

TAX AND THE NEW BUSINESS

If you have never been self employed, tax is something you never had to think about. It was just deducted from your wage packet through PAYE. Like so many things, when you go into business, it does not just happen. This article cannot make you into a tax expert but it may explain some of the jargon and allow you to approach the subject of tax a little more confidently.

THE TRADING ENTITY

When setting up a business you have the choice of different methods of trading this could be either as:

- Sole Trader
- Partnership
- Limited Company

A sole trader and partnership are basically taxed in the same way, but because a limited company is a separate legal entity, the tax rules are rather more complex and we will not go into them now. Limited company taxation is best handled by a properly qualified accountant.

KEEPING RECORDS

Whatever the scale of the business, it is important to keep accurate records. These are essential not only for tax purposes, but to give you the kind of information you need in order to properly manage your business. On commencing business it is advisable to open a separate business bank account and to register for VAT if applicable. This bank account should be used exclusively for your business and you should resist the temptation to transact any personal business through it.

WHAT TAXES WILL YOU BE INVOLVED IN?

- Tax on income, income tax if you are a sole trader, or corporate tax if you trade through a limited company.
- VAT. It is very likely that you will have to register for VAT. If so, this will have implications for every transaction you enter into, whether buying or selling goods or services. VAT is not a cost to the business, you are merely a collector of tax on behalf of the state in respect of all your sales, and before you pass this tax on to the state, you claim credit for all the VAT incurred by you on your purchases.
- PAYE/PRSI. If your business has even one employee it will have to register as an employer with the Inspector of Taxes. It is then obliged to make appropriate PAYE and PRSI deductions every time wages are paid. This is not a simple area and required a detailed knowledge of the PAYE/PRSI rules. It is best handled on a computerised payroll package if the number of employees warrants this.

WHEN ARE THE TAXES PAID?

Income tax, together with self employed PRSI is paid on an estimated basis by way of a preliminary payment on November 1st in the tax year. When the year is complete, your accountant will prepare accounts for your business, calculating the profit or loss earned for the year. This, together with a calculation of the income tax arising, must be submitted to the Inspector of Taxes by the following January, and any balance due over and above the estimate paid becomes payable at that stage.

If the tax return is not submitted by January 31st, a surcharge applies amounting to 10% of the tax otherwise payable.

Typically VAT is paid for a two month period by the 19th day of the following month. For example, VAT for January/February is paid over on the 19 March.

PAYE/PRSI deducted in any month is paid over by the 14th of the following month. For example, PAYE deducted in the month of January is paid over on the 14th of February.

Am I covered by PRSI? You will see from the above that you pay self employed PRSI, which at 6.25% equates approximately to the standard employees contribution. However, there is no corresponding employers contribution. Self employed PRSI entitles you to a contributory old age pension, i.e. without a means test. It entitles you to very little else.

CONCLUSION

You should start the way you mean to go on. The importance of keeping proper books and records cannot be emphasised strongly enough. These are essential for tax purposes and will also be of great help to yourself in assisting the smooth running of your business.

This brief guide as to how the system of taxation can affect you in business of whatever kind. It has only touched on certain key areas and cannot hope to have embraced all of the things that will need to be considered. It is strongly recommended that you seek good professional advice from a Chartered Accountant.