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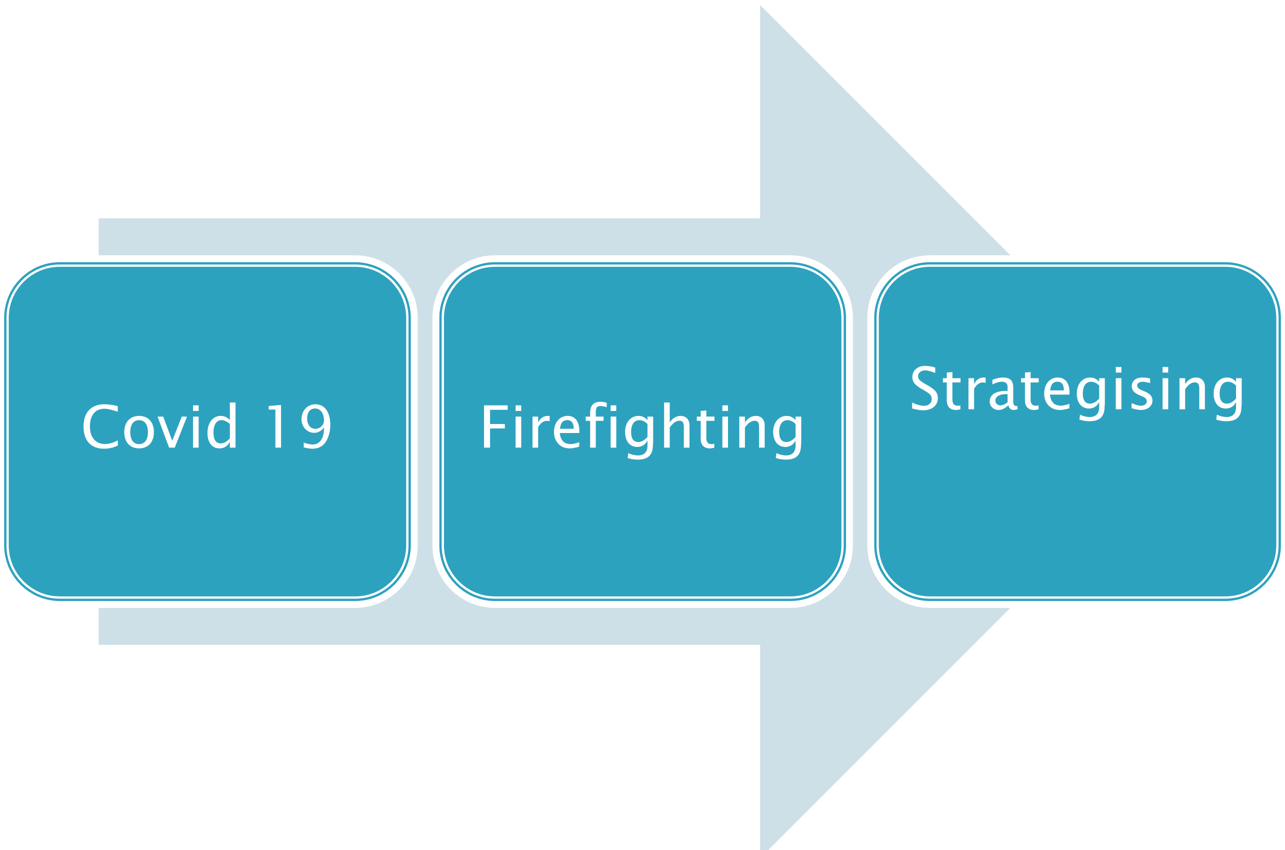
Covid 19
Firefighting
Strategising

Covid 19 Tax Supports

- **Tax Returns:** businesses experiencing temporary cash flow difficulties should continue to send in tax returns on time.
- **Application of Interest:** suspended VAT and PAYE (Employers) liabilities.
- **Acceleration of VAT refunds**
- **Debt Enforcement:** All debt enforcement activity is suspended until further notice.
- **Tax Clearance:** current tax clearance status will remain in place for all businesses over the coming months.
- **Surcharge for late CT returns suspended**
- **RCT rate review suspended**
- **The deferral of commercial rates**
- **Wage subsidy support scheme**

Temporary Wage Subsidy Scheme

- The Government is asking employers who have closed their businesses during the COVID-19 pandemic to continue to pay workers if possible.
- On 24 March, the Government announced a new Income Support Scheme to assist employers with paying workers during the COVID-19 pandemic.
- This scheme is administered through Revenue and payments started on 26 and 27 of March.

