



# START YOUR OWN BUSINESS RELIEF FROM INCOME TAX



## Introduction

The **Start Your Own Business** scheme provides for relief from Income Tax for long term unemployed individuals who start a new business. The scheme will provide an exemption from Income Tax up to a maximum of €40,000 per annum for a period of two years to individuals who set up a qualifying business; having been unemployed for a period of at least 12 months prior to starting the business. It runs from **25 October 2013 to 31 December 2016**.

## Who qualifies for this relief?

You may qualify for this relief if:

- (a) you have been unemployed for twelve months or more, and
- (b) during that period you were in receipt of any of the following:
  - crediting contributions
  - jobseeker's allowance
  - jobseeker's benefit
  - the one-parent family payment
  - partial capacity payment

Periods of time spent on certain training courses and schemes will be treated as part of a period of unemployment. If you were entitled to jobseeker's allowance or jobseeker's benefit immediately before starting on the training course or scheme, then any allowance paid for attending such a course will be treated as if it were jobseeker's allowance or jobseeker's benefit.

Examples of training courses and schemes would include FÁS training courses, Community Employment Schemes, Job Initiative and Back to Education Schemes.

**If you are unsure as to whether or not you qualify as long term unemployed please read the following examples or contact your local Social Welfare office.**

### **Example 1**

John was in receipt of jobseeker's allowance for 6 months. He then went on a Back to Education Scheme for 1 month after which he was again in receipt of jobseeker's allowance for 5 months. He is planning on setting up a new business. Can he avail of this relief?

**Yes.** John has been unemployed for 12 months (6 months + 1 month + 5 months) and has been in receipt of jobseeker's allowance for that period.

### **Example 2**

Joan was in receipt of jobseeker's allowance for 10 months. She found a job but it didn't work out and after 2 months working, she is back in receipt of jobseeker's allowance for the last 4 months. She is planning on setting up a new business. Can she avail of this relief?

**Yes.** Joan's 10 month period of unemployment is linked to her 4 month period giving her a total period of unemployment of 14 months. Note that this link only exists where the two periods of unemployment are separated by less than 12 months.

### **Example 3**

For the last two years, Billy was working 3 days a week and in receipt of jobseeker's allowance for the other three days a week. He is planning on setting up a new business. Can he avail of this relief?

**Yes.** Social Welfare view Billy has having been unemployed and he has been in receipt of jobseeker's allowance for 312 days (3 days a week for 104 weeks) which is equivalent to 12 months unemployment.

### **Example 4**

Tom is unemployed and in receipt of the one-parent family payment. He found a job but it didn't work out and after 2 months working, he is back unemployed again for the last 4 months. He is planning on setting up a new business. Can he avail of this relief?

**Yes.** The same principle applies as in the case of Joan in Example 2. The two periods of unemployment are linked.

### **Example 5**

Jim is unemployed for 12 months and signs on but does not receive any benefits or allowances because of means testing. He is planning on setting up a new business. Can he avail of this relief?

**Yes.** Jim is in receipt of crediting contributions in respect of a 12 month period of unemployment.

## Are there any restrictions for my business under this scheme?

If you qualify for this relief, the restrictions under this scheme are:

- The business must be set up between **25 October 2013 and 31 December 2016** by a person that qualifies for the relief.
- It must be a new business and not a business that is bought, inherited or otherwise acquired.
- It must be unincorporated, that is, it must not be registered as a company.

## How do I apply for the relief?

This relief does **not** require pre-approval unlike the Back to Work Enterprise Allowance scheme which is administered by the Department of Social Protection. Instead, you claim this relief by completing the relevant section of your annual Income Tax return form each year.

You should note that ROS, [Revenue's Online Service](#), is an easy way to deal with your tax obligations. ROS even provides you with a calculation of the amount of income tax, USC and PRSI that you owe.

If you do not want to use ROS to file your tax return, if you file a paper tax return before 31 August, Revenue will send you a calculation of the amount of tax, USC and PRSI you owe to help you meet your payment obligations.

**The Start Your Own Business relief only applies to Income Tax; it does not extend to USC and PRSI. USC and PRSI will be payable on any profits earned in the new business.**

## How do I calculate the relief?

How you calculate the relief depends on when you started your new business.

**Year 1** - Profits are relieved from income tax once that they are less than the cap.

If you start your new business in January, the cap is €40,000. If you start it later in the year then the cap will be reduced proportionately according to the month you start. For example if you start your business in February, 11 months remain in the year so you can earn up to €36,667 (being 11/12 of €40,000). If you start your business in December, one month remains in the year so you can earn up to €3,333 (being 1/12 of €40,000).

