Grant Thornton

COVID19 Webinar
Tax and Legal Update

15 April 2020

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‘COVID-19: The Economic & Financial Implications’

April 15th 2020

Jim Power economics

To Be Covered

- Global economy prior to COVID-19 shock
- Global economic impact of COVID-19
- Financial market impact
- Official policy response
- What further policy response required?
- Long-term economic & political legacy

THE WORLD ECONOMY COMING IN TO COVID-19

- 2019 saw slowest growth since 2007/08
- Trump's trade war with China
- Brexit
- Euro Zone has structural growth issues > fiscal rules; demographics; regulation
- There was greater optimism for 2020 based on US Presidential election & dissipation of trade issues
- Brexit rebound in UK following avoidance of crash-out
- COVID-19 has demonstrated futility of economic & business forecasting

GLOBAL ECONOMIC IMPACT COVID-19

- Global recession inevitable
- Economic activity has ground to a halt everywhere
- Official & voluntary restrictions on activity
- Massive job losses
- Global travel & tourism has come to a sudden halt
- Borders under pressure
- Supply chains under pressure
- Whither Brexit?
- Precarious nature of modern capitalism has been exposed

Financial Market Impacts

- Equity markets have had dramatic correction
- Bond yields spiked – particularly higher sovereign risks like Italy > ECB actions have brought yields back down
- Sterling has weakened & US dollar has strengthened
- Oil prices have collapsed
- Markets in a state of heightened confusion and volatility
- Medical news flow will drive markets for foreseeable future

10-Year Bond Yields

Market	6/03/2020	8/04/2020
United States	0.72%	0.72%
United Kingdom	0.20%	0.36%
Ireland	-0.20%	0.26%
Germany	-0.73%	-0.35%
Italy	1.07%	1.67%
Greece	1.37%	1.77%
Spain	0.20%	0.80%
France	-0.37%	0.13%
Japan	-0.16%	0.00%

Global Equity Markets

MARKET	% March 2009 to End-2019	1/01/20 – 8/04/20
US S&P 500	+378%	-17.9%
UK FTSE 100	+115%	-28.6%
German DAX	+261%	-22.7%
Japanese NIKKEI	+242%	-15.7%
Irish ISEQ	+281%	-30.5%

Government Debt

	Gov Debt % GDP
Euro Area	86.4%
Germany	61.2%
France	99.6%
Italy	138.0%
Spain	98.9%
Greece	180.2%
United Kingdom	85.0%
United States	106.0%
Japan	236.0%
Belgium	104.7%
Portugal	121.2%

Official Response

- Policy environment poor pre-COVID
- High levels of government debt – implications for Fiscal Policy response
- Interest rates already historically low + massive Quantitative Easing (QE) in recent years – implications for Monetary Policy response
- Federal Reserve has cut rates to zero in two emergency moves
- Federal Reserve will supply massive liquidity through open-ended bond purchasing
- Trump $2 Tn fiscal package
- BoE cut rates from 0.75% to 0.1%
- Massive UK fiscal package £75 billion
- German fiscal package €156 billion (10% GDP)
- Japan Y108 bln stimulus package

Official Response

- ECB €750 bln QE package extra: €1 Tn plus in 2020
- EU fiscal rules will have to be forgotten
- Every EU government will have to respond with massive fiscal package
- Serious sovereign risk issues eg: Italy
- Eurobond essential
- Euro Zone crisis again a real possibility

Ireland

- Recession inevitable
- Gov & EU will have to accept higher deficits
- Fiscal Austerity cannot follow
- Strong support required for business on many fronts & for prolonged period
- Ireland in a good place to borrow
- Recovery will come, but will be driven by medical fundamentals

Long-Term Impact

- Political fallout > those who did well & those who did not
- Massive government debt legacy
- Economic nationalism > tighter borders?
- Model of capitalism will be questioned…for a short while
- Food security & safety
- Essential to prevent economic crisis from morphing into a banking crisis

Cashflow Management In Economic Uncertainty

Tracey Sullivan

Audit Partner

Úna Ryan

Tax Director

A) Cashflow Management
Immediate Practical Considerations

A) Cashflow Management - Approach

1. Projections

- Prepare projections for March-May using a simple model of debtors inflows & forecasted outgoings
- Flex projections with a review of incomings - best case debtor collection to worst case

