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Setting the Scene:
Irish Business in 2011
Kevin Egan

Irish Business

The major thematic challenges!

- Outlook for global growth?
- Does the Euro have a future?
- Impact of Budget 2011 and fear of Budget 2012
- Competitiveness and the return of inflation
- Availability of finance for producers and consumers

What are CEOs saying about Irish & Global business?

Annual PwC survey

2011 Irish survey:

182 survey participants from **11** industry sectors

56% Irish headquartered; **44%** inward investors

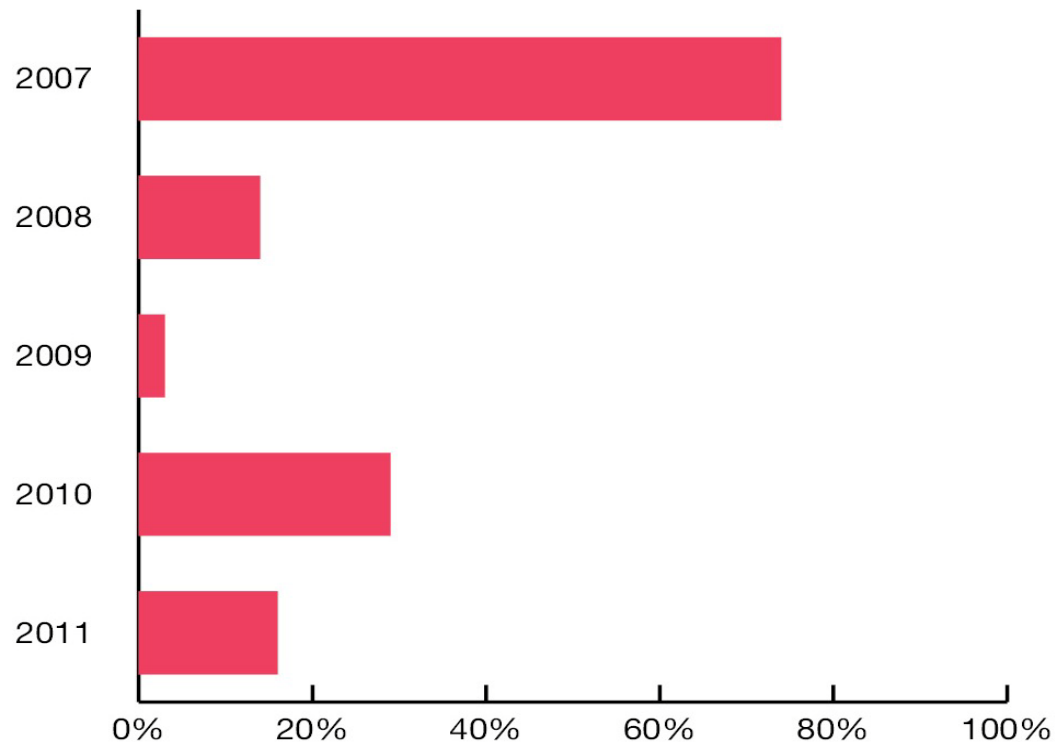
2011 Global survey:

1,200 interviews with CEOs in **69** countries

Selection weighted by GDP

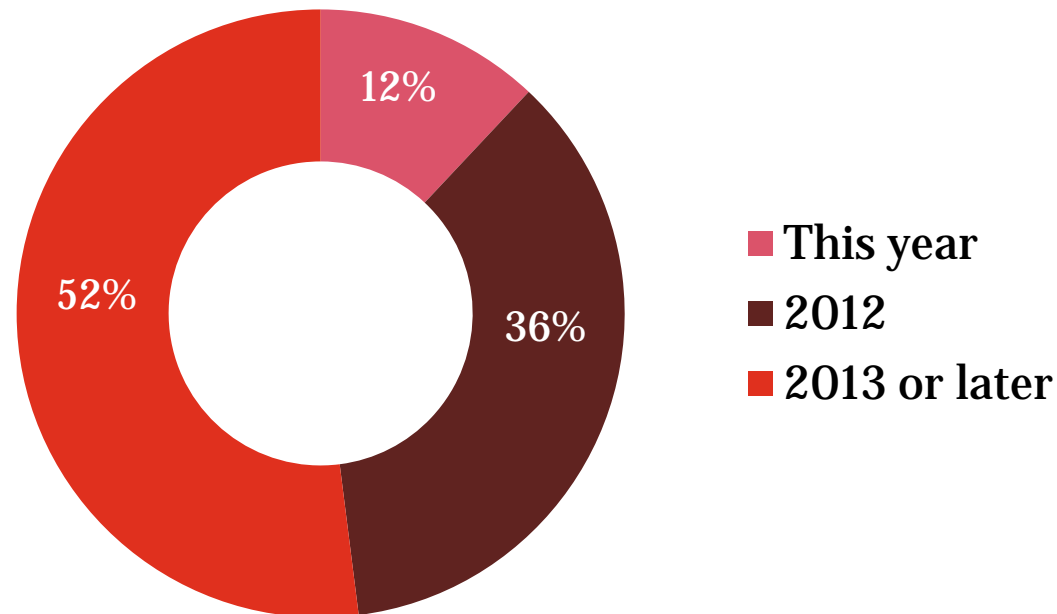
Irish CEOs not counting on a growing economy...

Favourable outlook for the Irish economy: 2007 – 2011



Irish CEOs not counting on a growing economy...

When will Ireland's economy return to growth?

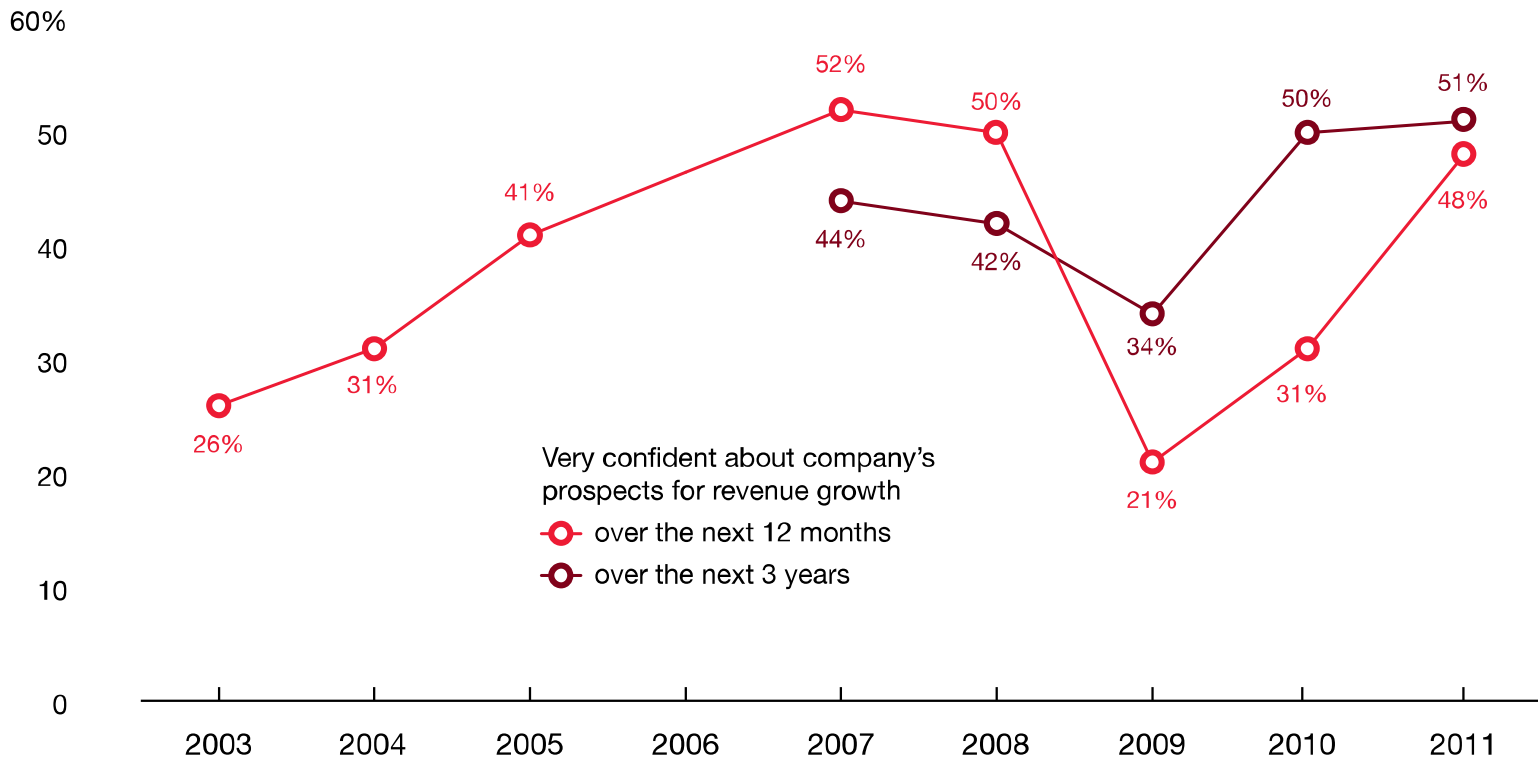


... but much more bullish about their own businesses!

