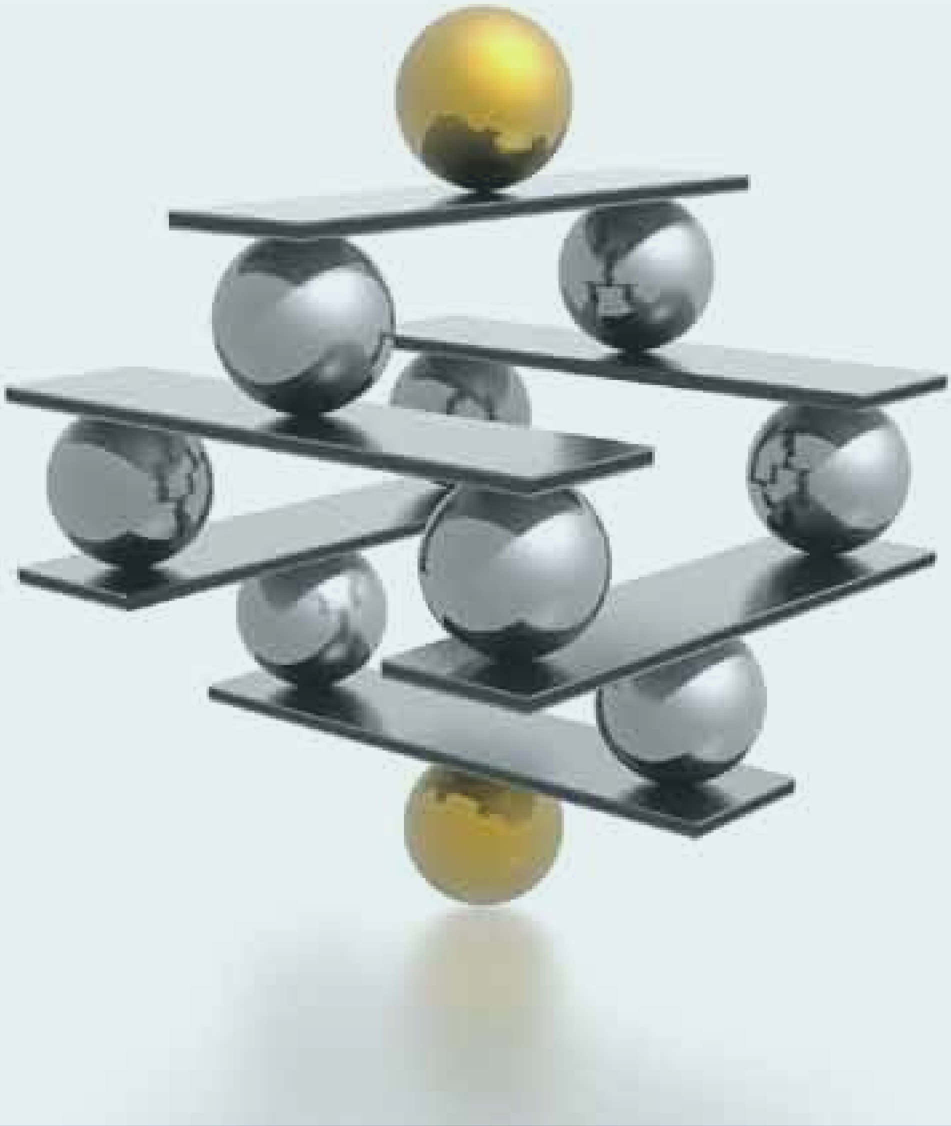
Understanding
Tax for Small Business



Educating, Developing & Representing

Irish Taxation Institute

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Understanding Tax for Small Business

Introduction

Like any other overhead, tax is a cost that needs to be managed and controlled by all businesses in as efficient a manner as possible. This is of paramount importance to small and medium sized enterprises (SMEs) given the importance of cash-flow management.

This guide is intended to provide businesses within this sector with practical advice as to what they should do to manage their tax affairs in as efficient a manner as possible and, where possible, to highlight the incentives and reliefs which may be of interest to those wishing to expand their businesses.

Summary of contents

The guide is divided into two distinct parts, as set out below.

Part 1 – Starting up your business

Part 2 – Ongoing tax issues for your business

For further information on how to apply for any of the reliefs or exemptions mentioned in this guide please see www.revenue.ie or contact a Registered Tax Consultant. For a listing of Registered Tax Consultants in your area, please visit www.taxireland.ie.

Part 1 – Starting your business

1. Practical issues for SME businesses and business owners

There are a number of practical matters that need to be considered by any business owner in relation to their tax affairs. These are as follows:

1.1 Register early

All entities are obliged to notify Revenue within one month of commencing business activities. In the vast majority of cases this obligation is met by filing a tax registration application form at the earliest possible date. In the case of unincorporated entities a form TR1 is used, while companies will complete a form TR2. These forms are available from your local tax office or on Revenue's website – www.revenue.ie.

