Business Taxes 101

The essential business tax guide – simplified!

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Introduction

Congratulations on making the leap into the world of self-employment whether you have chosen the sole trader, partnership or limited company route.

Or perhaps you have been in business for years but just feel the need to improve your understanding of what happens behind the scenes at the end of the year when you hand over your books and records to your accountant or tax agent and get presented with an Income Tax bill and no explanation as to what you did right or wrong.

You may be one of the lucky ones and have a wealth of knowledge as to how it all works or indeed, you may have no clue as to what the next step is.

There is no doubt about it that you are great at what you do but you have made the conscious decision to make it your business to know your business!

You may have already engaged the services of an accountant, bookkeeper or tax agent and they will most certainly ensure your filing and tax obligations are met but as I always say to my own clients that “forearmed is forewarned”.

What if you could learn now that a decision you make tomorrow will reduce your tax liability instead of waiting a full year to eighteen months to be told by your accountant what you should have done? Seems like a no-brainer doesn’t it?

What if you could today, arm yourself with a wealth of knowledge surrounding VAT and employment processes and rules and actively work towards avoiding that dreaded slap on the wrist – or worse – Revenue contacting you for breaking a rule you didn’t even know about!

In my everyday practice of supporting my clients as a VAT and tax agent, I have seen over my 20 years in business that my clients were no doubt superb at doing what they do but really were depending on me to maintain correct records, file correct VAT returns and calculate their income tax liabilities. I call it blind faith and ask yourself the question, “how do I actually know the person charged with looking after my VAT and tax returns has done it right?”

This is the reason I have put together this course in business taxes 101, what every sole trader should know.

It is not designed to make you an expert in tax or VAT or to replace your accountant or tax agent, but to gain a really excellent foundation knowledge and an overview as to how it works and enable you to make better decisions for your business every day.

**** Important to note that all tax rates, thresholds are correct at March 2022 but we always encourage business owners, accountants and agents to regularly check www.revenue.ie are changes to happen regularly****

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Module One: Taxation of Sole Traders

1.1 Registering as a sole trader

A 'sole trader' is when an individual person engages in business on his or her own account. It is easier to set up business as a sole trader than to incorporate a company in terms of the administrative hurdles to overcome.

You can register as a sole trader and for Income Tax through the eRegistration process online either through:

- myAccount – income tax registration only
- Revenue Online Services (ROS) whereby you can complete the form TR1 and register for the following taxes all at once:
  - Income Tax
  - VAT
  - Employers taxes
  - Relevant Contracts Tax (RCT)

The process is straightforward and takes a matter of days.

1.2 Registering your business name

If you intend on trading on a name that is not your own name, you must register your business name, known as your Trading As name through the form RBN1 for a sole trader and form RBN1A for a partnership with the Companies Registration Office (CRO).

The process is incredibly straight forward and costs only €20 if all completed online or €40 if done through paper & post registration.

1.3 Self-assessment

You should register for Income Tax self-assessment if:

- you are self-employed
- your only or main source of income is:
  - rental income
  - investment income
  - foreign income
  - maintenance payments
  - fees that are exempt from PAYE
- you have profited from share options or share incentives.

You do not need to register for self-assessment if:

- you only have PAYE income

  or

- your taxable non-PAYE income does not exceed €5,000 and your gross non-PAYE income does not exceed €30,000. That income must be coded for PAYE purposes. 'Coded' means the income is taken into account in calculating your tax credits and standard rate cut-off point for

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PAYE purposes. In this case, you must submit a Form 12 online through PAYE Services in myAccount

If you do not fall under the scope of the Form 12 you must submit a Form 11 income tax return each year clearing showing your income, expenses, taxable profits, capital allowances and all other income. This includes any PAYE income you received in the same year.

It is worth noting that even if your accountant or tax agent files your income tax return it is actually still you, the sole trader, that is responsible if any errors or omissions occur in your tax return which is why understanding the tax basics is essential for any business owner.

1.4 Partnerships

A partnership is deemed to arise when two or more people (up to a maximum of twenty) carry on a business venture with a view to making a profit, without having formed a company.

Where such a relationship is deemed to exist, it will be governed by the Partnership Act, 1890 unless a formal partnership agreement has been drawn up and agreed between the parties. Accordingly, the 1890 Act is commonly viewed as a ‘default’ partnership agreement. Many of the terms of the 1890 Act are inappropriate for most modern day partnerships and so for that reason parties should give consideration to putting a written partnership agreement in place.

For example, under the 1890 Act, there is no right to expel a partner; any one partner can dissolve the partnership or have it wound up by giving notice (even if there are 19 other partners involved); the partnership will automatically dissolve upon the death of one of the partners; and there is no general power to retire under partnership law.

The 1890 Act further provides that the default position in relation to the sharing of profits of a partnership is that all profits must be shared equally between the parties – even in cases where the partners have contributed different amounts of start-up capital.

A partnership does not have a separate legal personality distinct from its partners and cannot own property in its own name. Instead, all property will be owned by the partners personally. A further consequence of a partnership not having a separate legal personality is that all partners are jointly liable for the contractual obligations of the partnership. They are also jointly and severally liable for any tortious acts of the partnership. This, however, may be subject to certain exceptions in the case of a limited partnership established under the Limited Partnership Act, 1907.

There are certain advantages to carrying on business through a partnership. For example, there is no requirement to file accounts with the CRO and there are no shareholders to protect. In addition, the profits of a partnership are only subject to income tax at partner level. This is compared to the ‘double’ taxation of profits in the case of a limited liability company (i.e. corporation tax is paid on company profits before any dividends have been paid to the shareholders at which time income tax is paid by the shareholders).

While partnerships do not have to go through any registration process to be formed, as with the case of a sole trader, if the partnership wishes to carry on business under a name which does not consist solely of the surnames of all the partners, then the firm must register this business name with the CRO.

Each partner must file a Form 11 showing their “cut” of the income, expenses and taxable profits and a Form 11 Firms would also be filed.

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If I am to be very bold and opinionated, I generally advise clients to avoid partnerships if at all possible as the prospect of something going wrong is very real. People fall out, opinions differ, a partner could just walk away leaving the other partner with all the liabilities and headaches.

In this situation I would always advise my clients to incorporate and become a limited company as the law governing limited companies is incredibly tight.

1.5 Record Keeping

Record keeping, as the name implies, means keeping records of all your business activity in a format that is clear, precise and available should Revenue decide you are the lucky recipient of an audit.

Compliance is key but more than anything, good record keeping and let's call it the bookkeeping is essential if you actually want to have a clear picture of:

- Turnover/sales
- Expenses
- Capital expenditure
- Debtors AKA who owes you money
- Creditors AKA who you owe money to
- VAT

As stated before, bookkeeping and compliance is my bread and butter and I could do it in my sleep whereas you may have difficulty in trying to work out how to do it or where to start.

Let's get one thing straight, you don't have to invest in fancy software to keep really great records. Arguably in the world we live in, automation is the key so software can most certainly allow you to easily issue and track your sales invoices to your clients and customers, record payments received, view your expenses and profit but you must first understand the bones of why you are recording these inputs and outputs to effectively utilise software.

Many of my clients have a "tag-team" system whereby they will look after issuing all their sales invoices so they can receive prompt payment using their cloud based software and then I step in and look after the expenditure analysis, banking reconciliations and calculate their VAT liabilities. This is a definite benefit to using one of the many cloud based accounting softwares available on the market.

However, you may choose to manually maintain records of your sales income and all your expenditure in a lovely excel format and this is perfectly acceptable.

See the example below of how this could look.

It should be noted that your legally obliged to maintain your accounting & bookkeeping records for a minimum period of 6 full years and there are penalties should Revenue request to see these and you cannot provide them.

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Example 1

Bookkeeping records for sole trader

Mr. Joe Bloggs T/A The Beekeeper
Bookkeeping Records
01/01/2021 to 31/12/2021

Purchases Records

Date	Invoice	Filing Ref	Total	Materials	Motor	Workwear	Vehicle Service & Repairs	Fixtures, fittings & Equip	4.80%	13.5% VAT	23% VAT
1/1/2021	Texaco - Diesel	1	50		41						9
1/2/2021	ABD Ltd - Hives	2	350					285			65
1/3/2021	XYZ Ltd	3	60			49					11
1/4/2021	Mr Man incorporated - bees	4	200	191					9		44
1/5/2021	Garage repairs	5	150				132			18	
			810	191	41	49	132	285	9	18	130
	Total VAT on Purchases		157								

Sales Records

Date	Invoice Number	Total	Nett 0%	Nett 4.8%	Nett 23%	VAT
7/1/2021	Invoice 1 - Honey	300	300			
7/2/2021	Invoice 2 - Honey	150	150			
7/3/2021	Invoice 3 - Candles	200			163	37
7/4/2021	Invoice 4 - Bees	500		477		23
		1150	450	477	163	60
	Total VAT on Sales	60				

1.6 Allowable Expenses

The Revenue quote on allowable expenses is that the expense in question should be "wholly and exclusively for the furtherance of business".

In other words, it must be a genuine business expense used directly in relation to the running of your business in order to be claimed as a deduction against your income.

The most common expenses you may incur could include:

- the purchase of goods for resale
- employees' pay
- rent and bills for your business premises including the heating, electricity, telephone and internet
- day to day expenses such as printing, postage and stationery
- running costs for vehicles or machines that you use in your business
- lease payments for vehicles or machines that you use in your business
- accountancy and professional fees
- interest payments for money you borrowed to finance your business.

1.6.1 Expenses that are for both business and private use

If you spend money on something that is for both business and private use, you can claim a deduction for part of the expense.

This would include items such as phone bills, motor expenses and rent. You must work out how much of the expenditure was for business purposes and claim a deduction for that amount only.

