

BUSINESS matters

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cavanagh|kelly



REIT's Real Estate Investment Trusts

welcome

Welcome to our Spring 2006 edition of the Cavanagh | Kelly newsletter. We trust you will enjoy our insights into many of the topical tax and general business issues. It is our plan to extend our features in the next edition to include a client focus. In this we will seek to promote the innovative and entrepreneurial spirit demonstrated by our clients and invite them to share their business insights with us.

REIT on!



UK Real Estate Investment Trusts (REIT's) are set to come into being from 1 January 2007. REIT's are an established and successful medium for real estate investment in Northern America, Asia and the Pacific region. However, their success here will depend on the number of property companies seeking to convert to REIT status and the likely uptake of investors in these new companies.

The main requirements as regards the companies are: -

- There is a conversion charge of 2% of the gross assets value for those existing property companies converting to REIT status.
- The companies must be quoted plc's on a recognised stock exchange (not the Alternative Investment Market AIM).
- Income from rentals and property gains will be exempt from Corporation Tax.
- At least 90% of the profits from the property rental business must be paid out in dividends within 6 months of the end of the accounting period.

Individuals can: -

- Hold their shares in a Self Select ISA, to ensure there is no further tax on dividends or any capital gains arising from increases in the REIT share value.
- Dividends are received net of a 22% tax deduction by the company and are taxed in the same way as any other Schedule A rental income, at the individuals marginal rate.
- No shareholder can own more than 10% of the share capital of the company.

In theory, the structure should lead to the opportunity for investors to achieve higher returns on their property investments through REIT's - we'll have to wait and see if this is borne out!



Brown's Last Stand...

The Good, The Bad & The Ugly!

Not quite a spaghetti Western, more of a dull soap - but to try and liven it up we've put the main points of our budget commentary in the form of - The Good, The Bad and The Ugly - enjoy!



For full details, please ask for a copy of our own Budget Booklet.

The Good

- Taper relief - remains unchanged, particularly with regard to the 10% tax charge on selected commercial investment property.
- First year allowances for SME's increased to 50%.
- 150% R&D tax credit is extended to more companies but still excludes partnerships and sole traders.
- VCT's and EIS - improvements in the rate of tax relief to 30% (20% was planned) and extended limits.

The Bad

- The PET (Potentially Exempt Transfer) dies a death with the alignment of the Inheritance Tax Treatment of Accumulation and Maintenance and Interest in Possession Trusts with that of Discretionary Trusts. All wills using these types of trusts must now be reviewed.
- The starting rates of 0% and 10% of Corporation Tax on profits up to £10k and £50k have been abandoned - all corporate profits under £300k are now taxed at 19%.

The Ugly

- From 2007 / 08 the filing deadline for Tax Returns is brought forward from 31 January to 30 September - in many cases, just 6 months after the accounts year end!
- Planning Gain Supplement - a new tax is to be introduced after 2008 to tax 'windfall' profits / gains arising on development lands.
- Anti Avoidance - Stamp Duty savings schemes have been abolished. Capital Gains Bed and Breakfast arrangements are extended to cover non residents. Disclosure requirements in respect of tax avoidance schemes are extended.

Partnerships Beware!!

For further information, contact:
Alison.Burnside@cavanaghkelly.com

The Directors Disqualification Unit (DDU) have successfully brought an action against a partnership to have the partners disqualified from acting as company directors for 6 years.

In this case the partners had petitioned the court to wind up the partnership as an unregistered company.

The matters which the DDU considered in determining the period of the disqualification were:

- dishonoured cheques,
- non payment of Crown liabilities,
- taking excessive remuneration
- and continuing to trade when the partners knew or ought to have known the partnership was insolvent.

There has been a marked increase in the number of Directors Disqualification Orders and Undertakings over the past 12 months and this is set to continue to increase in the future.

work in progress



If you want further guidance, contact Mairead Moohan in our Tax Department.

WIPlash- How to avoid it?

All those involved in the professional services arena are now brought within the Urgent Issues Task Force (UITF) guidance note 40 with regard to Revenue recognition and stock and work in progress (WIP) valuation.

This means that for accounting periods ending after 22 June 2005, work in progress (WIP) should be included in your Accounts at its revenue value, not cost. This has the effect of uplifting taxable profits by the difference between cost and sales value of work done not billed – for many Solicitors, Architects, Surveyors etc. this can lead to significant increased one off tax liabilities.

