company is a separate legal entity that exists under the authority granted by statute. A limited company has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a limited company are protected from the liabilities of the business. However, when a limited company is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded to the owners of a limited company can be useful.

A limited company must obtain approval from Companies Registration Office to use its proposed name. A limited company must also adopt and file a Memorandum and Articles of Association, which govern its rights and obligations to its shareholders, directors and officers.

A limited company must file annual tax returns ("corporation" tax returns) with the Revenue Commissioners. A limited company is required by law to have an independent audit carried out on its Financial Statements. We can arrange for an auditor to carry out this service for your company.

There are certain specific circumstances where a small company may avail of the Small Companies Audit Exemption. (See below if you Qualify)

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the sale of share capital, or allowing an individual to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their shares.

Should you decide to incorporate your business venture, you should seek advice from Derek Madden & Company in relation to this.

The potential savings by going down the company route do need consideration. However, it is also necessary to consider factors such as the company car, as savings from incorporation can soon be totally eliminated if a company car and fuel for private use are provided. There are other factors beside the tax implications that should be borne in mind.

Do you qualify for the Small Companies Audit Exemption?

If the answer to **all** of the following questions is 'Yes', then your company will qualify for this audit exemption:

Criteria:

1. Is the accounting period for which you wish to avail of the Audit Exemption on or after 21st February, 2000?
2. Is the annual turnover for this accounting period less than €7.3 million?
3. Are the assets of your company less than €3.65 million at the end of its financial year?
4. Is the average number of employees of your company less than 50?
5. Is your company **not** a parent or subsidiary company?
6. Are your company's B1 annual returns filed up to date with Companies Registration Office?
7. Is the above criteria satisfied for the preceding year's accounts also?

We strongly recommend that you avail of the Small Companies Audit Exemption.

Important Considerations:

1. Once an auditor resigns, he/she has no further **audit** reporting responsibilities, but will continue to act as accountant and financial agent for your company.
2. If any of the questions in the above criteria result in a 'No' answer in any reporting financial year, and the conditions are breached, then an audit becomes necessary.
3. A new statement of compliance from the directors will be required on the face of the Balance Sheet.
4. A statement of the directors' responsibilities must be included in the financial statements.
5. An annual return together with accounts must still be filed with the Companies Registration Office.
6. A new engagement letter will be issued reflecting the change in our appointment, ie audit services are no longer required.

We emphasise that the criteria in qualifying for the Small Companies Audit Exemption must be met **each year**. Failure to meet the criteria will result in the requirement of an Audit on the Company Accounts.

Business Structure - The Pros and Cons

Company	Sole Trader/Partnership
A company must be formally incorporated with a written constitution in the form of a Memorandum and Articles of Incorporation. There is, therefore, an initial setup cost.	The only formation cost is registration to the Revenue Commissioners. A written partnership agreement is advised.
Companies are governed by the companies Acts. A company **must**:- -Keep proper accounting records -Produce audited accounts (if company has not availed of the Audit Exemption) -File accounts and an Annual Return with the Companies Registration Office. This information is available to the public. -Keep Statutory Books	Sole traders and partnerships are not required by law to have annual accounts nor to file accounts for inspection. However, annual accounts are necessary for the Revenue Commissioners Income tax returns of the proprietors.
Companies may have greater borrowing potential. They can use current assets as security by creating a floating charge.	Sole traders and partners are unrestricted in the amount and purpose of borrowings but cannot create floating charges.
Shares in a company are generally transferable –therefore ownership may change but the business continues.	
Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. Personally, there may be prestige attached to directorship.	The unincorporated business does not carry the same prestige.
Tax is payable on directors' remuneration paid via PAYE on the 14th of the following month. If applicable, higher rate tax is paid by shareholders on dividends under the self-assessment rules. Corporation tax is payable 8 months and 21 days after the year-end, having considered Preliminary Corporation tax also.	For a sole trader or partnership, 2009 tax must be filed and paid by 31st October, 2010.
Losses in a company can be carried forward and back to set against profits of those periods, or indeed other income in the current period.	Losses generated by a sole trader or a partner can be set against other income of the year or carried back to prior years, or indeed set against future profits of the same trade.
Corporation tax is charged at 12.5%	Profits are taxed at 41% on taxable income in excess of €36,400 (2010) and also subject to the Income Levy.
There is employees PRSI of 5% payable on director's salaries and bonuses.	A partner/sole trader will pay 5% PRSI of taxable profits.

Registering with the Tax Authorities

Registering with the Tax Authorities

A significant task for the new business owner is ensuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities. Problems and penalties could arise if the new business is not registered with the appropriate tax authorities in a timely fashion. While this chapter is not intended to be an all-inclusive list of filing requirements, it summarises some of the more prominent requirements common to most businesses.

Revenue Commissioners

It is necessary to notify the Revenue Commissioners of your existence by completing forms TR2 (Companies) or TR1 (sole traders/partnerships). The form notifies the Revenue Commissioner of your accounting date, your accountant, and also enables a PAYE (Pay As You Earn Scheme) to be set up, which is a requirement if you are to be an employer.

Pay Related Social Insurance (PRSI)

If a business has employees, it has a liability to PRSI, and these are payable on a monthly basis by submitting a P.30 payslip. The monthly P30 must be submitted by the 14th of the following month or if paid and filed online the 23rd of the following month. Or employers have the option to pay by Direct Debit monthly, and there is no requirement to complete the monthly P30 payslip. At the end of the year, employers need to complete a form P35 and submit to Revenue. Also, all employees must receive a P60 from the employer showing Gross Income less all relevant taxes deducted on their behalf and an Income Levy Certificate for the relevant period.

Collector General

You need to consider if it is beneficial to be VAT registered from the outset. The pros and cons are discussed in Chapter 4. Registration for VAT is carried out when completing the Form TR1/2 (see above). As with PAYE/PRSI above, Vat liabilities can be paid by Direct Debit monthly, and there is no requirement to complete the by-monthly Vat3 form. An annual Vat3 form must be submitted at the end of the year.

Tax Calendar

The following summarises some of the more significant filing dates for a corporation ***using a calendar year end***. Many of these requirements also apply to partnerships and sole traders. Naturally, if a year-end other than 31 December is used, some of these dates will vary.

Annual Events

Date	Return
November before year end	1st Instalment Preliminary Corporation Tax
15th February after year end	Submission of Form P35
June after year end	2nd Instalment Preliminary Corporation Tax
21st September after year end	Final payment and submission of Corporation Tax return (8 months 21 days after the end of the accounting period)
November/December	Year end tax planning
September after year end	Annual B1 return to CRO

Monthly Events

Date	Return
14th of Month following PAYE period	P30 returns

Bi-monthly Events

Date	Return
19th of Month following Vat period	VAT3 returns

Accounting and Bookkeeping

Accounting and Bookkeeping

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, solicitor, or inventor. Unfortunately, most people don't like to keep the books. As an owner of a business you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxing authorities and other governing bodies. The necessity for good, well-organised financial records cannot be over-emphasised. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or book-keeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the book-keeper). Questions you should ask in developing an accounting and financial reporting system are:

1. *Who will be the users of the financial information?*
2. *What questions do I need answered to manage the business?*
3. *What questions should be answered for the Revenue Commissioner and Collector General?*

As your business grows, you should work closely with your accountant, Derek Madden & Company to ensure that your accounting system is providing you with appropriate information.

Chart of Accounts

The basic road map into any accounting system is the chart of accounts. It is this chart that helps establish the information that will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business changes.

