



BRADLEY TAX CONSULTING



Start up exemption – corporation tax

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Start up exemption – Irish corporation tax

Companies that commence to carry on a new trade in 2011 are exempt from corporation tax and capital gains tax for the first three years provided that their tax liability in the year does not exceed €40,000. Therefore taxable profits in the sum of €320,000 per year or €960,000 over a three year period will be exempt from corporation tax. There is a limited form of marginal relief where the corporation tax liability in the year is between €40,000 and €60,000. No relief is available where corporation tax liability for the period exceeds €60,000. The start up exemption applies to tax arising on trading profits, including capital gains tax arising on the disposal of assets used in the trade.

Finance Act 2011 extended the application of this exemption to new trades commencing in 2011. However, it also introduced a ceiling on the relief by reference to the amount of employers' PRSI paid in the relevant accounting period. When the total corporation tax for the accounting period is less than €40,000, to maximise the relief the company will need to have paid employers' PRSI, known as "specified contributions", of at least €40,000 in that accounting period. The aggregate specified contributions are computed by adding up the employers' PRSI contributions paid on behalf of employees in the accounting period subject to a maximum of €5,000 for any employee.

Anti-avoidance measures have also been introduced to ensure that excessive relief is not obtained by establishing new trades in different associated companies. These changes are effective for accounting periods beginning on or after January 2011. Therefore, these anti-avoidance measures could apply to any company who commenced to trade in 2009 or 2010 and is seeking to avail of the exemption.

There are a number of additional conditions to be met as follows:

- The trade must be a **new trade** and must not have been carried on previously by another person in Ireland.
- The relief does not apply to companies that are dealing in land or petroleum and mineral activities or disposals of development land that is subject to capital gains tax.
- The tax relief does not apply to professional service companies.
- The tax relief for companies operating in the road transport sector is restricted to a total of €100,000 over the 3 year period.
- The relief does not apply to income that is subject to tax at 25%

This relief is ideal if one is considering setting up a new business that could be carried on in a new company.

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