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Start-up exemption – Irish corporation tax

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Companies that commence to carry on a new trade before 31 December 2021 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.

A ceiling on the relief has been introduced 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.

Example

A company has a corporation tax liability of €20,000 for the year ended 31st December 2018. The employers' PRSI paid by the company in that financial year for its three employees is as follows:

Employee 1:	€2,000
Employee 2:	€4,500
Employee 3:	<u>€6,500</u>
 Total	 €13,000

The specified contribution is €11,500 (cap of €5,000 applies to employee 3). Therefore the corporation tax liability is reduced to €8,500 (€20,000 - €11,500).

Where the full benefit of the exemption cannot be availed of as a consequence of the corporation tax liability being less than the eligible employer PRSI contributions paid in the first three years of trading, it is possible for a company to carry forward excess eligible employer PRSI contributions paid in the first three years of trading against the company's future corporation tax liabilities. However, this is subject to the condition that the company's corporation tax liability for any accounting period may not be reduced by more than the total employer PRSI contributions for that accounting period.

There are anti-avoidance measures in place to ensure that excessive relief is not obtained by establishing new trades in different associated companies.

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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