To help establish a good working chart of accounts you need to answer some questions, in conjunction with Derek Madden & Company, as to how your business will operate and what is important to you. Some of these considerations might be:

1. *Will your business have stock to account for? If so, will it be purchased in finished form or will there be production costs?*

2. *Are fixed assets a significant portion of your business?*

3. *Will you sell only one product or service or will there be several types of business?*

4. *Will you have accounts receivable from customers, which you will have to track?*

5. *Are you going to sell in only one location or will you do business in several places?*

6. *Are the products you sell subject to value added tax?*

7. *Do you need to track costs by department?*

8. *What type of government controls or regulatory reporting are you subject to?*

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business; the amount of time and money which a well organised accounting system may save you can be significant as the need to generate information for various purposes increases. An example of a basic chart of accounts follows this section.

Cash or Accrual Accounting

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in "the cigar box" at the end of the month is how much you have made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are used to accrual-basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash-basis statements.

Accounting Records and Record-keeping

Another question that the owner of a business must answer is "Who will keep the books of the business?" Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the cheque-signing function and scrutinising certain records. Your company's accountant can help develop a good programme of record-keeping duties for you, your employees and any outside book-keepers or accountants you may engage.

As a guideline, listed below are the accounting records all businesses should keep from the beginning of trade:

1. All bank statements of all business bank accounts
2. All cheque stubs stating the date, amount and details of each cheque written for the business
3. A cash book that records all cash transactions of the business
4. Vat on Sales & Vat on Purchases detail for all Vat returns submitted to Revenue
5. PAYE/PRSI details for all P30 payslips submitted to Revenue
6. Any other information relevant to the business

A Word about Computers

The computer is probably the single, most valuable, invention for bookkeeping and accounting since the advent of double entry bookkeeping. If your business includes any of the following, then a computer would be a useful tool in your business:

1. *Many repetitive or routine tasks.*

2. *Lots of paperwork, i.e. suppliers' cheques, sales invoices, purchase orders, mailing labels.*

3. *Lots of general correspondence.*

4. *Written reports, contracts, newsletters, catalogues or brochures.*

Derek Madden & Company knows about both your business and computers and can take much of the confusion out of the selection process by assisting you in the purchase and installation of your computer.

There are a number of very good, easy to use, accounting software systems which are commercially available, **but none of them will solve the problems of inaccurate or poor quality financial records.** All they will do is generate bad information faster. This is one of the reasons that the computer has also probably caused more headaches for the owners of modern businesses than any other single cause. If you want to use a computer-based accounting package, either in your own business, with a service bureau, or through your accountant, it is imperative that you generate accurate information to be entered into the system.

The real value of the computer becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he was trained, not as a "number cruncher", but as your business adviser, consultant and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analysing your business to make it more profitable (see chapter 11 for more detailed information).

Internal Control

What is internal control? It is the system of checks and balances within a business enterprise that helps to ensure that the company's assets are properly safeguarded and that the financial information produced by the company is accurate and reliable. When you are operating as a "one man shop" or at least handling all of the company's financial transactions, maintaining good internal accounting control is relatively straightforward.

However, when your company grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "YES" to the following questions:

1. *When my company provides goods or services to our customers, am I sure that the sale is recorded and the debt is recorded in accounts receivable or the cash is collected?*

2. *When cash is expended by my company, am I sure we received goods or services?*

The method used to ensure that these two questions can be answered affirmatively will be widely varied. They are essential stepping-stones to maintaining good control in your business. The solution in your particular instance may be as simple as numbering the sales tickets and being sure ALL TICKETS ARE ACCOUNTED FOR or reviewing all invoices and timecards before signing company cheques. These are fundamentals in a well-run business. As the company grows you will need to consider concepts such as segregation of authority as well as employee fidelity bonds or controlled access storerooms.

No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.

Value Added Tax

VALUE ADDED TAX

VAT is a tax on consumer expenditure and is ultimately paid by the final customer. Most business transactions involve the supply of goods or services and VAT is payable if they are made:

a) in Ireland; and

b) by a taxable person; and

c) in the course or furtherance of business and are not specifically exempted or zero-rated.

VAT is collected by Collector General and is normally payable bi-monthly.

Registration

There are two different types of registration - compulsory and voluntary:

A. **Compulsory**
A business that makes taxable supplies of good or services becomes liable to be registered if:

a) The persons' annual turnover exceeds or is likely to exceed the annual limits, which are €37,500 in respect of the supply of services, and €75,000 in respect of the supply of goods.

b) Certain other categories must also register for VAT, e.g. persons who receive taxable services from abroad and foreign traders doing business in the State. **Foreign traders must register irrespective of their level of turnover.**

A person should register for VAT even before starting to supply taxable goods and services, if it is clear, based on your projections, that the limits will be exceeded when the trade or business commences.

B. **Voluntary**
In certain circumstances, it is possible to register on a voluntary basis for VAT even though the value of taxable goods and supplies may never exceed the limits. This may be beneficial in certain circumstances, for example, if you are supplying goods or services to other registered persons you can pass on the VAT credit, or if you are supplying zero-rated goods e.g., food, you can claim any VAT incurred on purchases and business expenses.

In summary, the advantages and disadvantages of a voluntary registration are as follows:

Advantages

- Registration enables input VAT suffered to be reclaimed;
- A VAT number can give the impression that a business is larger than it actually is which sometimes can increase the possibility of obtaining work.

Disadvantages

- The requirement to prepare VAT returns on a bi-monthly basis and to submit them within 19 days of the VAT period - is the amount of work involved worth it for the amount of input VAT that can be reclaimed?
- The Collector General may visit the business to ensure that VAT is being properly accounted for.

Taxable Persons and Supplies

a) Taxable Persons

A taxable person for VAT purposes is an individual, a partnership, company, etc. who supplies taxable goods and services, above certain limits, in the course of or in the furtherance of business. A person who engages in the acquisition of goods from other Member States of the EU is also regarded as a taxable person.

b) Taxable Supplies

Taxable supplies are all supplies made by a business either to a third party or to the trader himself (goods for own use), which are not exempt supplies. Taxable supplies therefore include zero-rated supplies.

The major categories of exempt supplies are:

- Financial activities
- Educational activities
- Medical activities

It is important that at the outset of a business, a trader establishes the VAT status of any supplies being made to avoid mistakes, e.g. the services of a physiotherapist are exempt, whilst the services of an acupuncturist are reduced rated.

Tax Rates

There are four rates of VAT:
- standard rate -

21% - applies to all goods and services that are not exempt or are not taxable at the zero or reduced rates.

- 2 reduced rates -
13.5% - applies to certain fuels (e.g. Coal & domestic gas), building and building services, certain newspapers, live poultry, etc.

4 % - applies to livestock, live greyhounds and the hire of horses.

- zero-rated -
These include exports, certain food and drink (e.g. bread & milk), oral medicine, certain books excluding newspapers, brochures, etc.

Any VAT charged by the business, whether at 21% or 4% is known as output VAT and the total charged or collected in the VAT period is payable to the Collector General on a VAT3 form. (See Appendix 2 for a working example of a VAT3 calculation and form)

Input VAT
Input VAT is the VAT that you are charged on your business purchases and expenses (the other persons output VAT) and is normally recoverable in full by a trader who only makes standard, reduced rated, or zero-rated supplies. Businesses that make some exempt supplies (known as partially exempt businesses) have different recovery rules. The total input VAT suffered in the period is deducted from the output VAT charged or collected and the difference is either the amount of VAT due to the Collector General or the amount repayable by the Collector General.

