

29th September 2009

REDUCING YOUR PERSONAL TAX RETURN

With little cash available many individuals are challenged by hefty personal tax returns relating to 2008 which are due to be filed by 31st October.



Many individuals feel that there is nothing they can do about their tax bill payable next month and that it is simply a matter of calculating what is due and pay it to the Revenue. However, this is far from correct and particularly in the current climate of reduced income and poor trading. The onus is on you, the individual taxpayer, to ensure that your tax payment is minimised by looking at your income or business profits and claim all possible tax relief's.

“Perhaps it is a little more complex this year as over the last number of years, individuals were concerned about saving overall taxes, whereas this year saving overall cashflow is just as important” said Mairead O’Grady, Personal Taxation Partner with Russell Brennan Keane.

Next month, individuals must pay the balance of any Income Tax due for 2008 together with Preliminary Tax for 2009 which is usually estimated at the 2008 level. “Your 2009 Preliminary Tax payment should be based on your 2009 estimated profits and if you expect them to have reduced significantly over 2008, you should perhaps also reduce your 2009 payment and retain your cashflow for other proactive ways of investing for your future and surviving the downturn” recommended Mairead.

So, what can an individual do if their funds are limited and cashflow spend is planned to their benefit, rather than to the Revenue? There are numerous ways to reduce your taxes legitimately and sensibly. It is simply a matter of picking ideas or securing investments that could reduce your tax bill and ensure that the cheque you write to Revenue in October is kept to a minimum.

Some areas to consider are;

- 1) All business expenses should be captured to ensure that you are minimising your profits subject to tax. Business expenses, in particular ones such as Travel and Subsistence, Rental Payments, Loan Interest, Pretrading Expenses, etc should be looked at to ensure they are maximised. Stock on hand should be reflected at its minimum value and any Capital expenditure should be examined to establish if it can be seen as repair/renewal and claimed as a deduction earlier for tax purposes or claimed as Plant over a longer period. Finally, if you have bank borrowings, ensure they are reviewed and going forward structured in such a way that full tax relief is available on the interest as relating to the business.

- 2) Once all business expenses are captured and if a tax loss arises, this loss can be offset for tax purposes against all other income (e.g. spouse's salary, rental income, etc) or if your trade ceases this year, it can be offset against profits for the last 3 years. Both have the effect of reducing overall taxes and perhaps claiming a tax refund.
- 3) All individuals can earn some income which is exempt from tax; some at the lower tax rate and the remainder is taxable at the higher rate. It is vital to ensure that these limits are maximised for each person. If not, you should look at transferring some income generating assets from a low or no income person, or arrange for income to be reflected in their names (e.g. your spouse or your children) to ensure that all of these lower bands are utilised, saving tax at the higher rate. In conjunction with this is looking at your overall income and establish if you can receive any tax exempt income (e.g. certain leases of farmland, renting out a room in your house, certain childminding, artistic income and interest from certain saving certificates, bonds, etc).

Now that your taxable income is established, you should look at the tax relief's being claimed?

- 4) There are a number of tax relief's which most individuals forget about in preparing their tax returns including tax relief on medical/dental expenses, donations to Revenue approved charities (e.g. a sports club, weekly donations to church, etc), Permanent health insurance, Service charges (eg. bin tags), college fees and so on. Ensure these relief's are claimed in your tax return or reflected in your notice of tax credits. It is advisable also that you check that these have been claimed for the last 4 years and if not, a claim should now be made and a tax refund sought.
- 5) If you have been made redundant from an employment and have received a redundancy payment. Some of this payment might have been taxed after a tax free element and if so, further relief might be possible to ensure that the tax paid was not at a higher rate than an average of the last few years. If perhaps you are considering re-investing this lump sum by setting up a new business, further tax relief might be available in the form of Seed Capital relief, which enables you to claim a tax deduction of the invested amount and get a tax refund over the previous 6 years.
- 6) Pensions are the most obvious investment and not only can pensions reduce your tax liability now for 2008, they also provide for your retirement and any income from its investment grows tax free. Pensions should be looked at seriously, particularly in the context of pension changes made last year and those which are expected in the forthcoming budget. Similar to pensions which involve an investment to be made, there are numerous other investments which you can make in order to reduce your tax liability for 2009, for example BES and Film schemes or purchasing an investment in a Capital Allowances Scheme (e.g. A Section 23 property or a share in a Crèche or Nursing Homes, etc)

"In your day to day business, you must not only look at cutting costs, but look at the payment of taxes in a similar vein and only pay the absolute minimum. The early preparation of your tax return is vital to this so that you can plan ahead for the recovery" concluded Mairead.

If you have any queries or would like to discuss in confidence, please contact Mairead O'Grady, Taxation Partner (mogrady@rbk.ie) or Tel (01) 6440100 or 090 6480600.

ENDS

About RBK

Russell Brennan Keane is one of Irelands leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, from offices in Dublin, Athlone and Roscommon.

Press Contact:

Mary Cloonan

Tel: + 353 (0)90 6480600 or 086 8227228

Email: mcloonan@rbk.ie

RBK.ie