2. Review all outgoings

- Identify where stalled payments can be made
- Partners/Directors – dividends, bonus, drawings, pension
- Staff outlay
- Pension direct debits to be stalled. Top up later in year.
- Deferred PAYE per Revenue SME Covid-19 guidance

A) Cashflow Management

2. Review all outgoings (continued)

- SME status for tax dispensation and Letters of representation
  - https://www.revenue.ie/en/corporate/press-office/press-releases/2020/pr-130320-revenue-announce-measures-to-assist-smes-experiencing-cashflow-difficulties-arising-from-covid-19.aspx
- Turned down direct debits on VAT, cancel Standing Orders, cheque payments instead
- Noted importance of tax clearance for some work, Revenue extending all clearance certs per announcements
- CAPEX projects to be shelved
- Landlord discussions re delayed payments
- Squeeze creditor days
- Council commercial rates – no leeway provided for yet

A) Cashflow Management

3. Supplemented Outgoings – Wages

- Covid-19 special Social Welfare payments available
- Grant Thornton Overview
  - https://www.grantthornton.ie/insights/blogs/covid-19---government-supports/
- Illness benefit changes
  - https://www.grantthornton.ie/insights/blogs/covid-19-enhanced-illness-benefit-payment/
- Refund scheme
  - https://www.grantthornton.ie/insights/blogs/government-refund-scheme--faqs/

B) P&L Considerations
Non Cash Effect

B) P&L Considerations – Non Cash Effect

- Improve P&L position for future tax
- Staff holidays - Cancelation of holidays
- Study Leave for trainees in light of cancelled exams
- Interns/Co Ops – Work requirements from colleges
- Forced holiday leave Easter holidays
- Utilisation of Time in lieu accumulated by employees
- Stall on recruitments/negotiations

C) Financial statement disclosures and considerations

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- Directors report - Principal risks and uncertainties disclosures will be required
  - ➢ Extent of disclosure will differ for each company's circumstances and sector
  - ➢ disclosure note to include:
    - details of the risk the recent outbreak of the Coronavirus (COVID-19), may have to operations,
    - that it may adversely affect business, results of operations or financial condition.
    - uncertainty about global economic conditions due to the Coronavirus could result in future difficulties
    - the extent to which the coronavirus may impact results is uncertain and that the directors continue to monitor and assess the ongoing development and respond accordingly.

- Post balance sheet events – similar note to disclosure to the above
  - Non adjusting disclosure if year end was prior to 10 March date
  - Severity of disclosure dependent on individual company circumstance and impact of Covid 19

C) Financial statement disclosures and considerations

- Significant judgements, assumptions and estimates

  - Consider the impact on impairment reviews required assess the carrying value of goodwill and investments
  - Budgets and cashflows should be flexed for worst case scenario and potential impact to the following:
    - Turnover
    - Cashflow
    - EBITDA
  - Bad debts provisions to be assessed as collections with some debtors may be uncertain

- Classification of certain profit and loss costs as exceptional
  - e.g. redundancy costs

D) Future Tax Planning Consideration

D) Tax Planning Considerations

- Partnership/ sole trader/ corporate entity **change in accounting year** end – extension to capture poor months *(see next slide)*
- Increased provisioning for debtors
- Filing early 2019 returns – if likely to be in refund position.
- If refund expected, accelerate CT filing process in advance of stats being ready for Dec 2019 year end (or other similar 2019 year ends).
- *Request has been made by ITI to Revenue to allow refunds process without ixbrl being filed. If final accounts number change the CT filings can be updated pre 23 Sept filing date but at least it may allow for a cash refund which could be valuable to the business currently.*
- **Preliminary Tax Considerations** - 90% prelim option key going forward *(see following slides)*

Change of Accounting Year End

- There may be merit in extending a company's accounting year end to capture poor trading months.
- Cash flow efficiencies from a tax compliance perspective.
- E.g. a company with a 31 December 2019 year end can extend its accounting period by up to 6 months to 30 June 2020 (18 month set of accounts).
- *Note that this can only be done where there has not been a change in accounting period within the previous 5 accounting years.*
- Preliminary tax and corporation tax filing deadlines and obligations remain constant in the year of change. The company will still be required to file its CT1 on 23 September 2020.
- However, the filing will be based on 12/18ths of the profits reported in the extended accounts, which will have captured any **poor trading months** owing to the economic difficulties experienced in March, April and so forward.

