

The 3 Things You Should Know Before Registering Your Business

There are 3 main questions we always get when someone is setting up their business in Ireland.

1. What format should the business be in – limited company or sole trader (or in rare cases partnership)?

Advantages of being a sole trader:

Speed – you are a sole trader once you start to buy from your suppliers and sell to your customers

Simplicity – there are no formalities to set up, just register with the tax authorities. If you want to stop business, you just let the tax office know and that is the end of the business. No need for any trading names, you just go to your local bank and open a bank account in your own name.

Disadvantages of being a sole trader:

Liability – you are personally liable if you fail to pay the debts of your business

Separation – there is no separation between you and the business in terms of paperwork. Your name is over the door, all bills that come in are in your name, and it can be difficult to separate personal and business issues.

Taxes – you are taxed at Income Tax rates on all Profit for the year whether you take it from the business or not. Your pension contributions are more limited in terms of what you can pay in in any one year, where in a company you have more latitude to pay large sums into a pension.

Selling your business – when you are closely associated with the business, should you decide to sell you will find that the buyer will balk at the prospect of separating you and your name from the business.

Advantages of a limited company

Limited Liability – you are not liable for the debts of the company if you go out of business.

Tax – there is a low tax rate on the profits of the company, and you can take only what you need from the company. You are personally taxed on the income that you take, which can be lower than the profits the company makes. Your Pension contributions can be substantially

higher if you have a great year and you decide to save money in a pension.

Selling your business – this is easier when you are selling a limited company, even if the buyer is only buying the trade, and not the actual shares.

Disadvantages of a limited company

Formality – you need to register your business with the Companies Office, and the limited company is a separate legal entity with its own bank accounts. There are many more forms to be filled in on an annual basis

Directors – at the moment you need to have at least 2 directors, although you can have 1 shareholder.

Closing a business – there is a process to be followed, depending on whether the company is liquidated or just dissolved without a liquidation.

Loss of privacy – there is a list of all directors and companies kept in Companies Registration Office, and if you are a director your name will be on it. You need to file an Annual Return each year with short account. The accounts only have a Balance Sheet, not your income for the year.

2. What taxes do I need to register for?

Limited Company

Corporation Tax – this is at 12.5% of your taxable profits

Value Added Tax – this is added on to your invoices and payable to the Revenue Commissioners (tax office)

PAYE and PRSI – payroll taxes. You will have to register for this if you intend to pay yourself a salary as a director

Sole Trader

Value Added Tax – this is added on to your invoices and payable to the Revenue Commissioners (tax office)

PAYE and PRSI – payroll taxes. You will have to register for this if you intend to pay yourself a salary as a director

Income Tax – you will be liable to pay Income Tax on all your taxable earnings.

3. What records do I need to keep – paperwork and accounts programs.

Records to be kept:

Invoices from suppliers and to customers, bank statements, credit card statements and all other paperwork should be kept for 6 years. Scanned copies will be fine if you want to shred them.

There are many entry level accounting software options for a business, including online options. If you know your specific requirements then we can help you choose a package that will suit your budget and business. *We do not act as agents for any programs so our advice is always impartial.*