

Raising Finance IN A DOWNTURN



The UK banking sector's well publicised problems mean that it is more difficult and more expensive for businesses to raise finance in the form of overdrafts or term loans. The banks have fewer funds to lend, and are demanding greater security from business owners at a time when potential borrowers have declining equity in their properties. In addition, banks are charging high arrangement fees and requiring larger margins on their lending.

INTERNAL SOURCES OF FINANCE

The first port of call for any business looking to increase its working capital should be its own internal sources. Capital can be saved through tighter control of stock and better invoicing and credit management. It may also be an appropriate time for proprietors to re-examine the amount of money they are withdrawing from their business for their personal needs.

INVOICE DISCOUNTING

Most retail banks offer invoice discounting facilities to provide working capital. Under these arrangements lenders

provide finance against unpaid sales invoices. Most commonly, you receive up to 85% of the face value of your debts immediately, and the balance, less costs, when the debts are received. In this case, the funds advanced are secured against the debts concerned. Alternatively, you can sell your debts to the factor at a discount with legal title to the debts passing to the factor.

GRANTS

Grants are available from a variety of Government agencies and other organisations to help fund specific business projects or purposes. Grants are non-repayable and typically cover between 15% and 50% of the costs of a project, with the applicant required to fund the balance. Many of the available grants are open to applications from all businesses, with eligibility for the others usually dependent upon the size, geographical location and industry sector of the would-be applicant.

Identifying what grants are available can be difficult due to the wide range of different schemes in operation and the fact that the schemes seem to be constantly changing. Examples of activities that grants may be obtained to fund include:

- Staff recruitment and development
- Marketing
- Exporting
- Product development
- Investment in plant and machinery
- Business development

The Business Link website may help with initial research into the availability of grants: www.businesslink.gov.uk

ENTERPRISE FINANCE GUARANTEE

The Government is trying to help small and medium sized businesses raise finance through the new Enterprise Finance Guarantee scheme. The aim of the scheme is to get banks lending again to businesses with insufficient security by guaranteeing 75% of the value of the loan. The guarantee can be used to support new loans, to refinance existing loans that are at risk due to insufficient security or to convert an existing overdraft into a loan. The main points of the scheme are:

- Available to UK businesses with turnover less than £25M.
- Guarantee loans of between £1K and £10M.
- Term of finance must be between 3 months and 10 years.
- Scheme is available to 31 March 2010
- Twenty six UK lenders participating.
- No automatic entitlement – lenders still make decision whether or not to lend under scheme.

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TO PARTNER, TONY BUSSEY

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BANK OF ESSEX

An unusual source of finance will shortly become available to local businesses. Essex County Council is making available £50M to provide overdrafts and short-term loans of up to £100,000 to viable businesses that are struggling to raise finance.

The scheme will be developed in partnership with banks that meet the Council's minimum lending criteria, with loans being jointly funded by the Council and the banks. All lending decisions will be taken by the banks. In the longer term the Council hopes to develop the scheme into a municipal Bank of Essex along the lines of the American model of local banking.

Information concerning the Bank of Essex and further support offered by the Council can be found on the Council's website at www.essex.gov.uk

PROFESSIONAL ADVICE

When you need to raise finance your first action should be to talk to your professional adviser. At Baker Chapman & Bussey we have helped many clients through periods of growth as well as times when they need to address challenges in their businesses. We will be pleased to talk to you about the options available and give you advice on how to move forward.

Tony Bussey FAREWELL



After almost 30 years as a partner, Tony Bussey retired from the firm on 31 March. Tony has played an important part

in the business lives and personal tax affairs of clients, and will be missed by friends and colleagues alike. With children and grand-children living abroad, Tony and his wife plan to spend more time travelling and visiting their family. "I would like to thank my clients for their loyalty and appreciation over the years", said Tony.

Capital Allowances

THE CURRENT REGIME

In the 2008 budget, a new regime was introduced for capital allowances on plant and machinery. The purpose of this article is to summarise the details, and also describe some existing less well-known allowance provisions, that can give rise to significant tax savings.

ANNUAL INVESTMENT ALLOWANCE

The new Annual Investment Allowance of £50,000 per annum gives 100% allowances on all qualifying plant and machinery expenditure up to the allowance limit. There are anti-avoidance rules to enable just one allowance per business unit, which stops artificial separation of a business to obtain more than one allowance.