- https://www.revenue.ie/en/corporate/communications/covid19/temporary-covid-19-wage-subsidy-scheme.aspx

Changes to Wage Subsidy Scheme from 4 May 2020

- On 15 April 2020, changes to the Wage Subsidy Scheme were announced. These changes will take effect from 4 May.
- The subsidy will increase from 70% to 85% for employees with a previous average take home pay **below €412** per week
- In other words, if previous gross salary less than €24,400 p.a. the subsidy that the state is making available to Employers increases from 70% to 85%.
- Up to a max of €350 a week

- The subsidy will be €350 per week for employees with a previous average take home pay **between €412 and €500** per week
- So if previous gross annual salary between €24,400 and €31,000 – entitled to a flat rate €350 per week

- The subsidy remains the same for employees with a previous average take home pay of **between €500 and €586** per week.
- In other words, if previous gross salary between €31,000 and €38,000, subsidy is capped at 70% of previous take home, up to a maximum of €410 per week.

- A tiered system has been introduced for employees with a previous average take home pay of **over €586** per week
- a gross salary of €38,000 or above
- For workers receiving up to 60% of normal pay from employer, the subsidy will be available at up to €350 a week
- For workers receiving between 60 – 80% of their normal pay from their employer, the subsidy will be €205 a week or less
- And where they are receiving more than 80 per cent of their previous average net weekly pay, no subsidy is available.

High Earners

- Employees who were previously taking home more than **€960 per week** will be able to avail of the scheme
- Equal to a gross salary of €76,000 or more p.a.
- Tiered arrangement see previous also applies

- The new rates apply from 4 May and will not be backdated.

To qualify for the scheme, you must:

- Self-declare to Revenue that you have experienced **significant negative economic disruption** due to COVID-19, with a **minimum of 25% decline** in turnover (between 14 March 2020 and 30 June 2020)
- Presumption of honesty so no proof looked for at this stage
- If you have strong cash reserves still qualify.

To qualify for the scheme, you must:

- Be **unable** to pay normal wages and normal outgoings fully
- What about those strong cash reserves though?
- Keep documentation that cash reserves are being used to meet debts.

To qualify for the scheme, you must:

- Keep your employees on your payroll
- Employees must have been on your payroll on 29 February 2020, and you must have made payroll submission on their behalf to Revenue in the period from 1 February 2020 to 15 March 2020Your declaration is not a declaration of insolvency. It is simply a declaration that the COVID-19 pandemic has caused disruption to your business
- Employers must not operate this scheme for employees who are making a claim for duplicate support from the DEASP (such as the COVID-19 Pandemic Unemployment Payment)
- **The COVID-19 Wage Subsidy Scheme applies both to employers that top up employees' wages and those that are not in a position to do so.**

Watch Out For

- Pension
- Losses.

Losses

- Sole trader?
- Limited company?

Sole trader losses

- Can be offset against your other income
- Even employment income
- Any unutilised loss carried forward against future sole trader profits
- Only carried forward, not back
- Unless a terminal loss – then carried back 3 years.

Corporation Tax Losses

- Ring fenced within the company – **not available for offset against other income (personal)**

- Can be carried back 12 months against trade income
- Then against other company income from loss making year
- Then carried back 12 months against other company income

- Any unutilised loss carried forward against future trade income only
- Terminal losses can be carried back 3 years

Going Forward

- TIME……………………..
- To Think

Top 4 QUESTIONS

Most regularly asked questions:

1. Should I register for VAT?
2. Should I incorporate?
3. If I've incorporated – how do I get cash out of company?
4. How to plan for succession?

Question number 1

- SHOULD I REGISTER FOR VAT?

