BAKER CHAPMAN BUSSEY
CHARTERED ACCOUNTANTS

Balancing Business

News and information from Baker Chapman & Bussey

Autumn 2012

Making a choice

CHOOSING AN ACCOUNTANT

The accountant you choose will probably be with you and/or your business for many years. Jackie Frost reflects on how to choose wisely!

When I first trained as a chartered accountant the world was a different place. Computers barely existed within SMEs, the basic rate of income tax was 27%, the top rate of corporation tax was 34%, personal allowances were £2,605, petrol was 35p per litre and the top selling single of the year was 'Mistletoe and Wine' (not one that I bought!). Also, all company accounts had to be audited and to be allowed to carry out such an audit, an accountant had to be suitably trained with either a qualification from the Institute of Chartered Accountants in England & Wales or the Association of Chartered Certified Accountants.

Some years later (I won't mention how many) yet another relaxation has been made in the criteria for companies to be exempt from audits and by the time this goes to print there may be a further increase in the audit thresholds.

The good news for companies is a reduction in compliance costs; the bad news for me is that de-regulation has opened the floodgates for unqualified and/or unregulated accountants to set up in business. This can also mean bad news for clients who can unwittingly find themselves with a less than adequate service and with little recourse should things go wrong.

I am not naïve enough to think that all chartered and certified accountants are the best things since sliced bread, nor do I think that all unregulated accountants do not know what they are doing, but there are certain points that everyone should consider when choosing an accountant.

The two main accountancy institutes make demands (not just financial in terms of subscriptions) on their practising members to enable them to call themselves chartered or certified:

- We have to be able to demonstrate that we have appropriate knowledge. Every year we have to decide what training is appropriate for the type of work we do and arrange to attend relevant courses and read appropriate publications. At our firm we decide what training is required each year in order to keep up to date, such as attending a number of training courses and reading trade publications.
- We are required to have a certain level of profesional indemnity insurance. This means that should something go wrong then our client has financial recourse. This is important because an unregulated accountant who is running their business through a limited company – with no or insufficient insurance – will not offer compensation and could leave their client with few options.
- Accountants who are members of an accountancy institute are likely to have a better standing with other professionals, particularly banks. In turn, these professionals may look more favourably at a business that is using a reputable firm of accountants. Similar could be said when it comes to dealings with the Revenue.
- Mortgage companies that ask for accountants' certificates to support mortgage applications often specify that the accountant must be qualified.
- Regulated accountants must have complaints procedures. If the complainant cannot be satisfied, recourse will be to the relevant institute, which can levy fines and ultimately withdraw practicing certificates and membership.
- Regulated accountants can expect periodic visits from their regulators to ensure standards and levels of competency are being maintained.

When you consider that your accountant is - or should be - an asset to your business, choosing a regulated accountant who will provide proactive advice will be money well spent.

INSIDE BALANCING BUSINESS

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Buy to let properties and the tax man

Property remains an investment that can provide regular income and at least the chance of an increase in capital value. Advice from a qualified accountant will ensure that you comply with taxation law and minimise your tax liabilities through claiming all available reliefs.

The Revenue has set up a task force to tackle landlords who fail to declare all their rental income; Colchester, Cambridge and Norwich are expected to generate in excess of £4 million in unpaid tax. Let's consider three different situations that illustrate some of those key taxation issues:

Marc is a higher rate taxpayer who recently bought a penthouse apartment. He charges a rent of £700 per month and manages the lettings himself. He offsets any maintenance costs on the apartment against his rental income but has to pay the Revenue 40% of his remaining profits. Marc could consider putting the apartment in his wife's name. With a part time job, she pays only basic rate tax, making this a much more tax efficient arrangement.

Deborah also owns a rental property, which she lets out at £500 per month. Her property was bought with a second mortgage. With a demanding career she uses a letting agency to manage her property. Deborah can offset maintenance bills, agency fees and the interest on her mortgage against her tax bill.

