



DOYLE KELLY & Co.

BUDGET 2012 & Business Update

Registered Auditors, Accountants &
Insolvency Practitioners

In association with the Drogheda Chamber of
Commerce

What's in this Budget?

3,800,000,000

Income Tax

- Tax bands and rates 20% and 41% - NO CHANGE
- The highest rate of all taxes will still be 55% for the self employed and 52% for the employed. (including Income Tax, Prsi and all Levies)
- No change to the tax credits either.

Social Charges

- The Universal Social Charge will no longer apply when you earn less than €10,036. Previously it was €4,004.
- The 50% Employer Prsi exemption on pension contributions for employees is removed. – Very Costly for the big employers.
- From 2013 Prsi will apply to Rental, Investment & Other Income (4%)

Some Examples of tax changes

- Only change is for someone under the €10,036 USC threshold who will now benefit to the tune of an additional 2% in their wages.

Other Matters

- *DIRT up from 27% to 30%.*
- *Cigarettes up 25 cent for a packet of 20.*
- *Car Tax – Band A + €56, Band B + €69, Band C + €28*
- *Petrol up 1.4 cent and diesel up 1.6 cent per litre.*
- *Other fuels go up from May 2012. Solid Fuels exempt.*
- *Legislation will be introduced to cover betting exchanges.*
- *Motor Dealers can export second hand stock and reclaim VRT. This is a major boost for the motor trade.*
- *The €100 household charge (property tax) will not apply to those in receipt of Mortgage Interest Supplement & those in Ghost Estates.*
- *Sickness Benefit – first 36 day exemption is removed. Only affects people who have their benefit topped up by Employers. Consultation process to start on addressing this area.*

Other Matters - Mortgages

- Those who bought homes from 2004 to 2008 will receive 30% mortgage interest relief if they were a first time buyer.
 - Mortgage interest relief will be abolished at end of 2012.
 - First time buyers who buy up to then will get 25% mortgage interest relief.
 - Non first time buyers will get 15%.
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Farmers

- 50% stock relief for Farm Partnerships.
 - 100% when formed by newly trained farmers.
 - Vat rebate can be claimed on purchase of wind turbines.
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Corporation Tax

- No change to our 12.50% rate.
- Research & Development tax credit regime is changed to allow first 100k of expenditure as a credit.
- The provisions for new start up companies is extended to include companies which commence to trade in 2012, 2013 & 2014.
- A new foreign earning deduction for Companies who spend 60 days a year or more in certain countries broadening their customer base.

NAMA

- An advisory body is to be set up to monitor the work of Nama and advise on it's strategy and appointments.
- Good idea in theory but will it become a firewall between the Government and Nama?
- Will work with tenants who have leases with upward only rent reviews in terms of rent reduction.
- On the ground - Nama is taking too long to make decisions.

Value Added Tax

- The plan in last years budget was to go up to 22% in 2013 and up again to 23% in 2014. (Fianna Fail)
- This has been accelerated to happen in January next with a commitment not to increase again in the lifetime of the Government.
- 9% and 13.5% rates have been left alone.

Pensions

- The maximum tax relief available on pension contributions has not been changed.
- Employer Prsi relief for pension contributions is abolished.
- The deemed pay-out from pension funds for tax purposes is increased from 5% to 6%.

Capital Taxes

- Capital Gains & Capital Acquisition Tax rates increased from 25% to 30%
- The thresholds for Capital Acquisition Tax and Inheritance Tax - Group A - have been reduced to €250,000 from €332,084.
- Stamp duty on commercial property transactions reduced immediately to 2%.
- No changes to residential stamp duty.
- CGT exemption for investment properties bought before end of 2013 and held for 7 years.

Social Welfare & Public Expenditure

- Child benefit payments for 3rd & 4th children to be brought down to €140 over next 2 years. Last year we had a cut of €10 for 1st & 2nd children and €20 for the 3rd child.
- Pensions and Social Welfare payment left alone.
- Multiple Birth Grants to be finished.
- The required number of years contributions to be eligible for the widow(er)'s contributory pension increased from 3 to 10 years.
- Job Seekers Benefit to be based on a 5 day week rather than 6 day. Practical effect is a reduction of approx. €19 per week for someone who is put on a 3 day week.
- Fuel allowance season to be cut by 6 weeks.
- Student Registration Fee up from €2,000 to €2,250.
- Drug Payments Scheme users must now spend another €12 per month.

