

SUMMER NEWSLETTER

National Minimum Wage changes

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With effect from 6th April 2009, a new automatic penalty will be levied against employers in any instances where HMRC compliance officers find arrears of the National Minimum Wage (NMW).

Penalties will range from £100 to a maximum of £5,000 and if settled within 14 days of notification this can be reduced by 50% for prompt payment. These penalties are in addition to any arrears owed to your employees. The most serious cases may also go to Crown Court where fines are unlimited.

The compliance officers will now issue a combined notice detailing the level of underpayment and the penalty.

There is a right of appeal via an Employment Tribunal and any further information can be obtained via the new help line number is given below.

Recovering your Debts

Special points of interest:

National Minimum Wages
Help line
0845 6000 678

Business Link Website is
www.businesslink.gov.uk

Poole Waterfield number
01384 455505

With the recession really taking hold, the Federation of Small Businesses has advised that businesses of under £1M turnover are now owed on average £38,000, up 25% in 6 months. As the clearing Banks restrict their lending, businesses are delaying payment as long as possible to help their cash flow at the expense of their suppliers.

Getting your debts paid on time can become a very time consuming process and can limit the time available to grow the business with new and existing customers. Fortunately you have a

statutory right to claim and charge interest on late payment, so long as you have stipulated a payment term on your invoice.

You are entitled to charge 8% over the Bank of England base rate at the reference rate which is fixed for 6 months. For example overdue debts between 1st July and 31 December can charge the 8% plus Base rate as set on 30th June of 0.5% so effectively 8.5% on the debt on or after the payment date. If your terms are 30

days interest can be charged on or after the 31st day.

On £20,000 outstanding that is almost £5.00 interest per day, so it doesn't take long to build up and just the threat of it might put your bill to the top of the pile.

Full details are available on the Business Link website, details of which are included alongside this article.

Surviving in a Credit Crunch

With the global downturn and raising finance becoming increasingly difficult, businesses are starting to feel the pinch. It has never been more crucial to plan for the future.

Develop key relationships and service levels

The companies that succeed in a downturn ultimately rely on doing a few important things very well. Your business needs strong and clear leadership so that you focus on the key goals and avoid confusion

Having a close relationship with key customers is integral to success. Listening

to your customers and acting on their feedback, will help your business to deliver the service your customers demand.

Exceeding your customer's expectations will help to secure your current level of business and grow your business with your best customers.

Manage your Cashflow

Planning is key, and will help to avoid any disruption to flow of cash in your business. An accurate monthly cashflow forecast allows you to have a clear picture of how your business is doing and a good indication of how it will be

performing in the future. By using this tool you can spot potential problems almost immediately and take remedial action before it has a negative impact on your business. With clearing Banks being more reluctant to lend, the importance of accurate and meaningful information is more important than ever, either when trying to secure increased funding or in fact keeping in place what you already have.

When investing remember to spread the risk

Having a diverse and varied portfolio that forms a strong investment strategy is very important in recessionary times. To reduce your exposure make sure you have a wide variety of different asset classes. The theory behind this is similar to not having all your eggs in one basket, if one part of your portfolio suffers from volatility then other areas should help counter this. Spread the risk with a mixture of cash, investments and property which will give you greater security in these uncertain times.

Spend Less

This sounds flippant but it's not meant to. The cost of living continues to increase year on year and it's not going to improve in the short term, you only have to fill your car up to experience this first hand.

Within your business cash is your most risk free asset so ensure you spent it wisely. The adage, "cash is king" has never been more true.

Postpone large, non essential purchases and look to reduce outgoings where possible. Make sure you are getting the best deals possible, it's the easiest way to save money and every penny saved drops straight into the bottom line. When was the last time you reviewed:-

- Utility Bills
- All general, life and equipment insurances
- Where you purchase your stationery

- Whether all the standing orders/direct debts are essential to your business

Control your Liabilities

This country is rapidly becoming a nation of debtors, which is not good news in a global downturn!

Debt can be crippling at the best of times but in uncertain economic times it can threaten livelihoods and even your home. So what should you do:-

Clearing debts is the obvious answer and is often easier said than done. The key is listing the debts in amount, interest rate and monthly payments and clear the most expensive first.

Credit card debts will probably be the most expensive form of borrowing so either set up a clear repayment programme, switch to a card offering a lower rate or better still switch to one offering an interest free period. The object is clearing this debt quickly so stay focused, as this action is key.

