

# Newsletter

Issue 4 Summer 2011

## Welcome to CrowleysDFK



James O'Connor  
Managing Partner

Welcome to the Summer 2011 edition of the Crowleys DFK Newsletter. In this issue we offer a mix of news and topics which have been making headlines in recent months.

In our first article we outline the tax measures introduced as part of the Jobs Initiative announced by the Minister for Finance in May. While these measures are targeted at job creation, we believe that they will provide valuable assistance in retaining existing employment levels.

The combination of today's higher tax rates, depressed property values and a fall in tax reliefs lead many to believe that now may be the opportune time for business owners to transfer their family business and personal assets to the next generation. Our Tax News article outlines, by way of a case study, the steps that can be taken to successfully transfer business control, identify relevant reliefs and ensure that the tax consequences of transferring ownership are minimised.

**"We hope you find this latest update of interest. As always our team and I are available to discuss any aspect of it with you if required."**

Our Credit Review Office article highlights how the office is helping viable SMEs and Farm borrowers who have had an application for credit declined or reduced by their banks. Many businesses are still unaware of the Office and its potential to help them access credit. In fact, the Credit Review Office's recent quarterly report revealed that reviews by the office to date have resulted in €1.77m in credit being made available to the SME applicants and 223 jobs being protected.

Our final article is relevant for our public sector clients. Vincent Teo looks at public sector management reporting and asks if it is time to re-model?

We hope you find this latest update of interest. As always our team and I are available to discuss any aspect of it with you if required.

### Inside this issue

#### Hot Topics

Jobs Initiative 2011

#### Tax News

Is it time to transfer to the next generation?

#### Insolvency News

Can the Credit Review Office help you?

An increase in CRO cases before the courts

#### Audit & Accounting News

New financial reporting framework

#### Public Sector News

Public sector management reporting: Time for a re-model?



**Nathan Doherty**  
Senior Accountant

**“The Jobs Initiative contains a number of measures intended to assist in sustaining existing jobs, create new jobs and thus generate confidence in the economy.”**

## Jobs Initiative 2011

The Finance (No.2) Bill 2011 was published on 19 May 2011 and gives effect to the taxation measures outlined in the Jobs Initiative announcement made a week earlier.

The Jobs Initiative contains a number of measures intended to assist in sustaining existing jobs, creating new jobs and generating confidence in the economy.

These measures include:

- Amendment of the Research & Development (R&D) tax credit system.
- Abolition of Employer's PRSI charge on share based remuneration and temporary halving of the lower rate of employer's PRSI.
- Temporary reduction in the 13.5% rate of VAT to 9% for tourism-related services.
- Introduction of a 0.6% levy on the capital value of pension funds to fund the job creation measures.

### Research & Development (R&D) tax credits

The R&D tax credit regime allows a company that carries out R&D activities to get up to 25% of their expenditure on R&D back each year as a cash-refund from Revenue. Expenditure on staffing, hire of laboratories, maintenance of computers, consultancy costs, purchase of plant/machinery/equipment and certain other capital expenditure all qualify.

Before Finance (No.2) Bill 2011, the amount of the cash-refund that a company could receive was capped at the greater of:

- a) the company's corporation tax liability for the preceding 10 years; or
- b) its payroll liabilities for the accounting period in which the R&D expenditure was incurred.

Finance (No.2) Bill 2011 now permits payroll liabilities for both the current and preceding accounting periods to be taken into account in calculating the cap. This amendment will benefit companies whose repayments are capped by reference to their payroll liabilities.

The changes will come into effect for accounting periods commencing on or after the date in which the Finance (No. 2) Act 2011 is passed.

In addition, Finance (No.2) Bill 2011 has broadened the definition of the amounts to be included in "payroll liabilities". The amounts now specifically include the income levy, universal social charge and parking levy.

### Employer's PRSI

The Finance Act 2011 introduced a charge to Employer PRSI on share based remuneration. The charge imposed an additional cost of 10.75% PRSI for employers on share based remuneration.