So how can this WIPlash be avoided?

- Carefully consider the value of the work done and make due provision for any uncertainty with regard to its realisable value.
- Review your Letters of Engagement and consider if there is any 'critical event' which triggers your fee becoming due (this can be a double edged sword!).
- Bill clients quicker so as to reduce your WIP and at least have it converted to cash so as to meet the tax uplift.
- Apply to spread the additional tax charge that arises over 3 years as a minimum and potentially up to 6 years for businesses severely effected by the uplift.

selling your business

For further details contact Aeven Daly in our Corporate Broking Team

Getting out 'Quids' in!!

Inevitably the bells toll for every privately owned business, the day to sell and retire or move on to another venture eventually comes.

Generally however, people do not plan prior to sale to get their business in shape before selling. This process of pre sale grooming can help you maximise value on sale:

1. Maintain tidy accounting records for 'hassle free' inspection by would-be buyers – this creates a much better impression.
2. Transfer 'non-earning assets' out of the business prior to putting the business on the market.
3. Think tax! By getting things wrong, you can end up paying more tax than you need.
4. Ensure important contracts are in place.
5. Have a solid & robust business plan.
6. Ensure all 'invisible assets' are documented (e.g. employee's skills or customer base).
7. Maximise profits in the year of sale.

Money Laundering - Awareness & Protection

All businesses must be aware of the implications of the Money Laundering Legislation currently in place, and take steps to protect themselves from inadvertently assisting in this illegal activity.

Money laundering occurs where there is an illegal act by which money is obtained, then 'cleaned' by an apparently innocent transaction. This is not limited to the types of activity one would expect, such as drug offences etc, but can include seemingly benign acts.

It is possible to implement procedures to avoid falling foul of the legislation by first identifying potentially vulnerable areas of your business. These include;

- If dealing in cash, do not accept large sums, particularly from individuals or companies you have not had a history of dealings with. Select a benchmark figure of acceptance, such as £1,000.
- When accepting smaller amounts of cash, be aware of the frequency and amount that has been received to date, or you expect to receive from that individual. Small frequent sums could be indicative of an attempt to launder money.
- Be aware of unusual transactions. For instance, if you are a construction company, and are instructed by an individual out of the area who would usually use another contractor, question why this is the case.
- Ensure that your own books and records are up to date and are an accurate reflection of your business activities.

To assist your business in establishing appropriate policies and procedures, please contact our Business Services Team.



Economic View

INTEREST RATES

	Current	FORECAST - 06 (AIB Treasury)			
		Q1	Q2	Q3	Q4
UK Base	4 - 50	4 - 50	4 - 50	4 - 50	4 - 50
Euro REFI	2 - 25	2 - 25	2 - 50	2 - 75	2 - 75
US Fed Funds	4 - 25	4 - 75	5 - 00	5 - 00	5 - 00

GDP & INFLATION - (Bank of Ireland)

	2005		2006	
	GDP	Inflation	GDP	Inflation
UK	1 - 7	2 - 2	2 - 2	2 - 0
Euro	1 - 3	2 - 2	2 - 3	2 - 0
US	3 - 5	3 - 4	3 - 3	3 - 1

Go Green... Go Interest Free!

loan scheme



The Green Technology Initiative is an interest free environmental loan scheme administered by Invest NI and is open to all Northern Ireland businesses.

Under the scheme, you can apply for a loan of up to £50,000, repayable over three years. Businesses, including new start businesses, are now able to apply at any time for this loan, and may also be entitled to take a repayment holiday of up to 6 months.

To be eligible, companies must employ less than 250 people, and demonstrate that the equipment purchased with the money will have energy cost savings benefits to their business, and environmental benefits. Many projects will be considered as long as they meet the above criteria, but advice should be sought from Invest NI.

We have been successful in securing funding for a number of clients from this source.

If you require any further information please contact our Corporate Services team.

staff news

FORENSIC TEAM COMPLETE EXPERT WITNESS PROGRAMME

Forensic Accounting Team

Congratulations to Des Kelly and Cathal O'Neill on completion of the Cardiff University Bond Solon Expert Witness Course. This has provided valuable training and guidance in the world of forensic accounting from report writing to cross-examination skills when giving evidence.

Des and Cathal lead Cavanagh Kelly's Forensic Accounting team, which also includes 2 law graduates with experience of working in leading legal practices in the UK.