It is advisable to register for VAT at the earliest possible date to facilitate a claim for repayment of VAT on pre-trading expenditure where this is appropriate. Such expenditure may also qualify for a tax deduction once certain criteria are met. Given the complexity of VAT legislation it is essential that professional advice is always obtained early to confirm the VAT status of the business and the appropriate VAT treatment of supplies.

Revenue On-Line Service (ROS) is an internet facility which provides taxpayers with a quick and secure means for filing tax returns, paying tax liabilities and accessing your tax details, 24 hours a day, 7 days a week, 365 days a year. Details of how to register for this facility are available on www.revenue.ie.

1.2 Do you know what taxes your business should pay?

As a small business, you have been charged by the State with the collection and payment of some or all of the taxes listed below:

» **PAYE/PRSI on wages**
See Appendix for the rates and thresholds that apply.

» **VAT on supplies of goods and services**
VAT rates vary from 0%, 4.8%, 13.5% to 21.5%. The current turnover thresholds over which a business must register for VAT are €37,500 per annum on the supply of services and €75,000 per annum on the supply of goods. Certain supplies of goods and services can also be VAT exempt. This is a complex area. If in any doubt as to the appropriate rate on your supplies contact a Registered Tax Consultant.

» **Income Tax and levies on profits from business activities carried out by a sole trader/partnership**
Income tax applies at rates of 20% and 41%. PRSI, the health levy and income levies may also apply.

» **Capital Gains Tax (CGT)**
CGT at 25% may be payable on disposals of certain capital assets by individuals.

» **Corporation Tax on profits from business activities carried out by a company**
A 12.5% rate of tax applies to trading profits. Passive income, such as rental income and interest income will be liable to tax at 25%. Gains on disposals of certain capital assets are also liable to tax at the higher 25% rate.

» **Relevant Contracts Tax ("RCT")**
This tax applies where you engage subcontractors in construction, meat processing or forestry operations. Further details are provided in 2.5 of this guide.

» **Dividend Withholding Tax (DWT)**
DWT at 20% can apply on the payment of dividends or other profit distributions. A return must be filed with Revenue with the tax due by the 14th of the month following that in which the payment was made.

» **Professional Services Withholding Tax (PSWT)**
Businesses in certain circumstances may suffer PSWT on payments they receive. See 2.1 for more details.

For an entrepreneur with no expertise in tax matters, tax compliance can be an onerous obligation. Tax law can change regularly. It is essential that you are aware of all changes in tax law and practice. Recent changes to be aware of include:

1. Increase in the rate of employees' income and health levies, as announced in the April 2009 Budget.
2. The increase in the standard VAT rate to 21.5% from 21% on 1 December 2008.
3. Changes in the manner in which VAT is accounted for on property transactions with effect from 1 July 2008.

1.3 Do you know when your business should pay its taxes and file its returns?

You need to be aware of all pay and file deadlines as failure to lodge returns and/or make tax payments on time can result in both interest charges and penalties.

Some key compliance deadlines to be aware of include:

Income Taxes

For the self-employed 31 October is the date for paying tax and filing income tax returns. The tax year for income tax purposes is the calendar year. On 31 October you must:

a) Pay Preliminary Tax for the current tax year,
b) File your Tax Return for the previous tax year,
c) Pay any balance of tax due for the previous tax year.

Capital Gains Tax (CGT)

The pay and file regime differs for CGT from that of income tax.

» Where capital assets are disposed of up to 30 November in the tax year the full CGT liability must be paid by 15 December of that year.

» For disposals made in December of a tax year the full CGT liability must be paid by 31 January of the following year.

Details of CGT disposals for a tax year should be provided in your income tax return, which must be filed no later than 31 October of the following year.

Corporation Tax

Where a business operates through a corporate structure, a corporation tax return for an accounting period needs to be submitted to Revenue within 8 months and 21 days of the end of the accounting period.

For small companies, a preliminary corporation tax payment equal to at least 90% of the final liability for an accounting period must be paid 1 month before the end of an accounting period, (by the 21st of the month). For a company whose prior year tax liability did not exceed €200,000 this payment can be 100% of the final prior year liability. This can reduce the risk of exposure to an underpayment of preliminary tax.

A more onerous preliminary tax obligation exists for those companies with a tax liability for the preceding year exceeding €200,000. They must pay two instalments of preliminary tax, the first instalment 6 months into their accounting period, with a second instalment due one month before the end of the accounting period.

