

## TAX TIPS

### Should you have a limited company?

Consider incorporating your business as there are many tax advantages – you can increase your pension contributions, you can be taxed at Corporation Tax rates rather than Income Tax rates which would save a lot of money, you could rent property to the company, and you could take advantage of retirement relief if you ever sell or wind up the company. If you are a sole trader now and you transfer your business into a limited company there is a once off tax-planning opportunity available to you to shelter income from Income Tax rates ( up to 41% plus PRSI @ 5% ) to Capital Gains Tax ( 25% ).

### Some more quick tips to help you avoid paying too much tax

1. You can become a dual income couple - pay your spouse through the business up to the limit of his / her 20% Income Tax limit moving income from 41% to 20%
2. Look to earn tax-exempt income - rent-a-room ( €10,000 per year ), Patent income ( €250,000 per year )
3. Look to realise Capital Gains ( @ 22% ) rather than Income ( up to 46.5% including PRSI plus the new Income Levy of up to 3% on all income ). You can do this by, for example, selling off part of your business. Could you start an easily-separated section of your existing business with a plan to sell it in a few years to take advantage of Capitals Gains Tax.
4. Pay pension contributions through the business. Directors can pay any amount into a pension - employees are restricted to contributing a proportion of their income.
5. Pay your commuter train or bus ticket through the business, get your mobile phone invoiced and paid through the business, purchase your home computer through the business.
6. If you travel for work, then you are entitled to reclaim travel and subsistence from the business tax-free using Civil Service rates.

7. If you are currently employed investigate if you can become self-employed. You can claim expenses such as travel and so forth, and you save your customer ( your former employer ) 10.75% Employers PRSI.
8. Covenant income to an elderly or incapacitated relative. A covenant is a promise to pay someone a certain sum for a definite period. Covenanted income is deducted from the payers taxable income, and added to the person who receives the income. If the person who receives the income has low or no income then the tax is saved as between the two parties. For example if you covenant to pay a relative €2,000 per annum, you get a refund of €800 Income Tax plus PRSI.
9. Claim all Medical and Dental expenses paid by you for yourself, your spouse, children or dependant relatives.
10. Business Expansion Schemes - investigate investment in own business - up to €150,000 per year
11. Seed Capital Investment - if you qualify for this scheme you can reclaim PAYE paid by you before you start your business. You can reclaim €100,000 per annum for 6 years.
12. Film Investment - you can make a loan to a qualifying film company of up to €25,000 per annum and deduct this from your taxable income.
13. Ensure you claim all allowances in the year. You can do this by reviewing a list of all allowances available to you.
14. Pay non-earning offspring wages from a business to use up their 20% tax band. You can earn up to €35,400 per year and still only pay 20% tax. The total bill for someone on €35,400 and with normal allowances for a single person is €5,320. This income is taxed at 41% plus normal rates of PRSI would give you a bill of €16,614. Savings to you are €11,294. If you want to pay no PAYE or PRSI on the salary you pay to your offspring, you could opt to pay a salary at a level that is totally exempt. The first €17,000 of income for a single person is totally exempt from PAYE and PRSI . However you will have to pay Employers PRSI of 10.75% total bill €1,827.
15. Allowances - widowed parent tax credit €4k for 5 years, one parent family €1.8k + rate bands increased

16. Claim Tax Relief at source for Mortgage Interest on your home. You can do this through your bank or building society by giving them your tax reference number ( PPS number ).
17. Claim tax relief on payments to Medical Insurance. You need to give your medical insurer your PPS number.
18. Claim Bin charges paid to the Local Authority. To reclaim this allowance, you need to pay your bin charges on time.
19. Claim Rent on your Principal Private Residence. This allowance applies if you leave your house to get it renovated.
20. Trade Union subscriptions, Teachers Allowances, Architects Allowances - check PAYE allowances
21. File Tax Returns on time to avoid surcharge
22. Pay taxes on time - avoid interest.
23. Time Capital disposals to avail of your annual exemption to Capital Gains Tax of €1,270 per annum. You could sell shares before the year end to make sure you get this allowance. You can ensure that your spouse claims this exemption by putting shares in their name.
24. Register your business for VAT if possible. This means you can reclaim VAT on whatever you buy. Assuming your customers are VAT registered then they can reclaim the VAT you charge so there is no impact on them.
25. You can opt for Cash receipts basis for VAT. This means that you pay VAT as you collect money from your customers. Normally you are liable to pay VAT as you invoice your customers whether they pay you or not. Your Sales have to be less than €1 million per year to avail of the Cash Receipts Basis. The advantage to your business is that you don't have to pay out the VAT as quickly as the normal basis of accounting for VAT.
26. Become non-resident before making large gifts and avail of lower rates of Capital Acquisitions Tax. If possible donor and recipient should both be non-resident to get full advantage of lower Capital Acquisitions Tax rates in other jurisdictions.
27. You could transfer a sole trader to a limited company. The Limited Company pays you for the business and you save by having a Capital