The majority of input VAT is recoverable but there are special rules for:

- cars;
- petrol supplied for private usage;
- business entertaining;
- goods sold under a VAT second-hand scheme

To reclaim VAT you have been charged as input VAT, you must hold valid evidence that you have received a taxable supply, which normally means a valid VAT invoice from a registered trader showing:

- The name, address & Vat number of Vat registered supplier,
- Your name, address & VAT registration number,
- Date of the invoice, and full description of goods/service provided,
- The amount total goods/services excluding Vat, the amount of VAT charged, and the total, and
- A sequential reference number on the invoice.

(See appendix 1 for sample vat invoice)

Special Events

VAT was originally described as a simple tax but has gradually become more and more complicated over the last twenty years with changes to the operation of VAT every year.

It is not always possible to calculate the VAT liability by merely deducting input VAT incurred from 21/121 of the sales income and professional advice needs to be taken in the following situations:

- Importing and Exporting - either within or outside the European Union;
- Partial Exemption, i.e. where a business makes some exempt supplies, all the input VAT incurred is not necessarily recoverable;
- Retail Schemes, i.e. where both zero rated, standard & reduced rated supplies are made which cannot be separately identified at the point of sale;
- Land and Property;
- Cash Accounting;
- Self-supplies;
- Second-hand schemes for motor cars, used boats, antiques, horses and ponies and others.

Book-keeping service:

Derek Madden & Company provides a full book-keeping Vat service. We have a dedicated Book-keeping Manager. We will submit the Vat3's on your behalf. There is a fee applicable to each VAT3 return completed. The fee is calculated on time spent on return, as some businesses are bigger and more complex than others.

Penalties

The impact of penalties has been considerably reduced since the early 1990's and the possibility of any business suffering a serious misdeclaration penalty for an innocent error on their VAT returns is low.

The most important penalties still in existence which every business should be aware of is:

a) Default interest for failing to pay VAT on time. Interest is chargeable each day at the rate of 0.0274 for each day the VAT is unpaid. This interest also applies where a refund of VAT has been made on the basis of an incorrect return, and where all or part of the tax refunded was not properly refundable.

VAT Checklist

Registration

(a) Should the business be registered?
(b) Is basis of registration correct?
(c) Are details on registration certificate correct?
(d) Do procedures exist for notifying the Collector General of relevant changes?
(e) Review position at regular intervals

Preparation of returns

(a) Has return been received? If not, then obtain duplicate from Collector General
(b) Review sources of information
(c) Prepare draft return
(d) Check for accuracy and completeness
(e) Make payment (if outputs exceed inputs)

Input Tax

(a) Do any restrictions on input tax exist?
- If "Yes", does an agreed method exist?
- Does this method maximise input tax?

(b) Are invoice additions and calculations checked?
(c) Is input tax claimed at the earliest tax point?
(d) Are all claims properly supported?
- Ensure all supporting invoices are kept

Output Tax

(a) Are all income heads reflected for VAT accounting?
(b) Are all potential sources of notional supplies considered?
(c) Are all potential sources of income (asset sales, etc.) covered by VAT accounting system?
(d) Is VAT captured at the correct tax point?
(e) Is VAT correctly applied where appropriate?

Please refer to Appendix 2 for the Completion of a Bi-Monthly VAT3 Return and a worked example.

Payroll Taxes

PAYROLL TAXES

Irrespective of the form of business in which you operate, if you are going to have employees then you will have to contend with payroll taxes. The brief summary that follows will give you some guidance in the rules and regulations of the Collector General.

Helpful publications

The Collector General publishes various booklets relating to how PAYE is operated and the legislation that you have to comply with. You collect and remit PAYE to the Collector of Taxes on behalf of the Collector General. You should run the PAYE scheme in accordance with the legislation and should you fail to comply then the Collector General will look to you for the tax or PRSI you failed to deduct. This can be costly if you are unable to recover the tax and PRSI from the employee.

Do you have employees?

Whether an individual is an employee or not in a particular situation is a question of fact depending on the terms on which he works. The question of whether an individual is employed or self-employed is very important for the business "employing" him or her, as that business has to comply with the reporting requirements.

In certain areas the Collector General has placed emphasis on reclassifying individuals claiming to be self employed and has issued leaflet IT64 which outlines why you need to consider is a person working for you an employee or self-employed as a contractor. This booklet sets out the questions that should be answered to determine this problem. If you have treated someone as self employed and subsequently after a routine visit from the Collector General, it is clear that they were employees, then the tax and PRSI which should have been paid will be assessed on you. Therefore it is important to ensure when using the services of self employed people, that they are in fact self-employed.

If doubt exists as to the status of an individual, the situation can be clarified with the Collector General.

The Operation of a PAYE Scheme

There are a number of forms with which to operate the PAYE/PRSI system. You should familiarise yourself with and have supplies of these forms, which are as follows:-

TDC	Tax Deduction Card (for each employee, supplied by the Collector General)
P60	Annual statement of Gross pay, Tax and PAYE/PRSI paid to employees, given to all employees at the year end
P45	Details of employee leaving
P35	Employer's declaration of payments made to registered employees
Form 12A	Application for Tax Credits & Standard Rate Cut-off Point of an employee
Levy Cert	Annual statement of Income levy deductions from employees, given to all employees at the year end or when they leave employment

In order to calculate the amount of tax and social insurance due by an employee, the Collector General will supply you with an employee tax deduction card showing you the tax credit and standard rate cut-off point to use, and a booklet outlining all PRSI rates to apply to gross pay.

The tax and social insurance should be paid to the Collector General by the 14th of the month following that in which the salaries were paid.

In most businesses, the directors, and often the employees have benefits, the most usual being the provision of a company car and health insurance. These taxable benefits are liable to tax and PRSI on these benefits. Tax and PRSI must be deducted on a weekly or monthly basis, depending on when the employee is paid.

A copy of Revenue booklet 'PAYE/PRSI for small businesses' is available upon request. (See Appendix 3 for P30 payslip and working example)

Book-keeping service:

Derek Madden & Company provides a full book-keeping PAYE/PRSI service. We have a dedicated Book-keeping Manager. We will submit the monthly P30 payslips on your behalf. There is a fee applicable to each P30 return completed. The fee is calculated on time spent on return, as some businesses are bigger and more complex than others.

Please refer to Appendix 3 for the Completion of a Monthly P30 Return for Payroll and a worked example.

Income Tax and Corporation Tax

INCOME TAX AND CORPORATION TAX

Eventually you will have to deal with income or corporation taxes. The taxation legislation is extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital allowances. An Accountant should be consulted when you are dealing with the taxation affairs of the business. The payment of taxation has a direct impact on your cash flow.

Choice of Year End

Which Accounting Year Should I Choose?

If you expect profits to rise steadily year by year, in the case of sole traders/partnerships, an accounting date early in the tax year, for instance 30 April, might be best in the short term, because this will defer the payment of tax on your profit. However, it is important to consider what will happen when you retire. Any accounting date other than 31 March will cause a bunching of your tax liabilities because all your profit that has not been assessed prior to your retirement will be assessed for your final year. There are a number of ways to mitigate the effect of this. You could plan to retire on or shortly after the accounting date, and allow “overlap relief” to reduce the burden. You could build up a reserve to meet the liability, or use the higher profit to permit an abnormally large pension contribution.

On the other hand if you expect to make losses in your early years, an accounting date late in the tax year, for instance, 31 October, will ensure that you get tax relief for those losses as quickly as possible. You would then not be faced with the bunching problem on retirement referred to above.