2011 CEO Expectations	Growth %	Decline %	No Change %
Revenues	54%	22%	24%
Profits	49%	25%	26%
Employment	33%	30%	37%
Investment	32%	19%	49%

Global CEOs are no more confident than Irish CEOs!

Q: How confident are you about your company's prospects for revenue growth over the next 12 months/3 years?



Is this reasonable ... or even credible?

Which economy?



Why might Irish business outperform the Irish economy?

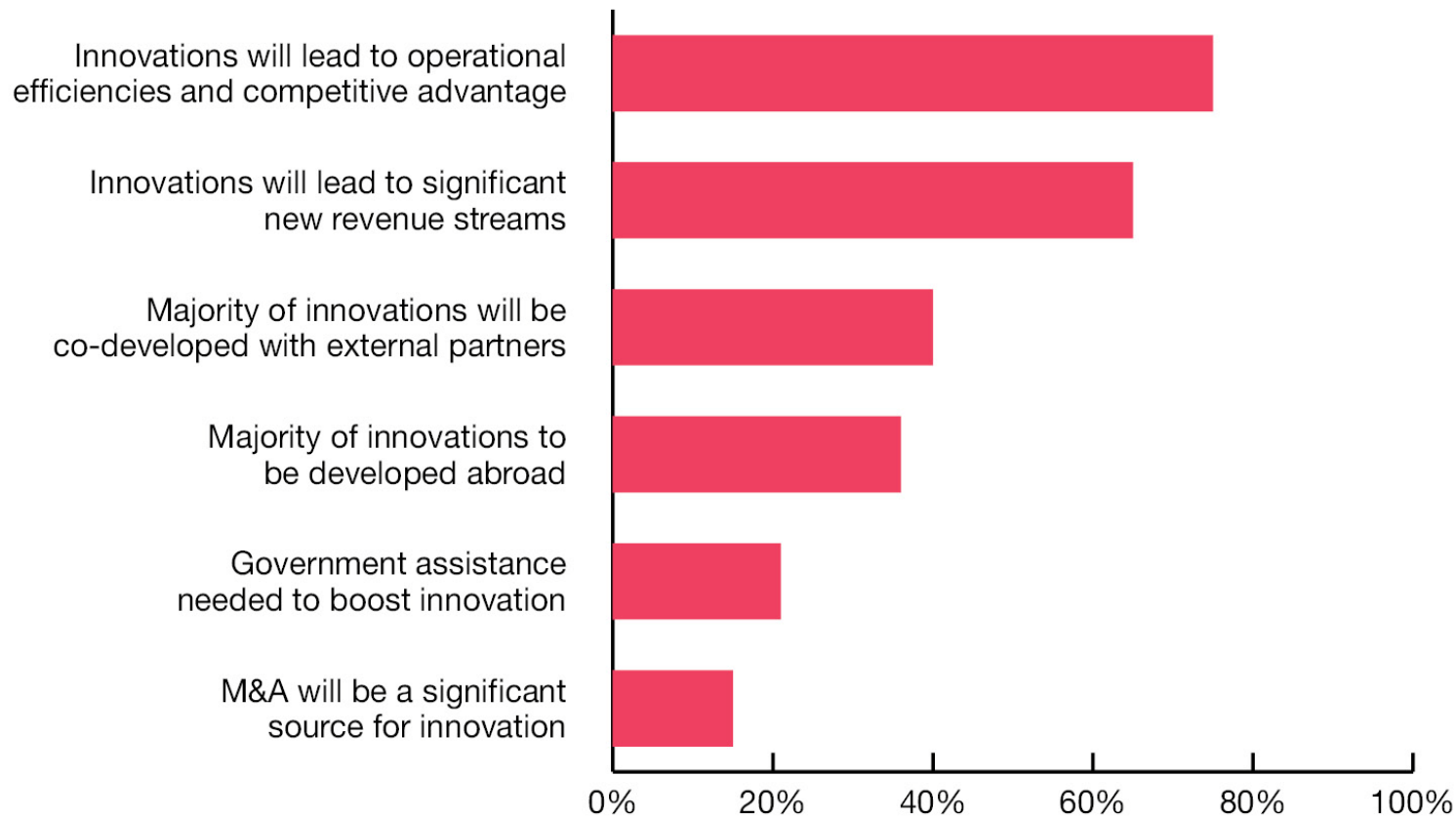
Management teams focusing on reshaping business models for 'new normal' conditions of:

- Reduced demand
- Changed consumer behaviour
- Greater competition

Strategies to emerge stronger from the recession are driving incremental improvements in:

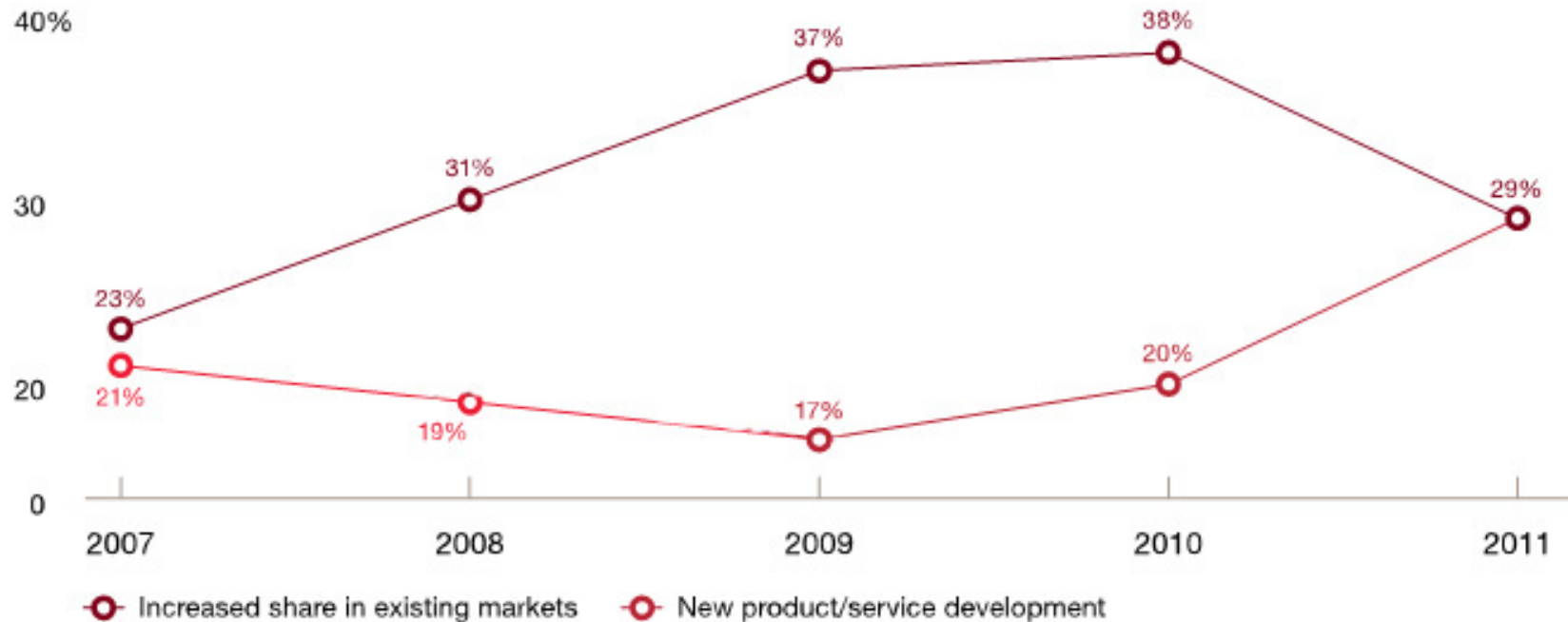
- Product service offerings
- Sourcing
- Productivity
- Customer experience
- Market entry strategies
- Distribution
- Brand identity/promise
- Cost containment

What are Irish CEOs telling us about innovation?