- Must be providing a vatable good or service
- This does NOT apply to exempt businesses

Compulsory Registration

REGISTRATION LIMITS

If any of following thresholds exceeded or likely to be exceeded in a 12-month period	
€75,000	90% of turnover derives from the sale of **goods**
€37,500	Supplies of **services**

Voluntary Registration

- A Taxpayer can also voluntarily **elect** to register for VAT.
- (Remember **only** a 'person' who is in the business of providing a VATABLE goods or services can register for VAT)

A person might want to voluntarily register for VAT if:

- He/she hasn't started trading yet but is incurring large 'vatable' pre-trading expenses that he'd like to claim input credit on
- Or
- He/she has started trading, (but not reached registration limit), and would like to claim back VAT on purchases

- He/she deals in 0% rates goods, essentials e.g. bread – and hasn’t reached registration limit.
- Vat is charged at 0% on sales but he registers for VAT can claim VAT on purchases.

Scenarios

- Paddy Maloney
- Business Consultant
- Set up Business 6 months ago

- Not Vat Registered.
- Intends to purchase some expensive office equipment in near future

Mary McGee
Also a Business Consultant
Also recently established

Intends to purchase fancy photocopier/printer in near future

Both charge a similar price and offer a similar standard of service.

Should they voluntarily register for Vat?

- If they do, they can claim back VAT on intended purchases
- However, they would also have to charge VAT

- Paddy Maloney
- Business Consultant
- Set up Business 6 months ago

- Not Vat Registered.
- Intends to purchase some expensive office equipment in near future

Paddy's main customers are medical consultants

Mary McGee
Also a business Consultant
Also recently established

Both charge a similar price and offer a similar standard of service.

Intends to purchase fancy photocopier/printer in near future

Mary’s main customers are the IT companies

- Mary supplies services to VAT registered person.
- So, irrelevant to her customer if she is vat registered or not as customer can claim back as input tax credit AND
- Marry can claim input tax credit on his purchases

Question 2 Should I Incorporate?

- I'm currently a Sole trader
- Should I become a Limited Company??

- Income tax can be as high as 52% (incl PRSI, USC)
- Corporation Tax is 12.5% (*25% on some sources*)

Scenario

- Sole trader Plumber making profits €100,000 per annum
- Let’s say I also have rental income so my cut off and tax credits all utilised
- I pay tax 52% = €52,000
- And I decide to incorporate

Lets consider 2 scenarios:

- **Scenario 1** – I like my handbags, holidays etc.
- **Scenario 2** – I'm more frugal
- And let's say with profits of €100,000 I decide to incorporate

	Scenario 1		Scenario 2
	€		€
Limited company profits	100,000		100,000
I take salary	(100,000)		(25,000)
Accessible to Corporation Tax	**0**		**75,000**

	Scenario 1	Scenario 2
	€	€
Limited company profits	100,000	100,000
I take salary	(100,000)	(25,000)
Accessible to Corporation Tax	**0**	**75,000**

	Scenario 1	Scenario 2
	€	€
Assessable to Corporation Tax	0	75,000
Corp tax 12.5%	0	9,375
Also Income Tax on salary	52,000	13,000
say 52%		
Total tax overall	**52,000**	**22,375**

		Scenario 1	Scenario 2
		€	€
Assessable to Corporation Tax		0	75,000
Corp tax 12.5%		0	9,375
Also Income Tax on salary		52,000	13,000
say 52%			
Total tax overall		**52,000**	**22,375**

In other words, the less I extract from the company the less overall tax is paid.
If I need to withdraw a large amount to fund lifestyle or indeed debt, then its not worth it.

Pension

- State Pension
- Personal Pension (sole trader and employee),
- Occupational Pension scheme

The Pension Investment

	Sole Trader / Employee	Employer pays on behalf of EE
What element of pension investment is tax deductible?	Will save income tax based on age related % of N.R.E. (max €115k).	No limit, but it must be amount that was actually paid and not just accrued for. Employer will get full tax deduction against their trading profits for all premiums paid.
Other	It doesn't relieve PRSI or USC	Note this is <u>not</u> a BIK for employee

Age Related %	
Age	% of NRE
<30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
>60	40%

On Retirement

- Personal pension
- 25% fund,(up to €200k), can be taken tax free
- Occupational pension
- Up to 1.5 times final salary,(up to €200k), can be taken tax free (*based on number of years worked for company*)

Recap – Should I incorporate???

