FDC Business Newsletter

Spring, 2005

Accounting

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Tax Consulting

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Management/
Interim Accounts

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Computer
Business Systems

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Computer Network
/Communication

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Payroll

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Agricultural
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REPS Planning

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Early Retirement

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Investments/
Stockbroking

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Pensions

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Saving Plan, L/A

INCORPORATION AND SELF ADMINISTERED PENSION

The issue of whether to incorporate or not is never far from the mind of a sole trader. The well advertised Corporation tax rate of 12.5% payable by a company purports to be the overriding factor when deciding if one should incorporate. It is outside the scope of this newsletter to discuss in detail all pros and cons of incorporation, but it is worthwhile to refer to same in the light of recent changes in the area of pensions.

The move from Sole Trader to company Entities has increased significantly since the mid 90's, at that time many individuals who had been paying Income Tax at a top rate of 57/58% (including PRSI and levies). With the introduction of the reducing Corporation Tax rates, they sought incorporation for their businesses to avoid the penal Income Tax rates. It is the authors view that the Government and Revenue Commissioners were not ready for this uptake in company formation as was witnessed by the fact that the Company Act governing this area had been passed in 1963, with amendments. As a result of the interest shown in incorporation, there was introduced the Companies Act 1990 and more recently a Companies Act 2003. As a result, the issue involved in incorporation were not widely flagged in the mid 90s and it was only in recent years that each issue has taken on a significance due to the statutory obligations imposed through legislation.

In brief, the issues of significant importance as suggested by this author, incorporation would be as follows:

1. The transfer of a sole trader business to a company is a disposal of the sole trader business. All taxes that arise in the event of a disposal are triggered by the disposal of the sole trader to the company.
2. The issue of shares by the company has a relevance in relation to the passing of the Company to a successor.
3. The appointment of a Director and Secretary, which at one time was regarded as immaterial or nominal, now is an onerous task due to the obligations imposed on those persons by the Companies Acts. There are over 200 indictable offenses committable by a director which can give rise to criminal proceedings resulting in a fine and/or imprisonment. Where before we would have treated these appointments lightly, this is now not the case. We inform all parties of their responsibilities under the Companies Acts.
4. The company has a multitude of secretarial/administrative documents which must be submitted on time or face penalties or strike off.
5. Finally, in this authors opinion, the other pressing issue for discussion in incorporation is the age old problem of extracting the money from the company for the benefit of the shareholders/employees.

The developments in relation to point 5 above have been considerable as Tax Practitioners have been forced to address the issue due to the uptake of incorporation and the demands now being put on them by Directors/Employees to extract monies tax efficiently from the company. One such possibility which has arisen in recent years is as a result of changes in the Pension Legislation's. It is the case that the Government are eager to assist individuals in the creation of a pension fund for their retirement in order to lighten the responsibilities on the Government in future years to fund old age pensioners. It is the concern of the Government (and the concern of individuals in the 30-50 year age bracket) that the demography of the country will result in a short-fall of contributions for pension payments to that category of individuals in twenty/twenty five years. The introduction of Self Administered Pensions (SAP) is to encourage the system which allows individuals to fund their pensions tax efficiently. Again, it is not the intention of the newsletter to discuss this aspect in detail. Self Administered Pensions allow Companies to make a contribution towards a pension fund for the benefit of its employees. A Self Administered Pension has three significant advantages:

1.Whereas previously all contributions were controlled by equity/fund managers, it is now possible for the individual to be involved in the investment/use of the pension monies. The individual/employee can direct where and how these pension monies must be used.
2.As the pension fund will be set up under strict guidelines any income/capital earned by the fund will in itself be tax exempt. For example, where the fund purchases a property for rent, any rents received from that property will not be liable to tax. This is a significant advantage as the growth in the fund will not be limited to the rates available in financial institutions nor be reduced due to the operation of Income Tax/Capital Gains Tax
3.Probably the main advantage of a Self Administered Pension fund is that the contributions made by the company are not limited to the percentages available to a sole trader i.e. 15% to 30%. The contributions available by the company are based on a percentage of the employee's salary, but can be in certain circumstances be a multiple times that salary, thus allowing a more serious contribution to be made to the pension fund.