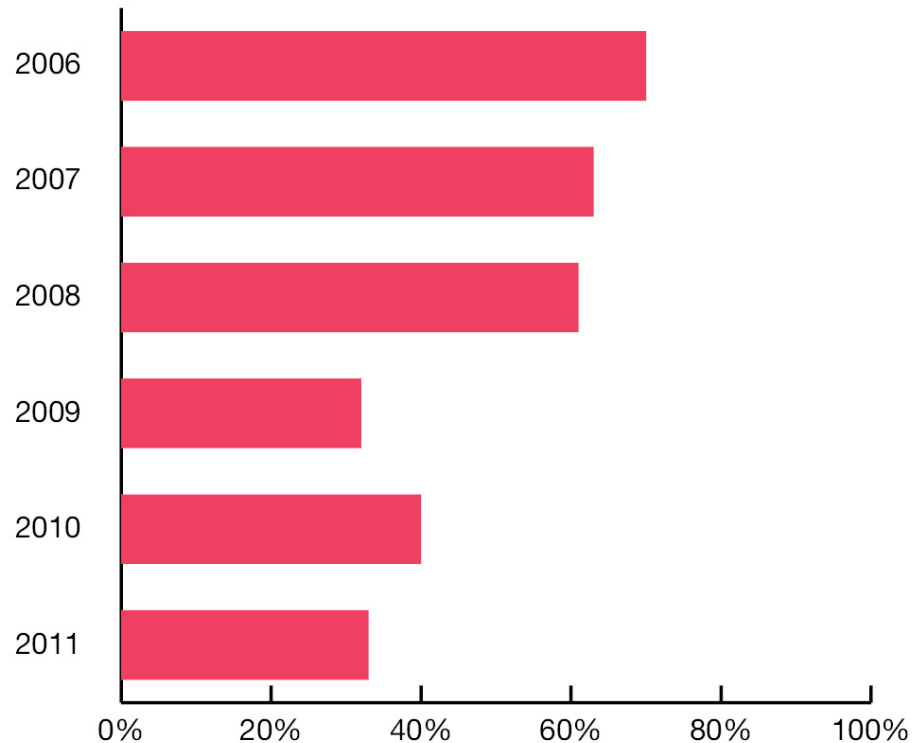
Global CEOs agree!

Q: Which one of these potential opportunities for business growth do you see as the main opportunity for your business in the next 12 months?



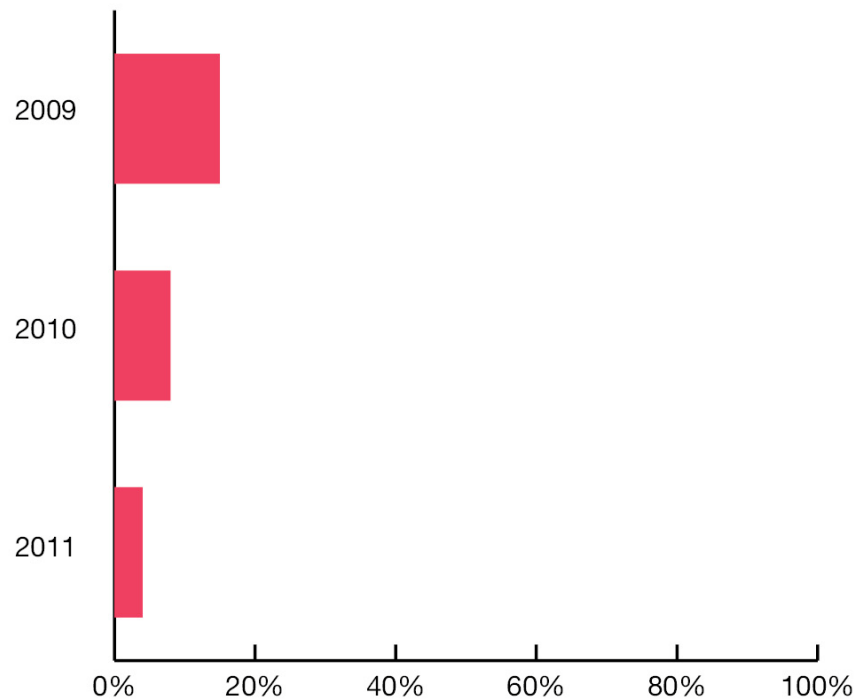
Irish CEOs expect a net increase in FDI

**MNCs considering additional investment in Ireland
(% of MNC respondents)**



Irish CEOs expect a net increase in FDI

**MNCs closing existing operations in Ireland & relocating abroad
(% of MNC respondents)**



World Competitiveness Rankings

Ireland's position

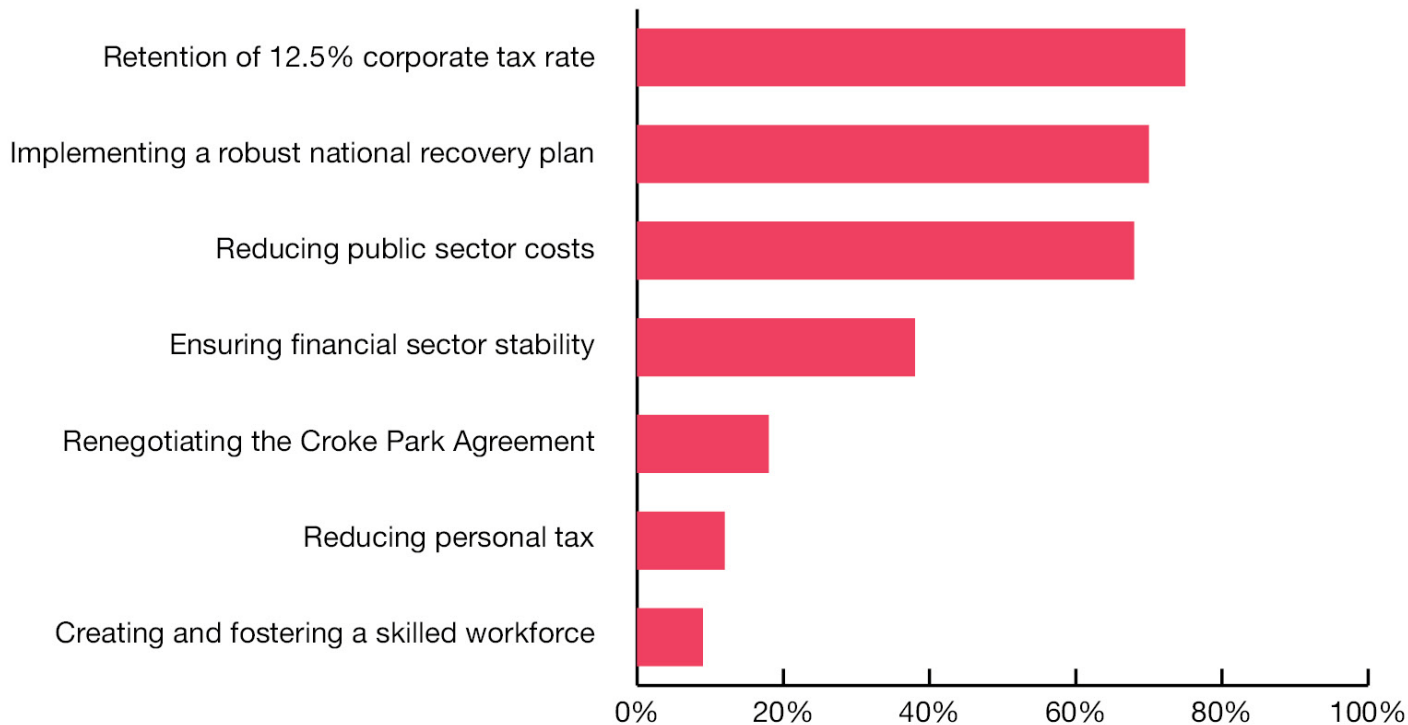
- 1st*** for real corporate taxes
- 1st*** for business legislation for foreign investors
- 1st*** for investment incentives for foreign investors
- 1st*** for availability of skilled labour
- 2nd*** for immigration laws
- 3rd*** for availability of finance skills
- 4th*** for labour productivity
- 5th*** for Human Development Index (economic, social & educational)