For both small and “large” companies the balance of tax due for the accounting period is paid when the corporation tax return is filed.

Start-up companies who commenced trading on or after 1 January 2009 and whose corporation tax liability for each year does not exceed €40,000 are exempt from corporation tax in each of the first three years of trading.

VAT

VAT returns are generally filed on a bi-monthly basis with the accompanying payment, however there are simplified arrangements for traders with lower VAT liabilities.

» Bi-annual filing and payment for those traders where the total VAT payments for the year are €3,000 or less,

» Four monthly filing and payment for traders where the total VAT payments for the year are between €3,000 and €14,000,

» Traders who pay by means of direct debit need only file one annual return at the end of their accounting period.

PAYE/PRSI

Form P30 setting out the payments made to employees together with the tax due are in general filed on a monthly basis on the 14th of the following month. An annual return Form P35 is filed in February following the end of the tax year. Employers whose annual PAYE/PRSI payments do not exceed €30,000 may be able to file P30 returns on a quarterly basis.

Many businesses now opt to discharge their tax liabilities by means of direct debit over the course of a year. It is important to always ensure that sufficient payments are made on time in order to avoid a large "balancing" payment and interest charges at the end of the year.

Extensions with ROS

Customers using the ROS facility can avail of extended deadlines for filing returns and paying tax. For example, the deadline of 31 October for filing an income tax return is generally extended by a further two weeks where you pay and file using Revenue's on-line facilities.

Compliance with your tax obligations is important and a good compliance record should also reduce the chance of a Revenue audit taking place.

1.4 Do you know how much tax your business should pay?

A business pays tax on its profits and gains. In calculating taxable profits it may claim a deduction for any expenses which are revenue in nature and are incurred by it wholly and exclusively for business purposes, for example staff wages, purchases of goods/materials and accountants' fees for preparing or auditing company accounts. In the case of capital expenditure on plant and machinery used for a trade, although a deduction is not available for the cost of the plant and machinery when purchased, relief is normally available over an 8 year period through capital allowances for the expenditure.

It should be noted that enhanced relief in the form of a 25% tax credit is available for expenditure incurred by a company on qualifying research and development activities (see 2.6 for more details). This is in addition to the standard trading deduction at 12.5% in computing taxable profits. Recent tax changes introduced by the Government allow the tax credit to be paid directly to companies in certain circumstances.

Businesses should also be aware that certain employment grants received from State agencies are not liable to tax.

1.5 Have you chosen the right trading structure for your business?

The choices available for setting up a business are:

1. Sole trader.
2. Partnership with another person where both partners work together and split the profits/losses according to their profit sharing ratio.
3. Limited liability company that will have a separate legal identity from its shareholders and directors.

1. **Sole Trader**

   There are no legal formalities involved in setting up as a sole trader and you will be regarded as a self-employed person for tax purposes. You will however be personally exposed for any losses incurred by the business.

2. **Partnership**

   Where two or more persons set up a partnership it is advisable to draft a formal partnership agreement. This would include details such as how much capital is to be provided by each partner, profit sharing ratios and steps on introducing a new partner or partner retiring.

   Each partner is personally liable for the losses of the partnership even if these result from the activities of another partner.

3. **Limited Liability Company**

   The main advantage of incorporation is that liability is limited to the amount subscribed for the shares. The formation of a company will require you to choose a company name, draft an appropriate Memorandum and Articles of Association and file the appropriate documents with the Companies Registration Office.

   Trading profits will generally be liable to corporation tax at the lower rate of 12.5%, compared to combined income taxes, PRSI and levies at the highest marginal rate of 55% on profits earned by the self-employed. However, any salary then withdrawn from the company will be subject to PAYE/PRSI and levies, which should be operated at the time of payment, to remove the pressure of having to put monies aside to fund preliminary tax obligations in October/November each year. A corporation tax deduction is available for salaries. Application of the close company surcharge may also arise on undistributed profits and may result in an increased tax rate. Further details on close company issues are provided in 2.3 on page 14.

   Setting up a company can be more costly in terms of legal and filing requirements which should be a consideration in choosing the appropriate trading structure.

   In certain circumstances it may be possible to transfer a sole trader business to a company without giving rise to a tax charge.

1.6 Is your business "thinking green"?

There are a number of green incentives which businesses should be aware of including:

(i) Increased capital allowances on cars that have low CO_2 emissions.

(ii) Reduced benefit in kind on company cars which pass the test for low CO_2 emissions.

(iii) No charge to tax as a benefit in kind on bicycles provided by an employer to their staff under certain circumstances.

(iv) Relief for expenditure on certain energy-efficient equipment (e.g. electric and alternative fuel vehicles, lighting, heating and ventilation systems, etc.) incurred by a company.