Finance (No.2) Bill 2011 has abolished the charge with effect from 1 January 2011. Any employers who have remitted the PRSI charge since its introduction on 1 January 2011 will now be due a refund.

The 4% Employee PRSI charge and the USC charge will, however, remain on share based remuneration.

The Jobs Initiative has also halved the 8.5% Employer's PRSI rate to 4.25% for employees that earn less than €356 per week. This decrease will apply with effect from 1 July 2011 and is expected to be in place until 31 December 2013.

The Minister for Finance has also stated that the Employer Job (PRSI) Incentive Scheme is to be retained until the end of 2011. This provides for a 12 month exemption from Employer PRSI where a person who has been unemployed for the previous 6 months is taken on in a new full time job.

### VAT & air travel tax

Finance (No.2) Bill 2011 confirms the second reduced VAT rate of 9%, which is to be introduced in respect of certain tourism-related goods and services for the period 1 July 2011 to 31 December 2013.

Services to which the new 9% VAT rate will apply include:

- Hotel and guesthouse accommodation;
- Restaurant and catering services;
- (Hot) Takeaway food & drinks;
- Admission charges to various entertainment services including cinemas, theatres, museums, fairgrounds and amusement parks;
- The provision of sporting facilities (including golf)
- Hairdressing services;
- Newspapers and periodicals;
- Brochures, leaflets, programmes, catalogues etc.

Finance (No.2) Bill 2011 also includes legislation providing for the reduction to zero of the air travel tax. However, this is subject to Ministerial Order.

### Pension scheme levy

The various measures announced in the Jobs Initiative will be funded by way of a new annual levy of 0.6% on the market value of pension funds.

The levy is to apply to all occupational pension schemes, retirement annuity contracts and Personal Retirement Savings Accounts (PRSAs) for the four years 2011 to 2014. It will not apply to any public sector pensions or to the pension funds of employees, whose employment is exercised wholly outside Ireland.

The market value of the assets in a pension fund must be valued at 19 May in respect of the year 2011 and 1 January each subsequent year.

The levy is payable twice yearly at the rate of 0.3% on each due date (25 July and 25 October in 2011 and 25 March and 25 September of each subsequent year). The pension scheme administrator or the life insurance office is responsible for paying the levy.

If you require any further information or assistance on how this issue might affect you or your organisation please contact us.

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## Is it time to transfer to the next generation?



Mary Treacy  
Tax Consultant

“...now may be the best time to consider passing on your business and personal assets to the next generation.”

Recent budget measures have resulted in a rise in tax rates and a fall in the level of available tax reliefs. With further restrictions on available reliefs anticipated and property values currently low, now may be the best time to consider passing on your business and personal assets to the next generation.

The following case study on ‘Success & Co Limited’ is designed to help you understand what steps you can take now to transfer to the next generation and secure a successful outcome for you and your business.

### CASE STUDY

**Success & Co. Limited** is a family company with 3 shareholders:

1. Mr. Murphy Senior wishes to retire from the day-to-day running of the business and gift his shares to his son, Murphy Junior.
2. His wife, Mrs Murphy, also wishes to retire from the company but wants to sell her shares to fund a long-awaited cruise.
3. Their son, Murphy Junior, wishes to take over the day to day running of the business from his parents.

#### Mr Murphy Senior and Mrs Murphy

##### A. Pension planning

Before retiring, the Murphys should review their pension plans.

The company or the Murphys themselves could make an additional lump-sum contribution to maximise the value of the pension funds. This is an extremely tax-efficient use of surplus funds.

When the Murphys draw down these pensions at retirement age, they can each take up to €200,000 tax-free and use the remainder of their fund to purchase an annuity and/or invest in an Approved Retirement Fund (ARF)/Approved Minimum Retirement Fund (AMRF).

An ARF can be a tax-efficient way of passing on investment assets on death.