World Competitiveness Rankings

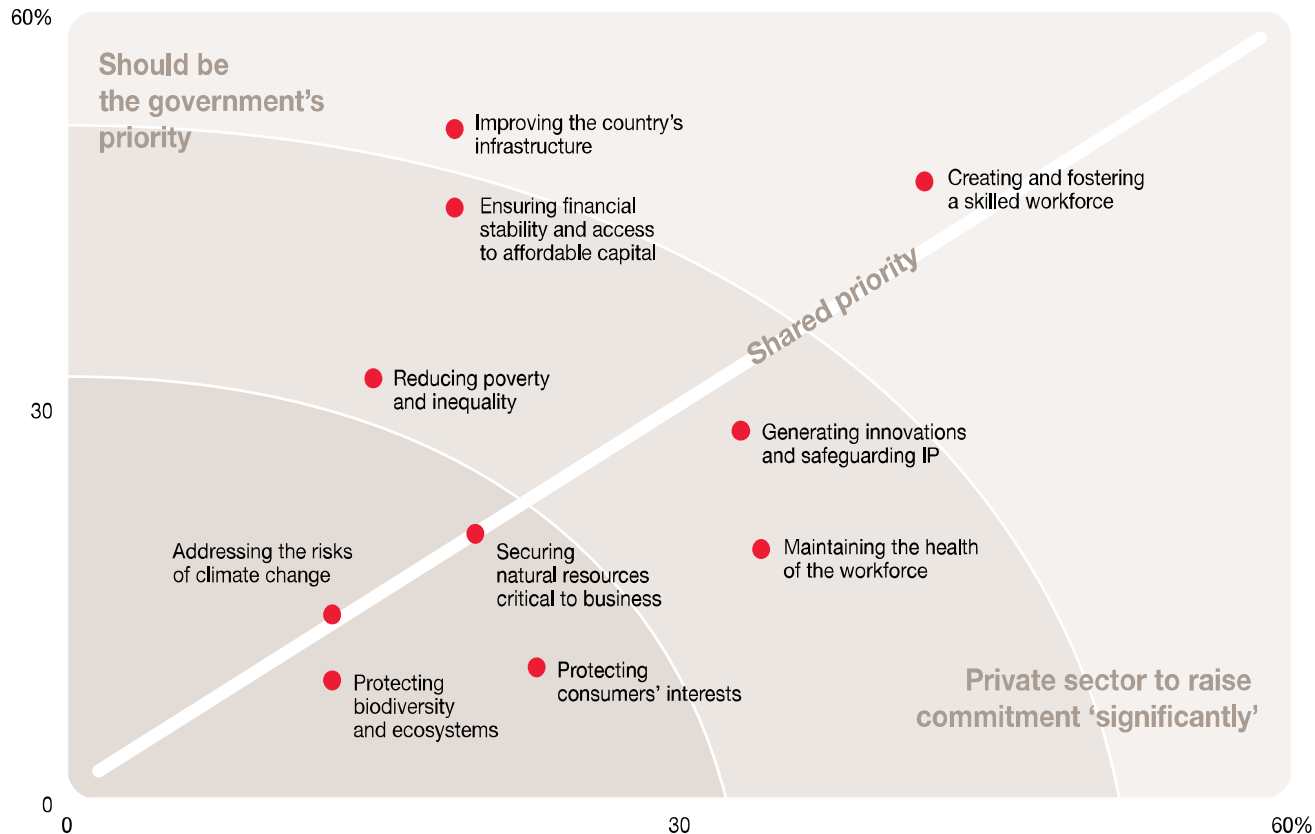
- IBM Global Location Trends Report– ***Number 1*** for FDI per 100,000 population
- National Irish Bank / FDI Intelligence - ***Ireland 2nd*** most attractive country ***globally*** for FDI
- Forbes 2010 – ***1st*** in Eurozone Best Countries for Business

What does Irish Business want from Government?

Priorities for Government in the year ahead (*% of respondents*)



What do Global CEOs want from Governments?



Base: All respondents (1,201)

Note: CEOs were asked how much their companies plan to increase commitments to achieve these outcomes; and what should be the government's priority.

The plot shows percentages of CEOs who chose each of these areas. Multiple choices were allowed

Source: PwC 14th Annual Global CEO Survey

Agenda – Monday, 7 November 2011

Speaker	Topic
Kevin Egan	Welcome: Irish business in 2011
Terry O'Rourke	The state of corporate reporting
Jim Power	The economic outlook
Coffee Break	
Feargal O'Rourke	Current tax environment
Hamish Taylor	Lessons in innovation from other industries
Kevin Egan	Wrap-up & close
Drinks Reception	

The State of Corporate Reporting

Terry O'Rourke

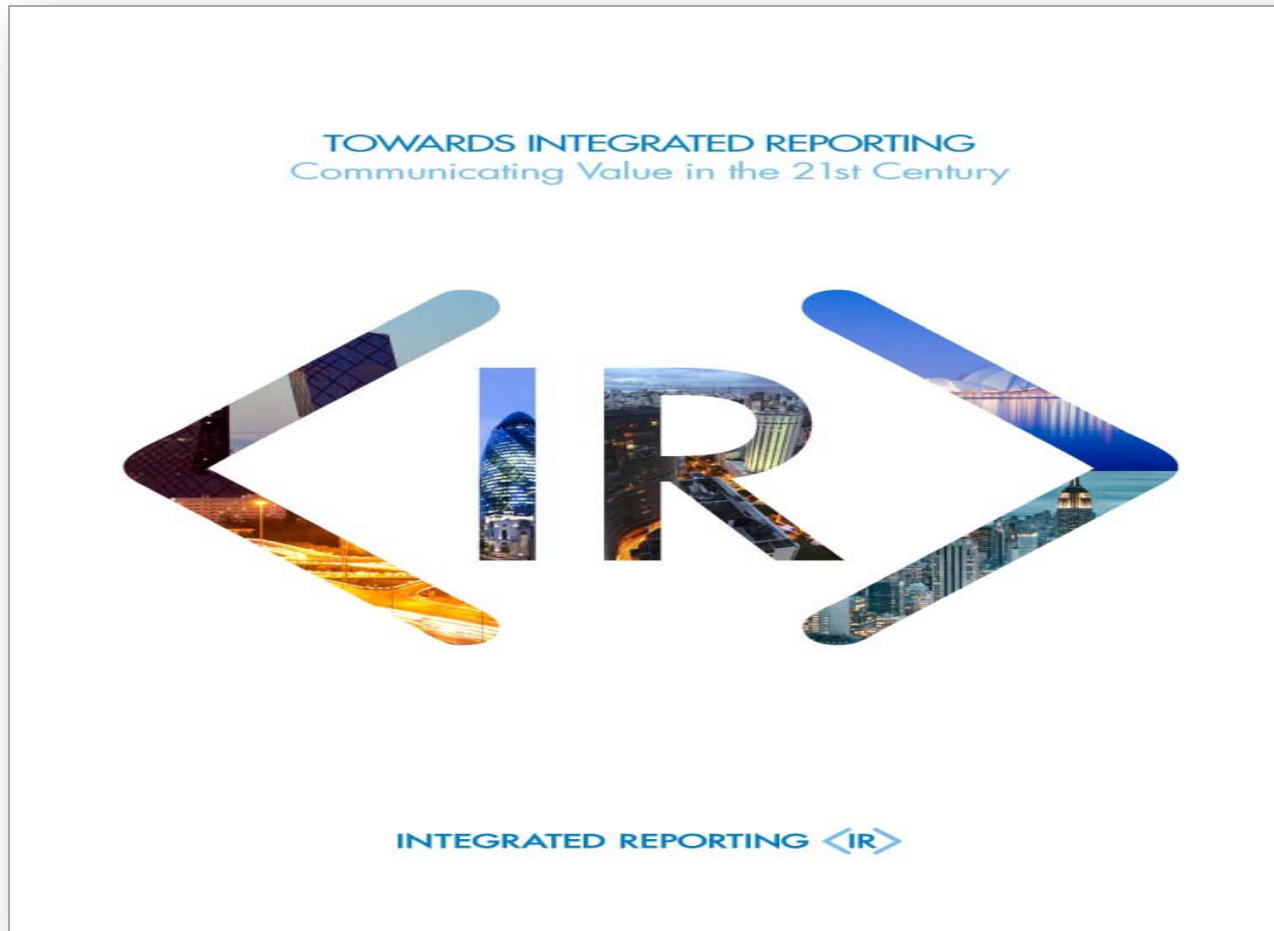
The State of Corporate Reporting



Corporate Reporting – Fit for Purpose?

