

onaccount

The Quarterly Review from **SHEEN STICKLAND LLP** CHARTERED ACCOUNTANTS

Summer 2011

New face of outsourcing at Sheen Stickland

We are delighted to announce our most recent Senior appointment, further demonstrating our commitment to client service.

Matthew Cleghorn has joined our Chichester office and is working alongside the Partners there to help advise owner-managed businesses on a range of accounting, audit and taxation issues.

Prior to joining Sheen Stickland Matthew spent five years in London where he trained as a Chartered Accountant with BDO Stoy Hayward and later moved to a top 40 firm based near St Paul's

Cathedral, where he helped to set-up and grow the Business Services & Outsourcing (BSO) department. Having now returned to his roots in West Sussex, Matthew is looking to draw upon his experience in London and help grow our own Outsourcing department. Matthew talks about the Outsourcing service in more depth in the article below.

Outside of work, Matthew lives near Amberley with his wife Lauren. He enjoys a number of activities such as; tennis, squash, golf and surfing (when he can find the time to escape to Cornwall!).



DIARY REMINDERS

July 2011

- 31 **Second self assessment payment on account for 2010/11.**
Annual adjustment for VAT partial exemption calculations (April VAT year end).
Liability to 2nd £100 penalty arises for 2010 Tax Return still not filed.
5% surcharge on any tax unpaid for 2009/10.
Deadline for tax credit Annual Declaration (if estimated, final figures required by 31/01/12).

August 2011

- 2 **Submission date of P46 (Car) for quarter to 5 July.**
- 31 **Annual adjustment for VAT partial exemption calculations (May VAT year end).**

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The benefits of outsourcing

As Britain slowly emerges from recession many businesses are reassessing their finances and how that fits in with their strategic outlook, in particular they are looking to maintain a competitive edge by concentrating upon their core skills, cutting down on back office staff and retaining or increasing front office employees who have the ability and imagination to take the business forward.

Outsourcing the finance function to professionals is an ever growing trend by companies as a solution to reducing back office costs, as well as having access to higher level skills when required.

The main benefits:

Cost

Without the need for National Insurance, pension and other contributions, which would otherwise be required when employing someone, Outsourcing can provide a much more cost effective alternative.

Flexibility

There is no employment contract with an Outsourcing arrangement, this allows you the option to scale back or increase the amount of input required from your Accountants on a monthly basis. It may be that bookkeeping and VAT is all that is required one month, whereas in another you may need advice on a new contract or venture.

Access to better skills

Many businesses do not have enough work for a full-time accountant, so instead use an administrator to carry out the day-to-day finance work as well as carrying out HR and other duties.

The problem with this approach is twofold;

firstly there is rarely an adequate review process in place, meaning errors made throughout the year are not picked up until your Accountant looks at your records at the year end, which can be costly due to the additional time spent unravelling mistakes, not to mention possible fines for incorrect VAT, payroll and other returns filed during the period. Secondly, this arrangement does not provide a person adequately skilled to review and interpret the businesses performance, and make sensible suggestions to you as the business owner.

Providing you select a firm with a credible track record Outsourcing can provide the solution as the work performed for you each month will have a robust review process in place, mitigating the risk of errors or mistakes. In addition you have the option of requesting an appraisal of your businesses results, by a qualified Accountant.

Focus on core skills

Maintaining a competitive edge is essential if your business is going to grow, or even simply survive in the current climate. In order to do this the company must focus on the very things that have allowed it to exist thus far, its product or service. By removing the worry of back office finance function and reducing the cost of meeting your regulatory requirements, you can concentrate and invest in the future of your business.

At Sheen Stickland LLP we are able to offer you a full Outsourcing provision for the finance function of your business.

If you would like more information on how we can help you in this area, please contact Matthew Cleghorn on 01243 781255, or email mcleghorn@sheen-stickland.co.uk

How to value your business

Knowing the value of your business is important for a number of reasons. As we explain below, it's not an exact science, and an accurate valuation will depend on consideration of a number of factors.