Celia used to own a house and a flat as well as her own home. The tenant in her flat gave her notice and, as Celia had just retired on a small pension, she decided it was time to sell up and realise some of her assets. Celia bought the flat 15 years ago for £70,000 and sold for £135,000. Profit on property other than a 'main residence' is subject to Capital Gains Tax (CGT). Celia has a personal allowance of £10,600 before CGT applies and has spent £3,000 on costs associated with disposing of her flat, leaving a profit (or gain) of £51,400 and a tax bill of at least £10,955.

For specific advice regarding your rental income, contact us on 01206 715000 or bcb@bakerchapman.co.uk.

Parents

DO YOU UNDERSTAND THE NEW TAX RULES?

As expected, the Chancellor will be clawing back child benefit from wealthier families. For those families where either parent has income in excess of £50,000 they will start to see the benefit disappear at a rate of 1% for every £100 over £50,000 so that it will completely disappear by the time income reaches £60,000.

The withdrawal affects any higher paid families in receipt of child benefit after 7 January 2013.

In effect, this means paying more tax! The highest earning parent will pay via their 2012/13 tax return, a mechanism that will potentially mean more individuals need to complete tax returns than do so at present. The typical scenario will be that one parent receives the benefit whilst the other suffers the tax clawback.

For family units that break up or get together during a tax year, tax will be adjusted accordingly.

Parents can elect not to receive child benefit in order to avoid the later tax clawback. It is important, however, that parents complete a claim for any new additions to their families, even if they do not intend to claim child benefit for the new baby, as the claim also acts as the trigger for National Insurance credits towards State Pension during periods when the parent is not earning.

Child benefit currently works out at £1,055.60 per year for the first child and £696.80 for each additional child – tax free! A parent who just falls over the new £50,000 bracket could stand to lose substantially. For example, someone earning just £100 over that limit would pay £40 in income tax, £2 in National insurance and, if they had two children would lose £17.53 of their child benefit – a total of £59.53.

For families who are just above the £50,000 threshold, careful tax planning could reduce their taxable income and result in them keeping child benefit – a potential net gain. Typically this could be done by paying into a pension or making a charitable donation, but those with their own business may be able to defer income through other avenues.

For more information on the impact of the change in the rules, or help and advice on any issue relating to taxation, contact Jackie Frost on 01206 715000 or email jackie@bakerchapman.co.uk.

Did I tell you about…?

MARKETING AND WORD OF MOUTH

Andrew Taylor looks at some of the challenges in marketing for accountancy practices and the importance of word of mouth in gaining new clients.

Marketing, in some guise, has always been with us but over past years its shape has changed at an alarming speed. Added to this change is a challenging economic landscape and the temptation to reduce our marketing spend. Yet research shows this is exactly the time that our efforts become even more crucial; marketing spend during recession brings significant boosts to businesses when the economy upturns.

As accountants our formative training included all the subjects we needed to be able to practise our trade, i.e. accounting, taxation, etc. But no one mentioned marketing! Over the years the requirement for effective marketing has become a necessity, not just for ourselves but also for our clients. It is easy to be overwhelmed by the plethora of opportunities that are now available to promote a business: online and offline advertising, networking, sponsorship, social media, events, one to one contact, and many more.

Where should we begin? And how do we know what will be successful?

Some time ago we took a conscious decision that we didn't have this expertise in house, and we now have a marketing consultant on board who helps us with ideas, planning and implementation. Our objective remains to work the marketing budget hard so as not to waste precious resources – an objective that our clients tell us is also crucial to them. We dedicate a large proportion of those resources to creating awareness of who we are and what we offer but this is not an easy task. It is relatively simple to define and target specific audiences with products or services that have narrow appeal but building brands is more difficult and requires thought, planning and consistency.

Like many businesses, if money were no object, we would launch a massive campaign to inform potential clients of our accounting, tax and business services but, regretably we are not in that situation. We must advertise our wares without breaking the bank and, as professional services providers, ensure that we don't impinge upon the restraints that our profession imposes regarding some of the more aggressive marketing tactics.

We therefore set a budget and try to select appropriate and effective marketing strategies that reinforce our position in the market place. We also try to evaluate our success, however hard that might be.

When we attract new clients we always ask how they heard about our firm but we accept that this will only be a small percentage of the market we target.

Of course, the best advert that money can't buy is that of personal recommendation, but how many of us actually pass on recommendations if we have had a good experience? Maybe we should!

