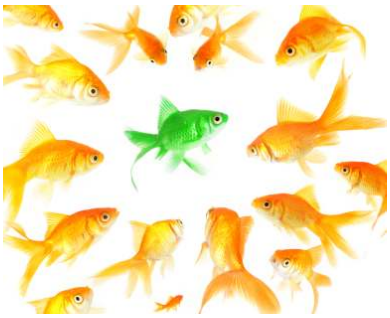
February 2016 eNews

FRS 102 is here…Is your company ready? – Transition to FRS 102

All existing users of Irish and UK GAAP will be required to transition to the new framework (FRS 102) ***for accounting periods beginning on or after 1 January 2015***. Comparative information will need to be restated and a reconciliation provided in respect of the opening balance sheet position in the notes to the first set of financial statements prepared under the new framework.



FRS 102 requires the user to apply the following rules:

- Recognise all assets and liabilities whose recognition is required by the FRS;
- Not recognise items as assets or liabilities if the FRS does not permit such recognition;
- Reclassify items that it recognised under it's previous reporting framework as one type asset, liability or component of equity, but are a different type of asset, liability or component under the FRS, and
- Apply the FRS in measuring all recognised assets and liabilities.

The new reporting regime has significant differences from the previous GAAP. It will impact the recognition of goodwill, intangible assets, deferred tax, valuation of investment properties and financial instruments, to name just a few. The differing treatment needs to be considered on a case by case basis.

Our team is ready to guide you through the transition to FRS 102. We can carry out a review and help you assess the impact of FRS 102 on your company, ensuring you are aware of any potential benefits and helping to mitigate against any negative effects the new standard may have on your accounts.

ENTREPRENEUR RELIEF

Changes made by Finance Act 2015?
Finance Act 2015 contains provisions to simplify Entrepreneur's Relief. The Act specifies that gains on disposals of chargeable business assets made by individuals on or after 1 January 2016 are liable to a reduced rate of 20% capital gains tax up to an overall lifetime limit of €1m. The standard rate of CGT (currently 33%) applies to gains made in excess of the lifetime limit.

To qualify for the reduced rate of 20% you must have owned the chargeable business assets for a minimum period of 3 years prior to disposal.

If you are selling shares, you:

1. Must own not less than 5% of the shares in the qualifying company (or in a holding company of a qualifying group);
2. Must be a director or employee of the qualifying company (or companies in a qualifying group) in a managerial or technical capacity;
3. Must be required to spend not less than 50% of your working time in the service of the qualifying company; and
4. Must have served in that capacity for a continuous period of 3 years in the 5 years immediately prior to the disposal.

The earlier version of entrepreneur's relief has not been abolished.

Finance Act 2015 provides that if the CGT payable available under the new entrepreneur's relief would be higher than if the earlier version of entrepreneur's relief was claimed, the earlier version can be claimed.

Finance Act 2015 was signed into law on 23 December 2015.

P35 REMINDER

We would like to remind you that if you are registered as an employer, your P35 return for the year ended 31 December 2015 is due for submission by 15 February 2016.

Please be aware that late returns are liable to penalties of up to €5,000.

VAT ON PROPERTY – AN OVERVIEW

Introduction

While most practitioners will claim expertise on most tax issues ranging from personal Income tax to corporation tax and capital taxes the one area that will repeatedly cause some angst is the issue of VAT on property. While every transaction must be looked at on a case by case basis using basic principles and applying them with great care and attention we set out below some guiding points which may be of help in this problematic area.

Basic Principles

1. A new commercial property

A supply of "new" commercial property is liable to VAT at the reduced rate of 13.5%. A building is regarded as "new" if developed in the last 5 years OR alternately if initially developed earlier than that but redeveloped "significantly" within the last 5 years. A "significant" redevelopment is regarded as refurbishment costing greater than 25% of the value of the building.

On the sale of a "new" commercial property the vendor will charge VAT at 13.5% on the sales price of the building and collect it from the purchaser who then can reclaim the vat so charged once they apply the property entirely to a vatable activity i.e. a business on which all income is liable to vat.

An exception arises if the building in question was previously sold and was also occupied for at least 2 of the last 5 years. In that case the building is regarded as "old" for vat purposes.

2. An old commercial property

A commercial building not regarded as "new" within the broad definition above is regarded as "old" for VAT purposes and in that case VAT does NOT automatically apply on the supply or sale of the property to a third party. However, in many cases the vendor will have reclaimed VAT from Revenue when the property was initially acquired by them and to avoid a claw back to Revenue on their part they will normally wish to enter a joint election with the purchaser to apply vat to the transaction.

In this instance it is the PURCHASER who enters the VAT on sale on their VAT Return and, assuming they have full recovery based on the use to which they apply the property, they can also then simultaneously reclaim the VAT as a VAT on purchase. In the case of a purchaser that has full recovery entitlement this has cash flow advantages compared to a situation where a new property is purchased as outlined above where the VAT must firstly be paid over to the vendor and then subsequently reclaimed from Revenue by the purchaser.

3. Residential sales

It should be emphasised that a sale of residential property by a builder will always be in the vat net. Of course in most situations a residential property will then be used by a purchaser entirely for personal use so the issue of VAT recovery will also not arise.

4. Capital goods scheme

In general terms property is regarded as having a tax life of 20 years. This means that at the outset the purchaser of a commercial property will determine at that time the level of VAT recovery based on how they use the property at that time. However they then need to review how they are using the property in each of the next 20 years and if some or all of that building is no longer being applied to activities within the scope of VAT part of the VAT initially reclaimed may be repayable to Revenue.

5. **Letting of commercial property**

It was mentioned above that the ability to reclaim VAT on purchase of a commercial property depends on the use to which it is applied.

If for example a commercial company buys a factory and all products produced in that factory are liable to vat then all things being equal, the company should be able to reclaim all VAT so charged. If the factory is partly sublet then on first principles any rental income is vat exempt which will impact on the purchaser's ability to reclaim the vat on the purchase price.

However, in the case of a commercial property the landlord may opt to tax the rent which means they elect to charge VAT at 23% to the tenant and this will ensure a continuation of entitlement to reclaim the vat on purchase from Revenue.

For completeness however it should be emphasised that this option is NOT available on residential lettings.

Summary

The above should be regarded as a summary of the overriding guiding principles relevant to VAT on property and is not a substitute for a case by case review of relevant VAT law and practice.

SOME IMPACTS OF BUDGET 2016

Some clients have noticed some of the changes from October's Budget on their January 2016 bank statement:

So what are the changes we can look forward to this year?

1. **If you pay income tax** - Cut in the rate of Universal Social Charge (USC)
2. **If you're 66 or over** - €3 weekly increase in the State Pension (Contributory)
3. **If you have children** - Child benefit up €5 to €140 per month

TAXATION PAY & FILE SUMMARY

PAYE

P30 for January 2016	**14 February 2016**
P35 for 2015	**15 February 2016**

Relevant Payments Tax

Monthly return and payment	**23 February 2014**

Corporation Tax

Filing date for Corporation Tax returns for accounting periods ending in 31 May 2015	**21 February 2016**
Payment of Corporation Tax balance for accounting periods ending in 31 May 2015	**21 February 2016**
Preliminary Tax for accounting periods ending in 31 March 2016	**21 February 2016**

Note: *Extended date for certain taxes for customers who both file and pay electronically (via ROS)*

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Don't hesitate to contact me or a member of our team if you would like to discuss any of the issues raised or on any of our services.

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