Starting your Business – FAQ

I'm thinking of starting my own business. Should I set up as a sole-trader or incorporate a company?

When starting a new business, proper consideration must be given to the structure to be used. For example, should the trade be carried on by an individual as a sole trade? Should the trade be incorporated in a new company?

Rates of Tax

One of the main deciding factors is usually the difference in tax rates applying to the profits of the business.

In a sole trade scenario, all profits should be subject to income tax at 20% up to the sole trader's standard rate band and then subject to tax at the marginal rate, currently 41% (PRSI, the health contribution and the income levy may also apply). In a company situation, the trading profits should be taxed at 12.5%, with only those profits which are drawn from the business (via director's salary/dividend, etc.) being subject to income tax, PRSI, the health contribution and the income levy. This may allow the company to accumulate reserves for use in funding the future expansion or diversification of the business. In some cases, a close company surcharge may apply – see 2.3 on page 14.

In addition, there is an exemption from corporation tax for the first three years of trading of a new 2009 start-up company in certain instances. This is subject to EU approval which is pending at the time of writing.

Tax relief for losses

For a sole-trader, relief may be claimed for the trading losses suffered against any other income earned by the individual in the current year. This produces income tax savings of up to 41%. Where the losses exceed other income, they are not lost. Instead, they may be carried forward indefinitely against the future profits from the same trade.

Where losses are suffered by a company, those losses can be used to reduce the company's tax bill in the current year, the previous year or future years. However, the company's losses cannot be passed to the shareholders.

Where a new company is a member of a group of companies, the losses suffered may be relieved against profits earned in other group companies.

Your premises

If you decide to incorporate your business, you will need to decide whether your premises and other valuable assets should be held in the company's name or your own.

For a variety of reasons, the premises in which the trade is carried on will often be owned by the company. This may create a double charge to tax on the disposal of such premises. A corporation tax charge at 25% of any gain arising is payable on the disposal by the company of the premises, and a further tax liability may then arise on extraction of such funds from the company by the shareholders.

Alternatively, the business premises may be held personally by the individual and let to the company. On the disposal of the business premises, only one charge to capital gains tax arises.

I have recently taken a redundancy package and am thinking of setting up my own company. Can I get tax relief for the capital invested?

There is a schemed designed for the purpose, which is:

Seed Capital Relief

Seed Capital Relief ("SCR") provides income tax relief on investments for certain individuals who leave employment (or who are made redundant) to found a new company that carries on a qualifying trade, e.g. a manufacturing trade.

The relief is in the form of a refund of tax already paid by the new entrepreneur in previous tax years.

A total of €600,000 subscribed for shares in the new company can be used to reduce an individual's total income for any of the six years prior to when the investment was made. However, the amount that can be deducted from total income in any one year is capped at €100,000.

There are a number of conditions to be met in relation to the investor and the type of business undertaken by the new company in order for the relief to apply.

This tax relief is due to run until 31 December 2013.

I have heard of BES relief, what benefit is this to my business in raising funds?

The Business Expansion Scheme (BES) provides tax relief to individuals for the purchase of ordinary shares in new or existing businesses which carry out certain qualifying trading operations. Some examples of the types of trades that qualify for this relief are manufacturing operations, tourist traffic undertakings, commercial R&D and recycling operations.

Companies can use this relief to raise funds. The maximum amount a company can raise from BES is €2 million.

Relief for an individual investor cannot exceed €150,000 in any one tax year and shares must be retained for at least five years.

What issues should I consider if I want to involve family members in the business?

If your spouse or other family members are to be involved in running the business you should note that:

» Salary costs will only be deductible in computing profits of the trade insofar as they are incurred wholly and exclusively for the purposes of the trade. Therefore the duties of the family member should be clear.

» PAYE/PRSI obligations can arise on any salary paid with corresponding tax filing obligations.

» A PAYE credit is not available to a director who controls greater than 15% of the ordinary share capital of a company. Similarly the spouse of such a director cannot claim a PAYE credit. The PAYE credit may be claimed by children of the director who work full-time in the business in certain circumstances.

Part 2 – Ongoing tax issues for your business

2.1 Organising your tax affairs to minimise cash-flow costs

Tax Losses

If you are a sole trader, it is possible to offset a trading loss on your activities against any other income arising to you in that year. This can lower your income tax bill for the year.

In the case of companies, any surplus trading losses after those used in the current year may be carried back against profits arising in the previous period, resulting in a refund of corporation tax already paid.

It is important from a cash flow perspective that all such losses are identified as early as possible so that claims for repayment of tax can be made quickly. Therefore it is important that the accounts are finalised promptly and reflect the full effect of the commercial losses.