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1.7 Disallowable expenses

There are expenses that are specifically disallowed by Revenue. They can actually occur and be included in your accounting records but they will be disallowed in the calculation of your taxable profit.

You cannot claim expenses for any item that is not fully related to the running of your business such as:

- clothing (except protective clothing)
- your own pay, referred to as drawings
- business entertainment expenses
- your own food or travel expenses (except those described in Appendix A & B of this manual)
- capital expenditure (which is covered in Module three of this manual)

1.8 Pre-trading expenses

We have all been there. We get the lightbulb moment of setting up a business and being human we may start spending money on getting things started before we have actually laid down our business plan, goals and most importantly registered our business.

But can you claim these expenses incurred before you started trading?

Yes, but with conditions attached is the answer.

1.8.1 Section 82 deduction

Under Section 82, a deduction is available in respect of pre-trading expenses which:

(i) are incurred in the three years prior to commencement of the trade or profession,

and

(ii) apart from Section 82 would not be allowable but would have been allowable if they had been incurred after the date of commencement of the trade or profession. Accordingly, the provisions of Section 81 apply for the purposes of calculating the deduction. For example, only pre-trading expenses which were wholly and exclusively laid out or expended for the purposes of the trade or profession are allowable.

Examples of pre-trading expenses are:

- Accountancy fees
- Advertising costs
- Feasibility studies
- Costs of preparing business plans
- Rent paid for the premises from which the business will operates

1.8.2 Restrictions in utilisation of pre-trading expenses

For the purpose of allowing the deduction of pre-trading expenses, the allowable amounts are treated as having been incurred at the time the trade or profession commences. Allowable amounts are not available for off-set against income from the trade or profession.

Where allowances create a loss, relief in respect of part of the part of the loss attributable to the pre-trading expenses will be by way of carrying forward against future profits from that same trade or profession.

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Example 2:

Loss before relief €1,000 (available for relief under s.381)

Section 82 relief €2,000 (attributable to pre-trading expenses)

Total loss €3,000 (available for relief under s.382)

You can see here this individual had a loss of €1000 and is allowed to use this loss to offset against other income but are specially not allowed to use their section 82 losses. This will be carried forward and used against any profit next year

1.9 Calculating Taxable Income

This is the part most of you want to understand so that you prepare yourself for the news your accountant or tax agent will give you when it is time to file your Income Tax Return (or perhaps you will attempt to do it yourself in the early years in business)

As discussed earlier your taxable income for your business year is:

Sales	€XXXX
Less Expenses	(€ XXX)
Plus Disallowable expenses	€ XX
Equals Taxable Profit	**€XXXX**

But we can go one step further as we then calculate what is known as the "adjusted taxable profit". This is the process of adding back items such as personal use of certain expenses which are not allowed to be claimed as an expense incurred as part of the trade.

Common examples of these adjustments would be a percentage of:

- Motor expenses
- Electricity & Heating
- Telephone and internet

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Example of Income & Expenditure statement (P&L)

A Human T/A A Very Busy Person

Profit and Loss Account

Year ended 31 December 2020

	2020
	€
Sales	30,802
Cost of sales	0
Gross Profit	30,802
Expenditure	
Membership	74
Printing, postage and stationery	233
Software and computer expenses	637
Professional fees	140
Accounting	431
Bank charges	10
Telephone and internet	953
PC consumables	193
Motor running expenses	2,339
Heating and electricity	548
Depreciation charge	67
	5,625
Profit for the year	25,177

Adjustments required on these accounts to come to the "adjusted profit" figure could include:

- ✓ Adding back the % personal use of motor expenses
- ✓ Adding back the % personal use of heating and electricity
- ✓ Adding back the depreciation
- ✓ Depreciation will be claimed as a capital allowance in the accounts (covered in module 3 of this manual)

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THE CLEVER BURDY QUICK GUIDE TO;

CALCULATING TAXABLE PROFIT

A 5-step Process

01 Start with the profit per your accounts

02 Add back speciifically disallowed expenses - eg client entertainment

03 Add back personal elements such as telephone, electricity

04 You now have your taxable profit

05 At this stage you claim those capital allowances, any losses forward or unused capital allowances

1.9.1 Tax Rates for Sole Traders/Partnerships

Everything a sole trader earns is considered to be your income and any money you take from your business, including personal use, is referred to as drawings.

Drawings are not treated the same as wages for employees and directors as they cannot be deducted as a expense before calculating your tax liability. Sole traders in Ireland are subject to personal income tax rates of between 20% and 40% on all profits and then USC and PRSI is also levied on this.

Depending on how much you earn (that profit we talk about), you could pay anything up to 52% tax which is a lot to pay and is generally what prompts the sole trader to weigh up the advantages versus disadvantages of incorporating and becoming a limited company.

Partnerships are taxed slightly differently to sole traders. The rates of tax, USC and PRSI remain the same but the Partnership taxable profit is split between the partners and each partner will pay tax on their “cut” of the profits.

For example, if a partnership has two partners and turns a taxable profit of €75,000 in a year, each partner will submit their own Form 11 showing a profit of €37,500 for the year. An additional return known as the Form 1 Firms will also have to be submitted to Revenue to give a complete overview of the income and expenses of the partnership and partner details for the year.

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1.10 Trade Losses

It is quite common for start-ups to incur a trade loss at some point in their journey as a sole trader.

But what happens when we make a loss? Do we get money back? How to report this to Revenue?

It is important to understand that your trade loss is calculated the same way we come to the taxable profit figure, that is, we use the exact same method of deducting our allowable expenses, adding back the disallowable expenses and adjusting for any personal element of expenses in our accounts.

If a loss occurs in a year the taxable profit for that year is deemed to be ZERO.

However, losses are not "lost" and can be used by:

a. Offsetting them against income from other trades in the year of loss (s381 TCA 97) - Speak to your accountant/tax agent. This doesn't include any income from PAYE earnings.

b. Carried back and offset against the previous year profit from that trade

c. Carry them forward, without a time limit, to offset against profit from that same trade (s382 TCA 97)

You can see from the three points above that a loss isn't necessarily lost as you have several options in utilising that loss depending on any other income you have including rental income or income from a separate trade or profession.

It is incredibly important to note that a loss cannot be used against any PAYE income you may have.

1.10.1 The Loss Memo

If a loss has occurred and it has either been used against other income that year, carried back and used against the same trade income or carried forward to future years, it is imperative to maintain a loss memo. Basically, a record showing the loss incurred, the amount used and the amount to carry forward.

These figures are fed into your Form 11 income tax return but by no means will ROS remind you in the following years of these amounts, nor will it track on your form the balance so the loss memo is essential.

Below is an example of how a sole trader that made losses for three consecutive years, with no other income, recorded the losses and subsequently utilised the loss in year 4 while still maintaining a portion of losses to carry forward.

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Profit / (Loss) for year		Assess-able Profit for tax	
Year ended 31 December 2020	(1,500)	0	Loss
Year ended 31 December 2021	(700)	0	Loss
Year ended 31 December 2022	(400)	0	Loss
Year ended 31 December 2023	2000	2000	Profit

Loss memo		Cum.
Losses c/f 2020	(1,500)	(1,500)
Losses c/f 2021	(700)	(2,200)
Losses c/f 2022	(400)	(2,600)
Losses used under s382 in 2023	2,000	(600)

@ 31 December 2023 there are still €600 of losses to offset against future profits of that same trade

Year ended 31 December 2023	
Profit for year	2000
Less s382 TCA 97 Loss relief	(2,000)
Revised income for tax purposes for	0

1.11 Submitting your Income Tax Return through ROS

We have been working through the process of:

- Identifying your turnover/sales
- Identifying your allowable expenses
- Adding back disallowable expenses
- Adding back personal usage elements
- Maintaining the loss memo

So now it is time to feed all the information into the Form 11 income tax return available on ROS and once it has been populated in the correct manner it will automatically calculate your Income Tax (includes USC and PRSI) liability for the year.

A very useful tool that can also be used is the ROS Offline application available to download from www.revenue.ie as this allows you to really familiarise yourself with the layout of the identical return on ROS. You can upload this form to www.ros.ie if you are happy all information is included and that no errors or omissions have occurred.

1.11.1 The Income Tax Deadline

In Ireland, the income tax deadline is the 31st October each year if filing a paper return (generally not allowed anymore) or the 12th November if filing online. This online filing date has been known to shift by a day or two so always check on Revenue's website for any changes.

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Note: If for any reason you cannot make payment on your income tax liability for the year it is highly advisable to submit your Form 11 income tax return by the 31st October.

1.12 Preliminary Tax

Preliminary tax is one of those taxes I find throws people off and I see it every day in my practice. It is bad enough when I present them with an income tax bill for the previous year and then I add in "and you also have your preliminary tax to add on to that liability."

So what is Preliminary tax and do we all have to pay it?

Preliminary tax is your estimate of the Income Tax, PRSI and USC that you expect to pay for the current tax year. You must pay this by 31 October of the tax year in question.

You must make sure that you do not under pay your preliminary tax, or you may be charged interest. The amount of preliminary tax for a year must be equal to, or more than, the lowest amount of the following:

- 90% of the tax due for that tax year
- 100% of the tax due for the immediately previous tax year
- 105% of the tax due for the tax year preceding the immediately previous tax year (often called the 'pre-preceding year'). This option only applies where you pay by direct debit. It does not apply if the tax due for the pre-preceding year was nil.

For late payments, you will be charged interest for each day (or part of a day) past the deadline.

1.12 The "Side Hustle"

We are going to touch upon the concept of the Side Hustle and what this means in terms of registering as self-employed versus not having to register as self-employed.

There is no doubt that often the thought of being self-employed and starting your own business can be fraught with doubt, fear and that "what if's?".

"What if I don't like it?"

"What if there is no market for the goods/services I am offering?"

"What if it fails?"