On the face of it, the SAP fund would seem a strong argument for incorporation but as in all cases, it should only be employed if it suits the circumstances rather than the circumstances being forced to suit the SAP fund. In this authors opinion, it is only another issue on the list when discussing whether or not a sole trader should incorporate.

Donncha Collins
FDC Tax Department

Mortgage/ Borrowing.

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Corporate Finance (BES)

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Income Tax Planning

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Inheritance/Wills

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CGT Planning

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Corporation Tax

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Auditing

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Co. Formation

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Co. Secretarial

CASH FLOW

1. Cash Flow vs Profit

Sales and costs and, therefore, profits do not necessarily coincide with their associated cash inflows and outflows. While a sale may have been secured and goods or services delivered, the related payment may be deferred as a result of giving credit to the customer. At the same time, payments must be made to suppliers, staff etc., cash must be invested in rebuilding depleted stocks, new equipment may have to be purchased etc.

The net result is that cash receipts often lag cash payments and, whilst profits may be reported, the business may experience a short-term cash shortfall. For this reason it is essential to forecast cash flows as well as project likely profits. See Example below:

FDC financial planners generate fully integrated profit & loss accounts with cashflow statements and balance sheets for up to five years ahead and our Plans include a specialist cashflow planner covering 12 months ahead, with weekly projections for the initial three months.

2Calculating .Cashflow

Normally, the main sources of cash inflows to a business are receipts from sales, increases in bank loans, proceeds of share issues and asset disposals, and other income such as interest earned. Cash outflows include payments to suppliers and staff, capital and interest repayments for loans, dividends, taxation and capital expenditure.

Net cash flow is the difference between the inflows and outflows within a given period. A projected cumulative positive net cash flow over several periods highlights the capacity of a business to generate surplus cash and, conversely, a cumulative negative cash flow indicates the amount of additional cash required to sustain the business.

Cashflow planning entails forecasting and tabulating all significant cash inflows relating to sales, new loans, interest received etc. and then analyzing in detail the timing of expected payments relating to suppliers, wages, other expenses, capital expenditure, loan repayments, dividends, tax, interest payments etc. The difference between the cash in- and out-flows within a given period indicates the net cash flow. When this net cash flow is added to or subtracted from opening bank balances, any likely short-term bank funding requirements can be ascertained.

3. Using a Computer to Forecast Cashflow

With the aid of a computer and suitable software, a mathematical model can be used to prepare cash flow projections and project short-term banking requirements for a business. The use of a computer-based model reduces the tedium of carrying out numerous repetitive calculations and simplifies the alteration of assumptions and the presentation of results. A computer-based model can be constructed using a spreadsheet or acquired as a stand-alone package. If constructing a spreadsheet model, be aware that it is not as easy as it might seem to build a friendly, robust and error-free planner

A cash flow model can be used to compile forecasts, assess possible funding requirements and explore the likely financial consequences of alternative strategies. Used effectively, a model can help prevent major planning errors, anticipate problems, identify opportunities to improve cash flow or provide a basis for negotiating short-term funding from a bank.

Generally, when seeking external funding, the time horizon covered by a set of projections should be equal to or greater than the period for which the funding is needed. The greater the amount of funding required and the longer the period of exposure for the provider of these funds, the more comprehensive must be the supporting projections and plan.

Typically, a computer model for short-term bank planning uses assumptions on sales, costs, credit, funding etc. to produce monthly cash flow projections for up to a year ahead. The initial assumptions can be readily altered to evaluate alternative scenarios. For example, a model could be used to explore the extent to which future sales could be increased whilst holding bank borrowings within predetermined limits; to assess the effects on cash flow of varying sales, costs or credit terms; or to determine the likely short-term funding requirements for a business.

