



# DEREK MADDEN & COMPANY



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Derek Madden & Company welcomes you to our third news letter (May 2010)

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## About Us

Derek Madden & Company was established in March 2007 with the aim of helping a broad range of businesses meet their compliance obligations in relation to the Revenue Commissioners and the Companies Registration Office. As well as helping to meet all compliance obligations we aim to add value to businesses with regard to saving costs, providing good tax advice and helping businesses grow and enjoy future success.

For a free consultation do not hesitate to contact us.

## Accelerated Capital Allowances (ACA)

Businesses looking to reduce energy costs by investing in energy efficient equipment can now enjoy a double benefit through a new tax incentive scheme called Accelerated Capital Allowances (ACA).

Under the ACA scheme, when money is spent on eligible energy efficient capital equipment, the company can deduct the full cost of this equipment from their profits in the year of purchase, i.e. the taxable profit in year one is reduced by the full cost of the equipment. This contrasts with the existing Capital Allowances tax structure (also referred to as wear and tear allowance) for plant and machinery on which ACA is based.

However, under the ACA scheme, when money is spent on eligible energy efficient capital equipment, the company can deduct the full cost of this equipment from their profits in the year of purchase, i.e. the taxable profit in year one is reduced by the full cost of the equipment. Importantly this saving is on top of the energy savings that the company will make through investing in energy efficient equipment.

The ACA benefits all companies liable for corporation tax by:

1. Reducing Tax Liabilities,
2. Increasing Cash Flow and
3. Reducing energy costs in a sustained and ongoing business.

Important to note that in these difficult trading periods, is that if a company does not make a profit in the year of purchase, the capital allowance can be carried forward and offset against profits in the following year. For further information or for a list of equipment under the ACA scheme please contact the office at [info@maddenco.ie](mailto:info@maddenco.ie)



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## Research and Development Tax Credit (R&D Credit)

Another very beneficial tax incentive for business is the tax credit for research and development (R&D) expenditure. Where a business invests in qualifying R&D it is entitled to an additional tax credit of 20%. This regime is a perfect example of the government wisely incentivising investment in Ireland's knowledge economy through the tax system.

General consensus would have us believe that in order to be working in Research and Development we must be scientists, wear white coats and be striving to invent or produce life changing products or services for the greater good of the entire universe. A bit exaggerated, possibly but the definition of what can be termed as research and development is far broader than business people realise and consequently tax credits for research and development are not being claimed due to this lack of awareness.

Research and development is defined as "systematic, investigative or experimental activities in a field of science or technology, being basic research, applied research or experimental development." The key provision to be satisfied is that the relevant activity must: Seek to achieve scientific or technological advancement and, involve the resolution of scientific or technological uncertainty

R&D Tax credits were introduced in Finance Act 2004. Any R&D incurred prior to this date would make up what is known as the "Base Cost". If annual R&D spend was €100,000 per annum prior to Finance Act 2004, then €100,000 would be the company's base cost. Any R&D in excess of this amount would then be claimable under R&D tax credit rules. For example if we incurred €200,000 relevant expenditure in the 2005 tax period, we could claim 20% (25% as and from 1 January 2009) of the amount in excess of your base cost (€100,000) which would result in a tax credit of €20,000.

So claiming of tax credits can be of huge benefit to your business, can make significant reductions in your tax liabilities and the key point that you should consider is that it doesn't have to be successful. Once the intention is to achieve advancement or to remove uncertainty then you are entitled to claim your credit

### The Snippets Corner (A few quick and easy adjustments that might improve your business)

- If you are self employed make sure you are claiming all that you can in relation to tax reliefs for you and your business such as, employing a family member, changing from a sole trader into a partnership, claiming the home carer's credit and many more. Please contact the office and we can discuss these with you.
- Make sure you review all your business insurance costs because of such items as building costs going down considerably you may be over insured and could save on your insurance expense.
- Businesses need to look at alternative ways of raising funds. In relation to how companies can raise funds from Business angles, the Institute of Certified Public Accountants in conjunction with the small firms association have issued a leaflet outlining the facts of this process, for a copy of this leaflet email [info@maddenco.ie](mailto:info@maddenco.ie)
- Charities must deal with implementation of New Charities Act during 2010. The current economic climate presents many challenges for charities and not for profit organisations. Escalating pressures have impacted on fundraising and many charities are experiencing an unprecedented demand for services. In addition, increased complexity can be expected when the Charities Act, introduced in 2009 is implemented in stages during 2010. There will be a consultation programme with the charities and not-for-profit sector during 2010 and this consultation review will discuss amongst many things the form and content of the Annual Report that charities will be obligated to submit to the new Charities Regulatory Authority ("CRA").
- The Institute of Certified Public Accountants in conjunction with the small firms association have also issued a leaflet on keeping the Sheriff at Bay, for a copy of this leaflet email [info@maddenco.ie](mailto:info@maddenco.ie)
- If you feel that you may be entitled to a tax refund complete your 2009 Personal Income tax return as early as possible in 2010 in order to help with cash flow. You may be entitled to a tax refund if you were recently married, made redundant, a member of a trade union, only worked for part of the year etc..., log on to our website [www.maddenco.ie](http://www.maddenco.ie) and follow the 'Tax Calculator' links and we will be in contact with you regarding a possible refund.

*Disclaimer: This information bulletin is intended to be used for guidance purposes only. For further information you should contact the office directly. Derek Madden & Company cannot be held liable for any error, or for the consequences of any action, or lack of action arising from this bulletin.*