Every entrepreneur will go through these motions and once the initial rush of excitement and enthusiasm fades the fear may often kick in so many individuals test the waters with the Side Hustle. This is where an individual may be in PAYE employment and decides to have a go, simultaneously, at starting their business on a very part time basis. They have their fall-back job if something goes wrong or they just decide that the self-employment route just isn't for them.

If your income from your side hustle is below €5000 per year and provided your main form of income is that PAYE employment, then the good news is that you do not have to register as a sole trader.

Instead of filing a Form 11 income tax return annually you can avail of the Form 12 income tax return. This is where you declare that additional income to Revenue and pay any income tax, USC or PRSI liability on that profit, if any.

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Tips and Hints

- ✓ Get a great system of bookkeeping up and running from day 1 – employ the services of an experienced bookkeeper that can offer advice
- ✓ Register as a sole trader/partnership through www.revenue.ie
- ✓ Track what is allowable versus what is not allowable as you go
- ✓ Have regular meetings with your tax agents to review your management accounts
- ✓ Ensure you know all tax deadlines as the onus is on you, the tax payer to comply with regulations
- ✓ Remember turnover is vanity and profit is sanity – this is the true value of your business
- ✓ You can avail of the Form 12 if you have a Side Hustle

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Module Two: Employment Tax

2.1 Contract of Service -v- Contract of Services

There is a legal difference between a contract of employment (known as a 'contract of service') and a contract for service. A contract of employment applies to an employee-employer relationship. A contract for service applies in the case of an independent or self-employed contractor.

A worker's employment status is not a matter of choice. It depends on the terms and conditions of the job. Usually, it is clear whether an individual is employed or self-employed. If it is not obvious, the checklists below will help in deciding this.

When looking at the criteria, you must consider the working conditions and the employment as a whole. The main question will always be whether they work 'as a person in business on their own account'. This will help decide if the person is a free agent with economic independence from an employer.

2.1.1 How to determine if an individual is an employee

While all the following factors may not apply, an individual is normally your employee if:

- you control how, when and where the work is carried out
- they supply labour only
- you pay them a fixed hourly, weekly, or monthly wage
- they cannot sub-contract their work
- you supply the materials for the job
- you provide all equipment other than the small tools of the trade
- they are not exposed to personal financial risk in carrying out the work
- they do not assume any responsibility for investment and management in the business
- they cannot profit from the management, scheduling or performance of the work
- you set the work hours
- they carry out work for you or your business only
- you pay expenses to cover subsistence or travel
- they are entitled to extra pay or time off for overtime.

2.1.2 How to determine if an individual is self-employed

While all the following factors may not apply to the job, individuals are normally self-employed if they:

- own their own business
- are exposed to financial risk (for example they may have to bear the cost of redoing faulty or substandard work carried out under the contract)
- assume responsibility for investment and management in the business
- can profit from the management, scheduling or performance of the work
- have control over what, how, when and where the work is done and whether they do it personally
- are free to hire other people, on their terms, to do the work which has been agreed on
- can provide the same services to more than one person or business at the same time
- provide the materials for the job
- provide equipment and machinery necessary for the job

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- have a fixed place of business where materials or equipment can be stored
- cost and agree a price for the job
- provide their own insurance cover (for example, public liability cover)
- control the hours of work in fulfilling the job obligations.

2.2 How to register as an employer

You must register as an employer if you pay your employee more than:

- €8 per week (or €36 per month), if they are full time employees
- €2 per week (or €9 per month), if they have other employment(s).

You must inform Revenue that you are making these payments within nine days from the employee's starting date.

All sole traders and companies must register as an employer and operate PAYE on the income of directors even if there are no other employees.

You do not need to register as an employer if you have a domestic employee and you:

- pay them less than €40 per week
- have only one such employee.

You can register as an employer using the eRegistration process available on www.ros.ie under "Manage my registrations"

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2.3 The Employment Contract

This requirement is often an overlooked element of being an employer and legally you are required to provide your employee with a written contract of their employment with you.

This contract does not have to be incredibly detailed but should contain all of the following information and should be signed and dated by the employer and employee. Since the 4th March 2019, the employment contract or "written statement of terms" must be provided to all new employees within 5 days of the commencement of employment. and a copy provided to both parties within 5 days of the employment commencing.

The written statement **must** include the following:

- The full names of the employer and the employee
- The address of the employer
- The place of work or, where there is no main place of work, a statement indicating that an employee is required or permitted to work at various places
- Job title or nature of the work
- Date of commencement of employment
- If the contract is temporary, the expected duration of employment
- If the contract is for a fixed term
- The rate of pay or method of calculating pay*
- Whether pay is weekly, monthly or otherwise*
- The rate of pay or method of calculating pay, and pay reference period for the purposes of the National Minimum Wage Act, 2000.*
- Terms or conditions relating to hours of work, including overtime*
- Terms or conditions relating to paid leave (other than paid sick leave)*
- Any terms or conditions relating to incapacity for work due to sickness or injury*
- Any terms or conditions relating to pensions and pension schemes*
- Periods of Notice or method for determining periods of notice*
- A reference to any collective agreements which affect the terms of employment

In relation to items marked with an asterisk (*) above, the employer may, as an alternative to providing all the details in the statement, use the statement to refer the employee to certain other documents containing the particulars. For example, such reference could be to an Employment Regulation Order, Registered Employment Agreement, or collective agreement relating to the particular employment involved: however, the separate documentation referred to should be readily accessible to the employee for reference purposes.

2.4 Employee Pay

When issuing your employee's weekly, fortnightly or monthly wage payment you must provide a payslip to your employee detailing their gross pay, hours worked (if hourly paid), public holiday pay, annual leave, any other taxable/non-taxable additions and deductions and details of PAYE, USC and PRSI deducted.

Payslips can be provided in paper format or secure digital format such as in an email.

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Under the Organisation of Working Time Act 1997, the employer is expected to keep records of every employees days of work, start time and end time, annual leave days taken and retain these records along with their employee pay and deduction details for a minimum period of 3 years.

2.5 Benefit in Kind (BIK)

A Benefit in Kind (BIK) arises when an employee receives a benefit from you, the employer, in a form other than monetary payment. These are commonly referred to as perks of the job and vary in their tax treatment depending on their type and their value.

When calculating the PAYE, USC and PRSI to be deducted from an employees pay we must therefore the determine the "notional pay" being the value of the BIK.

Common examples of Benefits in Kind include:

- The provision of a company car or van for private use
- The provision of free medical insurance
- Employee loans granted at a lower rate of interest, referred to as a preferential loan
- Free or subsidised accommodation

2.5.1 Conditions for taxing BIK

If your employee's total income, including benefits, is more than €1,905 in a year they must pay tax on their benefits. Income from a previous job is not counted towards the €1,905 limit.

Your employee may have worked for a number of businesses under one parent company. If this is the case, their combined income from these jobs is measured against the €1,905 limit.

If you give a benefit to an employee's husband, wife, civil partner, family members, dependants or guest, they must pay tax on it.

A company director must pay tax on any BIK, regardless of their total income.

2.5.2 Small Benefits

You can give your employee a once-off benefit of up to €500 per year, tax free. If more than one benefit is given in a year, only the first one qualifies for tax free status. Unused allowance amounts cannot be carried over.

Tax-free vouchers or benefits can be used only to purchase goods or services. They cannot be redeemed for cash.

If you give your employee, for example, a gift voucher for €600 the entire amount must be taxed as a benefit in Kind.

2.5.3 Valuation of Benefits

This an area that be arduous and complicated but by just knowing the need for correct valuation of BIK you are already at a distinct advantage.

Valuation of a benefit can be very straight forward in some instances.

For example if you pay an annual club subscription of €1,500 for an employee the value of the benefit to be taxed is €1,500.

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2.5.4 Company Cars

When an employee receives a company car which is available for his or her private use, a taxable BIK arises.

To simply the operation and to avoid arguments with employees, legislation exists adopting a simple approach to valuing the benefit of having a company car available for private use. It takes into account annual business travel as follows:

Annual Business Travel (kms)	% of OMV
Up to 24,000	30%
In excess of 24,000 but not exceeding 32,000	24%
In excess of 32,000 but not exceeding 40,000	18%
In excess of 40,000 but not exceeding 48,000	12%
In excess of 48,000	6%

OMV is the original market value of the car, NOT the current value of the car or what you actually paid for the car.

If your employee contributes towards the running costs of the car then as with any other BIK these amounts contributed can be deducted from the notional pay to that employee.

2.5.5 Company Vans

Many employers will make available the use of a company van/commercial vehicle to their employees. If the van is available for private use by the employee then a taxable BIK arises for that employee.

The BIK calculation of a company van differs to that of company cars and currently stands at 5% of the original market value (OMV) of the van. The annual business travel has no effect on the rate.

The definition of a "van" is a vehicle which is:

- Is designed or constructed solely or mainly for the carriage of goods or other burden
- Has a roofed area or areas to the rear of the drivers' seat
- Has no side windows or seating fitted in that roofed area

<u>**Concession on private use of a company van</u>

Many employees, as part of their contract, are required to bring a company van home at night to their private residence and leave it there overnight. While travel to and from an employees' place of work is private travel which gives rise to a BIK, the legislation provides that where certain conditions are met, no taxable BIK will arise.

In summary, ALL of the following conditions must be met:

- The van is supplied by the employer to the employee for the purpose of work
- The employee is required to bring the van home
- Apart from travel to and from home and work, private use is strictly forbidden
- In the course of his or her work, the employee must spend at least 80% of time away from the premises of the employer

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2.5.6 Electric Cars

A taxable BIK will not arise in respect of an electric car or van provided by an employer to an employee which is available for private use. This exemption introduced in 2018 has been extended to the end of 2022 with a cap on the OMV of €50,000.

Where the OMV of the electric vehicle exceeds €50,000, the EXCESS portion will be liable to BIK in the same manner as a company car and will depend on the annual business travel.

