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Managing Cash Flow Requirements is Critical

Planning your cash flow requirements in a difficult economic environment is essential. Cash is the ultimate performance metric of all SME businesses and its management is essential to the success or otherwise of that business. In a recent survey, only 28% of family businesses identified cash flows as a measure of performance.

Proper cash management will allow the business to respond to opportunities and react to threats in a more effective and efficient manner and substantially reduces the risk of business failure. Consider implementing some of the following cash saving tips.....

- Examine stock levels and consider reducing the carrying levels (success here may be dependent on tighter credit control procedures).
- Look for slow moving or obsolete stocks with a view to liquidating these non-productive assets.
- Delegate responsibility to one individual to improve debtor collection periods. Training in debt collection techniques

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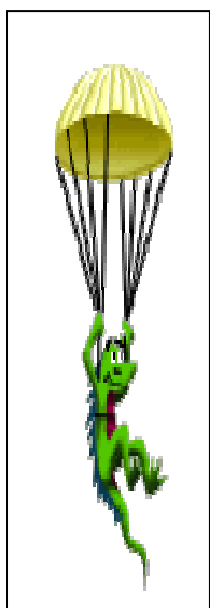
Succession Planning Can Save Tax

Capital Acquisitions Tax (CAT) is an important issue in succession planning and careful thought and consideration in advance of retirement can significantly reduce your tax liabilities. Besides passing the business onto their children, owners also want to ensure a continuous income stream for their own retirement.

Business Asset Relief is available where a business, or a shareholding in a company carrying on a business, is transferred. There are conditions attached to the relief. For example, assets held by the disponer as investments will not be eligible for the relief.

Business relief can reduce the value of the assets gifted for CAT purposes by 90%. In order to qualify, the business or shares must

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may return big benefits here.

- Maximise supplier credit terms without straining your relationship.
- Sell off non-productive assets in order to generate cash. Alternatively, you might consider a sale and buy-back of certain assets.
- A restructuring of your finance may be required where too much of your debt falls due in the short term. Consider financing the same over a longer period. Be aware that you will need to prepare a re-structuring proposal for your bank and offer the appropriate security.
- Do not fund the acquisition of fixed assets from your working capital / overdraft facility. Assets should be financed over the medium to long term and should be paid for from the future profits that they will generate for the business. If they aren't expected to generate a profit, then you need to consider why you are purchasing them.
- Prepare cash flow projections of your costs for, say, the next three months. These projections will allow you to concentrate on cash collections to meet the costs you know will arise. Be realistic in your projections otherwise your staff will have no confidence in the projections and the exercise will be perceived as a waste of time. It may also be useful to take a longer term view by preparing twelve month cash flow projections, but be sure to keep them reviewed and up to date.

Financial Reports and Management Information

Lack of accurate and timely financial information can result in a business getting into financial difficulty before you realise it. At a minimum, SME businesses should be receiving:-

- Monthly Management Accounts matching performance against budgeted projections and against the performance for the same month last year
- A summary of the key ratios / performance metrics of the business set against the same ratios for the industry you operate within e.g. gross margin, labour as percentage of sales, etc.
- Analysis of turnover by market, customer, product, etc,
- Aged debtor and creditor analysis at month end and details of stock levels
- A summary of cash flows for the month

Conclusion

A robust financial and management reporting system will allow you to respond to flagging performance much earlier and allow corrective action to be taken before its too late.



EU Approval to Permanently Reduce VAT Rates

The European Council has adopted a directive allowing, on a permanent basis, the optional use of reduced rates of value-added tax for certain labour-intensive local services. Under the directive adopted on May 5, member states are permitted to apply reduced VAT rates, on a permanent basis, to the following labour-intensive local services:

- minor repairs of bicycles, shoes and leather goods, clothing and household linen (including mending and alteration);
- window cleaning and cleaning in private households;
- domestic care services such as home help and care of the young, elderly, sick or disabled;
- hairdressing; and
- the renovation and repair of private dwellings, excluding materials which account for a significant part of the value of the service supplied;



Construction Falling

The volume of output in building and construction decreased by 35.3% in the first quarter of 2009 compared with the first quarter of 2008. The value of production decreased by 35.8% in the same period. The fall in the volume of output largely reflects declines of over 56% and over 21% respectively in residential building work and non-residential building work. Output in civil engineering fell by 0.8%.

