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Commercial Commentary on the Evolving Taxation Landscape

Funding for Growth

Budget 2014 (Finance Act)

Corporate Business Impact -much ado about nothing?

Australia • Canada • Ireland • Italy • New Zealand • United Kingdom • United States

Commercial Impacts

Key Issues in 2014



Corporation tax

- 12.5% Corporation tax rate will not change
- R&D tax credits (25%) – 2003 threshold to be eliminated | non-incremental increased from €200k to €300k | outsourcing limit increased from 10% to 15% | relaxation promised on key employee surrender

Income tax

- EIS investments (Max €150k pa) removed from Higher Earner Restriction (Max €125k)
- No Top Slicing Relief available for all ex-gratia lump sum payments
- Start Your Own [unincorporated] Business (€40k pa, 2 yrs., unemployed)
- No tax relief on loans to acquire an interest in the partnership – phased out for existing loans

Capital gains tax

- CGT Entrepreneurial Relief – hybrid rollover of I paid CGT | new business investment (5 years from 1/1/14, held for a minimum of 3 years | lower of 50% of new gain CGT or old CGT (disposals from 1/1/10)

Other

- Savings | DIRT & exit taxes (assurance and investment funds) increased to 41% from 33%
- Financial Institutions Levy – related to tax paid on deposit interest by the institution
- Pension Fund Levy – increased to .75% in 2014 (from .6%) | falls to .15% in 2015
- Pensions - reduction in Standard Fund Threshold to €2 million + equity between DB and DC schemes
- Credit Review Office - applications thresholds from €500,000 to €3,000,000 (matters on exiting banks)
- SME communication & business building mentoring initiatives
- Trade Finance through EIF funded initiatives through institutions – feasibility being discussed
- VAT – cash receipts threshold from €1.25m to €2m | claw back on unpaid supplies VAT after six-months

➡ iXBRL – Electronic Tagging – Now Mandatory (REAP what you sow)

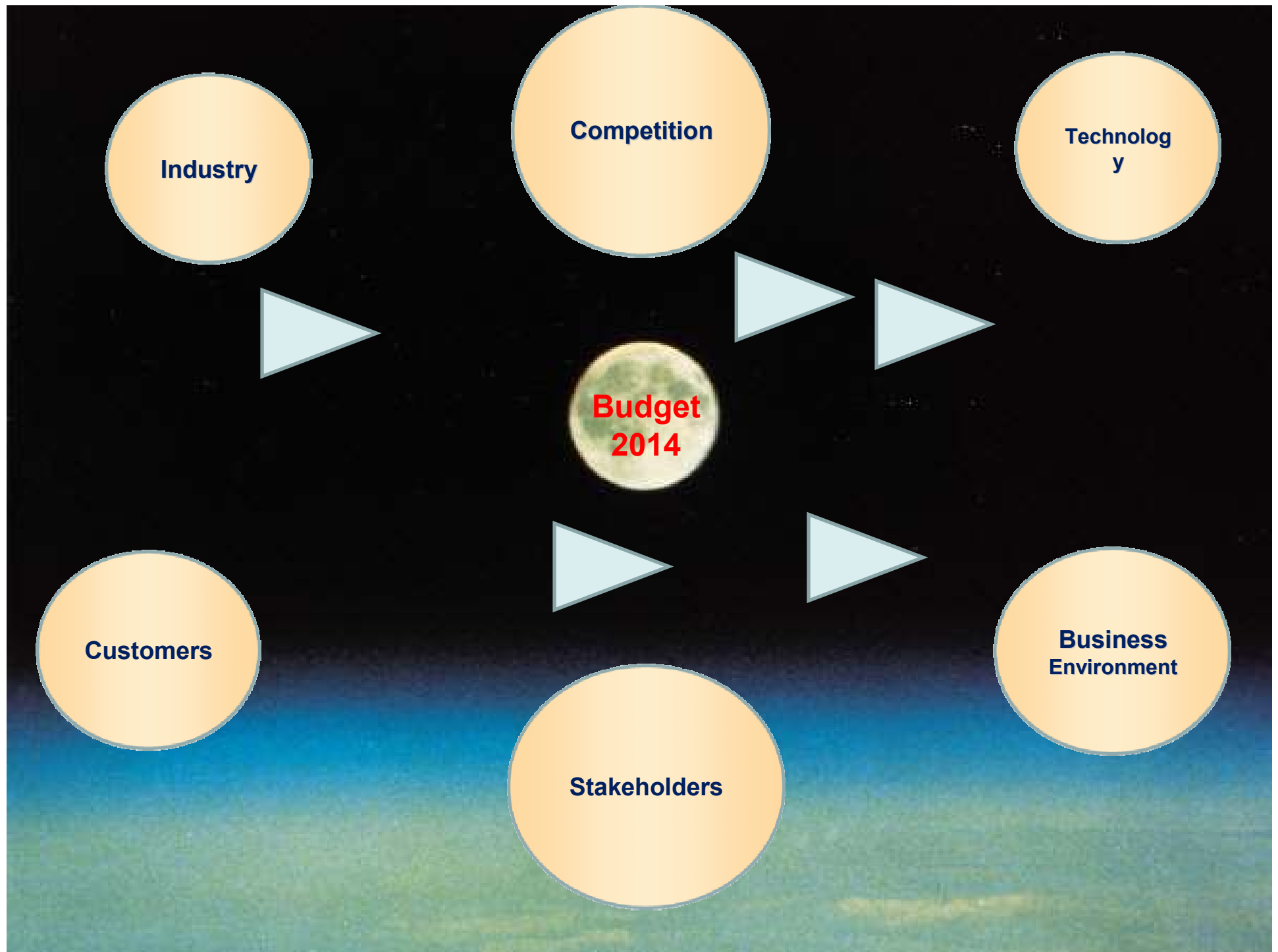
Additional measures not in Budget 2014 in the Bill:

- 'A measure will ensure that **grants** paid to employers who are participating in the JobsPlus Scheme will not be subject to tax;
- R&D tax credit surrender in error to Key Employees now recoverable from company not the employee
- Taxpayer confidentiality as it applies to Revenue officers will also apply to external service providers that Revenue may from time to time engage
- Revenue officer or a service provider look for information which they claim is required for the purposes of the Tax Acts, but isn't, will be in breach of confidentiality provisions.

Macro Cash Impacts

Key Movement Forecast in 2014

Main Movers in Macro Terms		Yield € Millions	Cost € Millions
	Medical Insurance Relief	127	
→	Top Slicing Relief	22	
	Home Renovation Living City & Film		97
→	CGT Entrepreneurial relief (&farm)		(21 by 2018)
→	R&D - Amount & Outsourcing		5
→	EIIS High Earner Restriction		1
	VAT Retention of 9% etc		360
	Financial institution levy	150	
→	DIRT increase by 8% to 41%	140	
→	Pension Fund Levy .75%	135	
	Excises Duties	144	
	Other Income Tax SYOB Partners loan interest	28	
		746	484





Strategic Trends – Reconfirmed (yet again!) Corporate is King!

Pension Restrictions – and probably more to come!

- Late Retirements – holding business as “self administered” pension | capital locked in
- Continuing payments for services / consultancy past “sell by” date
- Core transition strategy for SME owners downgraded = more focus on management succession | Trade Sales
- Effective business transition planning will be a real issue for owner managers

Low Corporation tax environment is here to stay

- Capital Growth in a low tax environment – wealth extraction is punitive (watch for surcharges)
- More complexity in debt and equity instruments – bridging the gap is challenging
- Commencement of a post retirement dividend culture – private equity perspective will emerge

Capital Funding Initiatives are proving challenging

- Channelling of free capital to corporate investment – Jury out on EIS, EIS Trade Finance + R&D initiatives
- 41% DIRT targeted to get savers looking for a new investment home
- Poor productization for unsophisticated investors (unable to critically evaluate investment opportunities)
- Requirement for more robust investor ready business plans stress testing and sensitivity analysis

A tipping point has been reached on Personal Taxation (Relief's are effectively all gone)