- Gain taxed at 22% rather than paying Income Tax at rates of 41% plus PRSI. However the company cannot get credit for Corporation Tax on the amount paid to you.
28. Extract profits from a business by getting the company to buy back your shares, again taking advantage of lower Capital Gains Tax rates.
  29. In a liquidation shareholders are entitled to what's left after everyone is paid - this is taxable at 22% rather than at 41% plus PRSI. If you have funds in a limited company which is no longer trading, you can liquidate the company and you as the shareholder are entitled to the money left after all liabilities are paid.
  30. Buy your premises and rent it to the business. You can pay for a valuable asset from resources that would otherwise be paid out as rent. If you grant the business a lease on the property and you charge a premium then the premium is taxed as a Capital Gain at 22% rather than at 41% plus PRSI.
  31. Maintenance to an ex-spouse is tax-deductible for you (but taxable for them)
  32. Do any transfers that you plan to so as part of deed of separation with ex-spouse. There may not be another chance to do tax-free transfers as while they are your spouse the transfers are non-taxable.
  33. Use a credit card for small business expenses where possible to cut down on 'lost' cash expenses. You can also use the credit card statement as a reminder of what journeys you undertook (but make sure pay the balance off every month by direct debit).
  34. If you are made redundant from a business that employs you, you can take a tax-free redundancy lump sum depending on your earnings and on your length of service with the company.
  35. If you borrow money to invest in a company you can reclaim the interest against your taxable income.
  36. You can invest up to €150,000 per year in a BES Scheme. You must leave the money in the scheme for a minimum of 5 years. However you get an immediate tax refund at up to 41%.

37. Tuition fees paid to colleges are tax reclaimable, for example if you do further job-related study.
38. Stamp duty is deductible when disposing of investment property e.g. if you have rental property which you subsequently sell. The Stamp Duty you paid on purchasing the property ( plus all other expenses like solicitors fees, architects fees, estate agent fees ) can be deducted before computing the taxable gain.
39. If you are over 55 years and have worked in a business for over 10 years then the disposal of the business is exempt from Capital Gains Tax for sums of up to €750,000. This exemption applies to spouses and each spouse has a separate €750,000 exemption.

### Could you become self employed?

You will need more than one customer but if you are employed now you could take a lump sum on redundancy. You can deduct business expenses from your income, and your customers are automatically 10.75% better off as they don't pay Employers PRSI on your charges to them.

Could you realise a Capital Gain, paying Capital Gains Tax at 20% and live off the proceeds, rather than paying Income Tax at 41% plus PRSI?

Can you dispose of part of your business, or can you dispose of a property, leaving you with a Capital Gain rather than being assessed to Income Tax on the proceeds? You could take advantage of the significantly lower rate of Capital Gain Tax that applies, and take a lower salary from your business.

### Are you facing a Revenue audit?

Audit your books and records before the tax man does and voluntarily disclose any errors you find to benefit from voluntary disclosure thereby saving extra penalties and charges. We can help you by reviewing the records to see what the tax authorities will pick up on and advise you on the best way forward.

### Transferring the business to a family member?

If you intend to transfer your business to a family member there are a few tax headings to consider:

Capital Gains Tax is payable at a rate of 25% by a parent on the disposal of shares in a family company. Retirement relief is available in some cases, which allows for an exemption from Capital Gains Tax. The parent transferring the shares must be over 55 years of age, must have held the shares for a ten-year period and have been a full-time director of the company to qualify for this exemption. The company must be a trading company and the child receiving the shares must hold the shares for at least 6 years after the transfer.

Capital Acquisition Tax is payable also at a rate of 20% by a child on the receipt of a gift of shares in a family company from a parent. The rate applies to the market value of shares in the company excluding the first €466,725 if there were no previous gifts from the parents to the child. There is also a relief from Capital Acquisitions Tax known as business property relief which exempts 90% of the value of the shares

Stamp Duty applies to the transfer of shares in a company. On a gift of shares from a parent to a child, the stamp duty payable is 1% of the market value of the shares, and is payable by the child.

As you can see, planning ahead to minimise the tax effects of the transfer of a family business is vital and we can help you in this area.

### **Claim all your allowances**

Make sure you claim all you are entitled to - email us at [info@kdaaccountants.ie](mailto:info@kdaaccountants.ie) and we will send you an up-to-date list of allowances. We automatically check that all clients are getting the correct tax allowances each year.

### **Are you a landlord?**

If you are then you should register every new tenancy with the Private Residential Tenancies Board. If you don't, Revenue are

entitled to withdraw interest relief which means you cannot deduct interest paid when computing your tax bill. If you have a number of different tenants in the year, you need to register each of them.