DERMOT McCrystal & CO.
CHARTERED ACCOUNTANTS


Dermot McCrystal FCA

Tax Tips for Company Directors

Directors of Small Companies – Some Do's and Don'ts

The director of a small company is normally an owner-manager. He/she faces a number of challenges. They must run the business while remaining tax and legally compliant. Below are a few issues which often cause problems

DO!

- Use the audit exemption to reduce costs. Your accountant will advise you
- File CRO returns and a/c's on time. This avoids penalties. Being late will lose you audit exemption
- Manage your pension plan. Use company contributions where cash allows
- Have shareholder agreements. These help minimize disputes
- Have first option on other shareholders holdings on their leaving/death. There are insurance policies to help in this area
- If you are a professional services company e.g. consultants, avoid building up retained profits in the company. This incurs non-refundable surcharges

DONT!

- **Take loans from the company. This may breach company law and incur taxes on advances**
- Take assets at below value. This will be a distribution taxable at the marginal rate. For tax-efficient methods of asset extraction e.g. properties, consult your tax adviser.

Small Companies Tax Issues

In tax terms most small companies are "close companies". This means that they are controlled by five or fewer people or companies. A person and their spouse or relative count as one person. Tax authorities fear that owners can manipulate matters to give themselves favorable treatment e.g. by taking tax free payments. This can mean you get hit by non-recoverable tax surcharges.

What are they?

Giving perks to associates of the shareholders.

If you give a perk to, say, a relative who is not an employee it is treated as a dividend. For example, you might give your spouse an expensive company car.

- The benefit in kind will be valued. This is now the value of a dividend.
- The dividend is taxed at the individual's marginal rate. The company gets no tax deduction

Dividend Withholding Tax at 20% is due first. This may be forgotten, incurring interest and penalties

Taking Director's Loans

This is always dangerous for Company Law reasons. However, there are also tax problems. Your company must gross up the loan and pay tax to revenue. The director also has a BIK issue on the interest free loan which is then taxed at the marginal rate.

Rental Property and Investments held in the company

If a company has income from these which it does not distribute as dividends it will be surcharged at 20%. This surcharge is not recoverable. The calculation for this is complex and needs professional assistance

Professional Service Companies Surcharge

If a close company's income is mainly from professional services undistributed income is surcharged at a non-refundable 15% on a portion of the income.

The surcharges above are often overlooked and get caught on revenue audits, with attendant interest and penalties.

Dermot McCrystal FCA is the principal in the firm Dermot McCrystal & Co., Chartered Accountants & Registered Auditors, Monaghan who provide business advice and tax solutions to all types of businesses. Dermot can be contacted on 047 81333 or at dermot@dmccrystal.com