Certain conditions apply to avail of these options so the Murphys should meet with their pension broker and tax-advisor well in advance of taking any action.

##### B. Ceasing as employees

Murphy Senior and Mrs Murphy will be entitled to a tax-free termination payment from the company of up to €200,000 when they cease as employees.

The termination payment is based on their average salaries for the last three years of employment so they should increase their salaries for their final three years of employment.

##### C. Capital gains tax

Mr Murphy’s capital gains tax liability (currently at the rate of 25%) on the gift of his shares to his son will be calculated based on their current market value.

However, Mr Murphy can avail of ‘retirement relief’, which allows him to transfer the shares to his son practically free of any capital gains tax.

Mr Murphy does not have to actually retire from the day-to-day running of the business.

He can also keep a portion of his shares to retain some control over the business decisions.

Mrs Murphy can sell her shares back to the company, to a third party or to her son.

If she qualifies for ‘retirement relief’ from capital gains tax, she can receive sale proceeds of up to €750,000 practically tax-free if she sells her shares back to the company or to a third party.

There is no limit on the amount she can receive practically tax-free if she sells her shares to her son.

If she doesn’t satisfy certain additional conditions on a sale of her shares back to the company, she may have to pay income tax of up to 41% on the sale proceeds.

#### Murphy Jnr

##### A. Capital acquisitions tax

During his lifetime, Murphy Junior can receive up to €332,084 free of capital acquisitions tax from his parents. Anything in excess of this threshold is taxed at 25%.

However, he may be able to avail of ‘business property relief’ to reduce the value of the gift to 10% of its market value.

This would ensure that he pays little or no capital acquisitions tax on the current gift and preserves his threshold for future gifts/inheritances.

##### Section 72 & 73 insurance policies

The Murphys could purchase a “Section 72/73 Insurance Policy to provide for any future CAT liabilities for any of their children. The policies can be inherited tax-free and are extremely tax-efficient in certain circumstances.

There are a number of conditions that need to be satisfied to avail of the reliefs and exemptions outlined above and every case is different. Advice should be sought prior to carrying out any of the above transactions.

Now more than ever, forward planning is recommended when it comes to succession. Without careful planning, you may be faced with having to pass on wealth when asset values are high and succession based tax reliefs are low or non-existent.

If you require any advice on succession planning, please contact us.

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## Can the Credit Review Office help you?



**Seamus McCarthy**  
Insolvency &  
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“...a borrower ... may bring an application to the Credit Review Office to carry out an impartial review of the bank’s decision.”

The Credit Review Office was established in March 2010 by the Department of Finance. This office offers a simple and effective review process for small and medium-sized enterprises (SMEs), sole traders and farm enterprises that have been refused credit from banks participating in the NAMA scheme (Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, EBS and Irish Nationwide Building Society).

Where a borrower feels that they have a viable business proposition and that their application for credit has been unjustifiably refused or reduced or their credit facilities have been withdrawn altogether, they may bring an application to the Credit Review Office to carry out an impartial review of the bank’s decision.

The following eligibility criteria apply:

- The business is an SME, sole trader or small to medium-sized farm;
- The business has applied for credit facilities from €1,000 up to €250,000 with one of the participating banks in the NAMA scheme; and
- The credit facility was refused and the business has exhausted the banks internal appeals process.

The Credit Review Office will review the facts and either overturn the banks’ decision and recommend that lending should be made or uphold the banks’ decision not to lend. In the latter case, the Credit Review Office will seek to provide alternatives and guidance to the borrower to help the business move forward.

Recent developments have seen the Office seeking permission to look at credit refusals for amounts in excess of the current ceiling of €250,000. This relatively small figure is limiting the number of businesses eligible for the Credit Review Office’s help.

### CASE STUDY

#### Overview

In one recent case where our client was refused extended credit from their bank, we made them aware of the existence and role of the Credit Review Office. We acted on their behalf in dealings with their bank and the Credit Review Office.