It will also be necessary to bear in mind the seasonality of your business. As part of the profit for your first period of trading could be taxed twice, it would be unfortunate if a poor choice of accounting date were to accelerate the tax on the profit of your first busy period. In these circumstances it might be preferable to run your first accounts to a date just short of your peak period.

As ever, it is important not to overlook commercial considerations. Your bankers might want to see as healthy a profit as you can manage and this desire could conflict with tax planning. A solution would be to chose a tax efficient tax accounting date, and keep the bank happy with quarterly management accounts. Derek Madden & Company would be delighted to assist you with management accounts, and we have management accounts packs with graphs and statistics that are sure to impress you and your business associates. (See Appendix 4 for a working example of management accounts)

Tax Returns

Companies

Companies resident in the State, with some exceptions, and non-resident companies who trade through a branch or agency are charged corporation tax. Corporation tax is charged on all profits (income and gains), wherever arising, of the companies. There are three rates of corporation tax:

12.5% - Trading Income
25% - Non-Trading Income (e.g. Interest, foreign Income, rent, royalties, etc)
10% - Certain companies have their profits taxed at an effective rate of 10%. This 'manufacturing rate' is in the process of being phased out.

Corporation tax is assessed on the profits of a company's accounting period at the relevant corporation tax rate in force during the accounting period.

Corporation Tax Pay and File was brought into effect for accounting periods ending after 1st January, 2003. A company is required to make an estimate of its own liability to corporation tax and pay that liability by the normal due date without an assessment being raised.

A company is obliged to pay to the Collector General the amount of preliminary tax appropriate to the accounting period. The total amount of preliminary tax paid must be equal to or greater than 90% of the company's final liability for the accounting period. For accounting periods ending after 31/12/05 preliminary tax is payable in one amount, one month before the end of the accounting period.

The company is required to send its completed tax return (form CT1), accounts and tax computation to the Revenue Commissioner by the filing date, which is 8 months and 21 days after the end of its accounting period. Companies may lodge their returns electronically under the ROS (Revenue On-line) system. A surcharge will be imposed if a company fails to submit a return on time.

Sole Traders/Partnerships

Sole traders and partnerships are charged income tax on profits of their business at the rate applicable during the tax years (1st Jan – 31st Dec). Annual Accounts need to be produced by the business. Derek Madden & Company can produce accounts on your behalf, from book-keeping information received by the sole trader or partnership in order to calculate the business' profit for the year. And it's this profit that Income Tax applies. The rates are as follows:

	2010	***Rate***	***2009***	***Rate***
Lower	*€36,400*	*20%*	*€28,000*	*20%*
Balance		41%		42%

There may also be a liability to PRSI depending on the level of income in the tax year. This PRSI is payable at 3% by the self employed on profits in 2009 which is less than €26,000, and on profits in 2010 which is less than €26,000. Profits over these thresholds and less than €101,100, PRSI is payable at 5%.

There is also a liability to an Income levy for 2010 the first €75,036 is subject to a levy of 2%, then €99,944 per annum is @ 4% and the balance is at 6%. Annual income of €15,028 is exempt.

For the self –employed and those that pay tax on other income such as rents, tax is normally payable by way of Preliminary Tax. This preliminary tax is payable on the 31st October in the year in which the tax is paying, e.g. Preliminary Tax for the year 2009 is payable by 31st October, 2009.

Under self-assessment your income tax return, which encompasses your trading results, needs to be filed by 31st October following the tax assessment year. So any balance due for the year 2009 is payable on 31st October, 2010 when the Income Tax return is being filed. Sole traders and Partnerships do have the option of setting up a Direct Debit with the Collector General on a monthly basis for Preliminary Income Tax. This reduces stress during the filing deadline, as most of the Income Tax would have been paid already to the Collector General. Ask us about setting up the Preliminary Income Tax Direct Debit the next time you're in our office, and we'll do the rest!

Please refer to Appendix 6 for a working example of an Income Tax calculation.

Cash Planning and Forecasting

CASH PLANNING AND FORECASTING

CASH IS KING! The lifeblood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors and put the company out of business. None of these alternatives are typically what the owners intended when starting the business.

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which is prepared by the management of a company or an outside consultant can be no more than a guess as to when the customers pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

Starting the Analysis

One of the most significant factors to be considered in your cash flow forecast is the volume of sales that will be generated in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine tuned as possible. It may be unrealistic to assume that there is a million pound market for your product in your area and you will be able to capture a specified percentage of it. A sales forecast needs to be based on specific facts. These might include your sales history or the history of similar businesses you have owned or operated or the competition. In your area, what has been the experience of similar operations?

Some of the questions that should be addressed would include what other factors could I control such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy and the period over which you will forecast.

Obviously your ability to forecast sales for the next month is better than it is for three to five years from now. The amount of detail that must be included in the cash forecast is really a matter of preference. It can be based on per unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.

Cash Collections

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as: what percentage of my sales are received in cash, and what portion are credit sales for which I will have to carry amounts in debtors? For those that are debtors based, how soon is the cash collected? Do I have to wait for customers to pay me or do third parties such as Visa or Mastercard or a debt factor take the customers account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of debtor balances you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic especially considering the current economic environment and the tight cash situations that may face some of your customers.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank? When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.

Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

Disbursements

Certainly if your business entails sales of stock, you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first euro of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be paid over.

Additionally, you need to know the credit trade terms your creditors are willing to advance to you. Do you have to pay for stock items on a cash on delivery basis or can you pay for them thirty or forty-five days after receipt? What expenses must be paid to allow you to convert purchased merchandise to saleable stock? If your production requires utilities to run machines or supplies that are required, such as consumable chemicals or packing materials that must be purchased prior to the sale of the stock, you should consider the timing of these payments.

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough stock to support the level of sales that you are predicting. If the volume of sales you forecast is above your ability to produce today, what changes in your operating environment must be made to meet the production levels. Will you need additional employees, if so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it? Do you have enough space to cope with the additional activity?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one-time expenses. This may be a solicitor's fee for drafting partnership agreements or incorporating your business, the cost to obtain business licences, approval from the taxing authorities, setting up an accounting system, stationery costs, and costs of signs or logos.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavour. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments. As we have discussed in other chapters, there may be a variety of financing alternatives that are available to you. Most of the start-up cost which you incur can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analysed and built in to your cash flow analysis. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favourable ones.

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only **help**. You as the owner and operator of the business are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings that you have not otherwise considered.

We have included a worksheet as an exhibit following this chapter that may assist you in developing a cash flow analysis. Bear in mind however, this worksheet does not include all the items that should be considered in preparing your cash flow analysis but should help raise many of the questions which you need to ask yourself before deciding how much cash will be required to establish and operate your business and what period of time must elapse before you can expect to pay back the lender or return profits to your investors.

The following tax matters require consideration as part of the preparation of your cash flow forecast:

VAT and Other Taxes

If you are VAT registered (compulsory for businesses with sales in excess of the statutory limit), your sales receipts will include "Output" VAT and some of your costs will include "Input" VAT.

The net receipt of VAT has to be paid over to the Collector General each bi-month. If, however, your sales are zero rated, you will be able to claim back the VAT on your purchases.

The basic calculation is not as difficult as is often made out. Typically, adding up your sales receipts for a bi-month, multiplying the figure by 21 and dividing by 121, gives you your output VAT. Do the same for your purchase invoices to calculate input VAT. Deduct input from output and put this figure into your cash forecast in the first month of the next quarter.

PAYE

If you employ people you will have to deduct tax from their pay and pay it over to the Collector General in the following month. For a forecast it is sufficient to put the **gross** figure in the cash flow forecast as it automatically includes PAYE, and include an Employers PRSI figure for this added employee cost.

