Preparing for that tax deadline

It is important to remember that almost all business and personal investment decisions have tax implications. This point is probably brought home to most self-employed individuals as the filing deadline approaches and the time to pay their income tax arises.

On or before 31 October 2008, a self-employed individual, company director or a PAYE worker with untaxed non-PAYE income is required to do three things: make an income tax return for the calendar year 2007, pay the balance of taxation due for 2007 and make a preliminary tax payment for the current calendar year, namely 2008.

The Irish tax system places an obligation on the individual to file a return, calculate the tax liability and pay the tax due. Returns for the tax year 2007 not filed by 31 October 2008 are subject to a surcharge of 5pc of the tax payable, up to a maximum of €12,695 if filed before 31 December, and 10pc of the tax payable up to a maximum of €63,485 if filed thereafter. In addition, any preliminary tax for capital gains on disposals made in the period 1 January to 30 September 2008 must be paid.

CASH FLOW STILL KING

In today's ever-pressurised climate, cash flow is more than ever king, so it is advisable to avail of the preliminary taxation rules that state that the 2008 payment should be the lower of either 100pc of the 2007 income tax liability or 90pc of the final 2008 liability.

Each taxpayer, as advised by his taxation consultant/accountant, should be aware of the potential cash flow savings by efficiently availing of the above rules. With many businesses having lower levels of activity in 2008, this year it could be particularly appropriate.

All of the above sounds frightening, even terrifying, to many ordinary hard-working owners or managers and that's why they employ accountants, consultants or taxation advisors to handle their affairs. Whilst it is advisable to have the appropriate professional advice, every owner manager should have a decent understanding of the basics.

The dream tax plan would involve paying no tax, of course, and would likely include some or all of the following traits:

AS THE 31 OCTOBER TAX DEADLINE APPROACHES, NICK LINNANE OFFERS A PRACTICAL GUIDE TO GETTING YOUR HOUSE IN ORDER AND FILING YOUR RETURNS

- You don't earn any money
- You realise no gains of any sort
- You don't buy any property, land, buildings or assets
- You live on support from the State, charity, friends or family (maybe even by way of swapping goods)
- You leave no assets upon your passing.

Such a tax plan would be unlikely to offer you a very enjoyable lifestyle and clearly would not lead to the creation of many successful businesses, but what this extreme example illustrates is how a taxpayer can reduce their tax liabilities by careful planning and quite simply by using the tax credits available to them.

USE YOUR TAX CREDITS

A full tax credit system was introduced with effect from 6 April 2001, replacing the old tax free allowance-based system. Typical tax credits that should or could be claimed, depending on individual circumstances and other potential reliefs available, relate to the following categories: personal; age; incapacitated child; dependent relative; home carer; blind person; medical expenses; medical insurance; dental insurance; permanent health benefit; employee; revenue job assist; trade union subs; seafarer's allowance; rents paid; third level tuition fees or approved training courses; service charges; donations to heritage, charities or certain sports bodies; pension contributions; interest payable; business expansion schemes and film investments.

While in these cases it is always advisable to seek the appropriate professional advice, there are several points worthy of consideration. Check the appropriate deductions have been claimed in respect of salaries paid to family members for work done and that it is properly recorded and PAYE/PRSI is operated. Consider the appropriate timing of claiming capital allowances in order to maximise reducing the tax bill.

Also, has relief been claimed in respect of all interest paid for the purpose of your trade or profession? Note that this is at the marginal rate and there is no restriction on the amount invested. Consider making contributions to pension funds as approved by Revenue and in the case of a married couple use each other's limit on relief as appropriate.

Check if you have claimed for service charges. Have you used rent-a-room relief provisions, claimed all rental management expenses and availed of loss set off between married couples? Should losses in one trade be claimed against other profits if it means not utilising your tax credits? Have all health expense receipts been maintained to see if a claim is appropriate? Also, is it worth checking if medical insurance premiums paid on behalf of dependent relatives have been claimed?

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TAX CHECKLIST

When signing off on 2007 return of income ensure that you:

1) Are aware of the reliefs, allowances and credits you are entitled to
2) Have claimed all the reliefs and credits you are entitled to
3) Have maintained all the supporting documentation
4) Have availed of the opportunity to minimise your liability by making appropriate payments prior to the filing deadline
5) Have taken the opportunity of acting now and thus reducing your income tax liability in respect of 2008 and succeeding years
6) Have thus paid the appropriate level of taxation, including preliminary tax.

INCOME TAX RATES

Bands of taxable income (2007)

Single/Widowed (no dependent children)	€34,000 at 20pc balance at 41pc
Single/Widowed (dependent children)	€38,000 at 20pc balance at 41pc
Married couple (single income)	€43,000 at 20pc balance at 41pc
Married couple (two or more incomes)	€68,000 at 20pc balance at 41pc

In the case of a two-income married couple, the standard rate band of 20pc is transferable between them up to €68,000.

Tax credits (at the standard rate)		euro
Single		1,760
Married (jointly assessed)		3,520
Home carer	max	770
Incapacitated child	max	3,000
Dependent relative	max	80
Age credit		275
Blind person		1,760
PAYE		1,760

This article does not constitute financial advice and should not be taken as such. Owner Manager *urges you to obtain professional advice when dealing with tax issues.*