Ensure that your company's tax returns are filed on time. Restrictions on loss relief can apply when a company's corporation tax returns are filed late.

Credit for Professional Services Withholding Tax (PSWT)

Any SME providing professional services to the State sector will be familiar with professional services withholding tax. This tax is deducted at the source at the rate of 20% on all payments made for services supplied to the State. PSWT deducted in this manner should be reclaimed from Revenue at the earliest possible date.

Be aware that Revenue may refuse to issue interim refunds of PSWT during the year to your business if its tax returns are not submitted on time.

Pay your taxes on time

Paying your taxes on time should be one cash outflow that you prioritise. Revenue's rates of interest on underpaid tax (approximately 8% per annum on direct taxes and 10% on other taxes) are higher than commercial borrowing rates. Penalties may also be applicable. Furthermore, the interest charged by Revenue on tax underpaid is not a tax deductible expense.

It is an unfortunate fact of life that businesses can experience significant difficulties in relation to timely payment of their tax liabilities. It is recommended that any business facing such difficulties should approach Revenue with a view to arriving at an acceptable payment plan on a proactive basis rather than waiting for demands or estimated assessments to issue.

2.2 Don't make VAT an unnecessary cost of your business

Do you qualify for the VAT cash receipts basis?

You should investigate whether you qualify for the VAT cash receipt basis. This allows you to account for VAT on the basis of cash received rather than sales and can be extremely helpful in avoiding cash-flow difficulties. The cash receipts basis applies to businesses with a turnover of €1 million or less in any continuous 12 month period.

Ensure that your purchase invoices are valid

VAT can be charged at up to 21.5% and has the potential to be a significant cost to your business.

In order to reclaim VAT on costs incurred, a business must have obtained a valid VAT invoice from its suppliers. This is an issue which often arises in the course of Revenue audits and can lead to some VAT refunds being challenged or even disallowed outright.

The usual grounds of contention include:

» An incorrectly addressed invoice
» Supplier's VAT number not included
» A sequential invoice number not included on the invoice supplied

These are all grounds for disallowing a claim for recovery of VAT on costs incurred. Take care to ensure that all of your business's invoices are in order in advance of any Revenue audit.

Be aware of the VAT implications of property transactions

New VAT on property rules were introduced in July 2008.

Under the new rules, property is generally regarded as having a 20 year VAT life. This means that if VAT has been reclaimed at any time in the last 20 years on acquisition of the property, VAT should in most cases be charged on any subsequent supply of that property. If it is not, then it is possible that part of the VAT initially reclaimed may have to be repaid to Revenue.

Great care should be taken to ensure that businesses do not inadvertently take action which may expose them to a liability to repay to Revenue, VAT previously claimed.

Professional advice should always be taken in advance of dealing with any transaction involving property as this is a most complex area.

Monitor your bad debts

If your business accounts for VAT on an “invoice” basis, you should be aware that where bad debts arise a refund of the VAT element of the bad debt may be obtained. To claim this refund it should be demonstrated that reasonable attempts have been made to recover the debt over a period of time and that it is irrecoverable.

2.3 Be aware of the rules relating to “close” companies

A close company is a company that is controlled by five or fewer shareholders or is controlled by its directors.

The vast majority of companies in the SME sector are close companies and it is important to know that there are a number of specific tax consequences that arise on transactions involving such companies.

These include:

» A 20% surcharge is levied on the after tax non-trading income of a company which is not paid out as a dividend within 18 months of its year end.

» A 15% surcharge arises on 50% of professional services income of a company if the income is not distributed within 18 months.

» Interest paid on directors’ loans may be treated, not as a tax deductible expense in certain circumstances, but as a distribution (or dividend) paid to that director. This leads to a tax cost of 12.5% of the interest paid.

» Other expenses incurred by a company for its directors may also be treated as distributions instead of tax deductible expenses. The result is that expenses cannot be offset against the trading income of the company, leading to a tax cost of 12.5% of the expenses paid.

» Companies must pay a “deposit” to Revenue on loans made by the company to its shareholders of 25% of the net loan amount. The close company only obtains a refund of this deposit when the loan is repaid by the shareholder. The company loses the deposit if the loan to the shareholder is written off. It is also important to note that there are Company Law regulations governing loans to directors. In particular, loans which exceed 10% of a company’s net assets breach company law. Breaches of company law can result in prosecution.

Close companies can incur high effective tax rates due to the complex rules above.

2.4 Take care in relation to employment tax issues

This is a wide ranging area and the potential tax traps can include:

(a) Whether individuals are employees or self – employed

If an employer does not deduct PAYE/PRSI on payments made to a person under the mistaken belief that they are self-employed rather than an employee, it is the employer rather than the individual who will be ultimately responsible for accounting for any additional tax liability due to Revenue.