Social Welfare & Public Expenditure

- **BACK TO SCHOOL ALLOWANCE:** Raise the age at which a child qualifies from 2 to 4 years and reduce rates by 25%.
- **DISABILITY ALLOWANCE:** Raise qualifying age for entitlement for new claimants to 18
- **DISABILITY ALLOWANCE:** Align rates with jobseekers allowance for those aged 18 to 24
- **ONE PARENT FAMILY PAYMENT:** Entitlement restricted to cases where youngest child is 7 years old over the period to 2014
- **ONE PARENT FAMILY PAYMENT:** Reduce over 5 years the earnings disregard from €146.50 to €60 per week
- **FUEL ALLOWANCE:** Reduce fuel season by 6 weeks from 32 to 26 weeks for new and existing recipients
- Budget Cuts in 2012 - Garda €114 million, HSE €315 million, Transport Tourism & Sport €336 million, ODCE €3.71 million.
- Budget Increase in 2012 – Dept. of Health up €42 million.

Howlin's Howler



- REDUNDANCY AND INSOLVENCY SCHEME: Reduce employer rebate from 60% to 15%
- He says its to bring us into line with other OECD Countries !
- Lets make a comparison to that of our nearest neighbour – the UK.
- A person with 10 years service on a gross pay of €650 per week is to be made redundant.
- The net cost to Employer in Ireland in 2011 is €5,045.
- The net cost to Employer in Ireland in 2012 will be €10,720.
- The cost in the UK is €4,235. (and the employer doesn't get any rebate!)
- This move puts us out of line with the UK.
- If you are considering making someone redundant do it before the 31st and give them pay in lieu of notice if you have to.
- We predict a key driver of future liquidations will be the inability of Companies to fund the 85% cost.
- The "Talk Talk" Claim – Larger Employers use the rebate to top up the statutory redundancy for Employees. They simply won't pay it now so employees will get less in the future.
- A flood of redundancies will happen before the new rules come in and in the future more employees won't receive redundancy and the State will have to fund 100% of it.

Property Based Tax Incentives

- Not proceeding with the previous Governments proposals.
- Investors with a gross income over €100,000 that is sheltered using one of these schemes will be hit with a 5% surcharge on it.
- Use of accelerated capital allowances created by these schemes ends on 1st January 2015.

Bankruptcy – What's coming?

- Current proposals from the Law Reform Commission.
- Reduce the period of Bankruptcy to 3 years.
- The setting up of a Debt Settlement Arrangement scheme where insolvent debtors would pay what they could afford for a period not exceeding five years, after which the unpaid balances of their unsecured debts would be discharged completely.
- The setting up of a Debt Enforcement Office to arrange non-judicial settlement of debts. The setting up of a Debt Settlement Office to license and monitor insolvency practitioners, to be known as Personal Insolvency Trustees and to establish a regulatory regime to control debt collection and debt advice bodies.
- DEBT SETTLEMENT ARRANGEMENT (DSA)
Is for people who can pay at least some of their debt and enter into an arrangement with their creditors. (Not including Mortgage Debt)
- But what about Mortgages ! - Once the property is sold the borrower can avail of the new DSA facility if the Lender does not agree to a structured write down of the balance. The obvious problem is that you must leave your home and sell it to get yourself into this position. This could be a missed opportunity.

General Matters of Interest

- The “Bailout” has not spelled the end of business as we know it but it has brought significant difficulties for businesses but it’s very difficult to tell if it has lessened or worsened the situation for small businesses that was already in existence.
- Section 19 of the Criminal Justice Act 2011 is something every business person should be aware of. It’s the whistle blower legislation and makes it an offence for you not to report some 97 “relevant offences” to the Gardai !
- Want finance from your Bank ?.....Do not go near your Bank without –
 - Up to date accounts (3 mts old at the latest)
 - A Business Plan including a cashflow projection
 - A personal statement of affairs.
 - 12 months bank or loan account statements for any accounts with other Banks.
 - It is now more important to show repayment capacity than adequate security.
- The Charities Act which was to provide a comprehensive statutory regulatory framework for Charities has been shelved due to lack of money to implement it. A very bad decision !

What we are seeing out there

- Cashflow, whilst tight has stabilised somewhat in most sectors. However, it still takes up too much of a business owners time which leads to less time for improving, expanding and managing.
- Borrowers are starting to see the light ! Many have begun to stop draining their businesses and thereby risking their future to pay personal property debts. As one such person put it... *“ I stopped paying them, entered into negotiations and the world hasn't ended !”*. His business is now cash positive !
- Revenue need to be handled very carefully in terms of the information they request. If they want your debtors listing make sure you get a written agreement from them that they won't put attachment orders on them ! Deals with them are hard won but can be done.
- Huge increase in employee related claims to the Labour Relations Commission and Equality Tribunal. HR Advice is very affordable in terms of the risk v benefit.