Schedule D

If you are the proprietor of a business that is not a limited company, your wages are not part of the profit of the company and referred to as "drawings". The tax that you pay will be based on the profit of the company not the amount that you take out. It is advisable to pay a sum into a deposit account each week or month to provide for this tax that will be due after your year-end - as it could be a lot of money. Ask us about the option of setting up a Preliminary Income Tax Direct Debit in order to plan your income tax payments adequately.

Please refer to Appendix 5 which shows you what Management Accounts information we can provide you with in order for you to make the right decisions in a timely manner. Also Appendix 4 shows a sample of our Financial Reporting that we can provide you after your financial year end. It show Profit Analysis, Break Even point, Five Year Analysis, etc.

Many businesses go bust because they fail to provide for the taxes that are payable. Make sure that it does not happen to you!

Obtaining Credit and Financing For Your Business

OBTAINING CREDIT AND FINANCING FOR YOUR BUSINESS

If not independently wealthy and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or for instance, the funds you require may be for expansion or working capital during the off season.

Generally business financing can take two forms, debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a company, issuing of additional shares to investors. It is typically a prudent idea to consult with your accountant, as there are many significant legal ramifications to such a step.

How Do I Get the Money?

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining financing as well as the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

1. How much cash do I need?

To answer this question you will have to do some serious cash flow planning, which will require estimates of future sales, the related costs, and how quickly you must pay your suppliers. You will also have to build into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don’t need to pay it back but your investors will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.

2. What will you do with the money?

One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment or to hire additional employees or perhaps for research and development for a new improved product? Again, part of the answer on how you spend the money is how it will benefit the company.

3. What experience do you have in running your business?

One of the primary reasons for business failure is lack of experience of management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.

4. What is the climate for your type of business and your geographic location?

Few investors will want to put money into your business if you haven't done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions that are subject to change in the near future your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can't support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for financing. One of the first steps is to determine whether to raise funds through debt or share capital. There are positive and negative aspects to each type. The cost to your company of each type of funding is different, as is the way in which they are treated for tax purposes. The interest on borrowed money is deductible by a business for tax purposes, which reduces the effective cost to your company Dividends which you might pay on the same investment in shares would typically not be tax deductible by your company. In selling shares there usually is no firm commitment by your company to pay the money back but your shareholder will want, and generally will have, a legal right to have a voice in the management of your company. When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs, it is probably a good idea to consult with your accountant as to alternative types of debt or equity financing available.

Business Plan

Typically, a potential lender will want to know all about you and your proposed venture. Many of these details will have already been provided, but are best provided in a logical consolidated format. This format, or **business plan**, is a document that enables the investor to readily obtain an understanding of your proposal. It follows that in order to successfully raise funding, the business plan should be commercial and realistic.

Derek Madden & Company have experience in writing business plans and can assist you in the effective drafting of your plan.

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business, the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In the summary we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many.

Debt Financing Sources

1. Banks

The first source of funds, which typically comes to mind when borrowing money, is a bank, which is why they are in business. Banks typically lend to small businesses on a secured basis using equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be a banker. Loans from a bank may take several forms such as:

a) **An overdraft limit** which is reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.

b) **A short-term loan** that is repayable on specified dates.

c) **A term loan** for the purchase of a specific asset such as a computer or a machine.

As your relationship with your banker become better, and your business becomes established, you may consider a longer (3 to 5 years) loan which will be payable in instalments.

2. Lease Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general purpose nature which can be resold if necessary. Leases often run for a period of three to five years and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans.

3. Trade Credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or, in some instances, they want payment before starting on your order, depending on the nature of your purchase.

Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. Establishing good relationships with trade creditors is essential because it allows you to use the goods and services in your operations and sell your product to your customers, in some instance before you pay for them. The trade credit you build today will be relied upon by other suppliers as you attempt to establish yourself with other suppliers in the future. Trade credit terms will vary depending on the type of purchase you make, the industry you are buying from and the industry you are in.

Equity Financing Sources

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of ordinary or preference shares. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

Venture Capital Companies

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are often represented by a management group that evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require.
A venture capital firm sometimes requires a 300 to 500 percentage return on its investment over a four to five year investment period. While this may seem like an enormously high return, a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections or fail altogether. To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what he must receive at the time his investment will be sold to allow him to achieve the rate of return he deems necessary.

Based upon the operating projections you provide, discounted based on his experience, he will estimate what your company might be worth at the time his investment will be liquidated. This might be at the point of a public offering or a sale to a corporate investor. The last step for a venture capital company in determining pricing is to calculate what percentage of the company he must own to realise the return he desires. At this point, the “horse trading” generally begins. As a general rule you will want to retain as much of the ownership of the company as you can. The venture capitalist wants enough ownership to achieve his investment goals and have some control over how his money is spent. This will often be achieved by voting power and representation on the Board of

Directors at the same time a venture capitalist wants to be sure there is sufficient reward in the company for you and your management team to be motivated and achieve the projections in your business plan.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often provide contacts and valuable introductions in your industry. Remember a venture capital investor becomes a member of your team.

Private Individuals

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors. The business acumen and contracts of these individuals can often be a valuable asset of your business. An individual investor can often react to opportunity much quicker than a venture capital firm and typically has only his own interests to serve as opposed to a financial backer or group of limited partners.

Individual investors can be more flexible in the type of investment structure they can deal with, and often have personal, financial and tax motivations to consider.

Pensions & Insurance

PENSIONS

Introduction & Assumptions

This section has been prepared in order to give you a very basic understanding of the advantages of taking out a Pension Plan.

We would like to point out that this section simply covers the basics and for more detailed explanations or quotes, you will need to arrange an appointment with us.

Why take out a Pension?

(1) Who wants to work forever?
Unless you love working and want to continue working right up until you die, you will need to provide for an income source to supplement the small Government Pension that you will be entitled to. A Personal or Company Pension Plan is a tax efficient investment product specifically designed to achieve this aim.

(2) Tax Efficient Product
Pension Funds are the most tax efficient investment products on the market today and as you know we all love to keep as much of our money away from the taxman as possible! The main tax efficiencies are as follows: -

(a) 100% tax relief on the contributions into the Scheme at your marginal tax rate (providing they're within the generous max limits).
(b) Gross roll-up of the fund's investment returns i.e. no tax is deducted during the life of the fund.
(c) At least 25% of the final fund at retirement will be available as a tax-free lump sum.
(d) The balance of the fund at retirement can be sheltered from tax within an ARF (Approved Retirement Fund).
(e) It is possible to reduce one's annual tax return liability by making an AVC (Additional Voluntary Contribution) up-to 10 months after the end of the tax year.

(3) Attractive Investment Option

Due to the tax efficiencies listed above, a Pension fund when viewed as an investment product should always out perform other options like Bank Deposits, Shares, Property, etc because your fund will grow at a higher rate due to income tax, DIRT or capital gains tax deductions. You will also be able to invest more into a pension fund than the others, as all your contributions will be tax-free.

You could invest all €100 of your Gross Salary into a pension but only €48 into a Deposit account, as tax, Prsi and income levies of sometimes up to 52% will be deducted at source by your employer.

(3) New Retirement Options

Recent Government legislation has now made Pensions even more attractive than ever, a brief summary of these changes are as follows: -

(a) Your estate will never lose the benefit of your fund i.e. if you die at any time your next of kin will inherit your pension rights.
(b) You no longer have to purchase an annuity when you retire, you can take your lump sum and shelter the rest of the fund in an AMRF or ARF, withdrawing funds at your own convenience. This gives you the massive advantage of having complete control over how you utilise your fund and when you pay your fund's taxes.