**Year 2** - Profits are relieved from income tax once they are less than the €40,000 cap.

The accounts for the second year will always be for a period of 12 months so there is no need to consider reducing the cap.

**Year 3** - Profits for any part of this year which fall within the first 24 months of business are income tax free once they are less than the cap.

The cap for year 3 is calculated as €40,000 x [**months left to claim**] / 12

**Months left to claim** = 24 – [Months claimed in Year 1] – 12

If you started your business in January, then you have used up the 24 months relief in Year 1 and Year 2 and there is no relief available for Year 3. If you started your business later in the year then there is still some relief available. The following examples are all done on the basis of a 31 December accounting year end.

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### **Example 1**

Jan starts a new business on 1 January 2014 and prepares accounts for the 12 months up to 31 December 2014 showing a profit of €30,000. Jan's accounts for the year to 31 December 2015 show a profit of €45,000.

#### **Year 1**

As Jan started business on 1 January, Jan's profits are tax free up to the cap of €40,000 so the full €30,000 of profits are tax free.

PRSI and USC will apply to the profits of €30,000 at the relevant rates.

#### **Year 2**

The first €40,000 of Jan's profits are relieved from income tax, leaving Jan taxable on €5,000 of profits.

PRSI and USC will apply to the full profits of €45,000 at the relevant rates.

#### **Year 3**

Calculating the months left:  $24 - 12$  [months claimed in Year 1]  $- 12$  [months claimed in year 2] = 0

Therefore, there is no relief available in Year 3.

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### **Example 2**

Viv starts a new business on 1 February 2014 and prepares accounts for the 11 months up to 31 December 2014 showing a profit of €10,000. Viv's accounts for the year to 31 December 2015 show a profit of €15,000 and those for the year to 31 December 2016 show a profit of €20,000.

#### **Year 1**

As Viv started business on 1 February, Viv's profits are tax free up to the cap of  $€40,000 \times \frac{11}{12} = €36,667$ , meaning the full €10,000 of profit is relieved from income tax.

PRSI and USC will apply to the profits of €10,000 at the relevant rates.

## Year 2

The first €40,000 of Jan's profits are relieved from income tax, meaning the full €15,000 is relieved from income tax.

PRSI and USC will apply to the full profits of €15,000 at the relevant rates.

## Year 3

Calculating the months left:  $24 - 11$  [months claimed in Year 1]  $- 12$  [months claimed in year 2] = 1

As one month of Year 3 is within the first 24 months then the cap for that month which can be relieved from income tax is  $€40,000 \times 1/12 = €3,333$ .

In order to compare the actual profits with the cap, for that month, you must work out the profit for that one month. That is,  $€20,000 \times 1/12 = €1,667$ .

Viv can therefore claim relief against her profits of €1,667 in Year 3, leaving €18,333 of Viv's profits taxable. This represents the amounts of profits earned from February to December 2016 and therefore outside of the 24 month period to which the relief applies.

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## Example 3

Pat starts a new business on 1 March 2014 and prepares accounts for the 10 months up to 31 December 2014 showing a profit of €40,000. Pat's accounts for the year to 31 December 2015 show a profit of €45,000 and those for the year to 31 December 2016 show a profit of €45,000.

### Year 1

As Pat started business on 1 March, Pat's profits are tax free up to the cap of  $€40,000 \times 10/12 = €33,333$ .

PRSI and USC will apply to the profits of €40,000 at the relevant rates.

### Year 2

The first €40,000 of Pat's profits are relieved from income tax, leaving €5,000 taxable.

PRSI and USC will apply to the full profits of €45,000 at the relevant rates.

### Year 3

Calculating the months left:  $24 - 10$  [months claimed in Year 1]  $- 12$  [months claimed in year 2] = 2

As two months are within the first 24 months then the cap for those two months which can be relieved from income tax is  $€40,000 \times 2/12 = €6,667$ .

In order to compare the actual profits with the cap, for those months, you must work out the profit for those two months.

That is,  $€45,000 \times 2/12 = €7,500$ .

Pat can therefore claim relief of €6,667 against his profits in Year 3.

The total Start Your Own Business relief claimed by Pat is:

**2014** - 33,333  
**2015** - 40,000  
**2016** - 6,667  
**Total** - **80,000**

Therefore, Pat has received tax relief against €80,000 of his taxable profits, being €40,000 per year for the qualifying period of 24 months.

If you would like to receive more information on this bulletin, please don't hesitate to contact us on

Tel: **01 5330814** or email: [kieran@oconnellandassociates.ie](mailto:kieran@oconnellandassociates.ie)