CAR ALLOWANCES

Allowances for cars are now based on CO2 emissions in common with the benefits in kind legislation. The rates are 100% for cars with less than 110g/km, 20% for between 121g/km and 165g/km, and 10% thereafter.

INVESTMENT ALLOWANCE

Any existing pool of expenditure and new expenditure over the investment allowance obtains a 20% allowance on a reducing balance basis. Any remaining balances of less than £1000 can be written off to zero.

FIRST YEAR ALLOWANCES

Although scrapped in the 2008 budget, the Chancellor re-introduced first year allowances at 40% on the cost of qualifying assets purchased during 2009/10.

'INTEGRAL FEATURES'

There is a new allowance given on 'integral building features' at a rate of 10% per annum where the 100% Annual Investment Allowance cannot be used. Specific assets eligible include lighting,



water and air-conditioning systems, but not toilet and kitchen facilities. This allowance is a partial replacement for Industrial Building Allowances which are being phased out.

ENERGY SAVING

The 100% enhanced allowances are available on energy-saving plant and machinery that relates to products registered on the Energy Technology Product List, which encompass swathes of new products and so can easily be missed. Therefore care should be taken when making the purchasing decision to check the availability of the allowances. The scheme has been extended to products designed to remedy or prevent damage to the physical environment or natural resources and these products can be found on the Water Technology Product List.

FLAT CONVERSIONS

There are also Flat Conversion allowances of 100% for expenditure on the renovation or conversion of redundant space above shops or offices into qualifying flats for residential letting.

All of the above gives a resume of the points, but the devil is in the detail. So if you are considering a purchasing decision on new plant then please contact us.

The New Penalties

WATCH OUT AND TAKE 'REASONABLE CARE'



Returns filed after 1 April 2009 are subject to the Revenue's new penalty regime. The new regime imposes penalties of up to 100% of the tax involved for errors and deliberate mis-statements. There are four scenarios:

- If the taxpayer or trader has simply made an honest mistake, despite having taken reasonable care, no penalties will apply.
- Where the taxpayer or trader has been careless but did not deliberately provide incorrect information, the maximum penalty will be 30% of the tax at stake (defined to include National Insurance contributions). This may be reduced to any figure (including nil) if the taxpayer makes an unprompted disclosure of his error, or to any figure down to 15% if the taxpayer makes a prompted disclosure. Reductions will depend on the degree of co-operation on the part of the taxpayer with the Revenue.
- Where the taxpayer or trader has deliberately provided incorrect information the maximum penalty is 70% of the tax at stake, which may be reduced down to 20% for an unprompted disclosure and 35% for a prompted disclosure.
- Where a taxpayer or trader

deliberately makes and then conceals an inaccurate statement (for example by producing false evidence to support an inaccurate figure), the maximum penalty will be 100% of the tax at stake, which may be reduced to any figure down to 30% for an unprompted disclosure and 50% for a prompted disclosure.

The Revenue states that:

"'Reasonable care' varies according to the person, their particular circumstances and their abilities. Every person is expected to make and keep sufficient records for them to provide a complete and accurate Return. Someone with straightforward tax affairs may only need to keep a simple system of records, which is followed and regularly updated. A person with more complex tax affairs may need more sophisticated systems that are maintained equally carefully. We believe that it is reasonable to expect a person who encounters a transaction or other event with which they are not familiar, to take care to check the correct tax treatment, or seek suitable advice."

The following examples of errors are likely to be mitigated under the 'reasonable care' circumstances:

- Transposition errors on returns (entering £5,190 instead of £5,910).

- Completing a Tax Return on the basis of incorrect advice given by HMRC, providing the taxpayer had given HMRC 'all the relevant details'

Examples of failure to take 'reasonable care' might include:

- A self-employed tradesman who has no 'structured system' for recording his earnings and expenses.
- A shopkeeper who assumes, without asking HMRC or his accountant, that the VAT on his new estate car is input tax, because the car is used to collect goods from the cash-and-carry.
- A large company which makes no attempt to identify (non-allowable) entertaining expenses, but charges them all to 'advertising'.
- A company which simply ignores guidance from HMRC that reimbursement of private telephone bills should be 'pay-rolled'.
- A company repeatedly corrects its VAT Returns, implying that the systems are not adequate to produce correct figures by the end of the period.

What is clear is that there will be arguments and discussions as to what category a mistake falls into and what level the penalty will be, and further questions with regard to unprompted disclosure and penalty reductions for co-operation.