What type of fund should I invest in ?

All Pension Providers now offer a wide range of funds that you can elect to invest your hard earned cash into. They tend to range from higher risk options like 'Equity based funds' to low risk options like 'Fixed Interest funds'. You can also opt to either manage the fund allocations yourself or else leave the Pension Provider's Investment Managers decide for you. You will normally be able to split your contributions into many different funds if you want to spread out your investment portfolio and a number of free switches are permitted per annum.

The normal course of action, unless you have a particular knowledge of Investments and Economics, is to elect to invest in the 'Managed Fund' whereby you leave it to the experts! This has the distinct advantage of your fund having an investment strategy where the fund Managers plan your fund allocations depending on your age and your expected retirement date so that the closer you get to retirement the greater percentage they invest in secure products like 'With Profit Funds'.

Which Company Should I start my Pension with ?

There's no easy answer to this one unfortunately, as Pensions are a long term investment product and no one can really predict how one company is going to perform in the long term compared to another company. The two most obvious criteria to take into account would be past performance and Management charges, but beware that 'past performance is no guarantee of future return!'.

(a) Friends First
(b) Standard Life
(c) New Ireland
(d) Scottish Provident
(e) Eagle Star

Personal Versus Company Pension Plans

A self-employed individual who is operating through a limited company has the option of either taking out a personal or company pension scheme. The main advantages of a company scheme over a personal one are as follows: -

(a) All the premiums can be paid directly by the Company.
(b) More contributions per annum can be invested into a company scheme.
(c) The Director can retire at 50 years of age (60 years for a personal scheme).
(d) There is the possibility of getting a higher tax-free lump sum at retirement.

A personal pension plan has the advantage of not being linked directly to the company and thus contributions can be continually invested in the scheme even if the company ceases trading.

Frequently Asked Questions and Answers

(1)What charges are levied by the Pension Providers?
They all tend to differ slightly but on average the annual management charges average out at between 1.5 to 3%. There are also small government and documentation levies approx €30 a year. The 'With Profits' Fund don't have any management charges associated with them, the Pension Providers simply deduct their fees before declaring the net annual dividend. The only other costs associated with Pensions are the Brokers commissions, which as we mentioned earlier are halved if you take out your policy through us.

(2) Can I change my premium amount once I start?

Once you have completed your first year of the scheme you will be able to amend your premium amount up or down to suit your current economic situation. Premiums are normally indexed linked so that they increase in accordance with the consumer Price Index or a fixed percentage, normally 5%.

(3) Will my retirement fund be dramatically affected if there's a stock market crash the day before I retire?
This is a common misconception that has no real basis in fact. Pension funds are managed so that the closer one gets to retirement, the greater percentage of funds are invested in secure, stable investments like 'With-Profit funds' and 'Fixed Interest Securities'. Because the pension fund managers take a long term view, their investment strategy will change as your circumstances change i.e. they will attempt to maximise your funds performance in the early years by investing in high yield equity based products and then securing these gains by tying them up in safe options in later years.

(4) What happens to my pension if I cease my self-employment?

If you have a personal pension plan, then as long as you don't join an occupational pension scheme you will be able to continue to fund your original plan. If it's an executive scheme (company pension), then you will have the option of either leaving it there ‘paid up’ to be accessed at retirement, or else to transfer it into a new scheme of your choice. If you opt for the later option however, you will incur the Bid/Offer spread cost of 5%, which is basically a form of exit fee charged by the Pension Companies.

(5) How will I know how my fund is performing?
Once a year on the anniversary of your scheme’s commencement date, the Pension Provider will issue an annual report outlining how your fund has performed during the past 12 months. This will also give you the options of switching around your fund allocations and/or amending your premium amount.

Other Insurance Products Available

There are many other investment and insurance products available on the market today, we have briefly outlined some of the more attractive ones below: -

(1) Life Assurance Cover
This is where you provide for a lump sum for your next of kin or dependents when you die. Premiums are not tax deductible and should only really be required if you have dependents relying on your income i.e. your spouse, or if you have children. Please note that you should have separate cover for both Life Assurance and Mortgage Protection Insurance.

(2) Permanent Health Insurance
This is where you provide for a source of income in the event of not being able to work due to illness. Premiums are tax deductible and thus this would seem an attractive and necessary policy to have, as when you are self-employed, you don’t get paid if you’re not working.

(3) Critical Illness Protection
This is where you provide for a lump sum for yourself in the event of certain medical conditions being diagnosed such as cancer or leukaemia etc. Premiums are not tax deductible.

(4) Medical Insurance Cover

This is your standard but vital VHI or BUPA Health cover. Premiums are tax deductible at source, and we would strongly advise everyone to have this cover as a minimum requirement.

(5) Whole of Life Cover

This is a combination of some or all of the above policies with added benefits like ‘hospital money’ normally added in.

INSURANCE

Business insurance, like many types of expenditures is one of those items that business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all of the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost-benefit basis like any other commodity that you purchase. Your accountant and insurance agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks that could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, general and product liability. Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses. Self-insurance can be accomplished by not buying coverage for incidental risks or increasing the deductions on policies that you do buy. Often, raising the deductible can have a very favourable impact on policy premiums. The administrative cost to the insurance company to process small claims is quite high, consequently the rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizeable deductible amount. An insurance broker can provide you with comparative costs for various types of coverage with varying degrees of deductible amounts.

Required Policies

Very little insurance coverage is mandatory. The only insurance coverage typically required by law is public and employers liability. Your insurance agent can explain the required coverage, the rating systems, and help you purchase a policy.

You must also be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance coverage in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreements relating to these transactions. There are many other types of policies that you may wish to consider. Specific coverage is provided by each policy and a qualified insurance broker can explain the related costs in depth.

Some of the types of insurance coverage that you might consider for your business are listed below:

Commercial Liability Insurance

There are many types of liability your business may need cover for. "Liability" refers to your legal obligation to pay compensation and costs awarded against you in respect of loss or damage sustained by a third party. Types of liability you may want to consider:

- **Public Liability** This will protect you from any liabilities from a Third Party (other than your employees) bodily injury or damage to their property that may occur during the normal operation of your business.

- **Employers' Liability** If you employ anyone outside your immediate family, you are required by law to purchase employer's liability insurance. This insurance offers you protection for any liability arising from injury or illness sustained by employees while they are working for you.

- **Product Liability** This will protect you from any liabilities from a Third Party bodily injury (other than your employees) or damage to their property that may occur from products you sold or supplied.

Public Liability

Public Liability is used to protect businesses in the event that they are sued by a member of the public. Public liability insurance is set into force to protect you if you are sued by a member of the public claiming that they have suffered a loss as a result of negligence.

Key Man Insurance

Key man insurance allows you to cover key members of your staff or management team, key members whose disability or death could cause harm to your company.

Key man insurance is a type of insurance which few medium and small companies have in place, while many large companies have key man insurance in place but only for directors - i.e. the real key players in the company have not been identified.

Landlord Insurance

If you rent your property to tenants then you will need a specialist landlords' insurance.

As a landlord you face the risk of having to fork out the costs in the event that your property is damaged and you are not insured.

Life Insurance

Life insurance can be a useful policy to have for small business owners who are looking for increased peace of mind over the security of their family and business if they were to die.

Many large companies also offer benefits packages which offer life insurance - the self employed need to be in a position to negotiate their own cover and a life insurance policy should be one of these insurance types.

Product Liability

Product Liability covers you if any products that you sell or provide are faulty or defective.