Before any contractor is paid without the deduction of PAYE/PRSI, steps should be taken by the employer to reassure itself that the individual qualifies as a self-employed person for tax purposes.

(b) Errors in applying tax legislation in relation to benefits-in-kind ("BIK")

Some common areas of difficulty include:

- Inadequate records to substantiate a reduced rate of BIK on company cars provided to employees due to high business mileage.
- Calculating BIK on the net health insurance premiums paid on behalf of employees rather than on the gross premium amounts.
- Failure to deduct PAYE/PRSI on personal expenses of the employees and directors paid for by the business. These costs may be "grossed up" for PAYE/PRSI purposes.

2.5 Ensure that you meet your Relevant Contracts Tax ("RCT") obligations

RCT is of particular relevance to businesses in the construction, meat processing and forestry industries.

If your business, as a principal contractor, fails to correctly withhold RCT from payments to its sub-contractors in these situations, the RCT liability falls on you (or your company). The rate of RCT is 35% so this could be a very significant liability for your business.

The main area of difficulties in relation to RCT are:

- Failing to identify all the situations in which a principal contractor/sub contractor relationship exists between your business and its contractors.
- Failure to complete the joint RCT 1 declaration designed to demonstrate that an employment relationship does not exist.
- Paying a subcontractor without deduction of tax after the contractor has produced their Form C2 but before you have obtained a relevant payments card from Revenue.

If your business operates in one of the relevant industries, you should regularly obtain the advice of a Registered Tax Consultant to ensure that you are not creating an exposure to your business by not meeting your RCT obligations.

2.6 Ensure that you benefit from the tax incentives and reliefs available

A business can obtain a tax deduction for the expenses of its trade (e.g. salaries, rent, light and heat, etc.). However, there are a range of corporation tax incentives and reliefs which may also reduce your business' tax bill.

Tax relief for loans to companies

Where an individual takes out a loan to invest in or lend to certain trading companies, tax relief may be available for the interest incurred on the loan. More details on the relief available are set out on in the FAQs on page 18.

Similar relief is available to individuals for interest on loans applied in purchasing shares or lending money to a partnership for trading purposes.

Where a company takes out a loan to acquire shares in another company or to provide a loan to another company, the company can claim corporation tax relief for the interest paid on that loan. To qualify for the relief, the company in which the shares are acquired or to which the money is lent, must either be a trading company or a holding company of a trading company. There are a number of other conditions to be met in order to qualify for the relief.

Research and Development tax credit

R&D expenditure is a tax deductible trading expense. The tax relief for a company is equal to 12.5% of the R&D expenditure incurred.

An additional tax credit of 25% may be available to the extent that a company's qualifying R&D expenditure in 2009 exceeds its R&D expenditure in 2003. For example, if a company spends €10,000 more on qualifying R&D in the year to 31 December 2009 than it did in the year to 31 December 2003, it will reduce its corporation tax liability by €3,750 in respect of this additional expenditure, (ie €10,000 x 25% + €10,000 x 12.5%)

The "base year" will continue to be 2003 for R&D expenditure incurred in accounting periods ending on or before 31 December 2013.

The tax credit is available for offset against the current year's corporation tax liability, with any excess carried back to the previous year. In a significant extension of the relief, any unused credit arising in 2009 can, for the first time, be refunded to the company on a phased basis even where a corporation tax liability does not arise, subject to certain conditions.

The R&D credit is not limited to the realm of multinational corporations but is available to all companies irrespective of size and the amount of expenditure incurred, providing the expenditure meets the definition of R&D.

Furthermore, a tax credit of 25% of the full cost of a building used for the purposes of R&D can be available, subject to certain conditions. This is in addition to the industrial buildings allowances available in relation to the building which gives 12.5% relief from corporation tax. There are provisions for clawback of relief where the building is sold or used for a non-R&D purpose within a 10 year period.

This is a potentially extremely useful relief for companies in the SME sector.

Trading losses

It is possible to reduce corporate trading and non-trading profits with trading losses. This can produce a tax saving of 12.5% of the amount of the loss offset.

Corporate trading losses may be carried back to a previous tax year, carried forward to a future tax year or used in the current tax year.

Normally, a trading loss that is carried back in a company can only be used to reduce profits of the previous tax year. However, this carry-back period is extended to three years where a company permanently ceases to trade and a loss is incurred in the last 12 months of trading. This relief is called terminal loss relief.

A company's trading losses may also be used to reduce taxable profits of a group company. For group relief purposes there must be a 75% association between the companies for them to qualify as group members.

Any unused losses still arising after the above offsets have been made, can be carried forward indefinitely against future profits of the same trade.