Change of Accounting Year End - Example

- By way of example –

	Taxable Profit €	CT Liability €
Jan – Dec 2019	2,000,000	250,000
Jan – June 2020	750,000	93,750
	2,750,000	343,750

- Where the accounts are extended by 6 months, the CT liability owing at 23 September 2020 will be 12/18th of €343,750 – being €229,167.
- This provides a cashflow saving of €20,833 (€250,000 vs €229,167).
- Preliminary tax payments will need to be considered for each company in light of the potential cashflow benefits here.

Preliminary Tax Planning – "Large Companies"

- Large Companies – who's CT liability is above €200,000 in the previous accounting period – must pay preliminary corporation tax in 2 instalments (month 6 & month 11)

Year End	Preliminary Tax (Payment Date 1)	Preliminary Tax (Payment Date 2)	*Comments*
March 2020	23 September 2019 50% of your 2019 liability or 45% of your 2020 liability	23 February 2020 Balance to reach 90% of 2020 liability	*Dates have passed – limited planning here*
April 2020	23 October 2019 50% of your 2019 liability or 45% of your 2020 liability	**23 March 2020** Balance to reach 90% of 2020 liability	*Balance payable in March 2020 will capture recent diminished profits*
May 2020	23 November 2019 50% of your 2019 liability or 45% of your 2020 liability	**23 April 2020** Balance to reach 90% of 2020 liability	*Balance payable in April 2020 will capture recent diminished profits*
June 2020	23 December 2019 50% of your 2019 liability or 45% of your 2020 liability	**23 May 2020** Balance to reach 90% of 2020 liability	*Balance payable in May 2020 will capture recent diminished profits*
September 2020	**23 March 2020** 50% of your 2019 liability or 45% of your 2020 liability	23 August 2020 Balance to reach 90% of 2020 liability	*Upcoming payment due on 23 March should be based on 45% of 2020 liability. Immediate action advised.*
December 2020	**23 June 2020** 50% of your 2019 liability or 45% of your 2020 liability	23 November 2020 Balance to reach 90% of 2020 liability	*Initial payment due on 23 June should be based on current year estimates. Immediate action advised.*

Preliminary Tax Planning – "Small Companies"

- Preliminary Corporation Tax is payable in 1 instalment by small companies - CT liability is not above €200,000 in the previous accounting period.

Year End	PT Payment Date	*Comments*
March 2020	23 February 2020 100% of 2019 profits or at least 90% of 2020 estimate	*Dates have passed – limited planning here*
April 2020	23 March 2020 100% of 2019 profits or at least 90% of 2020 estimate	*2020 estimate should be computed to capture any loss in revenue. Action advised to compute draft 2020 figures.*
May 2020	23 April 2020 100% of 2019 profits or at least 90% of 2020 estimate	*2020 estimate should be computed to capture any loss in revenue. Action advised to compute draft 2020 figures.*
June 2020	23 May 2020 100% of 2019 profits or at least 90% of 2020 estimate	*2020 estimate should be computed to capture any loss in revenue. Action advised to compute draft 2020 figures.*
September 2020	23 August 2020 100% of 2019 profits or at least 90% of 2020 estimate	*2020 estimate should be computed to capture any loss in revenue. Action advised to compute draft 2020 figures.*
December 2020	23 November 2020 100% of 2019 profits or at least 90% of 2020 estimate	*2020 estimate should be computed to capture any loss in revenue.*

Preliminary Tax Planning – Individuals

- Preliminary Income Tax is payable in 1 instalment by sole traders/partnerships – payable on 31 October 2020 irrespective of accounts year end.

- The Revenue Commissioners allow payment of Preliminary Tax by one of the following calculations:
  - 90% of 2020 Liability;
  - 100% of 2019 Liability, or
  - 105% of 2018 Liability*, if paid by Direct Debit *(does not apply if the tax due in 2018 was €Nil)*

- Early preparation of 2019 tax return advised. This will facilitate earlier refund of any overpayments. Tax payments due will not be brought forward.
- Early preparation of draft 2020 accounts to facilitate estimating 2020 liability for 90% option is highly recommended on the basis that estimated profits will be down.

