

Trade or Profession - Commencement Rules

Basis of assessment at commencement of trade or profession

Part 04-03-03

Document last reviewed August 2018

Contents

Introduction.....	2
1. Commencement year	2
2. Second year of assessment.....	2
1.1 One set of accounts for a period of 12 months ending in second year of assessment	2
1.2 One set of accounts for a period in excess of 12 months	2
1.3 More than one set of accounts for periods ending in second year of assessment	3
1.4 Other Cases.....	4
3. Third year of assessment	4



Introduction

This manual outlines the basis of assessment that apply to profits to be charged to tax at the commencement of a trade or profession.

1. Commencement year

In a start up situation the Case I or II assessment for the first year of assessment is based on the profits arising from the commencement date of the trade or profession to the following 31 December.

2. Second year of assessment

The assessment for the second year of assessment depends on a number of situations that might arise in that second year.

1.1 One set of accounts for a period of 12 months ending in second year of assessment

If there is only one set of accounts for a period ending in the second year of assessment and these are for 12 months, the individual is chargeable to income tax on the profits of that 12 month period of account.

Example 1

Business commenced 1 July 2015. Taxpayer makes up accounts as follows:

Profits 12 months period ended 30 June 2016	€12,000
--	---------

Profits 12 months period ended 30 June 2017	€24,000
--	---------

First Year – 2015

Assessable on profits from 1/7/2015 to 31/12/2015

$€12,000 \times 6/12 = €6,000$

Second Year – 2016

Assessable on profits of 12 months ended 30/6/2016	€12,000
---	---------

1.2 One set of accounts for a period in excess of 12 months

If there is only one set of accounts for a period ending in the second year of assessment and the

period to which the accounts relate is in excess of 12 months, the individual is chargeable to income tax on the profits of the 12-month period ending on the date to which the accounts are made up.

Example 2

Business commenced 1 September 2015. Taxpayer makes up accounts as follows:

Profits 14 months period ended 31 October 2016	€28,000
---	---------

First Year – 2015

Assessable on profits from 1/9/2015 to 31/12/2015	€28,000x 4/14	= €8,000
--	------------------	----------

Second Year – 2016

Assessable on profits of 12 months ended 31/10/16	€28,000x 12/14	= €24,000
--	-------------------	-----------

1.3 More than one set of accounts for periods ending in second year of assessment

If there is more than one set of accounts for periods ending in the second year of assessment, the taxpayer is assessable on the profits of the 12-month period ending on the date to which the latest such accounts are made up provided that date is at least 12 months after the commencement of the trade or profession.

Example 3

Business commenced 1 October 2015. Taxpayer makes up accounts as follows:

Profits 6 months period ended 31 March 2016	€18,000
---	---------

Profits 7 months period ended 31 October 2016	€21,000
---	---------

First Year – 2015

Assessable on profits from 1/10/2015 to 31/12/2015	€18,000 x 3/6	= €9,000
---	---------------	----------

Second Year – 2016

Assessable on profits of 12 months (€18,000 x 5/6) + €21,000 = €36,000
ended 31/10/2016
(i.e. 5 months to 31/3/2016 plus 7
months ended 31/10/2016)

1.4 Other Cases

In all other cases the assessment for the second year of assessment is based on the full amount of profits in the year of assessment, i.e. on a calendar year basis. This method of assessment will arise where there is no accounting period ended in the second year of assessment or where one accounting period ends in the second year of assessment and this accounting period ends less than 12 months after the date of commencement of the trade or profession.

3. Third year of assessment

The assessment for the third year of assessment is based on the normal rules of section 65 (normally the latest 12-month period of account in that year). However, where the amount of the assessment for the second year of assessment exceeds the actual profits of that year, the taxpayer may elect in writing to have the assessment for the third year of assessment reduced by the excess. A claim for this treatment must be made with the return of income required under Chapter 3 of Part 41A. Where the reduction cannot be given full effect in the third year of assessment due to insufficiency of profits, the balance may be treated as a loss for the purposes of section 382 (which allows the carry forward of losses to future years) and carried forward and relieved in a subsequent year of assessment.

Example 4

Business commenced 1 July 2015. Taxpayer makes up accounts as follows:

Profits 12 months period ended 30 June 2016 €16,000

Profits 12 months period ended 30 June 2017 €12,000

Original assessments will have been made as follows:

1st year – 2015 (basis period 1/7/15 – 31/12/15) Assessable profits €8,000

2nd year – 2016 (basis period 1/7/15 – 30/6/16) Assessable profits €16,000

3rd year – 2017 (basis period 1/7/16 – 30/6/17) Assessable profits €12,000

The taxpayer may claim, when submitting the return of income for the year of assessment 2017, to have the assessment for that year reduced by the excess of the assessed profits for the year of assessment 2016 over the actual profits for the year of assessment 2016 (1/1/16 to 31/12/16).

Assessed profits for 2016	€16,000
Actual profits	
(ie. 6/12 of y/e 30/6/16 + 6/12 of y/e 30/6/17)	€14,000
Excess	€ 2,000

The revised assessment for 2017 is €10,000 (i.e. €12,000 less €2,000).