The department offers a wide range of forensic accounting services, including personal injury claims, matrimonial cases, contract disputes, loss of profits and criminal cases.

Please contact Cathal O'Neill on 028 8775 2990 if you wish to discuss these services.

Well Done!!

Congratulations to Alison Burnside who has successfully passed her Joint Insolvency Association Board (JIAB) Final exams. This now means that Alison can take insolvency appointments.

New Promotions:

Fergal Kelly and Alison Burnside have recently been appointed to director level within the practice. Fergal has responsibility for developing our Magherafelt office while Alison leads up our Insolvency and Business Recovery Team.

Congratulations are also extended to Nuala Kennedy and Aveen Daly who have been promoted to senior management positions in our tax and corporate services departments.



Insolvency (N.I.) Order 2005

The new changes to insolvency legislation became effective on 27th March 2006.

The main changes are as follows:

Corporate

- New Administration procedures which changes the focus of the procedure to saving the company and then optimising the return to secured and unsecured creditors, rather than optimising the return to all categories of creditors.
- Loss of Crown Preference - effectively debts due to the Crown in respect of Paye and Vat will become unsecured creditors, and rank with other unsecured creditors. In practice the Crown may be less willing to give time to pay arrangements as they will be wanting to be paid before any insolvency procedure is instigated.

Personal

- Anyone adjudicated bankrupt after 27th March 2006 will be eligible for discharge from bankruptcy after 1 year, and in exceptional circumstances the period of discharge may be less.
- However, reckless individuals may find themselves subject to a Bankruptcy Restriction Order (BRO) of between 2 to 15 years which continues to place the disabilities of a bankruptcy for the period of the order. A register will be maintained by the Insolvency Service of all those subject to a BRO that can be inspected by the public during office hours at the Official Receiver's Office.

If you would like further information, please contact: Alison.Burnside@cavanaghkelly.com

CAVANAGH KELLY EVENTS

personal & corporate
insolvency -
a new world dawns!

- May 16th
Seagoe Hotel, Portadown
12.00 - 1.00pm
- May 17th
Silver Birch Hotel, Omagh
12.00 - 1.00pm

For Further information contact
Aisling Muldoon - 028 8772 1194

land tax issues
& the new A4 / A5
road scheme

- May 18th
Parkanaur House, Dungannon
7.30pm - 9.00pm

Contact Anne Douglas for full
programme details - 028 8775 2990

five city challenge

- June 3rd
Armagh City
3.00pm till finish!!

Cavanagh Kelly staff stride out in
the Ulster Society of Chartered
Accountants' Fun Run in aid of
Cancer Research and local charities.

All forms of sponsorship welcome!!

Don't lose it - UCIT!

A loan fund has been created by UCIT, the Ulster Community Investment Trust for organisations in the community economic sector, which have been established to create jobs and contribute to the needs of a particular area.

The purpose of the loan is to create jobs, and attract investment funds to Northern Ireland and the border Counties. Applicants should be not-for-profit, community based organisations. Loan amounts are flexible, but are between approximately £25,000 and £500,000.

If you believe your organisation may qualify, contact UCIT on 028 9031 5003 for further information and to discuss making an application.

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Where's the Cash?

You may find your business is booming but can't understand where the cash is? Cash flow can be greatly improved by reviewing your current credit procedures and stock control.

Consider the following:

- Implement debtor control procedures. Ensure that all Customers have been credit checked, set a credit limit which cannot be exceeded, regularly remind debtors of their account balance with monthly statements and use follow up telephone calls for payment. If a debt has been outstanding for a considerable period, consider further action.
- Keep your creditors happy – pay on time wherever possible, as this may assist when negotiating pricing and settlement discounts.
- Regularly review all outgoing payments to ensure you are not making any unnecessary payments. Also consider the amount you are paying in Bank Charges, and discuss this with your branch.
- Quarterly or monthly stock takes could enable you to assess the value of stock, and the likelihood of it being sold or used within an acceptable timeframe. Age stock to help reduce wastage, damage and obsolescence – always remember new money buys new goods.
- Effectively manage Work In Progress to ensure your business is always working in the most cost effective and profitable manner by converting WIP into sales and then cash in as short a timeframe as possible.

Please contact us to discuss the ways in which your business can improve its cash flow.

PARTNERS:

J.J. Cavanagh B.A. Dip. Ed. F.C.A. M.A.B.R.P.
D.A. Kelly B.Sc. (Econ) F.C.A.

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