

# STAYING AFLOAT

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IN 2007 WE WERE PLUNGED INTO THE LITTLE KNOWN WATERS OF FINANCIAL CRISIS AND TO DATE HAVE REMAINED THERE. SO, HOW CAN WE CONTINUE TO STAY AFLOAT?

We are all too familiar with the recurring questions – What next? Where do we go from here? When will it bottom out? When will we see the “Green Shoots” of recovery?

The answer to the questions on what the future holds actually lies in the present. We need to deal with our temporary cash flow difficulties now before we can reach the bottom and start recovering.

In dealing with the situation, businesses need to identify the viable and non-viable parts of their operations and make tough decisions in weeding out the non-viable ones.

The area of costs and getting them into line with competitors and other countries along with looking to increasing sales has to be tackled.

Another vital area that businesses need to address in order to help stay afloat is the efficient and effective management of their debts.

So how can you do this? There are many options available and listed below are just some of these.

## BANK LOANS AND OVERDRAFTS

Talk to your lending institutions. Renegotiate existing borrowing terms, for example extending current credit terms.

Look at the possibility of taking out a medium term loan to repay an existing overdraft, thus reducing interest charges and the risk of payments not being honoured.

Provided you have a sound basis for your debt-restructuring proposal the banks will be willing to consider it.

## FINANCE LEASES

It may be possible to consolidate your existing leases into one lease and extend the repayment period, thereby reducing the monthly cash flow strain.

## REVENUE DEBT

Revenue expects all businesses to organise their financial affairs to ensure they pay their taxes as they fall due. They take a particularly dim view of businesses using VAT and PAYE/PRSI, which have already been collected from their customers and employees, to support cash flow.

Nonetheless, Revenue does recognise the strain businesses are experiencing at the moment and is sympathetic to occasional cash flow difficulties that might result. If you do find yourself in difficulties you should always:

- » File your Tax returns up to date even if you are unable to pay the liability (where tax returns are not filed, Revenue will estimate the amount due and this might be more than the actual liability)
- » Make early contact with Revenue to advise them of your situation

- » Understand what precisely is giving rise to the difficulties in meeting your tax obligations
- » Be realistic and honest as to the scale of your difficulties, how you propose to deal with them and the timeframe involved

It is important you do not:

- » Ignore the problem
- » Use Revenue as a bank, for example, paying all other debts ahead of tax liabilities. This incidentally is a breach of Company Law known as “Fraudulent Preference”.

It is open to Revenue to consider an instalment arrangement whereby outstanding taxes are paid over an agreed period of time but interest will be charged as part of any such arrangement.

## INFORMAL SCHEME OF ARRANGEMENT

Keep major creditors abreast of your temporary cash flow situation. If they can see that you are actively trying to work through these difficulties it is likely that they will be receptive to a possible write down of a portion of their existing debt or alternatively, going forward, renegotiate pricing or credit terms.

## SEEK PROFESSIONAL ADVICE

Detailed cash flow projections should be prepared in determining whether your business is viable and solvent. A business is deemed to be solvent if it can pay its debts as they fall due for payment.

Can current cash flow constraints be rectified in the short to medium term? It is advisable that professional help be sought when deciding this.

The Vintners’ Federation of Ireland gives support and advice to their members on all aspects of business including how to market your business, employment and company law and accounting issues.

To stay afloat, businesses need to tackle their own individual cash flow constraints now, which in turn will result in us all collectively moving towards overall financial stability and ultimate recovery.



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The Irish Examiner

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