E) Other Considerations

E) Other Considerations

- Staff & clients getting sick.
- Sick pay.
- Legal obligations for filing, notary signatures, originals etc.
- Contract clauses with promises of originals to follow.
- Legal considerations where staff must be in close contact for work and fall ill.

Capital tax considerations

Bernard Doherty / Úna Ryan

Succession planning now?

- Low market values
  - ➢ Capital gains tax, capital acquisitions tax and stamp duty are calculated on the market value of the assets.

  - ➢ Low market values therefore mean lower tax liabilities for all parties.

- Current tax position is certain
  - ➢ CGT Retirement relief and 90% business relief
  - ➢ Entrepreneurs Relief
  - ➢ Pension caps
  - ➢ CAT group thresholds are the highest they have been since 2011
  - ➢ CAT and CGT rates are 33% after reliefs
  - ➢ No wealth tax

Future?

- The costs of business/employee bailout will need to be funded – Taxes will not reduce!
  - Increased CAT / CGT rates
  - Possibility of wealth tax introduction
  - Increased property taxes
  - Reduced loss relief
  - Reduced / capped business property relief from 90%
  - Reduced retirement reliefs
  - Restricted/abolition of ER
  - Increased stamp duty
  - Surcharge on high earners
  - Pension capping
  - Increased DWT
  - Increased USC
- Increased taxes together with increasing asset values will lead to greater tax liabilities.

Investing

What you need to know

Key principles

Despite the current climate, it can be argued that there will always be short term economic and political risks. In many ways, it is important to sometimes ignore these when making an informed investment decision. There are three important principles to stick to when it comes to identifying a suitable investment.

Objectives

Without a specific objective, it is impossible to identify your need for an investment return. The first step should be to ask why this money is being invested, and what is it trying to achieve.

Time horizon

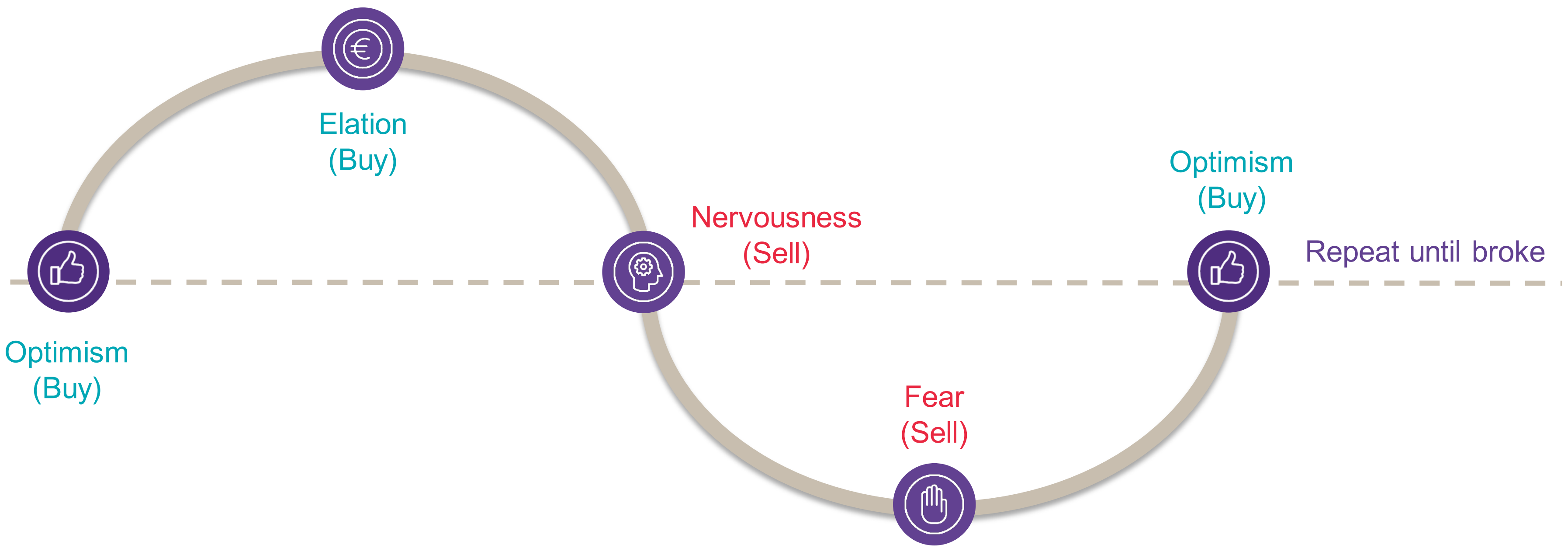
Risk is relative to time. Should you require access to funds in the short term, risk should be minimal as short term fluctuations can be damaging. However, if an investment has a long term horizon, it will be more capable of withstanding short term fluctuations, should there be sufficient time for the investment to recover.