2.6 Reporting payroll to Revenue under PAYE Real Time

On 1 January 2019 a huge shakeup was made to the way in which employees pay and deductions were reported by their employers in Ireland with the introduction of the PAYE Real Time system.

Admittedly we were many years behind some of European neighbours that had been operating this system for many years.

Under the new system, employers cannot make payment of wages to their employees before they have reported the pay and deduction details to Revenue via ROS.

It means that instead of waiting for employers to submit the P35 in the January or February of the year after a payroll year, Revenue now has up to date and “real time” information on what all employees have been paid and taxed at any given point. It also tracks the employers taxes liabilities each month or quarter.

2.6.1 Revenue Payroll Notification (RPN)

The RPN replaced what was previously referred to as the P2C. You must retrieve an up-to-date RPN for each employee before you run your payroll as this ensures you are using the correct credits and cut-off point for your employees.

The RPN provides you with the necessary information to deduct from the employee the correct income tax, USC and LPT.

Before running payroll for any period you must always use the most up to date RPN and if one is not available you must operate the emergency tax basis.

2.6.2 Payroll Submissions

On or before you make a payment to your employee, you must report the payroll information to Revenue.

If you use payroll software, there are two methods of reporting payroll in real time:

(1) Direct Payroll Reporting, allows payroll software to communicate seamlessly with ROS and exchange the required information.
(2) ROS Payroll Reporting, allows you to use files created by payroll software and upload these through ROS.

If you do not use payroll software, you can get Revenue Payroll Notifications (RPNs) and complete a form through ROS.

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2.6.3 What information will you report to Revenue?

For each payroll submission, you must provide us with payroll information for each employee, including:

- amount of pay
- payment date
- amount of Income Tax, Universal Social Charge and Local Property Tax deducted.

You are responsible for ensuring that the system in use is fully compliant with tax law whether you are using:

- payroll software
- a payroll company
- another agency.

2.7 The Statement of Account

Revenue will make a monthly statement available to you based on the information you provided in your payroll submissions.

This will be available by the fifth day of the following month and will show a summary of the total liability.

The statement will show a breakdown of your liability for:

- Income Tax
- Universal Social Charge
- Pay Related Social Insurance
- Local Property Tax.

The statement will be treated as the return if no amendments or corrections are made before the return due date.

You can access and view your Statement of Account with ROS under the heading of 'Returns'.

2.7.1 What if you disagree with the figures on the statement?

Every time you submit your payroll to Revenue you will receive a response from Revenue showing a summary of the total pay and deductions for that period submitted.

It is best practice to print the response or male a note of the transaction ID should you require it in the future.

If you find errors in the statement, you must correct them. These corrections will then be shown in a revised statement.

2.7.2 Paying your statement of account

When your monthly statement is available, you will have the option to:

- view the statement
- accept the statement
- amend your payroll submission (if you identify errors).

If you take no action, then the statement will automatically be deemed as your return by the 14th of the following month.

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2.7.3 Payment due dates

Remitter Type	Return Filing Frequency	Return Due Date	Payment Frequency	Payment Due Date
Monthly	Monthly	14 days after the end of the month	Monthly	14 days after the end of the montl (23 days for ROS users who file and pay online)
Quarterly	Monthly	14 days after the end of the month	Quarterly	14 days after the end of each quarter (23 days for ROS users who file and pay online)
Annual	Monthly	14 days after the end of the month	Annually	14 days after the end of the year (23 days for ROS users who pay and file online)

If you avail of the direct debit scheme, you must ensure that the cumulative monthly payments are sufficient to cover the annual liability.

Revenue introduced a variable direct debit scheme which works differently to the fixed direct debit scheme. Instead of requesting a fixed amount from your bank account each month, you have given Revenue permission to request the exact value of your monthly liability. This option is incredibly popular as it removes the requirement to have to manually input a payment instruction every month. This is a winner in my mind. monthly liability.

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Tips and Tricks

- ✓ Always create a contract with your employees
- ✓ Employ the services of a third party payroll agent if you are in any way unsure of how payroll works including issues such as Benefit in Kind (BIK)
- ✓ If paying your employee tax free expenses such as mileage, ensure they submit an accurate mileage log. Travel from home to their place of employment is not an allowable expense
- ✓ Keep records of attendance, leave (unpaid or paid)
- ✓ Never agree to a net wage agreement with any employee – the real cost to you is the gross wage plus employers PRSI. Agree a gross and stick to it.
- ✓ Keep your employee's pay records in a secure location – GDPR rules state this must be in a EU based central cloud location
- ✓ Keep extensive records related to BIK and remember that BIK on vehicles is capped at €24,000 – worth keeping in mind when making that investment
- ✓ Electric cars does not include hybrid vehicles

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Module Three: Capital Allowances

3.1 What is capital expenditure?

Capital expenditure is the money used to purchase, maintain, or improve fixed assets such as equipment and property. It is often referred to as CAPEX.

Common examples of capital expenditure includes:

- Office furniture
- Computer equipment including laptops, PCs and printers
- Motor vehicles
- Machinery

3.2 Difference between capital and revenue expenditure

Capital expenditures are costs related to fixed assets that are expected to be useful to a company for a long period of time (generally over 1 year), such as equipment or machinery. They are not normal, repeated costs over a long period, but generally large expenses incurred to grow the business.

Revenue expenditures, or overheads, on the other hand, are costs related to normal business operations, such as rent, utilities, salary payments, printing, etc. These are the expenses claimed in full as a deductible expense in the period in which they are incurred.

Therefore, capital expenditures are for long-term assets, whereas revenue expenses are for short-term, usually recurring, operational expenses. Revenue have specific rule over how these expenses are claimed through what is called capital allowances.

3.3 What are capital allowances?

A company may claim capital allowances on capital expenditure it incurs on certain types of business assets and business premises.

Capital allowances are generally calculated on the net cost of the business asset or premises. There are different rates available depending on the type of asset. A company can claim capital allowances on:

- plant and machinery
- motor vehicles
- industrial buildings
- computer software
- specified intangible assets including copyright, patents and trademarks

A company can claim capital allowances at a rate of:

- ➢ 12.5% over eight years for plant and machinery
- ➢ 4% over 25 years for most industrial buildings.
  And
- ➢ 100% accelerated capital allowances*

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* 100% tax relief in the first year and are available for expenditure on eligible energy efficient equipment. Eligible equipment can be found on the Triple E Products Register, which is operated by the SEAI in conjunction with Revenue. Leased equipment does not qualify.

3.4 What is Plant and Machinery?

There is no legal definition of Plant and Machinery in tax legislation but plant and machinery is classed as an asset and is used by a business to carry out work.

Plant refers to machinery, equipment and apparatus used in industrial companies. Machinery has working and moving parts and is most often found in the construction sector. However, computers and other digital products are also considered machinery. Basically, if a machine has working parts, it is considered machinery.

3.5 Capital Allowances on Passenger Vehicles

Since 1 July 2008 new restrictions were introduced in the way Wear and Tear (W&T)/Capital allowances are allowable as deductions against taxable income.

The passenger vehicle restriction was set at a maximum of €24,000 cost but from 1 July 2008 they are now divided into three groups with differing rates depending on the CO_2 emissions of these vehicles.

This table details the three groups, the category, emissions and maximum amount allowed.

Group	**VRT Category**	**CO2 Emissions**	**Allowable Expenditure**
1	A,B,C	Up to 155g/km	€24,000*
2	D,E	156g/km - 190g/km	50% of the cost or 50% €24,000 whichever is the lesser
3	F,G	Exceeds 190g/km	None

*€24,000 applies irrespective of the actual cost of the car

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3.6 Accelerated Capital Allowances (ACA)

A company can claim ACA of 100% in the year of expenditure on a few Revenue incentives including the purchase on an electric vehicle and energy efficient equipment. Finance Act 2016 extended the scheme to unincorporated businesses with effect from 1 January 2017.

3.6.1 Conditions

e energy-efficient equipment must be new. It must meet certain energy-efficient criteria and must fall within one of the 10 classes of technology specified in Schedule 4A of the TCA, 1997.

Products eligible under the scheme are included in a list of energy-efficient equipment published and maintained by the SEAI.

A minimum amount of expenditure must be incurred on providing the equipment and this varies with the particular category to which the product belongs. The 10 categories of equipment and the minimum expenditure amounts are listed under Schedule 4A of the TCA, 1997. An up-to-date version of Schedule 4A, as inserted by Finance Act 2014 and amended by Finance Act 2018.

This means instead of writing it off at the 12.5% over 8 years they can claim relief on 100% of the cost of the vehicle up to a maximum cost of €24,000.

This ACA scheme will run until 31 December 2023. It is important to note that hybrid vehicles do not qualify for this scheme.

3.7 Writing down allowances and determining Net Book Value (NBV)

As we saw in section 3.3 capital expenditure is typically written down on most assets (with exceptions of course) at the 12.5% rate or over 8 years in our language.

Now this may seem off when you think of assets such as a laptop or PC because will it really last 8 years? The answer is probably no. Show me a laptop that will last 8 years and I will buy it. We will cover what we do when as asset is scrapped later in this module.

Net Book Value (NBV) is the written down value of the asset at the end of each financial year. That is, each year we chip 12.5% off in capital allowances or depreciation and reduce the value of the asset every year.

Example

A company carries on a trade of manufacturing furniture and makes up its accounts to 31 December each year. In May 2020 the company bought a new machine which cost €25,000 excluding VAT. The machine was in use in the trade at 31 December 2020.

The company can claim an allowance, known as a wear and tear allowance, at a rate of 12.5% of the net cost of the machine for the 12 month accounting period ending 31 December 2020.

The allowance of €3,125 (€25,0000 @ 12.5%) is treated as a trading expense of the company in the same way as other trading expenses (for example, wages) in calculating the company's profit for tax purposes.

