



Foinse Feasa

Spring 2010

2009 was an exceptionally difficult year for business in Ireland. This was particularly the case in the Privately Held Business (PHB) sector where the lack of credit available, together with the negative consumer sentiment, had a significant impact on sales and profits. During the course of the year businesses spent considerable time restructuring internally to make themselves as competitive as possible (through cost reductions).

What matters should you be addressing in 2010? In this "Spring 2010" edition of our PHB ezine Foinse Feasa or "Fountain of

Knowledge" we look at a number of matters that are pertinent to our clients and contacts. Most companies have reviewed, and cut, their cost base to the greatest extent possible over the past year. 2010, therefore, will, most likely, be a year spent maintaining costs at as low a level as possible while trying to actively generate an increase in turnover.

Access to credit is the critical issue which is stifling businesses at present – we look at how best to approach financial institutions regarding this. We also look at the key Finance Bill provisions,

together with a number of areas where additional cost reductions may be available. We provide an overview on NAMA and its implications. Finally, given that this week coincides with Seachtain na Gaeilge, we focus on the western seaboard.

Should you wish to discuss any of the matters addressed, or any other financial matters, please do not hesitate to contact any of the contacts listed or your primary Grant Thornton contact.

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"When it comes to the future, there are three kinds of people: those who let it happen, those who make it happen, and those who wonder what happened."

John M. Richardson, Jr.



Spotlight – western seaboard

With the cultural event that is Seachtain na Gaeilge upon us, it is appropriate in this edition that we “spotlight” the western half of the country. An indication of the turbulent times in which we operate is that net employment in companies supported by Údarás na Gaeltachta fell by close on 9% in 2009 from the 2008 base. Not only has tourism suffered dramatically over the last two years but the indigenous industries, of which the western seaboard has a high percentage, which were built around tourism have also been decimated.



The future?

If the product we sell was sought after when people visited our area why not attempt to bring the product to them? Small businesses may regard international markets as a step too far in their strategy due to the costs involved but this need not necessarily be the case.

At the end of 2008 broadband penetration was circa 22% and the government committed circa €435 million to have universal access by the end of 2010. Not only should the internet provide an opportunity to source markets never dreamt of, but the various State-sponsored agencies can offer assistance to anyone to further their product and maintain employment.

Now?

Waiting for the good times to return is not an option. We are operating in unprecedented times and need to be proactive. Credit is

not flowing, consumer sentiment is poor at best and yet we need to keep our businesses viable. As a business on the western seaboard you will not have the large masses of population at your doorstep to sell your product to. Therefore you must:

- incentivise your staff to ensure that all are sales focused and, just as importantly, responsible for the cash collection on those sales. Keep them informed on business issues;
- actively pursue new markets for your product or products either at home or internationally;
- consult and take advice from those bodies charged with developing sustainable employment such as Údarás na Gaeltachta, local county enterprise boards and Enterprise Ireland; and

- develop closer allegiances with businesses operating in your geographic area and also those operating in similar product lines. Not only should it be possible to learn from each other, but there may also be economies of scale to be created which were not previously explored.

"The success combination in business: Do what you do better and do more of what you do."

David Schwartz

Access to credit

The continued paralysis of PHBs, due to a lack of access to credit, is the issue causing most concern at present. In spite of the proclamations of each of the banking institutions that they are “open for business” the reality is quite different. The ISME Bank Watch Survey, published on 1 March 2010, noted that 55% of companies who applied for funding between December 2009 and February 2010 were refused credit by their banks. Bank lending fell by circa 11.3% in 2009.

In the recent Grant Thornton International Business Report (IBR) it was noted that 40% of Irish businesses expect credit to be less accessible in 2010 (Germany's figure was 64%!). If this does hold true what will the result be? Businesses will not be able to grow to any degree without access to credit, and those that have been dependent on gaining credit to survive will

face closure. This is not a result that will be to anyone's benefit as banks need businesses to lend to (and make money from as a result) and businesses need credit to either develop or maintain their current position.