Risk appetite/capacity for loss

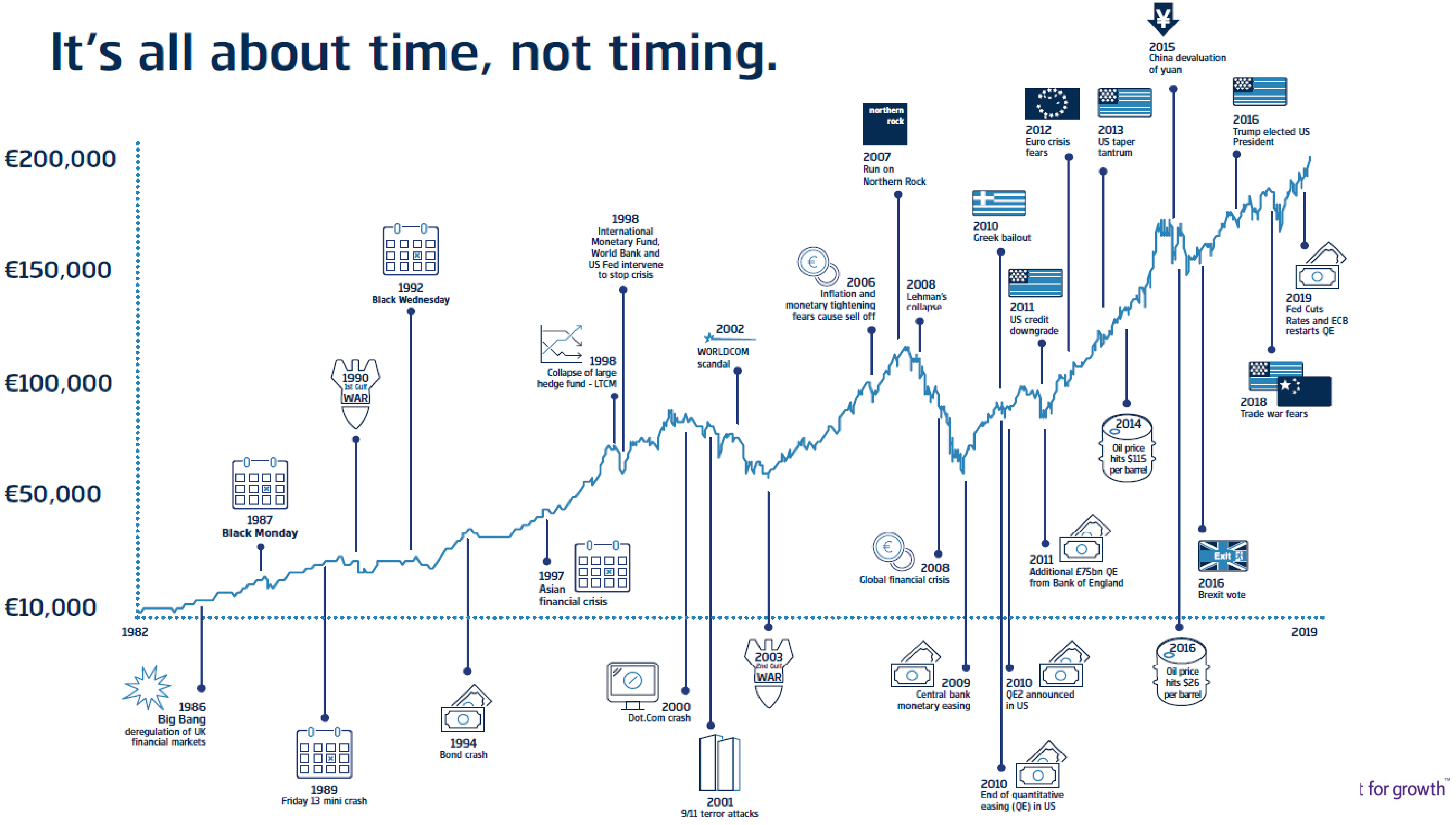
The most overlooked element of identifying the right investment. Risk appetite/profile is seen as an industry standard, with capacity for loss often overlooked. An experienced investor can have a large appetite for risk, but their capacity for loss may not be so large. This ties in with the previous principles.