We pride ourselves on delivering a first class service where we sit down with clients and take time to understand what they need from us. A little old fashioned perhaps...but it's nothing we're ashamed of! When it comes to marketing, like many business people I am untrained and often find it hard to 'sell', although I do acknowledge the need to try. Perhaps if we were to lose a little of our British reserve about recommending businesses where we have received good service, that would be a start.

Enjoy a meal out on us!

We are always looking for ways to improve the service we provide. Help us update our knowledge about what you need from your accountant by completing our survey, either on paper or online at www.bakerchapman.co.uk.

All completed surveys that have provided contact details will be entered into a free prize draw - the winner will receive a £50 voucher for a meal at The Green Room Bistro on North Hill, Colchester. Closing date 31 December 2012.

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Pensions

A series of adverts is being run informing employees and employers of the impending changes to pensions.

From 1 October 2012 employers with a large workforce have been required to comply with the new rules. For those with less employees the implementation is being staggered depending upon firstly size and then by employer PAYE reference. The Revenue has said it will advise employers 12 months in advance as to when these changes will affect them, but if you want to find out sooner visit http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx

You will need to have an idea of the size of your workforce and, if less than 30, you will also need the PAYE reference to hand.

VAT and listed homes

Most people are aware that, for many years, homes and places of worship in listed buildings have benefitted from zero VAT on certain alterations. In the 2012 Budget, however, the Chancellor announced that this benefit would be withdrawn, effective 1 October 2012. This is important not only for owners of listed buildings but also for builders and renovation companies as it is their responsibility to apply the correct rate of VAT when invoicing.

There are transitional arrangements for building works either contracted for or where listed building consent had been applied for prior to 21 March 2012.

For places of worship all is not lost as the existing grant scheme that enables them to recover VAT on repairs is being extended to recover the VAT on the previously zero rated work. More information can be found at www.cuture.gov.uk/publications/9276.aspx

When is a car
NOT A CAR?

You may think it's obvious whether what you drive is classified as a car or not, but for VAT purposes you must make sure that your ideas match the Revenue's!

In most cases, VAT registered businesses cannot reclaim the VAT they pay when they buy a car. However, businesses can usually reclaim VAT on the purchase of commercial vehicles.

HMRC has updated its guidance on the difference between various types of vehicles and what is classified as a commercial vehicle for VAT purposes. Visit www.hmrc.gov.uk/vat/sectors/motors/what-is-car.htm for more details.

HMRC's 'most wanted' list!

It's not just TV programmes that are asking us to look out for criminals. Now the Revenue are doing it as well! HMRC has published a list of their 'most wanted' who, it claims, are responsible for some £765m in tax evasion and fraud.

The charges against them range from fraud and money laundering to smuggling. Most have absconded from custody or breached the terms of their bail.

Photos of the alleged tax evaders have been posted on the HMRC's Flickr page.

Fuel rates
FOR COMPANY CARS

New company car advisory fuel rates took effect on 1 September 2012. The new advisory rates for journeys undertaken after this date are as follows:

Engine Size	Petrol	LPG
1400cc or less	15p	10p
1401cc-2000cc	18p	12p
Over 2000cc	26p	17p

Engine Size	Diesel
1600cc or less	12p
1601cc-2000cc	15p
Over 2000cc	18p

The rates are currently being reviewed quarterly. Please contact us if you have any questions about these changes. Please note that not all rates have been amended.

Get ahead

We're offering you a chance to get ahead and stay ahead by registering on our website. Registered users can access free fact sheets and will receive reminders about important tax deadlines.

We promise not to litter your inbox with junk mail and you can unsubscribe at any time.

Visit www.bakerchapman.co.uk and click on the 'not registered?' link at the top of the home page.

RTI

Real time information for payrolls becomes mandatory for all employers from April 2013. If you are not ready and need more information please contact us.

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We are always pleased to receive your comments or questions about 'Balancing Business' or any of the items mentioned in its editorial. If your mailing details are incorrect, if you have received duplicate copies, or you would like your name added to or removed from our mailing list, please contact Jackie Frost on 01206 715000 or by email: jackie@bakerchapman.co.uk