What can be done?

It might be surprising to note that there is still significant money in the Irish economy. The savings rate in Ireland was 11% in 2009 compared to 3% in 2007. Grant Thornton has recommended that two new measures should be implemented:

1. Incentivise investment in export driven businesses

The Government should introduce a special investment scheme whereby investors could support a number of smaller Irish companies. The investment would be on a pooled basis, held through a unit trust and have tax and pension based incentives for

investments and a favourable exit tax.

2. Provide targeted credit to businesses exporting to new markets

The government should implement an invoice discounting scheme, coupled with credit insurance, for businesses exporting in our key sectoral growth areas. These businesses could have the potential to be world beating and create significant sustainable employment.

And what can you do?

If you have facilities due for renewal with your current lending provider it is important to act early and professionally in your dealings. Where there are conditions attaching to the facility ensure that you have, and continue to, comply with those conditions. An example of such a condition would be the submission of audited financial statements within six months of

the year end of the company.

When seeking new facilities, or extended terms, you should have detailed business plans prepared which support the application and demonstrate how, and when, the proposed facility will be repaid.

Credit has always been about its availability and its cost. Expect availability to decrease and cost to increase. Preparation is key in dealing with the banking institutions. If in doubt regarding your banking facilities, consult with your professional advisors.

"Economic depression cannot be cured by the legislative action or executive pronouncement. Economic wounds must be healed by the actions of the cells of the economic body – the producers and consumers themselves."

Herbert Hoover

Finance Bill

The Finance Bill was published on 4 February 2010. The Finance Bill is the documentation into law of the measures announced in the Budget in December. The Bill will be discussed in both houses of the Oireactas and will, in the coming weeks, be passed into law as the Finance Act.

There were a number of additional provisions outlined in the Finance Bill from the Budget speech. A summary of the key additional provisions outlined are as follows:

- **transfer pricing**

In an effort to bring Ireland into line with its EU counterparts, and reinforce some existing provisions in the Irish Tax code, transfer pricing regulations are to be introduced. The regulations will be effective for accounting periods beginning on or after 1 January 2011.

However, the regime will not apply to transactions where the terms were agreed before 1 July 2010.

- **holding companies**

In a move designed to improve Ireland's attractiveness as a destination for holding companies, the Bill provides for a number of enhancements to the existing tax treatment of dividends received by Irish resident companies. The enhancements include the charging of tax at 12.5% instead of 25% on certain foreign dividends paid out of trading profits from countries with whom Ireland does not have a tax treaty.

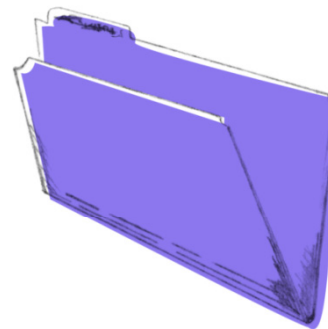
- **personal taxes**

With effect from 1 January 2010 all Irish citizens who are domiciled in Ireland will be liable to a "domicile levy" of €200,000 where the following conditions are met:

- their worldwide income exceeds €1 million, and
- they have assets located in Ireland with a value in excess of €5 million on 31 December of the relevant year.

The domiciles levy of €200,000 applies to individuals whose liability to Irish income tax is less than €200,000.

For further details please visit our website to view the recent Grant Thornton Tax Matters – Finance Bill 2010.



"Don't let what you cannot do interfere with what you can do."

John Wooden

Pension charges

Company pension schemes have received significant media coverage in the last two years. The majority of this coverage has related to either huge deficits on defined benefit pension schemes or documented the dramatic fall in the value of company schemes due to the world equity markets collapse.

The cost of operating company pension schemes has changed quite a lot. Historically, the charging structures, in relation to defined contribution schemes, were such that a significant portion of the first year's contribution was taken in charges. The result of this was that pension schemes needed to achieve significant fund growth in order to mitigate the cost of these initial charges. The charging structures for pension schemes are now much more competitive than was the case.