In the year to Q1 2009, output in the building and construction sector fell by 11.4% in the EU 27 and fell by 10.4% in the EA16. The largest increases were in Poland (+3.3%), Romania (+1.7%) and Malta (+1.6%). The volume of production in the sector decreased in Lithuania (-42.8%), Ireland (-35.3%) and Estonia (-31.3%).

Deflation Figures

The value of retail sales decreased by 20.5% in the year to April 2009 compared to April 2008 and increased by 2.0% in the month. However, if Motor Trades are excluded, the annual decrease was 11.2% and the monthly change was a decrease of 1.2%.

The pace of consumer price deflation accelerated in May to -4.7%, from -3.5% in April, according to figures released by the Central Statistics Office (CSO).

The main factors contributing to the monthly change were as follows:

- *Housing, Water, Electricity, Gas & Other Fuels* fell due to further decreases in average mortgage interest repayments and private rents and a reduction in electricity and gas costs.
- *Clothing & Footwear* price increased due to a recovery in prices following sales.
- *Transport* rose due to increases in petrol & diesel prices.
- *Alcoholic Beverages & Tobacco* rose due to price increases for cigarettes and spirits.

In brief...

The number of people on the Live Register of benefits claimants reached 396,871 in May, according to new figures from the Central Statistics Office (CSO). There were 317,794 Irish nationals and 79,077 non-Irish nationals on the Live Register. Among non-Irish nationals the largest number on the Live Register were nationals from the EU Accession states (44,640) which represented 19.9% of all persons on the Live Register.

The Live Register is not designed to measure unemployment. It includes part-time workers (those who work up to three days a week), seasonal and casual workers entitled to Jobseekers Benefit or Allowance. Unemployment is measured by the Quarterly National Household Survey and the latest figure for September to November 2008 is 170,600 persons unemployed. Estimates from the Quarterly National Household Survey for September to November 2008 show that non-Irish nationals represented an estimated 16.0% of all persons in the labour force aged between 17 and 65 years (the relevant age range for the Live Register).

The fall in house prices accelerated in April, according to the Permanent TSB and ESRI house price index. The average price paid for a house nationally in April 2009 was EUR 248,640, compared with EUR 261,573 in December and a peak of EUR 311,078 in February 2007.

The European Central Bank has decided to leave its key interest rate unchanged this month at a record low of 1%. The bank has introduced a string of cuts since late last year to offset the effects of the recession in the euro-zone. Economists say today's decision to leave rates unchanged could indicate that the recession is now bottoming out. However, they say there is still a long way to go on the road to recovery.

Section 20 of the Finance Bill 2009, as published, introduces the stamp duty 'trade-in' scheme announced by the Minister for Finance in his Supplementary Budget on 7 April 2009. Details of the scheme are contained in a new section 83C, which is being inserted into the Stamp Duties Consolidation Act 1999.

10% of Companies in Ireland with 'Fully Audited' Accounts have an Audit Qualification against them. This means that the auditors have expressed concern at the accuracy of the data contained in the accounts presented to them. 35% of companies have a 'Level 4 Emphasis Qualification' followed by 31% with a 'Level 2 Scope Limitation' and 20% with 'Level 1 "Mild" uncertainties/disagreements'.

Roughly 90 per cent of defined benefit pension schemes are currently underfunded, and a small number do not have sufficient assets to meet the entitlements of current pensioners, according to the Pensions Board.

have been held for a period of 5 years in the case of a gift or for 2 years in the case of an inheritance. Generally, the recipient must hold the property for a period of 6 years after the date of gift or inheritance, or there will be a clawback of the relief. There are some provisions allowing the acquisition of replacement assets.

Capital Gains Tax Retirement Relief should also not be underestimated. Under this relief, properly structured, up to €1m of the proceeds received on sale of a business by a person aged over 55 are fully exempt from taxation. Where the "sale" is to a child the entire proceeds (or more likely the deemed proceeds) are exempt with no limit.

In general, provided the person gifting qualifying assets in his/her business to his children has owned and used those assets for a period of at least 10 years, and is 55 years or over at the date of transfer, little or no CGT may arise. There are a number of important conditions associated with this relief, including a requirement that the beneficiary retain the gifted business assets for six years.