- What is its purpose?
- Is this being achieved?
- Financial v non-Financial Reporting

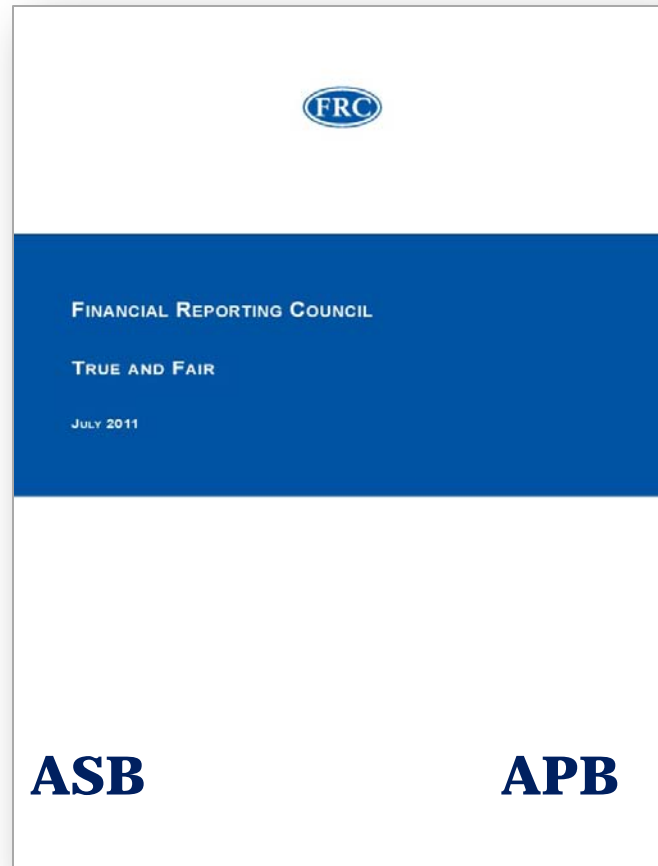
Corporate Reporting – Fit for Purpose?



Corporate Reporting – True & Fair?

- Law demands True and Fair
- What is True and Fair?
- UK ASB and APB Joint Statement

True and Fair – Under Pressure?



The State of Corporate Reporting



Corporate Reporting – Compliance?

- What do the Regulators say?
- Greater role for Audit Committee
- Areas of focus in current environment

Corporate Reporting – Compliance?



**OBSERVATIONS ON SELECTED FINANCIAL
REPORTING ISSUES**

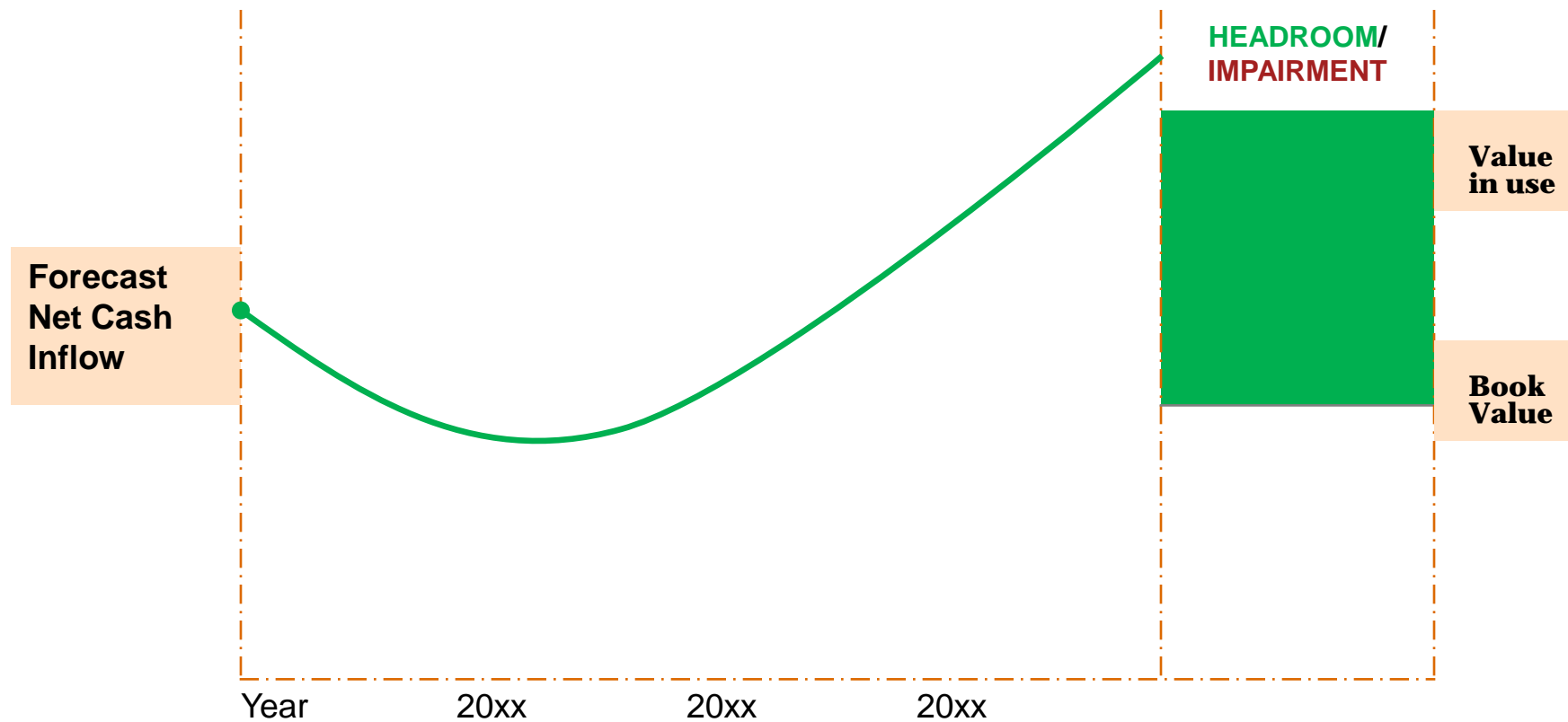
**ISSUERS' FINANCIAL YEARS ENDING ON OR
AFTER 31 DECEMBER, 2010**