Next review all your borrowing both personal and business, there are still lenders out in the market willing to lend at "sensible rates," so review at least annually and don't be afraid to move lenders, transferring banking is no longer the ordeal it used to be and every penny saved is then yours to grow your business.

If you would like to talk to our financial specialist then please give Steven Cox a ring in the office or on his mobile 07940 797431 and he will be happy to see what he can do to help.

Tax Relief Advice “Rugby Style”

If you’ve been watching the Lions tour in South Africa you will have heard the referees often telling the players that they must “use it or lose it”.

Basically it means if they do not take advantage of the possession they have, the opposition will be given it.

There is important tax relief for owners of businesses where the same message is appropriate.

If you are running a business whether it is unincorporated or you hold shares in a company (the

“business”), the value of that may represent a significant part of your total wealth. The tax rules recognize this and provide a very important relief, known as “Business Property Relief” (BPR) which applies for inheritance tax (IHT) purposes. At its best this relief provides 100% relief from IHT when passing on the business. This should mean that there is little risk of the business having to be sold to meet any IHT liabilities on the death of the owner.

As with any tax relief there are many conditions and it’s critical that you ensure these are met. Generally the business must have been owned for at least two years, you have no binding contract to sell the

business in place at any time, this is often the case within a partnership agreement, but in any event you should be having these conversations with us at Poole Waterfield

It is critical that the business does not consist wholly or mainly of making investments or dealing in land or buildings or shares. THE HMRC define wholly or mainly as being more than 50%. If the business simply has a trade and does nothing else, then there will be no problem.

The issue arises when the business starts to hold investments such as property not used in the trade. Many businesses have acquired such assets prior to the credit crunch and this needs serious consideration. From our experience the HMRC will look at a number of factors such as the level of investment income versus trading profit. These factors are then judged together and help HMRC decide whether the business qualifies for BPR.

This is particularly relevant for property development companies given the current climate. Where the company has previously developed and sold the properties there is no problem with BPR. But as properties have not been selling developers have had to rent these finished developments out until the market improves and people are again buying new houses.

At Poole Waterfield we have been particularly interested in a recent case put before the Special Commissioners. Their findings have indicated that it is important how such rented properties are viewed by

directors and how they are shown in the accounts of the business.

Retaining them as trading stock, and not as longer term investments may be critical to winning an argument on the status of the business.

We are here to help discuss this form of succession planning or alternatively the tax positions if you decide to sell so please talk to us and we will help you with these planning ideas.

VAT– is the Flat Rate Scheme the Answer?

If the turnover of your business is under £150,000 per annum then you may be able to save VAT by using the flat rate scheme.

Many businesses taking advantage of the scheme are saving money by reducing their annual VAT bills in some cases by thousands of pounds. Add to the savings an easier process for

completing your VAT returns and you can understand why more businesses are now looking at it.

The principles remain the same, you still charge VAT to your customers at the relevant rate (currently 15% for standard rated sales) and still pay VAT to your suppliers on the expenses that you incur. However instead of paying

tax based on the VAT charged to your customers (output tax) less VAT paid to suppliers (input tax); the VAT payment is calculated as a flat rate percentage of your gross (VAT inclusive) income. The specific percentage depends on your category of business and we would be happy to discuss the pros and cons with you specifically if this is of interest.

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Vat – is the flat rate scheme the answer?

Other Issues to consider

There are a number of other points to remember about this flat rate scheme

- The flat rate percentage is applied to all your sales—including sales that are zero-rated or exempt from VAT. Depending on your business this could mean that the scheme is not suitable for you or your business
- The flat rate percentages are reduced by 1% in the first year that a business is VAT registered. This could mean that you make savings in the first year at say 11% flat rate but the scheme costs you more when the rate increases to 12% in subsequent years
- You are required to check that your category of business has not changed in the last year as the flat rates vary. This should be reviewed annually on the anniversary of when you joined the scheme.

Contact us to find out if you are eligible to use the scheme and whether it could save you tax. There is a simple application form that we can help you to complete if you think this is right for you.

About Our Organisation

We hope you find the articles in the summer edition of interest and relevant to your businesses.

This is your newsletter, and if you want information on any subject that may benefit other clients, then please let us know and we will incorporate it in the newsletter.

Likewise, if you have some good news then let us know, and we can share this with our clients. You may have

won a new contract, had your best year ever or celebrated a milestone. Given the bad news every day in the press let's break the mould and start sharing some good news for a change

Our good news this quarter is that our senior director and joint founder of Poole Waterfield, John Waterfield has just celebrated his 75th birthday and I'm sure that all of you will join with us in wishing him all the very best and here's to many more to come.

