DEREK MADDEN
& COMPANY

cpa
Certified Public Accountants

Tax & Finance News Update (June 2012)

30% Tax relief for First Time Buyers (What's the Story?)

Over the last few months since the 2012 budget we have received a lot of questions about the changes that took place for home owners who bought houses between 2004 and 2008. The Revenue Commissioners have published Tax Relief at Source - Mortgage Interest Paid (pdf) containing detailed FAQs on these Budget changes, including a range of scenarios. We have put this up on our website www.maddenco.ie so that you can view it or if you need a copy of it please contact the office. Some of the main points and questions being:

What changes have arisen from the Budget Announcement on 6th December 2011 [Budget 2012]

From 1st January 2012 the rate of mortgage interest relief for first time buyers who took out their first mortgage between the years 2004 to 2008 and are residing in the property increases to 30% until 2017. If you took out a loan outside of these dates the existing rules remain unchanged.

If I took out my first mortgage between the years 2004 to 2008 what do I need to do?

There is no need for you to do anything. Revenue and the lending institutions will make the necessary changes. For administrative reasons this will take a period of time to complete but you will not lose out and you will get the full mortgage relief due to you in 2012.

What is my position if I took out a loan after 2008?

The situation is unchanged and the existing rules apply. (please contact the office if you want details of the existing rates/chart) You are not entitled to any increase in mortgage interest relief arising from the Budget 2012 changes in mortgage interest relief.

Cash is King!!

While cash and cash flow has been talked and written about over and over again it is in our opinion well worth revisiting.

The bulletin below outlines some cash flow procedures that you can apply to your business that may help you become a CASH KING.

Managing your cash flow is the single most important factor in surviving in business. It is one of the major challenges to arise out of the current economic climate for almost every business owner. Assets need to be evaluated, liabilities assessed and all income and expenditure items should be critiqued line by line.

Businesses need to focus activities in those areas where they are competitive and ensure that they 'sweat the assets' to the maximum extent possible. This bulletin offers practical advice to business owners on steps they can take right now to proactively address this issue:

Debtor Management

- ❑ Put a formal debtor management system in place, with clear responsibility assigned to a staff member,
- ❑ Encourage payments up-front by accepting debit/credit cards or by offering discounts,
- ❑ Set credit limits, review regularly and stick to them,
- ❑ Check out new customers thoroughly,
- ❑ Don't let any 1 or a few number of debtors get too big,
- ❑ Watch out for tell-tale signs that a debtor may have financial difficulties,
- ❑ Use Internet Banking to monitor payments.

Cost Management

- ❑ Identify the key cost drivers within your business,
- ❑ Review all cost lines in your business, large and small,
- ❑ Implement an action plan to reduce your business costs,
- ❑ Assess alternative offerings on utilities, i.e. insurance,
- ❑ Spread large once-off annual costs over the year,
- ❑ Minimise discretionary spend levels.

Supplier Management

- Implement a defined purchasing process with responsibility allocated to a specific staff member,
- Get quotes from at least 3 suppliers and go with the one that offers you best value for money,
- Check out if your supplier offers discounts and/or credit terms,
- Check if your supplier has a returns policy,
- Check out if you can charge back any costs of delay to your supplier,
- Maintain regular contact with your key trade creditors,
- Pay by electronic means – this will help you manage the timing of payments from your account.

Stock Management

Know the cost of carrying stock in your business – insurance, premises, etc.. Monitor the average turnover times of stock – particularly major items. Sell off slow-moving/outdated stock – sales, special offers etc., Review your security procedures – make sure no stock is leaving for free. Maintain the 'right' amount of stock so cash is not tied up in surplus stock.

Sources of funding within your business

Short-term funds - Cash generated & retained by the business, - Credit received from suppliers, Cash loaned by family and friends, - Leasing/Hire Purchase, - Debtor Financing, - Capital Grants Employment/R&D grants. - Long-term funds, - Bank Loans, - Equity Investors/Owners Capital.

Managing Working Capital Working Capital

These are key numbers you should have to hand every month:

- ➢ Debtor Days = Debtors divided by Gross Sales per Day,
- ➢ Creditor Days = Creditors divided by Gross Purchases per Day,
- ➢ Stock Days = Stock divided by Net Purchases.

Managing these key elements of your working Capital will have an enormous impact on your ability to maintain cash in your business.

- ➢ Talk to your Accountant about drawing up a Cash Flow for the next 12 months,
- ➢ This should be a living document within your business, amend it & keep it rolling forward,
- ➢ Forces realistic decision-making regarding when cash will come in and when and how it will go out,
- ➢ Allows forward planning and removes reactive, knee-jerk decisions,
- ➢ Controls expenditure and builds cash retention in the business.

Provide your accountant with the following information and review it regularly

- ➢ Estimate your sales and your cash receipts as accurately as possible over the 12 month period,
- ➢ Set out all your costs for the same period; include taxes, loan repayments, personal drawings, capital expenditure,
- ➢ Set out any non-sales receipts expected such as grants, redundancy claims and loans

Source: Bernadette McGrory Farrell CPA

Derek Madden

Disclaimer: This information bulletin is intended to be used for guidance purposes only. For further information you should contact the office directly. Derek Madden & Company cannot be held liable for any error, or for the consequences of any action, or lack of action arising from this bulletin.