The company can claim a wear and tear allowance of €3,125 for the following seven accounting periods, provided the machine is in use for the trade at the end of the accounting period in question.

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At 31 December 2020 the Net Book Value (NBV) of the machine is now €21,875 (€25,000 less wear and tear allowance of €3,125)

Provided this asset is still in use at 31 December 2021 the same allowance can be claimed in 2021 and the NBV will now be €18,750

The allowance may not be given in full if the accounting period is less than 12 months, or if the machine is used for a purpose other than the trade.

3.8 Private Use Adjustments

Section 284(1) TCA 1997 is the section that grants wear and tear allowances.

For example, the allowances are available where a car is used for the purposes of a trade (or profession or employment). While it is used for trade purposes, it must be wholly and exclusively so used. Thus, no allowances are available for the time that a car is used for private or non-business purposes.

The annual wear and tear allowance must be apportioned on a time basis where a car is used for both business and non-business purposes.

For example if you bought a motor vehicle for €24,000 and use this car 25% for personal use the capital allowances/Wear and tear is calculated at the usual 12.5% but restricted to 75%.

So in this case W&T is €2,250, that is €3,000 restricted to 75%.

3.9 Selling, disposing and scrapping of assets

Asset disposal is the removal from an asset from the balance sheet. This can be a tricky area in managing your accounts and tax returns so we would always recommend you consult with your accountant, bookkeeper or tax agent but nevertheless it is an important aspect of asset management you should be aware of as a business owner and self-assessed tax payer.

The asset removal may be due to several reasons including:

- The asset has been fully depreciated/written down and must be removed
- The asset stopped working and was scrapped
- The asset was replaced by a new one and sold
- The asset was stolen

The above scenarios can result in a profit or a gain if the asset was sold and this profit is determined by the sales proceeds less the net book value of the asset.

It is important to note that if an asset is disposed of on 30th December 2020 then zero capital allowances can be claimed for that asset in 2020 as it was not in use at the end of the financial year (in this scenario we are assuming the financial year end for this business is 31st December)

As well as calculating a gain or a loss on the disposal of an asset, a review needs to be carried out as to whether or not a balancing charge or balancing allowance has arisen.

- a balancing allowance arises where the amount of the capital expenditure still unallowed (that is, the unused capital allowances) in respect of the machinery or plant is greater than

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the sale, insurance, salvage or compensation moneys received for the machinery or plant, and

- a balancing charge arises where the amount of the sale, insurance, salvage or compensation moneys received exceed the unused capital allowances in respect of the machinery or plant, except (other than where the machinery or plant is disposed of to a connected person) where the amount of those moneys is less than €2,000.

Tips and Hints

- ✓ Maintain a comprehensive record of your fixed assets
- ✓ Keep supporting documentation such as purchase invoices
- ✓ If you have sold an asset ensure a thorough review of the gain or loss is reported in your income and expenditure
- ✓ If you use an asset for personal use ensure all allowances are proportioned accordingly
- ✓ Capital allowances can not be used to create a loss in your taxable income – unused capital allowances can be carried forward to the next year and used against income from that same trade

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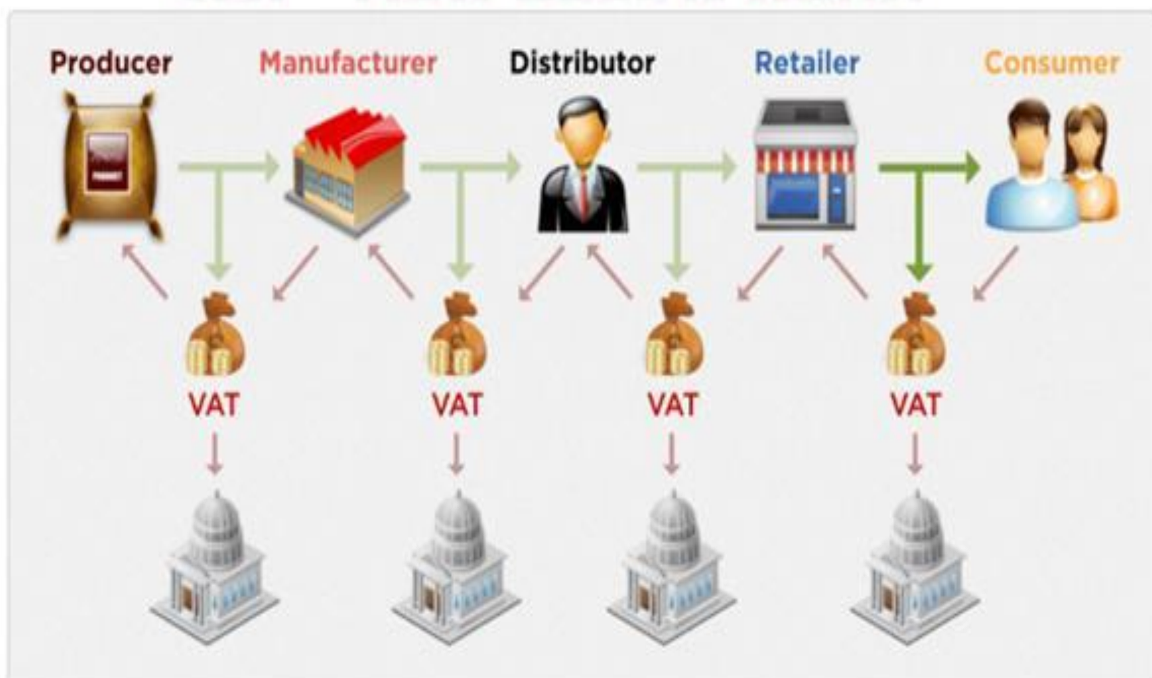
Module Four: VAT

4.1 An Overview of the Irish VAT System

- VAT was introduced to Ireland on 1 November 1972
- It is an indirect tax – transaction based as different goods and services attract different rates of VAT
- Concept was "luxury" items would attract the highest rate while basics such as foodstuffs would typically attract a zero percent rate of VAT
- VAT often referred to as a "chain reaction" tax – the final link in the chain and ultimate burden of VAT falls on the final consumer
- Each transaction in the chain from Manufacturer right down to the final consumer creates an additional percentage value added tax to the product



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4.2 What is VAT charged on?

Most goods and services supplied in Ireland are subject to VAT however there are some that are specifically exempt from VAT including insurance services and most banking services.

Goods imported into Ireland from a "third country" are also subject to VAT – this is charged by Customs at the point where the goods enter the state. A third country is any country outside if the EU which now includes our neighbours in Great Britain but Northern Ireland is still within the territory of EU VAT legislations thans to the Northern Ireland Protocol.

Goods acquired by businesses in Ireland from a trader established in the EU are also subject to VAT. This is referred to as an Intra-Community acquisition.

4.3 Taxable Persons and Accountable Persons

It is important to understand the distinction between a taxable person and an accountable person.

A taxable person is any person who independently carries out a business in the European Union or elsewhere. It includes persons who are exempt from VAT as well as flat-rate farmers.

An accountable person is a taxable person (for example, an individual, partnership, company) who:

- supplies taxable goods or services in the State

and

- is registered or required to register for VAT.

4.4 VAT Thresholds

The principal thresholds are as follows:

- €37,500 in the case of persons supplying services only.
- ******€10,000 for mail order/distance sales to other EU Countries******This was effected after the date of recording.
- €41,000 for persons making acquisitions from other European Union Member States.
- €75,000 for persons supplying goods.
- €75,000 for persons supplying both goods and services where 90% or more of the turnover is from the supplies of goods. However, while all goods and services are part of the turnover, the 90% does not necessarily include all goods sold.
- The 90% figure does not include goods which you:

- sold at the standard or reduced rates
  and
- manufactured or produced from zero rated materials.

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4.5 When to Register for VAT

In this section we will cover when you must register for VAT and who can elect to register for VAT. As with all other registrations it can be done via the eRegistration option in Revenue.ie under the section known as "Manage Your Tax Registrations" or you can register for VAT at the point when you are registering as a sole trader along with any other taxes you require including employers taxes and RCT.

VAT registration is obligatory when your turnover exceeds or is likely to exceed the VAT thresholds as outlined in Section 4.4. The thresholds depend on your turnover in any continuous 12 month period.

4.5.1 How is your turnover determined?

Your turnover figure may exceed the threshold limit at first glance, however, you may not be required to register for VAT.

For registration purposes, the turnover figure may be reduced by the amount of VAT paid on stock bought for re-sale.

You can use this reduced turnover figure to see if you should register for VAT. It is really important to note that this adjustment on your turnover figure is used only for the purposes of determining your turnover for VAT registration purposes.

4.6 The Sales Invoice basis and Cash receipts basis for VAT

This section is incredibly important to be aware of as opting for Sales invoice basis could have the most horrendous impact on your business cash flow.

In Ireland, there are two different basis under which an accountable person may account for VAT on sales. These two methods are:

- Sales invoices basis

  and
- Cash receipts basis

4.6.1 Sales Invoice Basis

Under the sales invoice basis, an accountable person must account for the VAT on the sales invoices and sales credit notes issued in a specific VAT period regardless of whether or not the invoices have been paid.

This can be incredibly problematic on the cashflow for a business if the sales invoices have not been paid in full as the VAT must be paid over to the Collector General upon submission of the VAT3.

It is always advised that traders offer a maximum credit period of 30 days to their customers on all sales invoices otherwise this cashflow burden could persist and snowball while they wait for payment.

For example, if a trader who accounts for VAT on the sales basis and who allows his customers credit terms of 60 days, issues an invoice on the 2nd February 2021 for €10,000 plus VAT of €2,300, he is now liable to pay that VAT to the Collector General in his January/February 2021 VAT Return

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on the 23rd March despite the fact that he may not actually receive payment from his customer until the 2nd April 2021.