Once assumptions on sales, expense payments etc. have been established, a model can be used to produce the cash flow projections which, in turn, indicate the likely future cash balances or banking requirements.

However, the quality of these projections will be completely determined by the standard and reliability of the underlying assumptions. For example, if forecasts for sales, working capital or costs are unrealistic or inadequately researched, then the value of the model's output is greatly diminished. An impressive set of projections is of little benefit if it is unsupported by experience or research or based on mere speculation. In fact, they could be very damaging, or even destroy the business.

The following simplified example illustrates the timing differences between profits and cash flows:

Income Statement:	**Month 1**
Sales (€000)	75
Costs (€000)	65
Profit (€000)	10

Cashflows relating to Month 1:	**Month 1**	**Month 2**	**Month 3**	**Total**
Receipts from sales (€000)	20	35	20	75
Payments to suppliers etc. (€000)	40	20	5	65
Net cash flow (€000)	(20)	15	15	10
Cumulative net cash flow (€000)	(20)	(5)	10	10

4. *Planning to Project Cashflow*

Before using a model for short-term cash flow forecasting, a manager or entrepreneur should:

•Decide the central purpose of the exercise (internal planning and control, negotiate a loan etc.).
•Identify the target audience (directors, bank manager etc.)
•Set the time intervals and horizon (e.g. monthly for twelve months)
•Sort out the level of detail required.
•Check that all the necessary key assumptions and data are to hand and have been adequately researched.
•Compile opening balances for all items which will involve cash flows within the forecasting period.
•Think through the likely impact of the critical assumptions on the cash flow projections. If necessary, prepare preliminary forecasts manually to confirm their overall direction and consider the underlying strategic issues relating to sales, funding, costs, stocks etc. As a guide, sales forecasts and debtor & creditor terms are likely to have the most profound impacts on short-term cash flows.

5. *Planning Pitfalls when Forecasting Cash Flow*

When preparing cash flow projections, be aware of the dangers of:

•Overstating sales forecasts
•Underestimating costs and delays likely to be encountered
•Ignoring historic trends or performances by debtors etc.
•Making unduly-optimistic assumptions about the availability of bank loans, credit, grants, equity etc. •Seeking spurious accuracy whilst failing to recognize matters of strategic importance

These problems can arise as the result of a lack of foresight or knowledge, or because of excessive optimism. They can lead to under-estimation of the cash and other resources required to sustain or develop a business with potentially disastrous consequences.

When forecasting bank requirements and preparing cash flow projections, realistic views should always be taken about future prospects. There is often merit in compiling "worst" case projections to complement "most likely" or "best" forecasts and to accept that the "worst" case might occur and to plan accordingly.

Pat Finucane
FDC Limerick

HEALTH INSURANCE

Who are VIVAS Health?

VIVAS Health is the only health insurance company to be authorised by the Irish Financial Services Regulatory Authority to act as an insurance company in Ireland.
They are an Irish company created to offer you a range of innovative and flexible health benefits designed to respond to your ever changing needs. Vivas bring people in Ireland a wider choice of benefits so that our customers can enjoy the best health choice available.

Vivas plans offer more:

'**me plan'**- this plan has been designed specifically for the health needs of young individuals and those taking out health insurance for the first time. Choose from one of 2 levels of hospital cover as well as **day-to-day** cover.
For me information on the **'me plan'** please click on the following link:
http://www.vivashealth.ie/documents/me_brochure.pdf

'I plan'- this plan has been designed for those requiring cover for just themselves. Our **'I plan'** allows you the flexibility to select from one of 5 levels of hospital cover as well as 2 levels of **day-to-day** cover.
For more information on the **'i plan'** please click on the following link:
http://www.vivashealth.ie/documents/i_brochure.pdf