Why value the business?

The valuation process can help to improve the business' real or perceived value as well as assisting you in deciding on the best time to buy or sell. It may also help you to negotiate better terms and complete any purchase more quickly. The process can be useful for other purposes as well, such as agreeing share prices, identifying key areas for action, or motivating management.

Factors to consider

There is no precise formula that applies to all businesses in all sectors, nor even to all businesses within a sector. Instead, an accurate valuation will depend on a variety of factors i.e. the size and profitability of the firm, as well as external influences such as the state of the economy. However, as a starting point you should consider the following points:

The size of the business – larger firms tend to be viewed as less risky and so attract a higher price, even if they are less efficient than smaller competitors.

The prospects for future growth – are sales flat, growing only at the rate of inflation or exceeding it? Buyers sometimes pay more for businesses with high growth rates because they repay the

investment more quickly. You might consider selling before turnover and profits level out.

Diversification – if you have a wide 'business mix' it can affect the sale price, since buyers may only be interested in one area or market.

Customer base – the size of your customer base is important, but so is the quality of your customers and the cross-selling opportunities.

Profitability – although generally the higher the profits, the higher the value, some buyers might prefer a business where large efficiency savings can be made.

Cashflow and financial management – the size and certainty of cashflow, and the strength of the balance sheet and financial management are all vital factors.

Other questions that you may need to ask yourself include:

- Is yours a service business with limited fixed assets, or are stock and equipment a large part of your company's value?
- To what extent does your business depend heavily on the health of other industries or the general economy?
- What is the outlook for your line of business as a whole?

While you will obviously not wish to undervalue your business, it is also important not to overvalue it. An inflated asking price will dissuade buyers, or make them think you are not serious about selling.

Ultimately, the value of your business will be determined by the laws of supply and demand. If there are plenty of willing buyers for your type of business you will get a good price. But you can make your business as attractive as possible and if you can allow buyers to set a price through competitive bidding, so much the better.

We are always on hand to help you with any aspect of your business or personal finances – please contact us to discuss your individual circumstances.



Charities update

VAT on admission to events

Charities running events should read the updated VAT guidance from HM Revenue and Customs which can be found at www.hmrc.gov.uk/charities/vat/fundraising.htm. It provides helpful examples to understand the distinction between an event (e.g. A concert) and an activity (e.g. An educational course).

Protecting charities from harm

As part of its on line compliance toolkit the Charity Commission has published advice that will assist trustees as they seek to ensure funds are used for legitimate charitable purposes. The guidance, 'Holding, moving and receiving funds safely in the UK and internationally', should be read by all trustees but will be of particular interest to those converting sterling into foreign currencies. The Charity Commission's compliance toolkit can be found on the Commission's website at: www.charitycommission.gov.uk/our_regulatory_activity/counter_terrorism_work

Charities – Community Infrastructure Levy

The community infrastructure levy is a charge payable when development takes place. The rules for charitable relief and the procedures for claiming relief have been set out in a Department for Communities and Local Government publication 'Community Infrastructure Levy Relief: information document'. This can be found on the Department's website: www.communities.gov.uk/documents

Reduced inheritance tax when 10% of estate passes to charity

In his March 2011 Budget speech the Chancellor announced a reduced rate of inheritance tax for those leaving at least 10% of their estate to charity. It was unclear how the 10% was to be computed. This confusion has been partially resolved by a consultation paper issued by HM Revenue and Customs, and what is to be included in the calculation of the 10% threshold is one of the matters on which the consultation is seeking comment. Under the latest proposals the charitable legacy must be at least 10% of the net

taxable estate after deducting the nil rate band and exempt property. If this proves to be the basis adopted in the regulations an individual with an estate of £1,000,000 who leaves £400,000 to a surviving spouse would need to leave at least £27,500 to charity to benefit from the relief. This is calculated as follows:

| | |
|--|----------------|
| Estate | 1,000,000 |
| Less exempt (to spouse) | (400,000) |
| Less nil rate band | (325,000) |
| Taxable estate | 275,000 |
| Minimum charitable gift (10% of taxable estate) | £27,500 |