In the event that you provide a product and it is defective and someone suffers a loss as a result of that product, they are entitled to pursue you for compensation. For example, if you supply a television and it blows up causing damage to someone's property they will be entitled by law to sue you for compensation.

Products, Sales and Servicing Indemnity (PSSI)

Products, Sales and Servicing Indemnity is a packaged cover that is usually provided with employers liability and public liability insurance. PSSI is formed of three different covers:

Products will cover you in the event that you are pursued for selling defective goods.

Sales indemnity has the same purpose as products liability but it kicks into effect with second hand goods and ones which fall outside the manufacturers warranty, it is usually associated with used car dealers

Servicing Indemnity will cover you in the event that you are pursued for defective workmanship. For example if you were a car mechanic and forgot to re-attach the breaks properly, and the client had an accident as a result of the breaks not working.

Business Interruption

This coverage, as the name implies, covers the loss of revenues your business would generate if you were forced to shut down for reasons beyond your control. While this is obviously valuable insurance, the policy premium must be carefully considered relative to the potential profits your business might lose during a short shutdown of operations.

Employee Fidelity Bond

This type of insurance typically covers the risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities, or similar types of assets, you may be well advised to consider this coverage. Certain industries are required to carry this insurance by Regulatory Authorities.

Umbrella Coverage

This type of insurance covers losses above and beyond the limits of other policies that you carry. Umbrella policies usually pertain to liability of various sorts and are usually valuable if your business, or you, has a net worth that requires protection in the event of a catastrophic loss.

Insurance is like any other product that you purchase. Before purchasing it, you should consult with more than one broker as to your needs for protection. You should discuss insurance needs with acquaintances in the same or related business as yours. Before buying coverage you should check out the reputation of the company that is underwriting the policy.

Selecting Professional Advisers

SELECTING PROFESSIONAL ADVISERS

Starting your own business obviously entails a multitude of decisions; decisions which can seem overwhelming without the right players on your team. In order to succeed you need to equip yourself with every tool at your disposal.

One of the most cost effective tools you can utilise is the expertise of a specialist. The right accountant and solicitor can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first rate centre back (you) won't guarantee a winning team without a first rate full back line. The right accountant and solicitor **is** your best defence. Their expertise can help save you money that in turn can be used to increase profits.

When enlisting the expertise of an accountant and solicitor you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need some you **can** and **will** listen to as they devise strategies to help you succeed.

You want to succeed - and you can. By taking the time to make key decisions and enlisting the right players on your team - you will succeed!

We wish you success and welcome you to the wonderful world of free enterprise.

Computer Accounting Systems for first time users

COMPUTER ACCOUNTING SYSTEMS FOR FIRST TIME USERS

Introduction

A business user choosing a computer system for the first time has to give detailed consideration not only to the purchase of the hardware and software but to the installation of the system and the training of staff. The proprietor of the business will need to make a solid commitment in both time and money in order to reap the benefits.

This chapter is intended to alert the business user of computers to areas needing attention and action when installing or updating a system. It is not intended as a complete DIY handbook covering every eventuality!

Hardware

The choice of hardware involves primarily:-Hard disk size, Processor speed and Memory.

A minimum recommended standard should be a hard disk of 20 Gb and 128 Mb of RAM (but preferably 256 Mb). The fastest processors are the Pentium 4 and AMD Athlon XP chips running at least 1 GigaHertz upwards.

All modern PC's come with a VGA (high resolution) colour monitor and at least a 17" monitor capable of running at 1024*768 resolution is recommended. A "floppy" disk drive for 3.5" High Density disks will be required as will a CD ROM drive as a great deal of software is published in this format.

In recent years, prices have dropped dramatically and a very high specification PC can be bought for around €1,000.

Printers

For accounts purposes, a **"dot matrix" printer** will produce copies of invoices and payslips if these facilities are being used.

Laser printers are affordable for quality letter printing but, of course, only produces one copy at a time. For colour printing, **inkjet printers** represent good value and indeed the price of **colour lasers** has also dropped significantly and good quality printers can now be purchased for under €600.

Software

Accounting software, like hardware, is now very powerful and comparatively inexpensive. Integrated software includes Sales, Purchase and Nominal Ledgers with Sales/Purchase Order Processing and Stock Control in a single suite of programs. Prices range from €150 to €900 for this type of program running in "single user" mode. Networked versions for multi-user use are generally more expensive.

We have reviewed most of the well-known names in this sector of the market and find, as with many things in life, you tend to get what you pay for.

Modular systems are made up of individual programs for each of the above functions, each of which is more powerful and flexible than the integrated systems. These are put together to form a total system for the larger business, usually on a network of a number of PC's.

These systems are for businesses with turnovers of "say" €1 million upwards.

Microsoft and their "Office" software package and Windows operating system is practically universally used on PC's nowadays. Accordingly, most other software producers have now produced Windows versions of their own packages. Microsoft "Office" includes word processing, spreadsheet and database software and will be suitable for most business environments.

New technology, notably e-mail and the Internet have had a great deal of publicity in recent times. There can be no doubt that development in these areas will significantly impact on our lives, both socially and commercially. Getting on to the Internet is a relatively simple and inexpensive process. Developing and maintaining a website can be as complex and expensive as you care to make it. A great deal of careful thought needs to be given before significant time and expense is incurred as to how this aspect of technology be best implemented to suit your business. There are many options to consider in how this should be addressed. At Derek Madden & Co. Accountants, we can give some useful independent advice and thoughts in relation to your strategy in this area.

Suppliers

The computer industry is well known for "here today, gone tomorrow" suppliers. Make sure that you choose one with a good local reputation and never part with money until you have received the goods. Paying extra for on-site maintenance is a sound insurance for equipment being used for business.

Planning and Implementation

Planning and implementation must cover the layout of your accounts, control over the information going in and verification of the information coming out of the system.

It will also be necessary to produce the accounting data for entering the opening balances.

Where advanced management information is involved, such as profit and loss by departments, more detailed planning is required. Development of a system can only take place at the pace at which staff are able to increase their own skills. The following phases of development may be appropriate for a new start-up system:

- Recording of prime entries (Cash Received and Paid; Sales and Purchase Invoices)

- Bank Reconciliations and VAT Returns
- Monthly Adjustments (e.g. Depreciation and Stock Change) producing monthly management accounts
- Sales Invoicing Routines
- Advanced Management Information e.g. detailed analyses of sales and departmental costs
- Sales and Purchase Order Processing with Stock Control

Even at the first stage the system will produce Aged Debtors and Creditors on a regular basis to enable the business to improve its cash flow.

A "set up procedures list" together with details of typical available reports follows this section.

Training and Support

Training staff who are to use the computer is essential both to get off to a sound start and to make progress. Derek Madden & Co. will provide training, on request, tailored to your specific requirements.

We also offer telephone and e-mail support for those problems that can be quickly resolved in this way.

Security

The popular press would have you believe that it is only a matter of time before a virus attacking your hard disk eats up your data! The most frequent reason for loss of data is not taking backups.

Derek Madden & Co. will not only advise on, but also insist that, proper procedures are in place to make your data as secure as is practical.

Costs

Hardware and software is dependent on prevailing market prices. Installation and training is proportional to your requirements and usually charged at an hourly rate.

Conclusion

Derek Madden & Company have the necessary balance of computing and accounting expertise to help you to both get off to a good start and later to improve your system.

We have good working relations with local computer companies who will supply and maintain your equipment. Many will also provide the technical support for networks and, if needed, tailor your software to specific requirements.