#### Process

Our client advised us that their application for increased credit was refused. We examined our client’s proposition and assisted them in preparing an appeal to bring to the banks internal appeals committee. The initial decision was upheld by the bank internal appeals committee and credit was refused. We then worked with our client to prepare an application to the Credit Review Office requesting that they carry out an independent review of the decision. The submission included a business plan and financial projections.

#### Outcome

The Credit Review Office reviewed the facts, the submissions of our client (the borrower) and the submissions of the bank (the lender). Based on the information available and the argument put forward by both sides the Credit Review Office’s decision was that the credit facility should be granted by the bank. The bank accepted this decision and granted the facility.

If you require any advice on any of the points raised above, please contact us.

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## An increase in CRO cases before the courts



**Noel Wren**  
Company Secretarial  
Consultant

“...we have noticed an increase in the number of cases being brought to the courts by the Companies Registration Office”.

Companies Registration Office (CRO) states that on average, over 5,000 companies are being struck off each year. There are a variety of offences that can lead to strike-off but the most notable is for the non-filing of annual returns.

All too often directors are of the view that if a company is no longer required; they can simply walk away and allow it to be struck off. There are, however, a number of possible consequences for not filing an annual return and failing to follow the required steps for an official dissolution. These include director disqualification, the automatic transfer of company assets to the state on dissolution and even prosecution.

At Crowleys DFK, we have noticed an increase in the number of cases being brought to the courts by the CRO for failure to file annual returns. The aim is to have an order granted to compel the company directors to settle any outstanding liabilities (i.e. legal costs incurred by the CRO in bringing such application and the costs incurred

in investigating the matter) either personally or through the company, before any measures are taken to involuntarily strike off the company.

The cost of attempting to have a company dissolved involuntarily versus simply following the correct measures for official dissolution is not only financially higher but can also have long lasting professional consequences for the directors involved.

Please feel free to contact us to discuss any of the consequences or issues in relation to the strike off process.

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[www.crowleysdfk.ie](http://www.crowleysdfk.ie)

We are constantly updating our website with articles and news alerts which we believe will be of interest to our clients.

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## New financial reporting framework

Currently accounts for all entities except for public listed entities are prepared under UK/Irish Generally Accepted Accounting Principles (GAAP).

On 29 October 2010, the Accounting Standards Board published its proposals for changes to the financial reporting framework in the UK and Republic of Ireland.

This will involve a movement from UK/Irish GAAP to International Financial Reporting Standards (IFRS). The Accounting Standards Board recognises that one size of accounting standard does not fit all entities and therefore a three tier system is proposed:

Tier	Nature of Entity ≈	Accounting Regime
1	Entities that have public accountability**	EU- adopted IFRS
2	Entities without public accountability**; and small publicly accountable entities that are prudentially regulated	Financial Reporting Standard for Medium – sized Entities (FRSME)
3	Small entities without public accountability**	Financial Reporting Standard for Smaller Entities (FRSSE)

≈ All entities can choose to apply a higher tier

\*\* An entity has public accountability if:

- As at the reporting date, its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market; OR
- As one of its primary businesses it is a deposit – taking entity and/or holds assets in a fiduciary capacity for a broad group of outsiders.

Examples of publicly accountable entities are Quoted Companies, Insurance Entities, Banks, Building Societies, Credit Unions and Pension Schemes.

### Effective date

We currently expect that these proposals will be effective for accounting periods commencing on/after 1 January 2014. However this may be subject to change.

This means companies with December year ends will have to apply the new proposals in respect of the financial year ending 31/12/2014. In real terms to comply with this, entities will need to prepare their opening balance sheet at 1 January 2013 in accordance with the new accounting framework.