In this example the inheritance tax would be reduced from £110,000 [40% x £275,000] to £89,100 [36% x (£275,000-27,500)] and the effect on the heirs would be:

| | If no charity gift | with charity gift |
|--------------------------------|--------------------|-------------------|
| Estate | 1,000,000 | 1,000,000 |
| Less gift to charity | 0 | (27,500) |
| Less inheritance tax | (110,000) | (89,100) |
| Estate passing to heirs | 890,000 | 883,400 |

The charitable gift of £27,500 would have cost the heirs £6,600.

Comments on the proposals must be submitted by 31 August 2011 to ihandtrustconsult.car@hmrc.gsi.gov.uk

Tax-efficient saving opportunities

Low interest rates mean a low return on savings. Consequently, the opportunity to boost returns by choosing tax-free saving and investment options is worthy of consideration.

Individual Savings Accounts (ISAs)

ISAs offer an easy route to tax-free savings. They can be used for saving cash, investing in stocks and shares or both. There is a cap on the amount that can be saved in an ISA each year. There are two limits – an overall limit (set at £10,680 for 2011/12) and a cash limit, which is 50% of the overall limit (£5,340 for 2011/12). Investors wishing to invest only cash can do so up to the cash limit each year, whereas investors wishing to invest only in stocks and shares can do so up to the overall limit. Those favouring a mixed portfolio can invest cash up to the cash limit and the remaining balance of the overall limit in stocks and shares. However, any balance not used within the tax year is lost.

Investors must be aged 16 or over to invest in a cash ISA and 18 or over to invest in a stocks and shares ISA. There is no tax to pay on interest or dividends received from ISA investments and any profits on ISA investments are free from capital gains tax. As the tax-free investment limits apply each year, ISAs might be a good option for the regular saver, although interest rates are currently relatively low.

A new Junior ISA will also be available from

November 2011. The tax-free savings account will have similar terms and conditions to an adult ISA, with investments available in cash or stocks and shares. However, annual contributions will be capped at £3,000. Funds placed in a Junior ISA will be owned by the child but investments will be locked in until the child reaches adulthood.

National Savings

National Savings are backed by the Treasury and provide a risk free way to save and invest money. National Savings and Investments offer a range of tax-free savings and investment products, including cash ISAs and children's bonus bonds. Investors can also invest in premium bonds, which offer the opportunity to win tax-free prizes.

- Income and capital bonds. Interest is liable to income tax, but paid gross. Income bonds pay interest (variable) monthly. On capital bonds, the interest (guaranteed for five years) is added to the capital annually. Income bonds are repayable on three months' notice; capital bonds may be repaid without notice.
- Children's bonus bond. These may be bought by anyone over 16 for individuals aged under 16. Interest is guaranteed for five years at a time until the holder is 21. The bonds are totally tax-free, which is an important feature for parents (normally parents are liable to tax on interest over £100 gross on gifts to their children).

Tax-free interest on bank and building society accounts

Interest paid on bank and building society accounts is taxed at source. Non-taxpayers can register to receive interest without tax being deducted by completing form R85. Tax paid unnecessarily on bank and building society interest can be reclaimed using form R40.

Pension savings

Tax relief is available on pension savings up to certain limits. As relief is given at the taxpayer's marginal rate of tax, investing in a pension can be an attractive option, especially for higher and additional rate taxpayers. It is possible to invest the higher of relevant earnings for the year and £3,600 in a registered pension scheme, subject to the limit set by the annual allowance. For 2011/12 the annual allowance is set at £50,000.

It may be possible to carry forward unused allowances for three years, effectively allowing tax-relieved pension savings of up to £200,000 over a four-year period (income permitting).

We can help you to maximise your personal wealth. Please contact us for further information and advice.