Companies should finalise their accounts and tax returns as soon after the year end as possible in order to claim any refund of tax which may be due.

Capital allowances

Capital allowances may be claimed in respect of expenditure incurred on:

1 Plant and machinery (12.5% pa);

2 Motor vehicles (12.5% pa); and

3 Industrial buildings (4% pa).

There are also newly introduced reliefs for the purchase of energy-efficient equipment, as mentioned in Part 1 of this guide.

Ongoing tax issues for your business – FAQ

I need to borrow to fund my business. Can I get any tax relief for the borrowings?

Funding a company

Even if the business is carried out through a separate company it is possible for a full-time or part-time employee or director of the company to take out a loan to invest in or lend to their employer company or a connected company. If they do so, the individuals concerned can get income tax relief for interest paid by them on their loan. The relief is available at the individual's marginal rate of income tax (41%).

Where the funds are loaned to the company, relief is available only if the money lent is used wholly and exclusively for the company's business or trade.

The company must either be a trading company or a holding company of a trading company.

No relief may be obtained in respect of interest on loans to acquire shares which qualify for BES or seed capital relief.

The conditions relating to the relief are complex and you should obtain the advice of a Registered Tax Consultant if you are interested in claiming it.

Funding a sole trade/partnership

It is also possible to obtain an income tax deduction for interest on borrowings to fund trading activities which you are carrying out as a sole trader or partnership.

Top 10 tips for your business

1. Have a business plan and review it regularly in order to ensure that you are on target to achieve your goals.
2. “Cash is King”. Prepare regular cash flow forecasts. More businesses experience difficulties with cash-flow than profitability.
3. Investigate the benefits of ROS for paying and filing your taxes and use it to the fullest extent appropriate.
4. Invest in a good software package to manage payroll for your employees, or consider outsourcing to free up your own or staff time.
5. Delegate as much as possible to enable you focus on the core activities of the business.
6. Protect yourself; ensure that you have adequate insurance cover in place for the business (professional indemnity, employer liability etc.).
7. Manage your credit terms carefully.
8. Maintain a careful record of all business related documents; these should be archived for at least 6 years.
9. Many small businesses find it useful to maintain a separate bank account for the VAT element of cash received in order to have the funds available to meet the VAT payment to the Revenue Commissioners.
10. Ask the expert; no one person has a monopoly on knowledge so ensure that you engage early with your professional advisors – legal, accounting and a Registered Tax Consultant.

Appendix

We include a summary of the most common current tax rates, credits and thresholds in this Appendix.

Income Tax Rates

Personal Circumstances	Tax Year 2008 €	Tax Year 2009 €
Single/Widowed without dependent children	35, 400@ 20% Balance @ 41%	36,400 @ 20% Balance @ 41%
Single/Widowed qualifying for One– Parent Family Tax Credit	39,400@ 20% Balance @ 41%	40,400@ 20% Balance @ 41%
Married couple (one spouse with income)	44, 400@ 20% Balance @ 41%	45,400 @ 20% Balance @ 41%
Married couple (both spouses with income)	44,400@ 20% (with an increase of 26,400 max.) Balance @ 41%	45,400 @ 20% (with an increase of 27,400 max.) Balance @ 41%
Note: The increase in the standard rate tax band is restricted to the lower of €27,400 in 2009/€26,400 in 2008 or the amount of the income of the spouse with the lower income. The increase is not transferable between spouses.		

Income Tax Exemption Limits

Personal Circumstances	Tax Year 2008 €	Tax Year 2009 €
65 years of age or over	20,000	20,000
Married 65 years of age or over	40,000	40,000
Additional for Dependent Children 1st and 2nd child (each)	575	575
Each subsequent child	830	830
Marginal Relief Tax Rate	40%*	40%*

Taxpayers with low levels of taxable income may be exempt from tax altogether as a result of the tax credits available to them.

* For 2008 and 2009 the Marginal Relief Tax Rate only applies to persons 65 years of age or over.

Main Personal Tax Credits

Personal Tax Credits	Tax Year 2008 €	Tax Year 2009 €
Single Person's Tax Credit	1,830	1,830
Married Person's Tax Credit	3,660	3,660
Widowed Person's Tax Credit		
– qualifying for One-Parent Family Tax Credit	1,830	1,830
– without dependent children	2,430	2,430
– in year of bereavement	3,660	3,660
One–Parent Family Tax Credit	1,830	1,830
(with qualifying dependent children)		
Widowed, Deserted, Separated or Unmarried		
Home Carer's Tax Credit (max.)	900	900
PAYE Tax Credit	1,830	1,830
Age Tax Credit		
(a) Single/Widowed	325	325
(b) Married	650	650
Incapacitated Child Tax Credit	3,660	3,660
Dependent Relative Tax Credit	80	80
Blind Person's Tax Credit		
(single person)	1,830	1,830
(one spouse blind)	1,830	1,830
(both spouses blind)	3,660	3,660
Additional Allowance for Guide Dog	*825	825
Incapacitated Person –		
Allowance for Employing a Carer	*50,000 max	*50,000 max

* Relief in respect of a Guide Dog and for Employing a Carer is allowable at the individual's highest rate of tax, i.e. 20%/41% in 2008 only.