- Only if you making sufficient profits that you can leave profits in company
- And /or
- You are making sufficient profits that you can invest significant amount into pension
- Bear in mind close company rules….

What's involved in incorporation

- https://www.cro.ie/Registration/Company/Required-Steps

Tax consequences

- Capital gains tax (unless incorporation relief)
- Stamp Duty 6%

Scenario

- I'm a sole trader – Paula Byrne Accountants
- No assets
- Except that lets say client list is worth €75,000
- I incorporate – Paula Byrne limited
- SOFP on day 1

	€
Goodwill	<u>75,000</u>
Financed by:	
Loan from PB	<u>75,000</u>

Question 3 – Cash Extraction

1. Salary
2. Dividend
3. Termination payment
4. Sell your shares

Salary

- **Taxpayer**
  - Taxed
- **Company**
  - Tax deductible expenses

Dividend

- Taxpayer
  - Taxed
- Company
  - NOT a tax deductible expenses

Termination payment

Taxpayer

- Element is tax free (lifetime limit €200,000

Company

- Tax deductible expense

Sell Your Shares

- Taxpayer
  - CGT
- Company
  - No tax impact

Question 3 – Succession Planning

- Regardless or whether you sell or gift your business –could still be a potential CGT liability

Simply put :	€
Disposal Proceeds	500,000
less cost	(50,000)
Chargeable gain	450,000
Less A/E	(1,270)
	448,730
@ 33%	**148,091**

CGT Reliefs available

- Entrepreneur Relief
- Retirement Relief

Entrepreneur Relief

- Gains on disposals of chargeable business assets are liable to a reduced rate of 10% **up to an overall lifetime limit of €1m**. The limit is on the chargeable gain.
- So instead of a CGT rate of 33%, a qualifying entrepreneur will pay 10%.

Entrepreneur relief

Must own the asset for three continuous years out of the last five years
Must work in the company – **<u>does not need to be a director</u>.** Work at least 50% of their time for three continuous years of the last five years prior to the date of the disposal
No age requirement
Lifetime limit €1 million
Once a trading company the 10% will apply to the entire gain once under €1 million even if the company has investments
Entrepreneur relief will not apply to the disposal of an asset let to a company
Must own not less than 5% of the ordinary shares in the qualifying company

Retirement Relief

- Taxpayer doesn’t have to actually retire to obtain this relief.
- This relief, can potentially result in an absolute exemption from CGT on the disposal of business assets by individuals aged 55 or more.

Retirement Relief

Must own the asset in question for ten years
If a company must be a working director for at least ten years (any ten) and full time for any five years.
Must be aged at least 55 to qualify
Clawback on disposals to children if the child sells within six years
Limit of €750,000/€500,000 for third parties
Separate limit for children / No limit if under 66 years /Cap of €3 million to ‘sales proceeds’ if 66 years or older
Retirement relief only applies to business assets. If shares are being sold and the company has investments retirement relief only attaches to the business assets
Retirement relief will also apply to assets personally held by the taxpayer and used by a company once certain conditions are met

Other exit Routes

- Share buyback
- Termination Payments

How to plan for succession? Offloading to next generation

- Gift vs inheritance
- NO SD or CGT on inheritance
- Other non tax factors

TAXES INVOLVED

- Capital Gains Tax
- Stamp Duty
- Capital Acquisition Tax

Stamp Duty Reliefs

- Young trained farmer relief
- Consanguinity Relief

Capital Acquisition Tax

- Tax payable by a child on transfer of shares:

	€
Market value gift/inheritance	500,000
Less Stamp Duty 1%	(5,000)
Less Threshold A/B/C	(335,000) A
	160,000
Small Gift Exemption	(3,000)
Taxable Value	157,000
@ 33%	**51,810**

CAT Reliefs

- Business Relief
- Agricultural Relief
- Both give a 90% reduction in taxable value
- CGT Offset
- Clawbacks.

Call your accountant/tax adviser

- Opportunity to plan now so that conditions can be satisfied.
- Find out NOW what reliefs are available
- Find out NOW what conditions need to be satisfied

End

- Thank you
- Questions?