



BUSINESS & TRAINING 67

Money Matters

A series of weekly articles by **Quintas** Experts

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CORPORATION TAX EXEMPTION FOR START-UP COMPANIES

**THERE HAS NEVER BEEN A BETTER
TIME TO SET UP A COMPANY IN
IRELAND!**

In the second budget in 2008, the government introduced a corporation tax exemption as a pro-business stimulus for entrepreneurs in a challenging commercial environment. It provides a three year exemption from corporation tax for start up companies with a tax liability of less than €40,000 per annum, subject to certain limits and conditions. At the current rate of corporation tax, ie 12.5 per cent, this equates to €320,000 of profits per year. Where corporation tax for the period is between €40,000 and €60,000, marginal relief will apply. No relief is available where the corporation tax liability for the period exceeds €60,000. Therefore, a company could potentially shelter up to €960,000 of trading profits from tax over a three year period.

There are a number of conditions to be satisfied in order to claim the exemption. Firstly, the company must be incorporated on or after 14 October 2008 and commence trading during 2009 or 2010. This could potentially be extended in the upcoming budget. Secondly, this exemption applies where a company is set up to operate a new trade, therefore it is not applicable where a sole trader transfers to a company or where a company acquires an existing business. The tax relief does not apply to professional service companies thus engineers, accountants, architects etc cannot avail of the new relief. The relief does not apply to income that is subject to tax at 25 per cent.

While the start up exemption is to be welcomed, its practical benefits for some may be limited. Many new companies incur losses in the early years of operation, meaning the new provisions may have little benefit. If the business is not likely to be profitable in year one and two, the value of this relief requires more detailed examination. Losses can be valuable to off-set against the other taxable profits and income of the individual.

Nevertheless, cashflow is more critical now than ever and the new regime will enable many new profitable companies to reinvest their cash in the business that otherwise would have been diverted to Revenue. The tax exemption is therefore of maximum benefit where the start-up business is generating profits from year one.

Before a company is incorporated and commences to trade with the intention of availing of the tax exemption, appropriate tax advice should be obtained and the correct corporate structure should be put in place.

Quintas can assist you with your new business concept, in forming a limited liability company or deal with any queries you have in relation to this tax exemption.

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