4.6.2 Cash Receipts Basis

The second method (and arguably the most popular) for accounting for VAT is referred to as the "receipts basis" or "cash basis". Under this option, a trader accounts for VAT when payment is actually received from the customer, so the benefit is obvious as they have already collected the debt from their customer by the time they file their VAT return.

However, not all traders are entitled to account for VAT on the cash receipts basis as you must meet one of these two conditions:

(i) A VAT-registered person whose turnover does not exceed or is not likely to exceed €2,000,000 in any continuous period of 12 months.

(ii) A VAT-registered person whose supplies are almost exclusively (at least 90%) made to customers who are not registered for VAT, or not entitled to claim a full deduction of VAT.

In practice this second condition would apply mainly to sales by retails outlets, public houses, restaurants and any similar type of business selling mainly to private individuals.

4.7 Electing to Register for VAT

Even if your turnover in a 12 month period does not exceed the thresholds for VAT registration purposes you may elect to register for VAT in Ireland.

This is particularly advantageous for those in business that supply services at the reduced rate of 13.5% or goods at 0% but incur expenses including purchases of materials, overheads etc at the standard rate of 23% as they may often enjoy being in a VAT refund situation.

It should be noted that in the event a business that elected for VAT registration subsequently chooses to de-register for VAT there will be a review or clawback of any excess of VAT refunded over VAT paid to Revenue over a three year period or the length of time the VAT registration occurred (whichever is the lesser)

4.8 VAT Rates

The 4 main VAT rates in Ireland (others exist but we will concentrate on these) at the moment are:

0% - Zero rated

9% - the second reduced rate

13.5% - the reduced rate

23% - the standard rate

Revenue has a database of the VAT rates applicable to all supplies and it is important that all taxable persons check these rates as changes can and do occur.The VAT rates database is available on www.revenue.iehttps://www.revenue.ie/en/vat/vat-rates/search-vat-rates/VAT-rates-database.aspx

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4.9 Outside the Scope

Definition of *outside the scope of VAT*

> Some sales of goods and services are outside the scope of VAT. This means that VAT doesn't apply to them at all, so if you sell these goods and services, you won't charge any VAT, and if you buy them, there won't be any VAT to reclaim.

4.9.1 How is this different from exempt sales and costs?

Exempt sales and costs would still be included in your VAT returns as although they do not attract a rate of VAT there are still Vatable.

However, costs that are outside the scope of VAT would be completely left out of, or excluded from, your VAT return.

An example of this could be where you receive an invoice from a non-VAT registered individual that obviously has not charged you VAT. Many make the error of recording this expense as 0% and therefore reporting it on their VAT returns or VAT records but it is actually outside the scope of VAT and therefore ignored.

Wages paid to employees are outside the scope of VAT.

4.10 Accounting for VAT

As you have now registered for VAT you are now a taxable person and can therefore claim a VAT input or credit on any VAT incurred in running your business such as professional fees, stationery costs, telephone, electricity and many many more.

However there are certain items of expenditure that may or may not show VAT on their receipt or invoices that are actually specifically disallowed by Revenue and therefore cannot be claimed as an input credit.

4.10.1 What VAT can you not reclaim?

You cannot reclaim VAT on the following costs even if you are registered for VAT and make only taxable supplies:

- food, drink or other personal services for yourself, your agents or employees. The exception being to the extent that they are part of a taxable supply of services
- accommodation, other than qualifying accommodation in connection with attendance at a qualifying conference
- food or drink, accommodation or other entertainment services, where it forms all or part of the cost of providing an advertising service
- entertainment
- passenger motor vehicles, excluding qualifying vehicles
- petrol, otherwise than as stock-in-trade
- contract work involving the handing over of goods when such goods are themselves not deductible.

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4.10.2 Persons engaged in taxable, exempt and non-business activities

Where costs relate to taxable, exempt and non-business activities, you must apportion the costs to determine what Value-Added Tax (VAT) you can reclaim. You can only reclaim that proportion of the VAT which has been used for your taxable activities.

The proportion calculated must correctly reflect:

- the extent to which the costs are used for your taxable supplies

  and

- must have due regard to the range of your total supplies

4.11 Filing VAT Returns

When you register for VAT Revenue will typically put you on the bi-monthly basis for VAT Returns. That is, in March 2021 you will have to submit your VAT return for January and February 2021.

However, the following taxable periods may be granted by the Collector-General upon request:

- Annual return if you are making equal instalments by direct debit
- Four-monthly returns if your annual VAT liability is between €3,001 and €14,400
- Six-monthly returns if your annual liability is €3,000 or less.

4.11.1 When VAT becomes payable?

You must file and pay your Value-Added Tax (VAT) by the 19th day of the month following the end of each taxable period. This should be a true and correct return furnished to the Collector General through Revenue Online Service (ROS).

For ROS filers, the existing time limit of the 19 day of the month for filing a VAT return has been extended to the 23 day of the month.

You may incur interest and penalties for late or non-filing and payment of your VAT.

4.11.2 How to complete and submit a VAT Return

Step 1: To file your VAT return, log into your ROS account via www.ros.ie and navigate to the section under "File a Return" and select VAT from the dropdown list and in the second box choose VAT3

Step 2: Select the period that you are filing a return for (note that all outstanding periods will show and if you have a NIL report to file for any period just populate the return with the zero figures and file it)

On the following page we have shown what you will see when you follow these steps on ros.ie

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Step 1

Tax Clearance Issued.

Employer Services

Revenue Payroll Notifications (RPNs)

Request RPNs

Payroll

Submit payroll

View payroll

Returns

Statement of Account

Additional Services

PPS Number Checker

File a Return

Complete a Form Online

Select a return you would like to complete now. You will be given the option of filing the return with or without a payment.

VAT | VAT3 | File Return

Upload Form(s) Completed Offline

Step 2

VAT3 Return

Step 1
To begin filing, complete the form below.

Form Data 1 | Payment Details 2 | Sign & Submit 3 | Acknowledgement 4

Form Help

- Returns are due by the 19th of the month following the period selected.
- Denotes required field
- **This return must be completed in Euro.**

Taxation Period
Only outstanding periods are shown

01/01/2021 - 28/02/2021
01/03/2021 - 30/04/2021

Click on **Additional** to file an Amended or Supplementary VAT3

Currency

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Step 3

VAT3 Return

Step 1
To begin filing, complete the form below.

Form Data 1 — Payment Details 2 — Sign & Submit 3 — Acknowledgement 4

Form Help

- Returns are due by the 19th of the month following the period selected.
- Denotes required field
- **This return must be completed in Euro.**

Taxation Period
Only outstanding periods are shown — 01/01/2021 - 28/02/2021

Click on **Additional** to file an Amended or Supplementary VAT3 — Additional

Currency — €

Enter Whole Euro only, please do not enter cent.

VAT on Sales	T1	1200
VAT on Purchases	T2	500

Unusual Expenditure

Please indicate if this Return includes any exceptional business purchases which have resulted in an unusually large T2 (e.g. vehicles, fittings, equipment, plant and machinery, property, ICT equipment or software, franchise license etc.)? — Yes / No — VAT3 For

Click the Calculate button to determine whether a payment or repayment is due — Calculate

Net Payable	T3	700
Net Repayable	T4	0

When you have navigated your way to filing your VAT return you can populate the boxes with your VAT information for that period.

T1 – VAT on sales

This figure is the total VAT due on your:

- supplies of goods and services
- intra-Community acquisitions of goods
- Import of goods where VAT Postponed Accounting has been applied

T2 – VAT on purchases

This figure is the total VAT, which you are entitled to reclaim, in respect of costs incurred by you on:

- goods and services insofar as they relate to your taxable supplies and qualifying activities
- intra-Community acquisitions of goods
- import of goods where VAT Postponed Accounting has been applied

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T3 – VAT payable. What you owe Revenue

T4 – VAT repayable. What Revenue owe you

E1 – Intra-EU supplies of goods

This is the total value of goods sent to customers in other EU countries.

E2 – Intra-EU acquisitions of goods

This is the total value of goods received from suppliers in other EU countries.

ES1 – Intra-EU supply of service

This is the total value of services supplied to customers in other EU countries.

ES2 – Intra-EU acquisition of services

This is the total value of services received from suppliers in other EU countries.

PA1 – Postponed Accounting

This is the total of the Customs value of goods imported under Postponed Accounting as per Customs Declarations plus Customs Duty

4.12 Amending VAT Returns

Often you may discover that you made an error or omission on your VAT return and you are obliged to amend the VAT return or submit a supplementary VAT return.

To amend a VAT return, go to the area where you submit your VAT returns and choose the "additional" button and here you will see the list of VAT Returns available to amend.

A Supplementary VAT Return is submitted when an additional liability is due on the original VAT return so is quite different to an amendment where you may have discovered you over-stated VAT on sales or under-stated your VAT on purchases. In the supplementary return you only submit the difference in value and this will be added to your original return and will represent the correct liability for the period.

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Tips and Hints

- ✓ Constantly review your sales to check if you have crossed the threshold for VAT registration
- ✓ Check the VAT rates applicable to your supplies on the Revenue VAT database
- ✓ Understand the difference between zero rated, exempt and outside scope
- ✓ If unsure always engage the services of a bookkeeper, accountant or tax agent to file your VAT returns as errors can be costly and VAT is a complex area

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Module 5: Revenue Audits – How to avoid or survive!

The Revenue Audit! The words that strike fear into any business owner and one can be forgiven for feeling this fear.

Lets' not mince words as a Revenue Audit can be incredibly unpleasant and stressful depending on the circumstances and often not a single thing you did or didn't do has prompted this audit but at some stage most business owners will find themselves subject to an audit and they are totally survivable.

5.1 Are Audits Random?

It is estimated that less than 5% of Revenue Audits are random so what prompts the remaining 95% of audits?