Extracting income from a family company

When determining the most tax-efficient way to extract funds from a family company, there are a number of factors that need to be considered. For instance, the most efficient route will depend on the differing rates of income tax, corporation tax, national insurance contributions (NICs) and capital gains tax (CGT).

From 6 April 2011 the rates of Class 4 and Class 1 NICs increased by 1%, while on 1 April the main rate of corporation tax fell by 2% and the small profits rate decreased by 1%. Income tax rates remain unchanged. Here we consider what the changes could mean for family companies.

Bonus versus dividend

In the main, the profit extraction debate centres on whether it is more efficient to draw a salary or to pay a dividend – each has its merits.

From the company perspective, money paid by way of a bonus or salary is deductible for corporation tax purposes. However the company, as employer, is also liable to pay employer's NICs (13.8%). The bonus or salary is taxable in the hands of the recipient (under PAYE) and primary Class 1 NICs are also payable.

Dividends, meanwhile, are paid out of retained profits and as such they are not deductible for corporation tax purposes, but there are no NICs to pay on dividends. Further, there is

no additional tax to pay when received by a basic rate taxpayer. Higher and additional rate taxpayers effectively pay tax at the higher or additional dividend rates of 32.5% and 42.5% respectively (extra tax of 25% and 36.11% of the net dividend). When paying dividends it is important that the company has sufficient distributable profits and dividends are properly declared in accordance with company law requirements. Dividends have to be paid to shareholders in the ratio that they hold shares unless there is a waiver or different classes of shares. Bonuses can be allocated as the directors wish.

To maintain benefit and state pension entitlement, it may be advisable to pay a small salary of between the lower earnings limit and secondary threshold for NIC purposes (between £102 and £136 per week for 2011/12).

Impact of tax rates

Falling corporation tax rates (26% main rate and 20% small profits rate from April 2011), and rising NI rates, swing the pendulum in favour of dividends. From April 2011, the combined rate of employer and main rate employee NICs (13.8% + 12%) is higher than the small profits rate of corporation tax (20%), meaning that the NIC savings associated with a dividend outweigh the loss of corporation tax relief. However, there is no substitute for conducting a thorough assessment



before taking action, as this is the only way to reflect all aspects of an individual's personal circumstances.

Capital versus income

Although options for extracting profits in the form of capital may be limited, with CGT rates currently at lower levels than income tax rates, combined with the availability of the CGT annual exemption, where the opportunity to withdraw capital is available, this is likely to be an attractive option from a tax perspective.

Please note, this is an abbreviated summary and, as ever, it is important to consider the wider commercial goals of the company. Please contact us for advice.

Business Round-Up

Simplifying the tax system

Ahead of the 2011 Budget, the Office of Tax Simplification (OTS) published its final recommendations for reforming the UK's tax system.

The OTS, which was tasked with conducting a review of the UK's tax relief system, has identified 47 reliefs which it says should be abolished and 17 which need to be simplified. It proposes that a further 37 reliefs should be examined in greater detail.

The report recommends the abolition of tax-free luncheon vouchers and relief on late night taxis. Others identified for removal include trade union subscriptions and the business premises renovation allowance.

Among those it suggests simplifying are: Entrepreneurs' Relief; principal private residence relief; real estate investment trusts; and the Enterprise Investment Scheme. The OTS also called for a wholesale review of inheritance tax and capital gains tax.

In the Budget, the Chancellor agreed to abolish 43 'complex reliefs' but the most significant

announcement for the long-term was the Government's intention to consult on the possibility of 'merging' national insurance and income tax in future years.

Revised fuel rates and mileage allowances

HMRC has issued new fuel advisory rates, which apply to all relevant journeys made on or after 1 March 2011.

The advisory fuel rates apply to company cars only and are accepted either for employers reimbursing employees for the cost of fuel for business mileage, or for employees reimbursing employers for the cost of fuel for private mileage.

