

Failing to plan...

*Jarlath O'Keefe, Tax Partner
Ernst & Young speaks to
Business Ireland about
straightforward ways to plan
effectively and efficiently
when it comes to taxes.*



relatively easy to implement and should not require changes to existing commercial arrangements. Many businesses recover VAT based on when a purchase invoice is entered into the system. Under VAT legislation, you are entitled to reclaim the VAT incurred on a purchase invoice in the VAT period in which you receive the invoice and not in relation to the date on which the invoice is entered into the system. For example, under Irish legislation, if you receive a VAT invoice dated February 27th 2011 you can recover the VAT incurred on your January/February VAT return which is filed in March.

Similarly, some businesses are not aware of the VAT rules in respect to bad debts. VAT can be recovered when the debt goes bad and where you can demonstrate that appropriate efforts have been made to collect the debt. You do not have to wait until the debt is written off in your annual accounts. You can also reduce your exposure to penalties or interest by undertaking a periodic review of your accounts payable (AP) and accounts receivable (AR) process to ensure that there are no exposures. You should also ensure that you are up to speed with legislative changes. Some businesses do not recover VAT incurred in other jurisdictions. Others do not efficiently manage the VAT process therefore in one scenario this can result in a real cost while in the other may be a cashflow cost. The important thing to note is that such VAT is often recoverable and that it is possible to maximise the time line for recovery to manage cashflow. Ensure VAT recovery on employee expenses is maximised.

PRACTICAL IDEAS

On the accounts payable side you should:

- Where possible eliminate paper
- Integrate ERP systems
- Improve payment terms
- Take payment discounts
- Review procedures
- Communicate with suppliers
- Train personnel

On the accounts receivable side you should:

- Decrease collection cycles
- Tighten credit policy
- Reduce credit terms
- Shorten invoice process
- Reduce billing errors

Delay payment of VAT as far as possible. Where a supply is made in the last days of a VAT period, consider delaying the issue of an invoice until the beginning of the next VAT period. Confirm that you have applied VAT correctly on sales, i.e. have you charged VAT on goods/services which should attract a lower VAT rate. This provides a number of cashflow benefits. Most intercompany transactions can be completed VAT free and compliance costs are reduced. It is also possible that VAT recovery may be increased if a company with only partial recovery is included in a VAT group.

Ensure that the optimum method is used and that the resultant rate is rounded up to the next whole number. Businesses can apply for an import VAT deferment account to postpone the payment of import VAT. If your business is in a repayment position, consider filing monthly VAT returns. In terms of working capital efficiency it is important that you maintain a good balance of inventory, e.g. do not over/under stock, rationalise warehousing and manage 'just in time' deliveries.

VAT can be an integral part of the above. You can help the accounts payable side by speeding up VAT deductions, deferring import VAT or by planning for acquisitions. The suggestions outlined in this article may appear to be straightforward but experience has taught me that best practice is not always followed.

Clearly these are difficult economic conditions for businesses of all sizes to navigate. However, while we await the inevitable upturn in the economic cycle there are opportunities in cashflow planning to take advantage of some simple VAT measures which will provide real benefits.

In this environment all businesses who seek to improve their cashflow must move VAT up the agenda. It should be understood that the proactive management of VAT can reduce drain on working capital, provide a much needed cashflow injection, reduce costs and prevent cash being lost unnecessarily. Therefore, by taking action, you can generate cash which can be used to reduce borrowing, reinvest or to distribute to shareholders and reduce costs.

ACTIONS TO IMPROVE CASHFLOW

There are a number of simple actions that can improve cashflow in a wide variety of industry sectors. The ideas outlined are