The minimum net allocation one should expect in new pension scheme arrangements is 95% (i.e. for every €100 invested €95 is immediately transferred to your pension fund). This leaves the remaining 5% to pay the costs associated with the administration of the scheme.

Separate to the above charging structure, the life company, or alternative scheme manager, will charge an annual management charge. This charge is often a percentage of the overall value of the scheme at the end of the year. This charge may be partly determined by the choice of funds in the scheme but for a "Managed Fund" or "Consensus Fund" the charge would typically be in the order of 0.75% - 1.00% of the value of the fund.

So what should you do?

- **scheme set-up date**

Confirm with your broker when the pension scheme was commenced and ask for a detailed breakdown of the charging structure (including the charging structure for new members).

- **new scheme**

Where the cost of the scheme, as above, is not as competitive as that currently available on the market, give consideration to commencing a new pension scheme and transferring the benefits of the old scheme into the new, less costly, arrangement.

- **life cover**

Does your pension scheme have life cover benefits attaching to it for the members? Again, this would have been a common arrangement previously but, as the membership of the scheme gets older, then the cost of the life cover element rises with the

amount being invested into the pension scheme element falling directly as a result.

- **conduct a review**

If one or all of the above points resonates with you regarding the pension scheme of which you are either a member or a Trustee, then you should consider having a complete review of the scheme conducted immediately to ensure that the pension scheme is as cost effective and appropriate as possible.

"The best thing about the future is that it only comes one day at a time."

Abraham Lincoln

NAMA

The only show in town

The Act to establish Ireland's National Asset Management Agency (NAMA) was passed into law on 22 November 2009. It was approved by the EU on 26 February 2010. The purpose of the Act is to cleanse Irish banks of distressed assets in order to restore confidence in the banking sector. NAMA will be purchasing loans with a book value of €77 billion for a consideration initially expected to be €54 billion. This figure is likely to fall.

Eligible land and development loans will be transferred, i.e. the eligible loans secured on development land and property under development. In addition, the larger property-backed loans of the banks in the scheme will also be transferred. Loans with a value of less than €5 million will not be transferred (except in the case of the building society loans), and loans obtained

following 31 December 2008 will also be excluded.

The names of the "Top 10" cases being transferred to NAMA have been in circulation for a number of weeks. However, for those further down the list, it is likely that their cases may not be transferred until the end of 2010. Although EU approval has now been received, the delay involved in obtaining such approval has exacerbated this problem.

What can they do in the interim?

NAMA has expressly stated that if an agreement cannot be reached with a borrower, or a borrower does not cooperate, NAMA will take enforcement action. NAMA has stated that every borrower will have an opportunity to present an updated business case to make a pitch for survival.

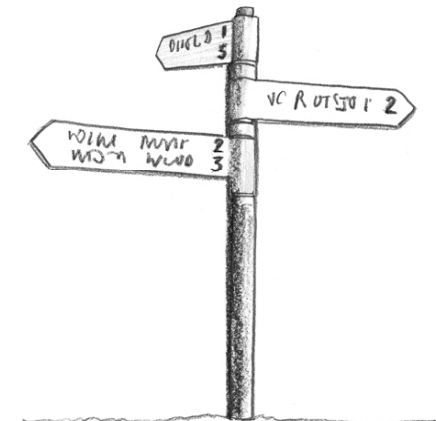
Business plan?

A NAMA business plan will need to set out:

- the borrower's current financial position;
- level of indebtedness to non-NAMA institutions;
- a full list of assets and liabilities;
- short, medium and long term objectives;
- a list, in order of priority, of assets to be disposed of and assets which require additional investment;
- information on individual projects;
- estimate of where the borrower expects property prices to be going forward; and
- cashflow forecasts for the next three years.

"Change will not come if we wait for some other person or some other time. We are the ones we've been waiting for. We are the change that we seek. "

Barack Obama



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