The rates are usually revised in December and June, although HMRC can issue new rates if fuel prices fluctuate by 5% or more from the published rates. The new rates can be viewed on the HMRC website.

The Government has also revised the approved mileage allowance payments (AMAPs) rates, which apply for employees using their own vehicles for business journeys.

As announced in the 2011 Budget, the higher rate increased from 40p per mile to 45p with effect from 6 April 2011. The higher rate applies for the first 10,000 miles of business use – the rate beyond 10,000 miles remains at 25p. It is the first time any of the rates have risen since 2002.

StartUp Britain scheme is launched

The Government recently launched a new scheme aimed at encouraging would-be entrepreneurs to start up their own business. The StartUp Britain campaign provides new enterprises with help worth about £1,500 in areas such as IT training and internet advertising.

Those firms participating in the scheme include AXA, Barclays, BlackBerry, Experian, Google, Intel, Microsoft, McKinsey & Co, O2 and Virgin Media.

The initiative is part of a wider government programme aimed at boosting private sector growth. Further information is available at www.startupbritain.org

Trading internationally

With the government's aim of extending Britain's global reach and influence and the potential for UK businesses offered by growth in emerging markets such as China and Brazil, there are practical aspects to be considered for anybody planning to expand their business internationally.

Companies

Establishing an overseas company owned by a UK parent company provides the advantage of limited liability protection whilst "ring-fencing" the risks inherent in any new market outside the existing UK entity. Demonstrating that a new foreign corporation is controlled from abroad and that its permanent establishment is abroad will avoid a charge to corporation tax in the UK. However, there will be a potentially negative impact on UK corporation tax rates due to associated company considerations and the impact on taxable profit bands. Note that dividends remitted to a small UK company from a country with which a double taxation Treaty exists are exempt from UK corporation tax where they do not form part of a scheme to obtain a UK tax advantage.

Branches

Incorporating is not the only solution. Trading as an overseas branch provides a vehicle without some of the administrative burdens of a company. A branch would be a UK resident company trading overseas, perhaps through an agency arrangement. The advantage of a branch arrangement is that taxable losses arising in branches can be offset

against the taxable profits of the UK company. Useful as the start-up phase of a business is often loss making. But beware as any profits arising in a branch are currently taxed in the UK and the foreign jurisdiction, although Double Taxation Relief (DTR) will usually be available.

Intercompany trade

Transfer pricing considerations are also a "hot topic" for OECD member countries. Transfer pricing rules govern the pricing of transactions between related parties who must account for transactions in goods or services. Care must be taken to avoid moving profits to higher tax jurisdictions and management charges should have a rationale that corresponds to Transfer Pricing guidance.

VAT considerations

Moving goods from the UK internationally also poses compliance considerations from a VAT perspective. Whilst goods and services exported and imported outside the EU generally do not attract VAT (note import tax on goods from abroad) within the EU the recipient of services should account for VAT using the reverse charge. The EU sales listing requires appropriate documents to be retained to ensure input claims are allowed.

Individuals

For individuals working abroad, the rules can be complicated and depend on the residency status of the individual, but generally, UK tax residents are liable to UK tax on worldwide income. Leaving the country for

an entire tax year means that an individual is not liable to UK tax and so timing of departure is critical. Again, DTR would be available to a UK resident on any foreign tax suffered, but restricted to the amount of the equivalent UK tax payable. From an NIC perspective, if a secondment abroad lasts less than 12 months, then it is possible to apply to HMRC to have NIC contributions paid in the UK.

For more information on this area please contact Owen Glaysher, on 01420 83700 or oglaysher@sheen-stickland.co.uk

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ESSENTIAL SITES FOR BUSINESS OWNERS

www.contractsfinder.co.uk

New website which allows businesses to access public sector contracts

www.smallbusiness.co.uk

Advisory guides and topical news for small business owners

www.xperthr.co.uk

Information and advice for employers, including the latest employment law changes

www.startupbritain.org

Home of the Government's new scheme for entrepreneurs

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