Whether right or wrong penalties and fines are now accepted practice in many areas of life, resulting in enormous funds for Government. In order not to become a contributor to these funds it is important that you take reasonable care in presenting information to your accountant and the authorities, as well as ensuring that you deal with any errors or mistakes you may find quickly and correctly.

Tax and National Insurance are burden enough without the addition of penalties. No doubt some will be caught out by the new regime but, with your help, we will do our utmost to ensure that you, and all our clients, are not amongst them.

Tax Credits PROTECTIVE CLAIMS

Whilst we do not deal with Tax Credit claims clients should be aware that because of the recession, some people may find that their income falls sharply during the 2009/10 tax year. Also, some self-employed people may find that their taxable income is lower because of the availability of 100% first-year allowances for purchases of vans and equipment for their businesses. In some cases they will find that they are, for the first time, entitled to claim Tax Credits.

There is a potential trap here, because of the interaction of two Tax Credit rules. The first is that income, for Tax Credit purposes, is averaged over the tax year (or, for self-employed people, is taken as being the income of the accounts year ending in the tax year). The second is that claims can only be backdated for a maximum of 3 months.

For example, suppose that a first time claimant realises on 1 December that his income for 2009/10 is likely to be much lower than for 2008/09. If he submits a claim immediately, he will be entitled to Tax Credits for September onwards, but will lose Credits for April to August. If he had submitted a protective claim, estimating a higher income, by 5 July 2009 (3 months into the new tax year) he would have been sent a 'nil award' notice. However, if his income falls that award can be adjusted retrospectively and he will be paid Tax Credits backdated to 6 April 2009.

Clients not already claiming Tax Credits should consider whether they should make a protective claim. Further information on how to do this is posted on HM Revenue & Customs' website at www.hmrc.gov.uk/taxcredits/claiming-early.htm.

If an individual claims Child Tax Credit, his claim to both Child and Working Tax Credit will be backdated automatically. However if he claims only Working Tax Credit, his claim will not be backdated unless he specifically requests this by telephoning the Tax Credit Helpline.

Minimum Wage INCREASES

From October this year the National Minimum Wage (NMW) will rise to £5.80 from £5.73 an hour. This is applicable to all workers aged 22 and over. For 16 and 17 year olds the NMW will be £3.57 and for 18 to 21 year olds, £4.83.

The Revenue is getting tough on penalties, levying them automatically on employers who do not comply with the new rules. Should HM Revenue & Customs' Officers find arrears, the employer can expect to pay penalties equating up to 50% of the arrears, as well as paying the arrears.

More Time TO PAY

Paying bills in a recession can be tough. In an attempt to help hard pressed businesses manage their cash flow, the Revenue has set up a Business Payment Support Service that aims to help those businesses who are having trouble meeting payment deadlines.

The business owner or manager can speak to an advisor about their situation and agree a timetable within which payments will be made. Businesses which contact HMRC in this way will avoid penalties for late payment.

The message here is to tackle problems early rather than bury your head in the sand. We are always happy to talk to business owners and individuals to help them resolve payment difficulties.

Businesses are encouraged to contact the Business Payment Support Service direct on 0845 302 1435 from 8.00am to 8.00pm weekdays and from 8.00am to 4.00pm weekends.

Further information is available on the website at www.hmrc.gov.uk/pr2008/business-payment.htm



CIS Contractors AVOID PENALTIES

If you are a contractor working under the CIS scheme you will be familiar with completing a return each month for HM Revenue & Customs. What you may not know is that penalties for late filing of returns have just been increased.

The Revenue now impose an instant penalty of £100 if your return does not reach them by 14 days after the month for which the return applies. For example, if you are sending a return for the tax month ended 5th August, you'll need to ensure the Revenue receive the return by 19th August.

More information, including how to complete your returns online, can be found on HM Revenue & Customs website at www.hmrc.gov.uk/cis/late-return-pen.htm

Penalties can be imposed even on a nil return, so make sure you don't miss those deadlines!

Baker Chapman & Bussey
Magnet House, 3 North Hill, Colchester CO1 1DZ
Tel: 01206 715000 Fax: 01206 715010

Braintree House, 18 Bocking End, Braintree CM7 9AA
Tel: 01376 559000 Fax: 01376 559005

mail@bakerchapman.co.uk www.bakerchapman.co.uk

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