Investor behaviour

It is important to separate our emotions from our investment decisions. The below graph indicates how investors tend to feel throughout the typical market cycle, with positivity leading to higher flows into markets after a period of strong returns, and negativity leading to higher outflows during a market downturn. We know these are the wrong decisions to make at their respective times, but many investors allow their emotions to take over from logic.



Nobody rings a bell at the bottom….

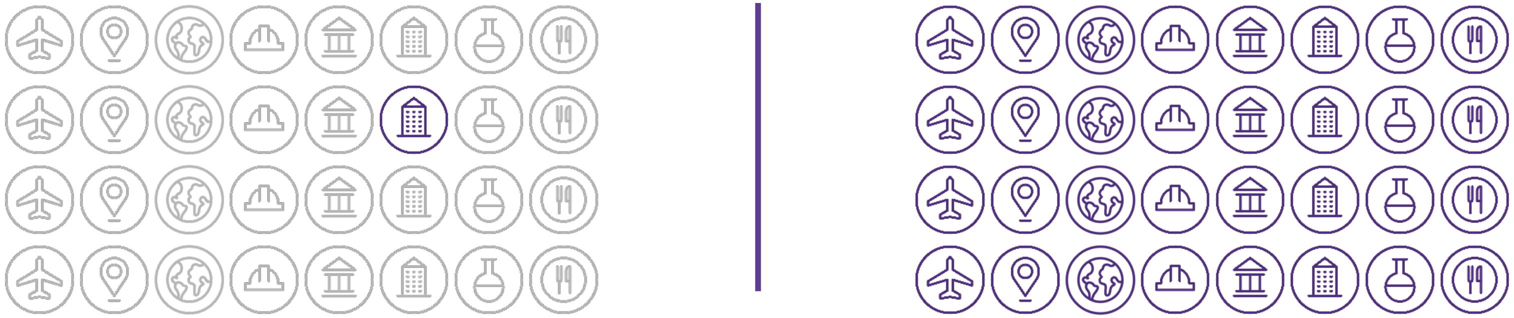


Diversification

Diversification is the key to a successful investment experience and can be achieved in a number of ways.

1. Diversifying asset classes
   Investing across a number of suitable asset classes (equities, bonds, property, cash) will help to reduce the volatility of your investment over time.

2. Diversifying within specific asset classes
   Taking equities as an example, concentrating on one company exposes you to unnecessary risks. But diversifying your equity content removes any specific risk which is attached to the performance of one specific company.



Developing a strategy

Before any investment proposal can be created, it is important to follow the below steps. Individuals typically lose focus of the behavioural side of investing, and spend too much time worrying about maximising returns and finding the next big thing. Following the below steps will help ignore the factors which are out of your control, and will help lead you to long term returns on your investments.

Find the right adviser for you

It is important to find an adviser who understands your current position and long term needs.

Without a mutual understanding of the investor's needs, the relationship between both parties cannot be successful.

Understand your investments

It is important to understand **why** you are investing, and also **how** your investments will be managed.

Without some understanding of how your money is being managed, it is difficult to gain the peace of mind required to act appropriately throughout the investment lifecycle.

Ignoring the noise

Too often, we see news headlines of short term fluctuations in markets, with more coverage being negative than positive. This is a symptom of the internet age and 24 hour news coverage.

As demonstrated earlier, long term investing tends to offer a high probability of long term returns. But this only applies when the investor ignores short term noise and focuses on their long term needs.

Disclaimer

- These slides are not considered to be tax advice and no reliance should be placed on the information contained therein.

- These slides set out our understanding of the Covid-19 Government Supports based on information currently available. The information contained in these slides does not purport to be comprehensive but is purely for guidance and discussion purposes only.

Contact us –Team

We are all available 24/7 to answer your questions, queries or concerns

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