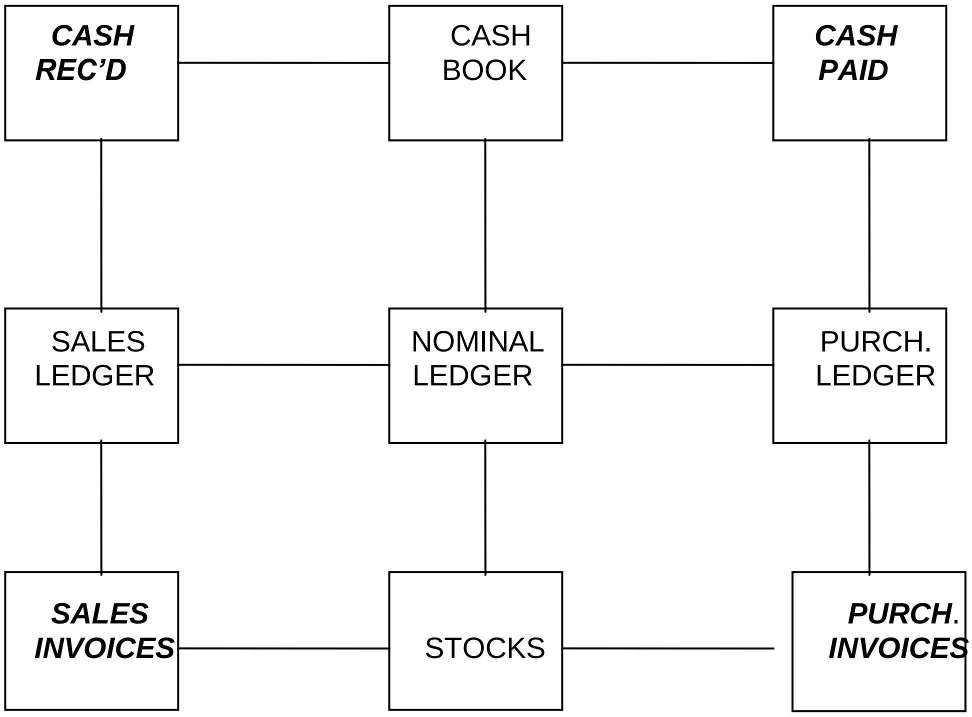
Installation of Accounting Systems

1. Decide on starting date, consider trial period.
2. Set up nominal ledger accounts, Balance Sheet and Profit and Loss Layout.
3. VAT? Accrued or Cash Accounting.
4. Are departments required for sub analyses?
5. Use a dummy company for practice (Multi-company systems only).
6. Obtain starting trial balance.
7. Obtain starting Sales and Purchase Ledger balances.
8. Enter Trial Balance by journal entry.
9. Enter Sales/Purchase account code, names, addresses, etc.
10. Enter Sales and Purchase Ledger balances by posting directly to Sales/Purchase control account.
11. Enter live data:
    a. Sales and purchase invoices
    b. Cash received
    c. Cash paid
    d. Petty cash
12. Continue to keep manual records for at least three months and Cash Book for full year.
13. Reconcile Bank Statement with Cash Book and Computerised Bank Control Account.
14. Consider direct production of Sales Invoices. Free text or from stock.If the latter, stocks, dummy or real need to be entered into stock records.
15. Keep a backup disk for each of the five weekdays. Keep a weekending backup off the premises.

Benefits will be mainly a business that you manage - instead of a business that manages you!

ACCOUNTING SYSTEMS

TYPICAL BLOCK DIAGRAM



Double Entry Principles

By entering a Sales Invoice in the Sales Ledger, the customer's account, the Sales Ledger Control Account (agreeing the total of the individual sales ledger balances to the total debtors in the trial balance), the VAT Account, and the Sales Account in the Profit and Loss Account are all automatically updated.

Posting Purchase Invoices, Cash Received and Cash Paid all complete the double entry and update Control Accounts.

Illustrative Chart of Accounts

FIXED ASSETS - TANGIBLE

0010	Freehold property cost	
0020	Freehold property depreciation	
0110	Leasehold property cost	
0120	Leasehold property depreciation	
0210	Plant and machinery cost	
0220	Plant and machinery depreciation	
0310	Fixtures/fittings cost	
0320	Fixtures/fittings depreciation	
0410	Motor vehicles cost	
0420	Motor vehicles depreciation	

FIXED ASSETS - INTANGIBLE

0700	Investments	
0900	Goodwill	

CURRENT ASSETS

1000	Stocks and work in progress	
1100	Trade debtors	*
1103	Debtors and prepayments	*
1200	Bank current account	*
1230	Petty cash	*

CURRENT LIABILITIES

2100	Purchase ledger control	*
2109	Creditors and accruals	*
2200	VAT control account	*
2300	PAYE/NI creditor	*

LONG TERM LIABILITIES

2600	Bank loans	
2700	Hire purchase creditors	
2800	Lease purchase creditors	
2900	Other loans	

CAPITAL AND RESERVES

3000	Capital account - balance brought forward	
3100	Capital introduced	
3200	Profit and loss account	
3300	Drawings	

* *denotes control accounts*

SALES
4000 Sales/work done
4009 Discounts allowed
4100 Export sales

OTHER INCOME
4200 Royalties received
4210 Commissions received
4220 Insurance claims
4230 Rental income
4240 Bank interest received

COST OF SALES
5000 Purchases
5900 Opening stock and work in progress
5950 Closing stock and work in progress

DIRECT COSTS
6000 Direct labour
6100 Goods outward costs
6200 Goods inward costs
6300 Packaging
6400 Duty paid
6500 Transport insurance
6600 Sales commissions payable
6700 Royalties payable

OVERHEADS
7000 Motor expenses
7100 Telephone
7200 Wages
7250 Wife's wages
7300 Rent
7400 Rates
7500 Heat and light
7600 Postage, stationery and advertising
7700 Repairs and renewals
7800 Insurance
7900 Bank charges and interest
8000 Hire purchase interest
8050 Mortgage interest
8100 Accountancy fees
8200 Legal charges
8300 Use of home as office
8400 Protective clothing
8500 Cleaning
8600 Sundry expenses
8700 Subsistence
8800 Profit on asset sales
8900 Depreciation
9000 Bad debt write off

Useful names addresses and telephone numbers

USEFUL NAMES, ADDRESSES AND TELEPHONE NUMBERS

Name	***Details***	***Telephone Number***
REVENUE COMMISSIONER		
South West Region	Cork, Kerry, Clare & Limerick	1890 22 24 25
East & South East Region	Meath, Kildare, Laois, Tipperary, Waterford, Wexford, Wicklow, Kilkenny & Carlow	1890 44 44 25
Business & Income Tax Payments		1890 20 30 70
Employers PAYE, P35's & BIK		1890 25 45 65
MISCELLANEOUS		
Forms & leaflets		1890 30 67 06
Companies Registration Office	Parnell House, 14 Parnell Square, Dublin 1	1890 220 226
Dept of Social & Family Affairs		01 - 8748444

Name	***Address***
Sundry Internet Sites:	
Revenue Commissioners	www.revenue.ie
Companies Registration Office	www.cro.ie
Office of the Director of Corporate Enforcement	www.odce.ie
Dept of Social & Family Affairs	www.welfare.ie
Derek Madden & Company	www.maddenco.ie
	(022) 51752 (t)

Conclusion

Conclusion

You now have a handy reference guide to starting a business. With it you should be able to successfully handle many of the problems encountered in starting, running and expanding your business. Always remember to seek professional advice in areas that you are not sure. The benefit will far outweigh the cost. Good luck!