1

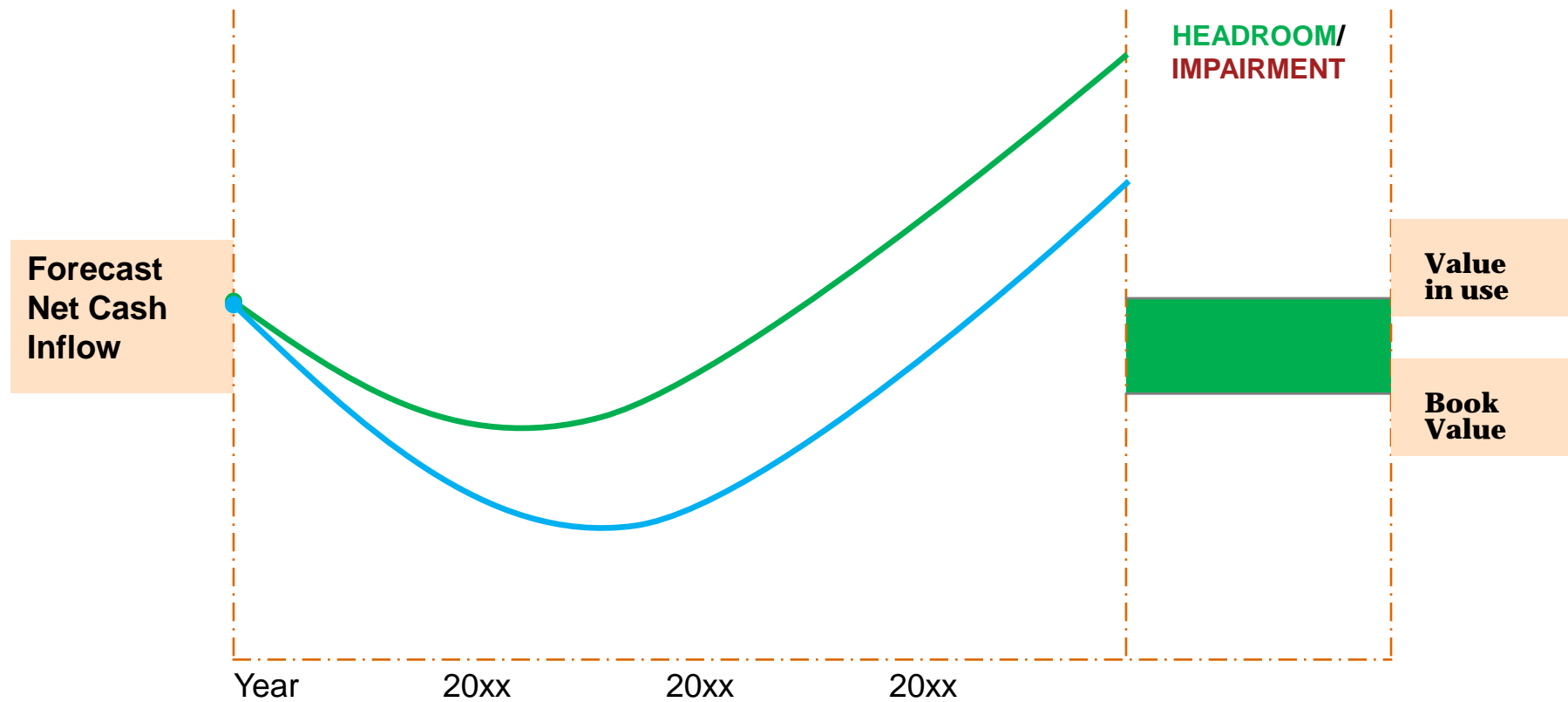
Corporate Reporting – Impairment

- Write down assets to recoverable amount
- Usually based on value in use
- Discount forecast cash flows

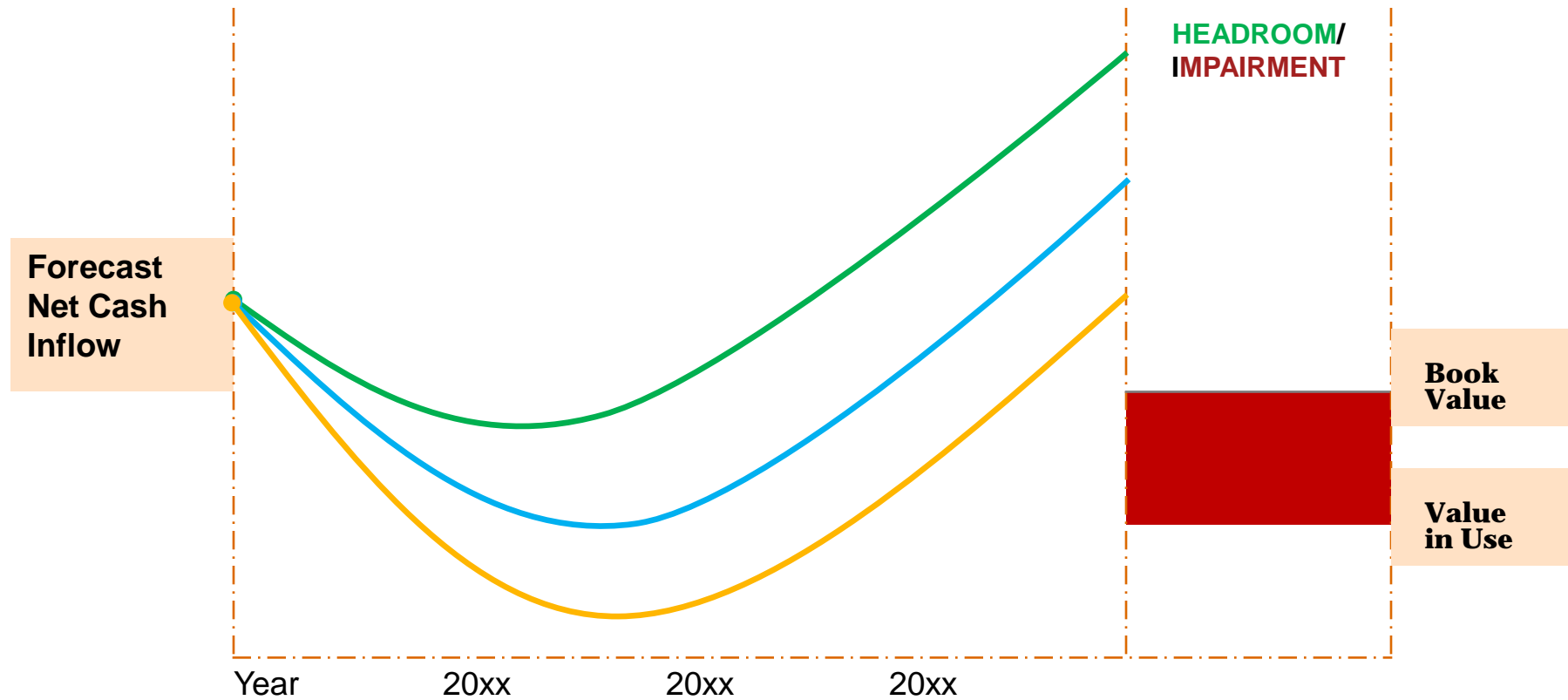
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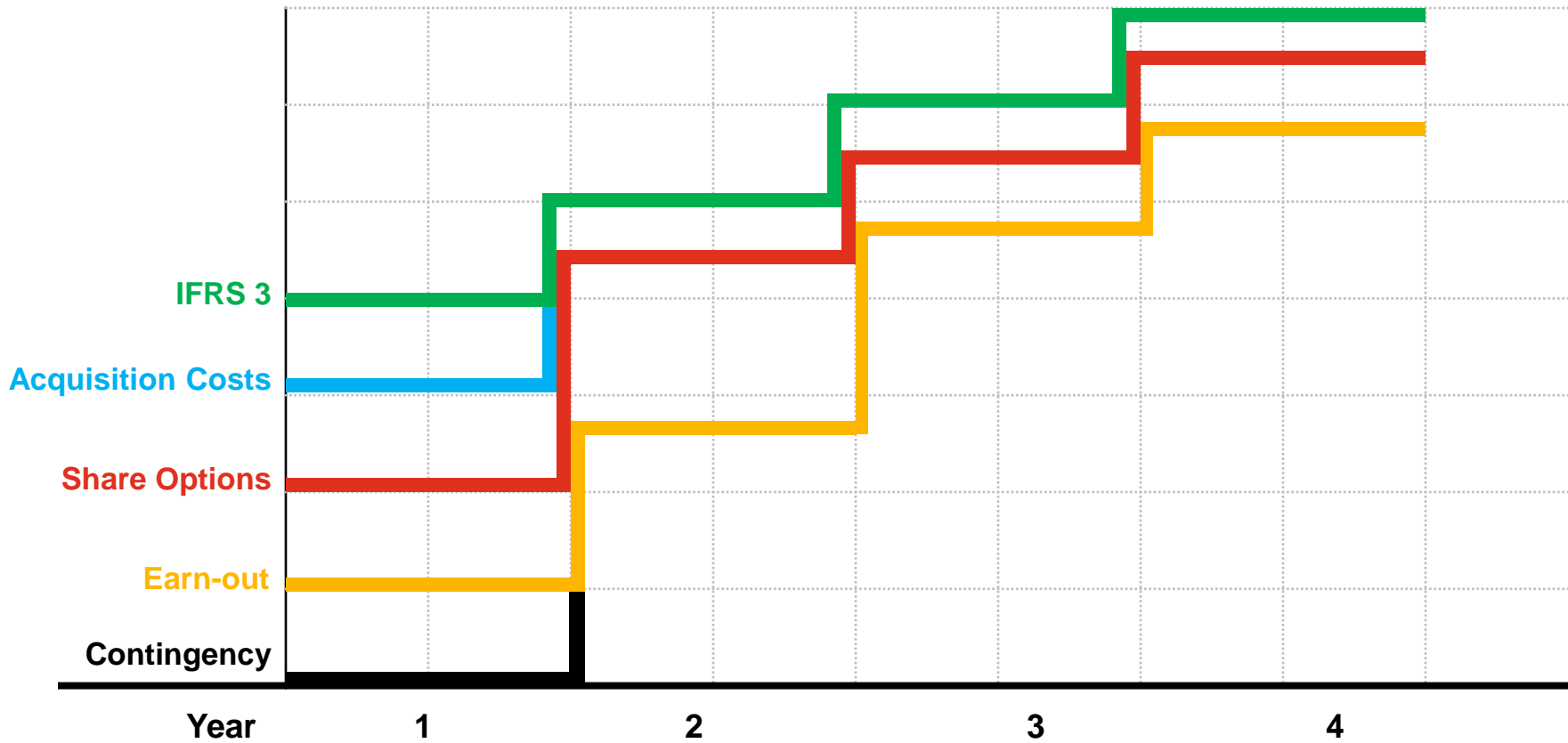
Corporate Reporting – Impairment