Continued.....

- Getting a decision from lenders on proposals for non performing loans is taking too long. The “come and see us again in 6 months” line is still very much in vogue. Business owners are finding it hard to move on whilst in this limbo.
- Insolvencies (Liquidations, Receiverships & Examinerships) in 2009 were 1,406, in 2010 were 1,525 and in 2011 to date is 1,829. We would however expect to see a drop in this figure in 2012 especially given the number of NAMA driven insolvencies that happened this year.
- The construction, services and retail sectors have continued to be the three hardest hit areas in terms of business failures in 2011.
- Since 2008 46,931 companies have closed but 55,539 have been incorporated.
- There has been a net growth of 2,300 companies in the retail sector in the same period.
- 13,382 Companies have been set up this year with 37,668 directors appointed to run them. Of these people 23,040 of them have never been a director before.
- Dodgy Directors ! – Last year 156 directors were restricted from acting as Directors and 8 directors were disqualified for various periods of time. We are predicting a rise in the number of disqualifications going forward as Liquidators become more comfortable with the “nuclear” option.
- Fancy a flutter?

What they don't want us to know !

- If Portugal, Ireland, Italy, Greece, (PIIGS), Britain, France & Germany all cancelled any debts they hold to each other it would reduce Ireland's outstanding debts by over 85% or €184 billion leaving €31 billion owed (as of last May). That would bring our debt from 130% of GDP to 20% of GDP. The obvious interest saving on future borrowings to pay debt is plain to see.
- Greece wouldn't improve that much.
- France would become virtually debt free.
- Germany's debt would drop by 81%.
- Spain and Italy would approximately halve their debts.
- It's not as crazy as it sounds, small businesses having been using this technique for years.
- If its so simple why don't they just do it? The age old problem is that too many people make too much money from the current system. It would be a brave Political Step and unfortunately bravery is not in abundance across European Political Circles. Want to know more....
www.EUdebtwriteoff.com

THE EU DEBT CRISIS

- ECB – Lender of last resort ?
- The US Federal Reserve is the true lender of last resort and we have seen that recently.
- Another European banking failure / nationalisation is on the cards.
- The only real solution to the sovereign debt crisis is debt forgiveness.
- If Greece had 100% of it's debt forgiven today it would still be in major debt tomorrow due to the size of it's budget deficit.
- The cards are being put in place for sovereign debt forgiveness – Taking Countries to EU Court for breaching budgetary limits.
- What's the alternative? – Let the free market take over and revalue assets to sustainable levels. Central Banks are not keen on this.
- Why have worldwide major banks and the worldwide property markets failed to fully recover ? – Due to Government bailouts neither have been fully de-leveraged. Ireland is ahead of the curve in this respect but is now threatened by other Countries refusing to make the hard decisions that were forced on us.

THE GOOD NEWS !!



- If a business has survived this far and has diversified it has a very good chance of making it through the troubles ahead.
- Our competitiveness internationally has improved dramatically in a very short period of time which is great news for exports.
- Most indigenous businesses have come to the end of painful down sizing. The only way is up now!
- The cost of professional services, legal, accounting, marketing etc. is at an all time low. A small investment with outside experts could lead to sizeable dividends for a small business.
- Many new start up enterprises are starting to emerge. There are opportunities outside of the traditional sectors.
- Initiatives like “Local Heroes” are not only inspiring to business owners but can instil a great sense of belief. Drogheda is very lucky to have it.

More Good News



- Allianz announced 128 new jobs in October.
- Dublin was announced as Dell's chosen site for the development of its first Cloud (computing) Research & Development Centre.
- Bioware announced 200 jobs for Galway in it's call centre servicing customers for it's new Star Wars Online MMO. The 2010 revenues generated from monthly subscriptions in this sector was \$9 billion!
- Cork Institute of Technology is the home of the worlds first Masters and Undergraduate programmes in Cloud Computing.
- Other job creators in 2011 include Linkedin, Paypal, and Google. It would appear that the "Smart Economy" drive is gathering pace and something is definitely being done right in this area.
- Ireland is expected to be the worlds most Globalised Nation by the end of 2011. This ranking reflects our openness to global trade, global capital movements, global exchange of technology and ideas, global labour movements and cultural integration. – Who wants to tell Mr. Sarkozy?

Something to Ponder

- While thieves and governments might take some of a your earnings, they will never take away your ability to earn!!





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