

ROCG



global consultants...local experience



business transition specialists

Commercial Commentary on the Evolving Taxation Landscape

Funding for Growth

Budget 2014

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%
- 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)



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)

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

Products & Services/ Industry

- ✓ Make Product / Services development a default strategic objective – 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!

People

- ✓ Document absenteeism, illness, maternity and productivity policy within your business

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!”