Revenue audits can be a funny old thing and can be triggered for several reasons. Often Revenue can do a "sweep" across a specific sector that is traditionally seen as potentially cash driven (as in actual hard cash exchanges hands) and examples of this could include hair stylists, barbers, butchers and many many more.

Another reason a Revenue Audit can be triggered is as a by-product of another audit being carried out on an entirely different entity and Revenue may stumble across an invoice you yourself issued and this for whatever reason has set alarm bells ringing.

The biggest cause for coming onto Revenue's radar is completely avoidable and that is failure to keep up with your filing obligations. Revenue hate this and a good business will keep on top of all their filing requirements and keep their heads under the radar. Inconsistent VAT returns may also trigger an audit as you may always have a pattern with your returns and suddenly a return may be filed where you are seeking a refund or declaring an unusually high amount of VAT on purchases. Let's get one thing clear…….The Collector General loves routine so a sudden change in filing pattern will peak attention.

That being said, never be tempted to adjust your VAT return just to stay consistent. I have met business owners in the past with such a fear of an audit they spread the VAT on a large purchase over the course of a few returns, but this is fraudulent as you must not knowingly tamper with your VAT3 figures. Generally, in these situations an e-audit will be triggered and it is a simple case of providing documents and invoices to support your VAT return.

5.2 Revenue Powers

As you know by now, tax administration including Income Tax, Corporation Tax, VAT and employers taxes are a form of self-assessment whereby the tax payer vouches that the figures and facts are true and accurate. Often Revenue will need to do checks on certain tax payers and certain tax headings to verify these details are indeed true with adequate supporting documentation.

The vast majority of taxpayers appreciate that a self-assessment system of tax administration needs to be backed up by appropriate procedures to verify returns and liabilities, and they co-operate fully with Revenue requirements in this regard. This means that in everyday verification situations only basic powers are relied upon, for example, those allowing entry to a business premises to examine

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books and records. Most taxpayers co-operate voluntarily, even without the formal use of these powers.

However, a small minority seek to evade their obligations and do not co-operate with Revenue. Therefore, there are situations where the use of more exceptional powers proves to be necessary to protect the rights of the generality of taxpayers. These more exceptional powers will not be focused on smaller cases where the potential tax loss from evasion is unlikely to be significant.

5.2.1 Revenue Authorised Officers

Only officers who have been specifically authorised and who have the necessary expertise will be allowed to use these powers. Furthermore, where an authorised officer seeks to use these powers, approval must be obtained at an appropriate senior level.

An officer's authorisation is set out on his or her Identity Card. The Identity Card contains:

- the officer's name;
- the officer’s photograph;
- a list of the legislation for which the officer is authorised;
- a signed document of the signature of the Revenue Commissioner by whom the officer was authorised
- the Revenue hologram.

5.2.2 Routine visits

Many Revenue visits to a taxpayer's premises involve only routine matters - for example, explanation for a transaction or sight of a document. Such visits will be brief and may be made without a prior appointment. If such a visit inconveniences a taxpayer, or the matters arising cannot be readily dealt with, officers will arrange the visit for a more suitable time.

5.2.3 Records and stock checks and examination of consignments

Revenue officers involved in Customs or Excise duties make visits to taxpayers’ premises without prior appointment to carry out records and stock checks and perform examinations. Such checks will be carried out with the least possible inconvenience to the taxpayer.

5.2.4 Detailed examinations

A visit, other than one involving routine matters or stock checks, or examination of consignments, is normally pre-arranged and officers attempt to arrange the visit at a time convenient for the taxpayer and his or her adviser. Taxpayers are advised in advance of the proposed time and purpose of the visit and what records it is intended to examine.

5.2.5 Removal of records

Whenever an officer removes records from a premises, the taxpayer will be given a list of the items taken and where possible, the officer should indicate when the records are likely to be returned, but this may not always be feasible. If records have been removed and the taxpayer requires them for current trading purposes, copies of the records removed will be given to the taxpayer.

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If the records are required by Revenue for the purposes of legal proceedings, they will be returned after the proceedings are completed.

5.2.6 Can Revenue access my bank account?

This is the big question I get asked all the time and the answer is yes! In 2015, Revenue was granted new powers to get permission, without your knowledge, to gain access to your financial information should they suspect you to be a tax defaulter. The below news article issued by the Independent Newspaper in October 2015 gives you the low-down on the new powers gramtedso you have been warned.

Revenue gets sweeping new power to target tax defaulters

Chairman of the Revenue Commissioners Niall Cody

Colm Kelpie

October 23 2015 02:30 AM

Sweeping new powers have been granted allowing tax officials to access private financial information about an individual without even telling those affected that the probes are happening.

With court approval, tax authorities will be able to secure information from bodies such as banks or other third parties without the suspected tax defaulter knowing.

Separately, Revenue will also be given extra powers to search premises, vehicles and computers, including mobile phones, for information which may be of value in the investigation of excise offences.

And Revenue will also have extra powers to deal with those trying to avoid capital gains tax by transferring assets to controlled companies abroad.

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The measures aim to beef up the Revenue Commissioner's ability to clamp down on suspected tax evaders.

Tax officials are already allowed to seek a High Court order requiring a bank or other body to provide information about a taxpayer it has suspicions about.

But in the new Finance Bill, published yesterday, Revenue will be able to seek information even if it does not know the identity of the suspected tax cheat. It will now also have the power to ask the court to direct that the taxpayer is not told about the disclosure order.

The Bill states that where such an order is made, the Revenue Commissioners must have "reasonable grounds" for keeping the process secret in order to ensure tax collection.

It is part of a series of measures designed to help boost Revenue's ability to tackle suspected tax evaders.

Assets: Revenue will also be given strengthened powers to look at the transfer of assets abroad. It will be allowed to look through the non-resident company to establish which of those involved in it are resident here and, subject to exceptions, assess whether they're liable for capital gains tax on their share of the gains made by the company.

5.3 How will Revenue contact you?

There are several ways in which Revenue can correspond with a taxpayer. For example, it is quite common for Revenue to query certain figures contained within a tax return, sometimes by telephone or through their secure emailing portal and this is known as an e-VAT audit. Often these e-Audits simply request copy documentation related to a VAT return in order to verify the accuracy of the details contained in a particular VAT return.

A taxpayer will know that an audit is to commence as Revenue will generally write to the taxpayer, (and usually their agent), to confirm this. The letter will contain the wording “Revenue audit” and will contain the relevant details including:

- what period will be reviewed and by whom;
- what tax-heads will be reviewed; and
- where and when the audit is to take place.

It is usually possible to change the date of the audit by a week or two by phoning the person in Revenue who is dealing with the case as early as possible. The name and contact details of the Revenue official assigned to your case will always be displayed on any correspondence you receive.

It is also possible to formally request a 60-day extension to prepare a qualifying disclosure. This may be desirable where you have an extensive amount of work to do in order to prepare for the

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audit. It is typically availed of by larger clients, especially where the client believes that there may be a necessity to make a disclosure.

7.2 Revenue Audit Process

1. Notification

Notice is received in the form of a letter containing the phrase “Notification of a Revenue Audit”. Generally 21 days notice is given and the letter is copied to the taxpayer’s tax agent. From the date of issue of the letter there is no longer the opportunity to make an “unprompted qualifying disclosure”.

2. Unannounced visits

Unannounced visits from Revenue officers may occur should the officer be in the area. Upon arrival, the officer should offer to re-arrange the visit for a more convenient time. This option is not available for spot-checks carried out relating to record-keeping or the correct operation of cash points. Such checks often take place on all businesses in the area during the same visit.

Due to Covid-19 these “on-site” or unannounced audits have been put on hold so the majority of audits are taking place generally on the form of an eAudit.

3. Location

The audit is generally carried out at the taxpayer’s place of business. This is usually the principal place of business rather than the Registered Office (if the taxpayer is a company). Should the taxpayer have no premises the audit can take place at the private residence of an individual, but generally only with prior consent of the individual. It is possible for the audit to take place at the relevant Revenue office or at the tax agents place of business. Irrespective of where the audit is carried out, the auditor usually visits the business premises at some stage during the process.

4. The “Big Day”

The auditor shall show identification on arrival at the business premises and explain the general purpose for the audit. Before the audit begins, the auditor generally gives the taxpayer the opportunity to make a qualifying disclosure

If any records are removed from the building by the auditor, the taxpayer should be provided with a receipt for these. If the taxpayer requires these documents or records for trading purposes, a copy should be provided. Information can also be requested in an electronic format and this is becoming more common.

5. Period

The auditor shall focus on the periods indicated in the audit notice but if issues arise and the auditor believes that significant tax defaults have taken place in previous or later periods, these periods can also be reviewed following approval from the relevant

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6. e-Audits

An e-Audit is an audit consisting of an examination of records held electronically. When it comes to examination, there is no distinction between records kept manually and those kept on computer systems.

7. Qualifying Disclosure

A qualifying disclosure is a disclosure made to Revenue before the commencement of a Revenue audit. A qualifying disclosure must contain certain information and it should be in writing and signed by the taxpayer. It should include details of tax owing as well as the interest due to Revenue. It should also be accompanied by a means of payment for the tax plus interest. There is no requirement to calculate the level of penalty as this can be agreed at the end of the audit and the tax payer will be informed of the penalty (if any).

7.3 Interest

If VAT is not paid within the correct time limit, interest is charged at a daily rate. The rate is currently set at a daily rate of 0.0274% for each day that the payment is outstanding.

7.3.1 Interest on underpayment in direct debit scheme

Revenue can charge interest on any balance that is outstanding at the end of your accounting year. The date Revenue uses to calculate the interest will depend on the percentage of the annual liability outstanding. If you have paid 80% or more, Revenue will charge the interest from the due date of your end of year VAT 3 return, until the amount outstanding is paid.