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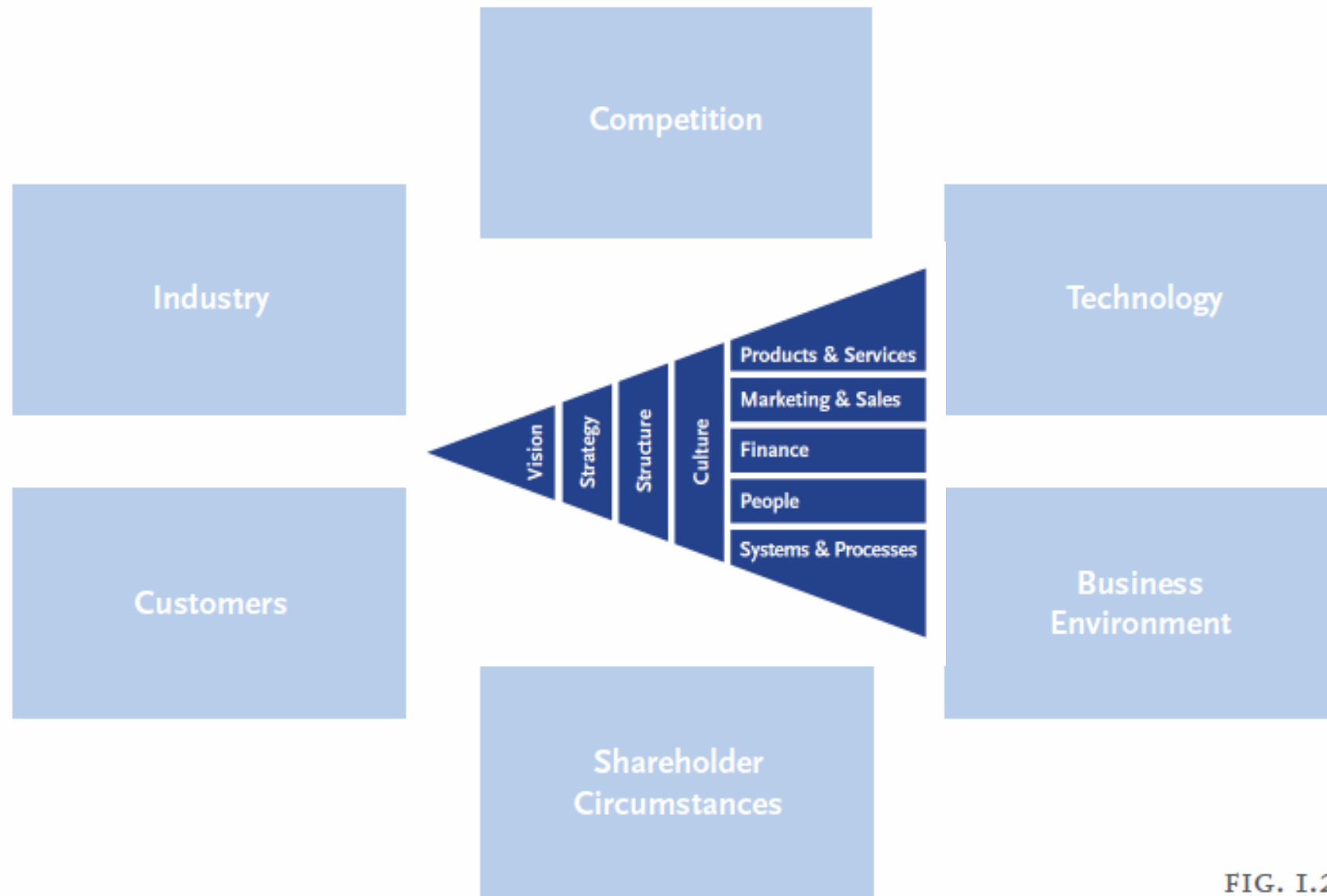


FIG. 1.2

To overcome *Omission Bias* A short *To Do List* for you



Vision Strategy Structure & Culture/ Shareholder Circumstance + Business Environment

- ✓ Prepare and sensitise your succession / business transition options – PE / Self Administered / Sale / Cost Benefit Analysis
- ✓ Start behaving now as investor focused corporate entity-that includes you as well as entrepreneurial relief targets!
- ✓ Prioritise robust external stakeholder management as a core strategic management function –
- ✓ Tax optimisation – share buy back | retirement relief | salary sacrifice & BIK minimisation (years of service) | hive downs

Products & Services/ Industry

- ✓ Make Product / Services development a default strategic objective (& Planned not retro!) – Optimise this through R&D Relief
- ✓ If you cant do it, get someone else to do it for you - Outsourcing Evaluation

Finance

- ✓ Have a clear intelligible business plan that identifies ROI both on a corporate and strategic project level
- ✓ Step “out of the box” to plan and manage your funding
- ✓ Conduct Cash Flow impact assessment from VAT changes
- ✓ Benchmark you KPI's against your industry – the Revenue will be anyway through iXBRL!

Systems, Processes & Support / Technology

- ✓ Put an EIS share subscription mechanism in place
- ✓ Implement a business monitoring system with KPIs that measure CSF - and integrates with iXBRL

“If your not part of the solution... your part of the problem!”



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Best Wishes
for a happy
Christmas



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