### Changes

The majority of entities are likely to fall into Tier 2 of the table above, i.e. IFRS for SME's. Some of the changes that these entities will notice are as follows:

- The format and content of financial statements will change, e.g., all entities will now be required to prepare a cashflow statement.
- The entity will be prohibited from revaluing property assets.
- There will be changes to the manner in which the entity recognises government grants received.
- The entity will be prohibited from capitalising borrowing and development costs. This will impact both results and profits potentially available for distribution.
- Accounting for business combinations, including amortisation of goodwill, will change.
- There will be a fundamental change in the basis for the calculation of deferred tax.
- The recognition and measurement of financial instruments and related hedge accounting rules will be more complex.

### Benefits and costs

The main benefit in the adoption of the new framework is that financial statements will be more consistent and transparent. This should aid decision making by investors, lenders and other users.

There will also be costs, many of which will be incurred in the transition process. This will involve training and up-skilling of finance staff, and costs associated in preparing transitional balance sheets.

### How Crowleys DFK can help

- Assist in the implementation of and transition to the new financial reporting framework.
- Assist users of the financial statements (generally directors and senior management) understand changes to the accounts format and how this impacts on the reported results for the period.
- Identify the key accounting/technical differences and understand the implications that they will have on the financial statement.

If you require any further information or assistance on how this issue might affect you or your organisation please contact us.

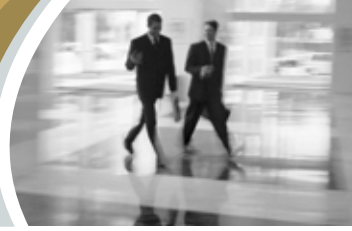


Fiona O'Sullivan  
Audit Manager

“The main benefit in the adoption of the new framework is that financial statements will be more consistent and transparent.”

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## Public sector management reporting: Time to re-model?



Vincent Teo  
Director

**“In this new era of public sector reform, is there a need to introduce new models in public sector management reporting?”**

Access to sound and accurate information is critical to decision-making in all organisations.

One of the key channels public sector organisations use to communicate financial information is through their management reports.

In this new era of public sector reform, is there a need to introduce new models in public sector management reporting?

Management reports have to exhibit an understanding of the performance and sustainability of the organisation while at the same time reflect its culture and values.

Most public sector organisations recognise the role that management reports play in communicating their business performance and deliverables to their Boards.

Traditionally management reports have been focused primarily on the organisation’s historical financial data and little else. As we head into a new framework of public sector accounting, we are already seeing changes to the format of management reports but is it enough to keep pace with the sector’s dynamics?

Business sustainability has become a key issue in the public sector since the beginning of the recession. Public sector organisations should perhaps consider implementing a reporting model that explains key business drivers as they pertain to them.

This reporting model should also be flexible, especially when it comes to showing how the organisation is managed. It should not adhere exclusively to the prescribed format. Above all, it should avoid becoming a box ticking exercise.

We have seen many examples lately where the public sector has been pushed to embrace the need for a “comply or explain” concept. This may not be a bad idea in management reporting. When more people understand what this entails and are able to put it into action, we may be on our way to achieving behavioural changes across the sector.

As to what drives quality of management reports, users need to be put at the top of the list. However this needs to be supported by qualified staff and strong systems of internal control, effective communication and management of risks. Also the tone needs to be set from the top. This is immediately a challenge in the public sector, as in today’s Ireland public sector organisations are being asked to do more with fewer resources.

### Are your reports relevant?

Business reporting is a process of gathering information, creating reports and delivering results. The information presented therefore needs to be relevant and accurate and preferably go beyond mere numbers.

A good rule of thumb is to keep reports simple and always look for feedback.

Organisations should also caution against having large amounts of information in management reports. More is not always better. Very often more information turns out to be less useful and may overwhelm users.

Instead focus on what is relevant. Ensure reports are clear. The key to successfully producing an effective report hinges on keeping it practical and meaningful.

But what it all comes down to is the calibre of those in charge of financial reporting.

Finally, no reliable and satisfactory report can be produced without the input of dedicated and knowledgeable professionals who understand the importance of producing meaningful and relevant management reports.

Is it time to re-model your management reports? Contact us now.

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