Income Levy

This Income Levy is payable on gross income from all sources before any tax reliefs, capital allowances, losses or pension contributions. The 2009 annual rates and thresholds of the income levy are as follows:

1.67%	Income up to €75,036 per annum
3%	Income between €75,037 and €100,100 per annum
3.33%	Income between €100,101 and €174,980 per annum
4.67%	Income between €174,981 and €250,120 per annum
5%	Income in excess of €250,120 per annum

These annual rates are based on the following actual rates for income arising before and after 30 April 2009.

Rates and thresholds: 1 January 2009 to 30 April 2009	
Income up to €100,100 per annum	**1%**
Income between €100,101 to €250,120 per annum	**2%**
Income in excess of €250,120 per annum	**3%**
Rates and thresholds: 1 May 2009 to 31 December 2009	
Income up to €75,036 per annum	**2%**
Income from between €75,037 to €174,980 per annum	**4%**
Income above in excess of €174,980 per annum	**6%**

The levy does not apply where an individual's income for a year does not exceed €15,028 per annum, where individuals are aged 65 or over where their annual income does not exceed €20,000 per annum, for Full Medical card holders and social welfare recipients.

PRSI and Health Levy

Employees are exempt from PRSI on the first €127 per week. Employees earning €352 or less per week in 2008 or 2009 are exempt from PRSI and the Health Contribution. However, where earnings exceed €352 per week, the employee’s PRSI Free Allowance remains at €127 per week. Employees earning €500 or less per week in 2008 or 2009 are exempt from the Health Contribution. There are a number of classes that can apply for PRSI purposes, please refer to the Department of Social and Family Affairs for further details at www.welfare.ie. We illustrate below the rates applicable to the more common employee A1 class (employee earns more than €500 per week) and to the self-employed.

Employees – Class A1				
Weekly pay band	How much of weekly pay	Contributors	Rate on first €52,000	Rate on balance over €52,000
Up to 30 April 2009	All	Employer	10.75%	10.75%
	First €127	Employee	2%	2%
More than €500	€127.01 – €1,925	Employee	6%	2%
	Balance	Employee	6.5%	2.5%
Weekly pay band	How much of weekly pay	Contributors	Rate on first €75,036	Rate of balance over €75,036
From 1 May 2009	All	Employer	10.75%	10.75%
	First €127	Employee	4%	4%
	€127.01 – €1,443	Employee	8%	4%
	Balance	Employee	9%	5%

Self– employed		
Year	Income (€)	PRSI rate
2009	Up to 26,000	3% (no Health Contribution)
	Over 26,000	5% (includes 2% Health Contribution)
	Over 100,100	5.5% (includes 2.5 Health Contribution)

VAT

Current VAT rates

The standard rate of VAT in Ireland is 21.5%. There is a reduced rate of 13.5% that applies for hotel accommodation, newspapers, fuel for heating and certain other goods and services.

There are many variations to the rates above, including exempt and zero– rated taxable supplies. Speak to a Registered tax Consultant for further details.

About the Irish Taxation Institute

The Irish Taxation Institute (ITI) is the leading representative body for taxation affairs in Ireland. Our membership work as Registered Tax Consultants, accountants, barristers, lawyers, and other corporate and business professionals. Our mission is to support an efficient, fair and competitive tax system that promotes an understanding of and expertise in taxation and encourages economic and social progress. Our 6,000 members work with corporate leaders, Government, State agencies, representative groups, professional organisations and the general public. Through our membership of the Confédération Fiscale Européenne, we monitor and influence legislation and tax policy developments in the EU and internationally.

For over 40 years, the ITI has been Ireland's foremost provider of Registered Tax Consultants through our three-year (AITI) and Tax Technicians through our one-year (TMITI) tax qualification courses. Our professional development programme provides continued education, specialist seminars and other support services for members. This ensures Registered Tax Consultants remain professionally competent throughout their working lives. Through our nationwide branch network and comprehensive committee structure, our members are actively involved in developing and advancing research on taxation, economic and social policy. Drawing on this expert team, ITI produces a comprehensive suite of taxation publications covering the full range of tax topics.

The ITI is governed by a Council made up of senior business executives and managed by a dynamic executive team.

Educating, Developing & Representing

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