Money Matters

A series of weekly articles by Quintas Experts

Written By
William Hogan
Quintas

IRELAND'S Corporate Tax Rate

Doing business in Ireland has its many challenges and I must admit that when I hear the various media pundits and politicians talking about the low rate of corporate tax and suggesting increases it can be very frustrating.

What is corporate tax?

Basically, corporate tax is a tax on the profits of a company after salaries, operating costs, overheads etc. Income tax (PAYE/PRSI/USC) is paid on salaries and corporate tax needs to be paid on the profit that is left, it is not a low income tax rate for the rich.

There are a number of reasons for the low corporate tax rate for corporate entities in Ireland, ie:

1) We are an island nation and as a result, we have to ship our products by air and sea to other European countries. This means that we incur additional transportation expenses than our competitors, who have access to excellent road and rail networks throughout the continent.

2) We have a hidden employers cost of up to 10.75% that nobody talks about. This means that for every €30,000 an employer pays an employee, a further €3,225 has to be paid by the employer. For a small business in Ireland with a €500,000 payroll bill, an additional cost of 10.75%, €53,750, reduces the opportunity to expand/invest or create new jobs.

3) Not all companies pay 12.50% corporate tax on profits. For example professional service companies (close company) pay an extra 15% on top of the 12.50%. What is a close service company? Typically these would be engineers, architects, doctors and accountants etc.

Preliminary tax

Companies in Ireland need to keep a close eye on their net profit as this is the lifeblood that allows a company to continue trading. At some point all companies have to invest in new stock, equipment, additional staff etc.

A net profit is not the company's bank balance it is what is typically sitting in stock and/or debtors (money that a company needs to collect from customers). Where a company shows a net profit of €100k at 31/12/2012 the tax must be paid in November 2012 which is known as preliminary tax.

Increasing tax

If the corporate tax rate was to be increased it would have a very dramatic negative effect on the trading conditions of every company in Ireland. It would reduce the cash flow for businesses which could potentially tip the balance of the majority of SME companies into a downward spiral. In an environment where it is still very difficult to borrow money, the emphasis should be on ways to create jobs and to kick start the economy and not in my opinion increasing the corporate taxation rates

Quintas publish an ezine which features topical articles like this. If you would like to sign up to receive free subscription to it, email 'subscribe' to soneill@qwm.ie.