If you have paid less than 80%, Revenue will back date the interest to a date which is six months prior to the final date for filing your annual VAT return.

Example 1

John is on direct debit and pays €5,000 per month. His accounting period ends on 31 December.He files his VAT return on 19 January, his annual liability is €66,000. He has paid over 80% of the actual liability for that accounting period.

He does not pay the remaining outstanding amount of €6,000 until 20 March.

He is charged interest on €6,000 from 19 January to 20 March at a daily rate of .0274%.

Example 2

Kate is on direct debit and pays €5,000 per month. Her accounting period ends on 31 December. She files her VAT return on 19 January, her annual liability is €80,000. She has not paid 80% of the actual liability for that accounting period.

She does not pay the remaining outstanding amount of €20,000 until 20 March.

She is charged interest on €20,000 from 19 July to 20 March at a daily rate of .0274%.

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7.4 Fixed Statutory Penalties

Penalties will be applied if a tax payer:

- deliberately or carelessly furnishes an incorrect return
- makes an incorrect claim or declaration
- fails to file a return due.

The penalties applied are based on the difference between:

- the amount of tax paid or claimed, if any

and

- the amount properly payable or refundable.

The rate at which the penalty is calculated will vary depending on various factors, such as:

- whether the person carelessly but not deliberately failed to comply,
- whether the person co-operates fully with Revenue and the timing of that co-operation in certain circumstances
- whether a person makes a qualifying disclosure.

7.4.1 The following is a list of penalties for VAT

- failure to register as an accountable person — €4,000
- failure to charge the VAT and pay VAT over to Revenue — €4,000
- failure to keep proper books and records — €4,000
- failure to comply with invoicing requirements — €4,000
- failure to furnish a quarterly statement of intra-Community supplies (VIES return) to the Revenue Commissioners — €4,000
- assisting in making incorrect returns, invoices, credit notes — €4,000
- failure by a flat-rate farmer to issue an invoice showing the flat-rate addition — €4,000
- issue of a VAT invoice by a non-registered person — €4,000
- unauthorised charge of a flat-rate addition — €4,000
- wilfully obstructing or delaying an officer authorised by the Revenue Commissioners in exercising his or her powers — €4,000
- preventing or obstructing a person authorised by the Revenue Commissioners to inspect property for the purposes of valuing the property for VAT purposes — €4,000
- where the failures or acts referred to above are carried out by a body of persons, the secretary of the body is liable for the payment of a separate penalty — €4,000
- supplying taxable goods and services in breach of the requirement of security for the protection of the Revenue (Section 109 bond) in respect of each such supply — €4,000.

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7.4.2 Penalties for deliberate or careless behaviour in filing a VAT return

Penalties will be applied if you:

- deliberately or carelessly furnish an incorrect return
- make an incorrect claim or declaration
- fail to file a return due.

The penalties applied are based on the difference between:

- the amount of tax paid or claimed, if any
- **and**
- the amount properly payable or refundable.

The rate at which the penalty is calculated will vary depending on various factors, such as:

- whether the person carelessly but not deliberately failed to comply
- whether the person co-operates fully with Revenue and the timing of that co-operation in certain circumstances
- whether a person makes a qualifying disclosure.

Further guidance contains more detailed information on interest and penalties can be found on www.revenue.ie

7.5 Mitigation

Penalties may be mitigated depending on the level of default. The amount of mitigation also depends on whether the tax defaulter has fully disclosed the default to Revenue and co-operated fully.

7.6 Publication

Every 3 months, Revenue publishes a list of tax defaulters.

Revenue does not publish the following cases;

• cases where a qualifying disclosure is accepted; [section 1086 (4)(a) TCA 1997]

• cases where the specified sum referred to in paragraph (c) or (d) of section 1086 subsection (2) does not exceed €35,000 (figure for tax, interest and penalty) [section 1086 (4)(c) TCA 1997]

• cases where the penalty (agreed with taxpayer or determined by a court) does not exceed 15% of the amount of the tax ultimately due [section 1086 (4) (d) TCA 1997]

• cases where a 'qualifying avoidance disclosure' is accepted and/or a 'tax avoidance surcharge(s)' occurs [section 811D TCA 1997].

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7.7 Prosecution

The main drive against tax evasion is through the Revenue Compliance Intervention, Revenue Audit and Revenue Investigation programmes. These programmes have proved to be extremely effective in collecting tax, duty and interest and in penalising tax fraud and tax evasion.

The tougher stance taken against the most serious tax offenders/offences through the prosecution programme means that those convicted (in addition to paying tax, duty, interest and penalties) are liable to a fine or imprisonment or both.

The Director of Public Prosecutions makes decisions as to whether a case should be prosecuted.

7.7.1 Types of tax offences that are most likely to be prosecuted

The types of offences that are most likely to be prosecuted are set out below;

• deliberate omissions from tax returns

• false claims for repayment

• use of forged or falsified documents

• facilitating fraudulent evasion of tax

• systematic scheme to evade tax

• use of offshore bank accounts to evade tax

• insidious schemes of tax evasion

• failure (as distinct from minor delays) in remitting fiduciary taxes

• failure to produce business records when required.

7.8 The Revenue Sheriff

Appointed by Government, the fifteen Sheriffs carry out debt collection on a professional basis for Revenue. As Officers of the Court, Sheriffs are accountable to the Court for their actions in the area of enforcement. Their debt collection activities are generally covered by the Enforcement of Court Orders Act, 1926, as amended.

Under the Court Officers Act, 1945, the Sheriff is empowered to seize assets only within his/her Bailiwick and cannot seize outside of it. Therefore, if a CG Caseworker is unsure of the Bailiwick in a particular case, it is advisable to verify with the relevant Sheriff prior to referral.

Before the Sheriff makes a visit, it is normal for him to contact the debtor by letter requesting his proposals for payment. In this instance it is advisable to open up a dialogue with the sheriff to negotiate payment before he or she makes an unannounced call to your business.

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Make no bones about it, if the Sheriff has left the comfort of their office chair the cost for the business owner will significantly increase for this privilege. Not only will you be expected to settle the outstanding amount owing to Revenue but the sheriffs fees will the first item to be deducted from this payment.

If the tax payer considers that the business is viable, but is just suffering from short term cash flow difficulties, then they should open up dialogue with the Sheriff and present positive proposals for settling the debt. If no such proposals are made, then the Sheriff will visit the premises to seize whatever assets he can.

The Revenue sheriffs are “private sector” self employed individuals. As a result, they can be very pragmatic: It does not pay them to become involved in complex seizures of assets. The sheriffs have been given authority by the Revenue to negotiate instalment plans of up to 2 years.

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Appendix A
Extract from Tax Briefing Issue 31 (April 1998)

SCHEDULE D - CASE I & II – Food and Subsistence Expenses
Introduction

This article concerns deductions allowable in computing profits for tax purposes in respect of food and subsistence expenses of self-employed individuals. The treatment of employees' (including directors') subsistence expenses is dealt with in Leaflet IT 54.

Cost of Meals
It is a long established principle that the cost of meals taken at the place of business are not allowable expenses for tax purposes. In addition, expenses incurred on meals consumed away from the place of business are, in general, not wholly and exclusively laid out for the purposes of the trade or profession since everyone must eat in order to live. Where such costs are not allowable they may not be apportioned to allow extra costs incurred from the necessity of eating away from home or from the place of business.

Costs of meals may be incurred wholly and exclusively for business purposes where a business by its nature involves travelling (for example, in the case of self-employed long distance lorry drivers) or where occasional business journeys outside the normal pattern are made. A
reasonable level of expenses incurred in these circumstances may be deducted from business profits.
Where a business trip necessitates one or more nights away from home, reasonable accommodation costs incurred while away from home may be deducted. The cost of meals taken in conjunction with overnight accommodation may also be deducted. Where self-employed long distance lorry drivers spend the night in their cabs rather than taking overnight accommodation, the costs incurred on their meals may be deducted.

It is important to note that only expenses actually incurred and for which receipts are available may be claimed. Receipts must be retained for production in the course of a Revenue audit of the business.

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Appendix B

Travel Expenses: When are they wholly & exclusively for the purposes of the trade? [Extract] Part 04-10-01

Introduction
When arriving at business profits assessable to tax under Case I (trade) or Case II (profession), a taxpayer must first look to section 81 Taxes Consolidation Act 1997,as amended, to determine what expenses may or may not be deductible. While there are a number of expenses specifically disallowed by section 81, such as rent of
private accommodation, the central test of deductibility when computing assessable Case I or II profits is whether or not the expense has been “wholly and exclusively
laid out or expended for the purposes of the trade or profession.
.
Despite the importance of this test, it has not often come before the Irish courts and therefore there is little guidance from Irish case law as to how this phrase should be
interpreted. The UK legislation contains a similar phrase which has come before the UK Courts on many occasions, sometimes on the general meaning of wholly and exclusively for the purposes of the trade and on other occasions specifically in relation to determining whether travel expenses are deductible. The findings in those cases can be both persuasive and instructive in an Irish context. In many cases, for convenience, sole traders will include all of their travel expenses in their business accounts and then ‘add-back’ a portion to remove the cost of personal usage from the computation of assessable profits. When determining the appropriate percentage add-back for an individual taxpayer regard should be had to the principles set out below.

Employers often reimburse employees for expenses incurred wholly, exclusively and necessarily in the performance of the duties of their employment in accordance with the approved civil service rates. The reimbursement of employees in line with the civil services rates will be accepted by Revenue as an expense incurred wholly & exclusively for the purposes of the employer’s trade.

It is important to note that Revenue will not accept deductions for travel or subsistence expenses of sole traders based on the civil service rates.

Some of the cases discussed below were decided many years ago, but they describe work practices and travel patterns that have probably become less common in the
intervening years. The principles from that case law are still relevant to current work practices.
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