Corporate Reporting – Acquisitions

- Not long since we took on IFRS 3 – 2005
 - Recognising intangible assets → Amortisation
 - Not amortising goodwill → Impairment
- Now getting used to IFRS 3R – 2010

Post acquisition Profit – IFRS 3R



Corporate Reporting – Financial Risk Management

- Getting used to IFRS 7 disclosures
 - Credit risk
 - Market risk

Corporate Reporting – Financial Risk Management

- Getting used to IFRS 7 disclosures
- Greater relevance of FRM / IFRS 7
 - Liquidity risk, capital management & going concern

The State of Corporate Reporting



Corporate Reporting – Changes Afoot

- Trend toward better narrative reporting
 - EU rules
 - Stock exchange rules
 - UK Government proposals

Corporate Reporting – UK Government Proposals

BIS | Department for Business
Innovation & Skills

**THE FUTURE OF NARRATIVE
REPORTING**

Consulting on a new reporting
framework

SEPTEMBER 2011

Corporate Reporting – Changes Afoot

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 - EU rules
 - Stock exchange rules
 - UK Government proposals
 - **Market demand**

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- **IFRS continually changing**

Corporate Reporting – Changes Afoot

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 - Market demand
- IFRS continually changing
- **UK / Irish GAAP set to change fundamentally**

IFRS Changes

- **IFRS 10 – 13 issued in 2011**
 - **Control, consolidation, investments in other entities**

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- **IASB future agenda up for grabs**
 - **US GAAP convergence?**

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 - **“Condorsement”?**

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 - US GAAP convergence?
 - “Condorsement”?
- **IAS 19 rules on pensions changed**

IAS 19R – Defined Benefit Pensions 2013

Scheme Assets	400
Scheme Liabilities	<u>600</u>
Net Deficit	<u>200</u>

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P&L	IAS 19
Service Cost	(80)
Expected return on assets @ 8%	32
Interest on Scheme Liabilities @ 5%	(30)
Interest on Net Deficit @ 5%	<u>N/A</u>
Net P&L Charge	<u>(78)</u>

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Additional OCI credit	N/A	<u>12</u>

ASB – The Future of Irish / UK GAAP

- **Current state of Irish GAAP**

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- **ASB proposals for change**
 - **Tier based system**

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- **The role of FRSME**
 - **Financial Reporting Standard for Medium-Sized Entities**

ASB – The Future of Irish / UK GAAP

- Current state of Irish GAAP
- ASB proposals for change
 - Tier based system
- The role of FRSME
 - Financial Reporting Standard for Medium-Sized Entities
- **To be re-exposed**
 - **Revised proposals**

ASB – The Future of Irish / UK GAAP

- **Areas of significant change include:**
 - **Financial instruments / derivatives**
 - **Acquisition accounting**
 - **Deferred tax**
 - **Disclosures; financial institutions**
 - **Special regime for subsidiaries**

ASB – The Future of Irish / UK GAAP

- Areas of significant change include:
 - Financial instruments / derivatives
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 - Deferred tax
 - Disclosures; financial institutions
 - Special regime for subsidiaries
- **2014?**

The State of Corporate Reporting



Auditor's Role

Perceived wisdom

- Vital role to play
- Scope could be expanded
- Sceptical enough?
- Reporting duties could be expanded

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**Short Term
Consequences**

- Likely to become more probing
- Fraud risk
- Estimates, judgments, representations

The State of Corporate Reporting

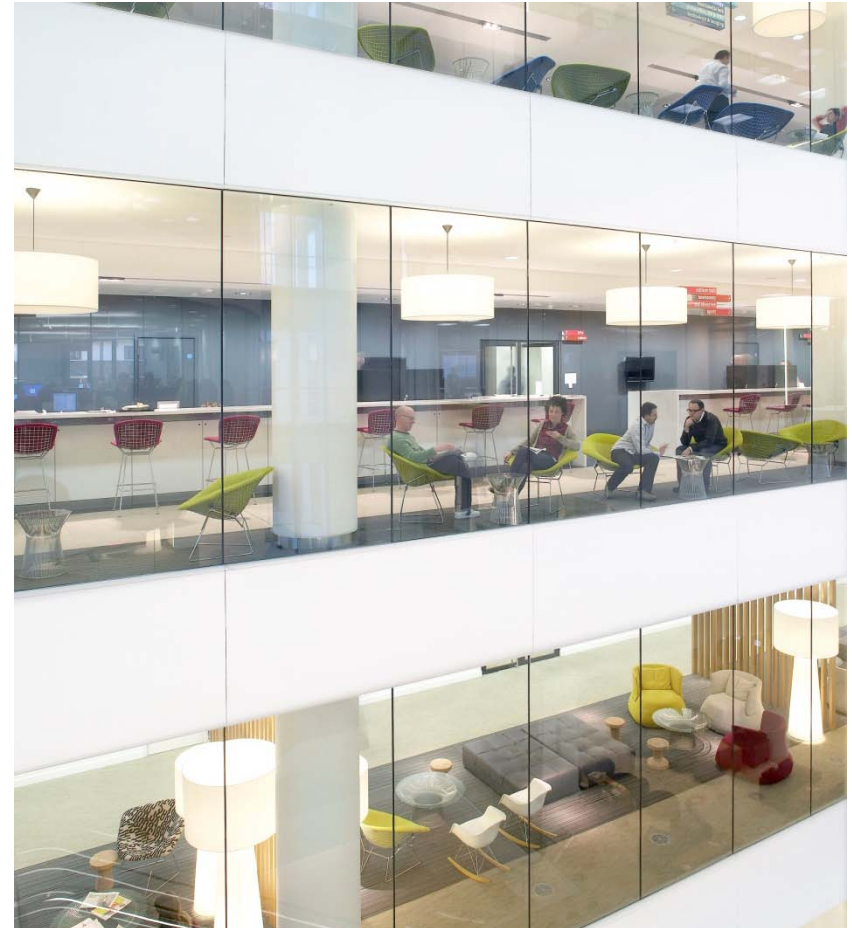


Current Tax Environment

Feargal O'Rourke

Three Themes

1. External Influences on the Irish Corporation Tax System - Update
2. Anti Avoidance – Upcoming Supreme Court Decision
3. “The State of the Nation” – Exchequer Revenues and a look at Budget 2012



External Influences on the Irish Corporation Tax System - Update

1



Croatian Accession Treaty

- Irish request for Treaty amendment to cover taxation
- Throwback to Lisbon II
- Why do we need this?
- A Croatian solution to an Irish problem
- Possibility of mischief making from “the usual suspects”?