Now may be a good time to transfer assets and/or family owned businesses to the next generation and avail of the potential tax benefits arising from reduced property values. With a structured plan in place for your exit from the business, you can avoid a stressful and difficult situation, often resulting in financial loss.

A Brief Look Back on the Irish Property Sector

- National house prices increased by 270% over the ten years 1996 to 2005 – compared to a total rise of just 30% in the consumer price index.
- The average cost of a house in 1996 was just euro75,000. Ten years later (2005) the average cost had increased to euro280,000.
- On average national prices rose by an AVERAGE of 14.9% each year for those ten years.
- In one year (1998) average national prices grew by a massive 30%.
- In 1996 the average difference between buying a house in Dublin or outside of Dublin was just €10,000. By 2005 that figures has grown to some €130,000.

Meanwhile, more than three out of every four housebuilders are currently not building, with over one third (36%) indicating that they expect to deliver zero completions in 2009, according to the latest Irish Housebuilder Survey from Merrion Stockbrokers. And, rents across the country fell by more than 5% in the first three months of the year according to the latest report on the rental market published by property website Daft.ie.

Where there's a Will....

When a person dies, his/her property passes to his/her personal representative. The personal representative then has the duty to distribute the deceased's money and property in accordance with the law, the will - if there is one - or the laws of intestacy if there is no will.

There are some restrictions on what you can do in a will. In general, you may not completely disinherit a spouse and, if you do, your spouse may claim his/her legal right share. You are not obliged to leave any assets to your children but if you do not, they may be able to make a claim on the basis that you have not fulfilled your obligations towards them. Apart from that, you may dispose of your estate (estate is the term used to describe all of your assets, your money, property, etc.) in whatever way you like.

If the money in the bank or the insurance policy is in the deceased's name only then family members usually cannot get access until probate is taken out. If the bank account is in joint names, the money can be transferred into the survivor's name.

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You will need the death certificate to do this. If the family home is held by both spouses as joint tenants, the surviving spouse automatically inherits the deceased spouse's interest.

Unlike a spouse, children have no absolute right to inherit their parent's estate if the parent has made a will. However, if a child considers that he/she has not been adequately provided for, he/she may make an application to court.

The child need not be a minor or be dependent in order to use this procedure. Children born within or outside marriage have the same rights.

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Director Loans

An increasing occurrence among small companies is the giving of loans between companies to Directors. However, there are strict company law rules governing the provision of such loans.

Section 31 of Companies Acts, 1990 prohibits companies from entering into certain types of transactions, which would otherwise be lawful, for the benefit of a director or a party connected with a director. A company may not:

- Make a loan, quasi loan, or guarantee to a director of the company or of its holding company or to a person connected with such a director.
- Enter into a credit transaction as creditor for such a director or a person so connected
- Enter into a guarantee or grant security in connection with a loan, quasi-loan or credit transaction to any other person for such a director or a person so connected

Section 26 Companies Act, 1990 defines a

connected person as, a person is connected with a director of a company if he or she is a near relative of the director, is in business partnership with the director, acts as a trustee for a trust, near relatives, or a body corporate which the director controls.

A Director of a company is deemed to control a body corporate where he or she either alone or together with any other director or directors of the company or any persons connected with the director or such other directors, are interested in 50% or more of the equity share capital of that body or are entitled to exercise or control the exercise of 50% or more of the voting power at any general meeting of that body. Shadow Directors and sole members are also considered as connected persons.

In order for companies not to breach the regulations in relation to the loans, there are a number of exceptions that a company can avail of. They are as follows:

- The loan is under 10% of the relevant assets,
- The directors follow a statutory validation procedure,
- The Group exception,

- The transaction is a valid Directors expense,
- The transaction is a normal business transaction.

It is important to ensure that you are not in breach of these loans. If the provisions of Section 31 are breached the transaction is voidable at the instance of the company which means the company can cancel or reverse the transaction.

Any Director, shadow director or connected person who authorized the transaction is liable to account to the company for any gain made by them and is liable to indemnify the company for any loss suffered as a result. If the company is dissolved and it is believed that the breach of Sec 31 contributed to the insolvency of the company then the person who benefited from the transaction may be made personally liable for the debts of the company.

A breach of Sec 31 loans is a reportable indictable offence under the Companies Acts. Sec 194 Companies Act, 1990. The ODCE will then decide what course of action to take. This may include writing to the Directors and informing them of the breach and or taking a prosecution against the Directors.