'we plan'- the first healthcare plan on the market designed specifically for the health needs of families. You can choose the level of cover to suit the needs of your family. They offer unique tiered pricing for children, students and apprentices. Select from one of 5 levels of hospital cover as well as 2 levels of **day-to-day** cover.
For me information on the **'we plan'** please click on the following link:
http://www.vivashealth.ie/documents/we_brochure.pdf

The VIVAS Health difference

•Excellent cover for in patient, day case and a wide range of out patient benefits
•Cover for more hospitals and treatment centres than anyone else
•Unique maternity cover which includes post natal domestic support
•Unique cover for children including contributions towards an eye test, hearing test, speech and language therapy and child counselling
•24 hour access to our nurse-on-call service
•The best cover for scans on the market
•A low out patient excess
•A range of excellent overseas cover including accident and emergency benefits abroad for when you are on holiday, including cover for a GP or dentist when you are away
•Unique cover giving you access to new or emerging surgical procedures that are not yet available in Ireland
•Comprehensive stress related cover
•Cover for more day-to-day alternative practitioners, including audiologists, homeopathists and physical therapists.

How we can save you and your family money?

Cost savings average around 20% when you switch from your current health insurer to VIVAS Health. See Exapmle below:-

So, why VIVAS Health?

Switch today and benefit from:

•A 10% discount
•An average saving of 20% on your current health plan
•Unique and enhanced benefits offered by no other health insurer
•Switching is easy, there is no loss in cover and no re-serving of waiting periods.

FDC Group Scheme– You can sign up straight away, simply contact your local FDC Office and ask to speak to your financial services consultant. You can even sign up over the phone by giving your personal details and bank details, no form filling required. Alternatively you can contact FDC Head Office on 021 4509022 for further information.

Price Comparison		**VIVAS Health**		**VHI**	**VHI**	**BUPA**
Yearly Price		'I plan' - Level 2		Plan B	Plan B Options	Essential Plus
		€421.20		€484.12	€527.28	€450.73
Yearly Family Price*	'we plan' Level 2		Plan B	Plan B Options	Essential Plus	
		€1373.40		€1523.67	€1661.75	€1384.19
Yearly Family Price*	'we plan' - Level 3		Plan B	Plan B Options	Essential Plus	
		€1749.60		€2388.58	€2643.21	€1917.35

*- in this instance a family is 2 adults, 2 children and 1 student.
Terms and conditions apply
All prices are correct at time of sending, December 2004

To be completed by the Customer

Group name/employer (if applicable):____

Intermediary name (if applicable): ____

Quote reference number (if applicable): ____

Personal Details:____

Title: __________________________ First Name: Surname:

Address: ____

____

Date of Birth: ______________ Occupation: ____

Home Tel No: ____ Work Tel No:____

Mobile Tel No: ____ Email Address: ____

PPS Number: ____

Date you wish to commence cover with VIVAS Health: (day/mth/yr): ____

Date you first took out health insurance in Ireland: (day/mth/yr): ____

Previous Health insurer:____

Previous level of cover: ____

Have you, or any of your dependants, had a break in health insurance cover of more than 13 weeks

in the last 10 years? Yes No

If yes, please include details on a seperate sheet of paper.

Please note that if this is the first time you are buying health insurance, of if you are increasing the level of your cover or you have a pre existing condition, certain exclusions periods may apply before you can make a claim in relation to the pre-existing condition.

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Data Protection Act 1988 as amended:

The information you provide becomes part of the personal data held by VIVAS Health and will be automated. All your personal data is confidential and will be used only for the provision and administration of health insurance products and related servcies. The public register of the Data Protection Commissioner holds full details of all uses for personal data by VIVAS Health.

VIVAS Health may be required to release details in relation to your policy coverage to health service providers in order for you to make any claim. In addition, your details may be used on an anonymous basis for research purposes to improve the service we provide to you.