“Worry Factor” – Low. It’s about optics and not substance, but it could generate some “heat”

CCCTB

- Why are we exercised about CCCTB – the lethal “C”?
- Why are the Germans exercised about CCCTB?
- German Federal Ministry of Finance – May 2011 – El Alamein?
- Ultimately it is a zero sum game – ergo CCCTB has to be mandatory

“Worry Factor” – Falling slowly. The moment of danger on CCCTB has passed, but in the EU, a bad idea never goes away

CCTB

- The dropped “C” removes a lot of the opposition
- A lot of the work already done as part of CCCTB
- Hard to argue against if it is optional – but reality is that it would have to be mandatory
- What should Ireland's position be?
- Loss of nimbleness and inability to engage in “fair tax competition”
- Tax rate differential is more transparent

“Worry Factor” – Rising slowly and who knows where it may end

EU moves in light of the GFC

- “Never waste a good crisis” – Merkel and Sarkozy adhering to this
- August 16th meeting
 - Twice yearly meetings of Eurozone Heads - “Eurozone Economic Government”
 - A European tax on financial transactions
 - Common France / German tax system to cover base and rate by 2013
- Where might this go and what does it mean for the existing Treaty arrangements in place? Enhanced cooperation?

“Worry Factor” – Are we close to being “through the looking glass”? Hard to envisage such fundamental upheaval – but we are in extraordinary times

US Developments

- Nothing is going to happen this side of November 2012
- However something has to happen post that!
- How might this impact on Ireland?
- Congressman Dave Camp (R-MI) House Ways and Means Committee Chairman's discussion draft of 26/10/11
 - Repatriation of profits
 - Pre enactment profits
 - IP
 - Excess returns
- Other influences

“Worry Factor” – Past efforts would indicate little to worry about here but US tax system seems broken and in need of fundamental reform. 2012 election results will determine course

Anti Avoidance – Upcoming Supreme Court Decision

2

Anti Avoidance – Supreme Court Decision

- Background to General Anti Avoidance Legislation – Patrick McGrath and Others v JE McDermott (Inspector of Taxes) [3 ITR 683]. Supreme Court Decision in 1988
- Section 86 Finance Act 1989 (now Section 811 TCA 1997)
- "Tax Avoidance Transaction"
- Use of Section 811 to date
- 15 Notices of Opinion in 2009 – 114 in 2010 !
- 4 Section 811 Protective Notices in 2009 – 31 in 2010
- Two published Appeal Commissioners Decisions to date – both in favour of the taxpayer

Anti Avoidance – Supreme Court Decision

- Where is “the line” on “tax avoidance” – UK and Canadian Case law
- The Revenue Commissioners v O’Flynn Construction Co Ltd, John O’Flynn and Michael O’Flynn
- Supreme Court Decision imminent
- Wider dimensions of judgement in context of evolving (global) tax environment

***“The State of the Nation” - Exchequer
Revenues and a look at Budget 2012***

3

From Peak to Trough

	2007	2010	2011 estimate*
	€bn	€bn	€bn
VAT	14.5	10.1	10.23
Customs and Excise	6.1	4.9	4.94
Income Tax	13.6	11.2	14.10
Corporation Tax	6.4	3.9	4.00
Stamp Duty	3.2	0.9	0.95
CGT	3.1	0.3	0.35
CAT	0.4	0.2	0.25
Total	47.3	31.5	34.82

Medium Term Fiscal Statement – 4 November 2011

- €3.8bn adjustment envisaged for 2012
- €12.4bn over the four year period 2012 – 2015
- Split between taxes and expenditure cuts is a compromise between both Parties' election manifestos
 - Labour 50/50 : cuts to taxes
 - Fianna Gael 72/28 : cuts to taxes
 - 4 Year Plan 62.5 – 37.5 : cuts to taxes

Adjustments 2012 - 2015

	2012	2013	2014	2015
	€bn	€bn	€bn	€bn
Tax Raising	1.6	1.25	1.1	0.7
Expenditure Cuts	2.2	2.25	2.0	1.3
	3.8	3.5	3.1	2.0

But is it enough?

Budget 2012 – What we do know

- “Government’s objective not to make any further *substantial* changes to income tax in Budget 2012”
- This would indicate no increase in tax rates / PRSI/ USC. Marginal rate to therefore remain at 52% (55% self employed)
- Continued erosion of credits and bands not as clear-cut.
“Maintaining the current bands, credits and rates in the years 2013 – 2015 will be dependent on making progress on expenditure reductions and tax changes in other tax areas to ensure that the overall budgetary targets for the period are met”

Budget 2012 – What we do know (contd)

- Income level at which top tax rate is hit (single person)

Single Person		
US (Boston)	\$373,650	40.3%
Germany	€250,731	45%
Spain (Madrid)	€175,000	44.9%
UK	£150,000	50%
France	€70,830	41%
Ireland	€32,800	48%

Budget 2012 – What we do know (contd)

Effective Tax Rates

	Single person on €40,000	Single person on €100,000
2008	18.6%	33.8%
2011	24.2%	40.9%

Budget 2012 – What we do know (contd)

- “Proposals in the area of VAT, Excise Duties and Carbon Tax are being examined to see how indirect taxes can assist the Government in meeting commitments under the EU / IMF Programme. This will be done in the context of the Programme for Government commitment that any increase in VAT will limit the standard rate of VAT to 23%”
- **VAT rates 1991 – 2011**
 - 1 March 1991 21%
 - 1 January 2001 20%
 - 1 March 2002 21%
 - 1 January 2009 21.5%
 - 1 January 2010 21%
- Impact on a fragile retail economy?
- Will VAT receipts rise?
- “Fat taxes”

Budget 2012 – The Grapevine

- Property Changes
- Carbon Taxes
- Pensions
- Special Assignment Relief Programme \ Skills Gap
- Patents
- Capital Taxes
- Corporate Sector

Property Changes

- €100 householder charge
- As a precursor to.....?
- CoT options
- What about “Legacy Property Reliefs”?



Carbon Taxes

- Need to “encourage behavioural change” and “reduce greenhouse gas emissions”
- But also need to raise revenues



Pensions

- Current Annual Earnings Cap €115,000 and current pension “pot” limit is €2.3m
- Different philosophical approaches pre election but the differing strands have become accretive and not alternatives!
- In response to a recent Dail question, Minister Noonan said “Full year yield to the Exchequer from reducing the current annual earnings cap of €115,000 to €80,000 and confining tax relief to the standard rate of 20% in respect of individual contributions to occupational pension schemes, RACs and PRSAs would be about €550m”
- Further reduction of €2.3m cap (€1.2m - €1.5m?) and Earnings Cap (€60,000??) as quid pro quo for marginal rate relief

Special Assignment Relief Programme / Skills Gap

- Abolition of remittance basis combined with high marginal rates having an impact on certain high value inward investment projects.
- Existing SARP not fit for purpose
- Possibility of a “new regime” not a runner
- Can SARP be fundamentally reformed and what might a new regime look like?
- Political landscape may now favour this
- A Skills Tax Credit as an alternative?

Patents

- “While not holding out any hope of reversing what was done last year, I will re-examine the scheme....to see whether it could be focused on companies which are inventive but have small turnovers. Any reinstatement of the relief would apply only to a small tranche of income.....the previous threshold of €5m was very high” – Minister for Finance Michael Noonan TD
- Interaction with R&D Tax Credit and IP Tax Regime
- Key elements of 21st Century “Knowledge Economy” tax system

Capital Taxes

- **CGT / CAT reduced from 40% to 20% - 1997**
 - **15/10/08 to 07/04/09 – 22%**
 - **08/04/09 to date – 25%**
- **Is 30% the next move? (A political as opposed to an economic change)**

Corporate Sector

- Are there measures which could be brought in to “pay for” the 12.5% rate of tax?



In Conclusion

- **We live in a time of unprecedented economic flux- and taxation clearly not immune from this**
- **The key economic pillar of a low tax regime for FDI export and domestic business is still standing strong – but external influences are still swirling**
- **The Revenue may - or may not - have a strong Supreme Court ruling in their pocket to attach what they perceive as “tax avoidance” – watch this space!**
- **Budget 2012 will be eventful! See you here at our Budget Briefing on Wednesday 7th December!**

Thank you

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