



MONEY MATTERS

with Derek Madden & Company

It's September already and tax time once again is fast approaching! In this issue we outline some tips for the sole trader in organising their books and records and ensuring maximum relief is claimed on all business expenses.

TAX DEADLINE 31st OCTOBER 2011

Typically if you fall under the self assessment system, you will need to complete your Form 11 by October 31st in the year following the tax year up for assessment i.e. for 2010 taxes, submit by 31st October 2011. This is extended for returns which are paid and filed electronically to 15th November.

WHAT AM I TAXED ON?

As a sole trader you are taxed on your profit for the relevant period. Basically, your sales figure minus your business costs equals your profit. It is this profit figure that the calculation for your tax is based. To allow you and your accountant to determine these figures it is of upmost importance that proper books and records are maintained throughout the year. As well as the Revenue requiring you to keep proper records it is also in your own interest. This ensures you do not waste your precious time and energy at tax time trying to organise your information but also to ensure that every allowable business cost is claimed and back up information is on hand should it be requested.

SALES FIGURE FOR THE YEAR

This is the total figure you have charged customers for the year, excluding the Vat, if you are Vat registered. For this figure ignore all costs relating to the particular job as this is dealt with in the next section. You might have a set of docket books that you used, or just a notebook, an excel spreadsheet, a printout from a software package, some method you used to record your sales. Now get a total for the year. Remember, if you have a revenue inspection, you will have to be able to explain that figure and back it up with paperwork.

BUSINESS COSTS FOR THE YEAR

Put simply your business costs are the goods and services you bought for the expressed purpose of doing business.

The general rule is that it is a business expense if it is wholly and exclusively for the purpose of your trade. As with your sales, you do not include the Vat amount if you are Vat registered. Ultimately you want a total for the year that you can explain and tie back to the paperwork if you have a Revenue inspection.

One of the easiest ways to reduce your tax bill is to ensure that all your business expenses are recorded in your accounts. This might seem obvious but every time you pay for an item you should ask yourself "Is this an allowable business expense?" If it is then be sure to retain the receipt and record it in your books and records.



Some useful tips and points to remember:

- Separate bank account: For your tax return you need to find out what money came in from your business and what money went out for the purpose of your business as opposed to personal expenses. This is a whole lot easier if you have a separate business bank account.



- Ideally you should also have a business credit card or laser/debit card to pay for all business expenses not paid for by cheque. This ensures that expenses paid for by cash are not lost in calculating your final tax bill. At least if you lose a receipt paid for electronically, there is a record of the expense. If you lose a receipt that you used cash to pay for, chances are it never gets included as a business expense and you have could just have lost a tax deduction of up to 52%.

- Client entertainment (although it may be a business expense) is not a deductible expense for tax purposes.

- Staff entertainment expenses are deductible as long as they are reasonable.

- A sole trader cannot claim meals as a tax deduction against profits.

- Clothing expenses are not deductible unless it is protective clothing. For example, a new business suit is not deductible.

- Where expenditure relates to both business and private use (for example telephone expenses), only that part which relates to your business will be allowed.

- Drawings (wages) paid to the sole trader themselves are not allowable for tax purposes.

- Set up a preliminary tax direct debit with the Revenue. This will help with the burden of paying your taxes in one lump sum payment come October each year.

We hope you find the above article useful. More information can be found on the Revenue's Guide to Starting in Business (IT48) which can be found on www.revenue.ie or consult your accountant who should be able to advise you. If there are any topics you wish us to cover in future editions please feel free to contact us.



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