In the future VIVAS Health may like to contact you in relation to other products and services it may have on on offer. If you wish to receive this information please tick the following box

To be signed by the customer:

I agree to be bound by the rules in the handbook of VIVAS Health**

***will be sent on registration, but may be obtained on request or may be viwed by logging onto www.vivashealth.ie*

Signature: ____ Date: ____

Method of payment:

Please tick one box only:

Bank Cheque annually Credit Card annually

Direct Debit monthly

Should you wish to avail of aalary deduction, please contact us.

VIVAS HEALTH

authorised intermediary

Level of cover required:

Please tick the appropriate box corresponding to your plan and level of cover:

	Level 1	Level 2	Level 3	Level 4	Level 5
'we plan'					
day-to-day care	(a)	(a)	(a)	(a)	(a)
'i plan'					
day-to-day care	(a)	(a)	(a)	(a)	(a)
'me plan'					
day-to-day care	(a)	(a)	(a)	(a)	(a)

Dependants**

. First Name/Surname: ____ Level of cover required: ___________________________________

Date of birth: ____ **day-to-day:** (a) (b)

Relationship (e.g. Spouse/Child): _________________________________ Tick if full-time student and aged 18-23

PPS Number*: ____ Place of education: _______________________________________

Date you first took out health insurance: (day/mth/yr)): ____

Current insurer: ____ Current plan: ____

2. First Name/Surname: ____ Level of cover required: ___________________________________

Date of birth: ____ **day-to-day:** (a) (b)

Relationship (e.g. Spouse/Child): _________________________________ Tick if full-time student and aged 18-23

PPS Number*: ____ Place of education: _______________________________________

Date you first took out health insurance: (day/mth/yr)): ____

Current insurer: ____ Current plan: ____

3. First Name/Surname: ____ Level of cover required: ___________________________________

Date of birth: ____ **day-to-day:** (a) (b)

Relationship (e.g. Spouse/Child): _________________________________ Tick if full-time student and aged 18-23

PPS Number*: ____ Place of education: _______________________________________

Date you first took out health insurance: (day/mth/yr)): ____

Current insurer: ____ Current plan: ____

4. First Name/Surname: ____ Level of cover required: ___________________________________

Date of birth: ____ **day-to-day:** (a) (b)

Relationship (e.g. Spouse/Child): _________________________________ Tick if full-time student and aged 18-23

PPS Number*: ____ Place of education: _______________________________________

Date you first took out health insurance: (day/mth/yr)): ____

Current insurer: ____ Current plan: ____

* You must include your PPS Number in order to avail of tax relief at source on your premiums.

** We recommend all dependants on **'we plan'**. If you wish to add dependants to your **'i plan'** or **'me plan'** please call us on 1850 717 717

Credit Card Payment Authority

To VIVAS Health, I authorise you to charge to my credit or debit card account an unspecified amount in respect of subscriptions for VIVAS Health membership.

Mastercard Visa Laser

Cardholders surname, first name, other initials:

Card Number : |__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|

Expiry date: Month |__|__| Year |__|__|__|__|__|

Cardholers signature: ________________________________ Date : ________________

Instructions to your bank to pay Direct Debit:

Please complete parts 1-4 to instruct your bank to make payments from your account and then returns the form to VIVAS Health, PO Box 9686, Foxrock, Dublin 18.

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1. Please write the name and full postal address of your bank and brach: ________________________________

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2. Name of Account Holder: ________________________________

3. Sort Code: [___-___-___] Account Number: |__|__|__|__|__|__|__|__|__|__|__|__|

4. Date that you would like money to be debited from your account: (date/mth) |__|__|__|__|

5. Your instructions to the bank and signature:

I instruct you to pay direct debits from my account at the request of VIVAS Health.

The amounts are variable and may be debited on various dates.

I understand that VIVAS Health may change the amounts and the dates only after giving me prior notice.

I will inform the bank in writing if I wish to cancel this insturction.

I understand that if any direct debit is paid which breaks the term of this insutrction, the bank will make a refund.

Signature; ________________________________ Date: ________________

For office use only: ________________________________

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VIVAS Health membership number: ________________________________