Baker Chapman Bussey
Chartered Accountants

Balancing Business

News and information from Baker Chapman & Bussey

Spring/Summer 2013

Don't put your head
IN THE SAND!

This recession has lasted far longer than many expected and we have seen some very large businesses failing. These high profile cases hit the headlines but many smaller concerns go unreported. If you trade with a failing business you risk losing not only money but – if the effect is large enough – your business as well.

Many companies fail not through any direct fault of their own but due to customers paying late or not at all. With robust systems in place you will be able to spot warning signs early, so that they can be properly managed and appropriate action can be taken.

The signs that you need to take action include:

- Non-payments of debts on due dates
- Requests for extension of normal settlement terms
- Part payment of balances due
- Round sum payments on account and accounts not being settled in full
- Excuses for delayed settlement becoming more regular
- Normal terms in the past being changed or stretched

Keep cash flowing

If you believe that a customer is having difficulty paying you should act sooner rather than later. When taking on new customers check their credibility; it may be that they have exhausted their credit with existing suppliers and are looking for a new supplier. Take references and perform credit checks. If possible, ask new customers for money in advance. Remember, even a large order is not worth taking if you don't get paid!

Invoice as soon as you have rendered goods or services and ensure that the settlement dates are clear. We have seen instances where invoice settlement dates have been extended because the invoice was not received until the first of the month, even though it was dated in the preceding month, and so the customer takes another month's credit. If you are a service provider see if you can bill monthly.

Make sure you have systems in place to chase debts as soon as they are due. If a debt becomes overdue try to speak to the owner direct so that you can ascertain the position. Being fobbed off by their purchase ledger clerk only prolongs the waiting period.

Recognise problems early

If problems with cash flow are causing business issues, don't put your head in the sand! Even temporary problems are best addressed head on.

Recognise and predict periods of cash flow volatility. If the underlying business is viable – and we will be happy to help you assess this – ascertain whether problems are likely to be short or long term. Temporary finance can often be found to weather a short term storm but longer term issues may require a restructure of finance arrangements or of the company itself. You may need help to build a better relationship with your bank; they will be more receptive if lines of communication are kept open and they are warned of problems before they arise.

Be honest and realistic

When cash is tight preparing a cash flow forecast will indicate the extent of the problem. The forecast can be weekly or monthly but should cover a period of three to six months to show whether it's a short or long term issue.

Agreeing extended supplier terms is a cheap and easy solution so long as your business credibility is not impaired and future dealings are not affected. If this proves impossible, the bank may help with a temporary overdraft. Despite the perception that banks are not lending, it is worth making an approach when the problem is short term. Other financing options, such as invoice factoring or asset finance, are more suitable for medium or longer term solutions.

Above all, call in the experts. Muddling along paying some bills and not others will cause problems.

We can help with a business review, cash flow projections, bank liaison and in formulating a plan to help you overcome the issues. We stress the importance of early intervention. We are always disappointed to be consulted when it is simply too late to help.

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It's written in code!

We are noticing that an exceptional number of incorrect or inappropriate PAYE coding notices have been issued by the Revenue, especially for higher rate taxpayers or where there are multiple employments.

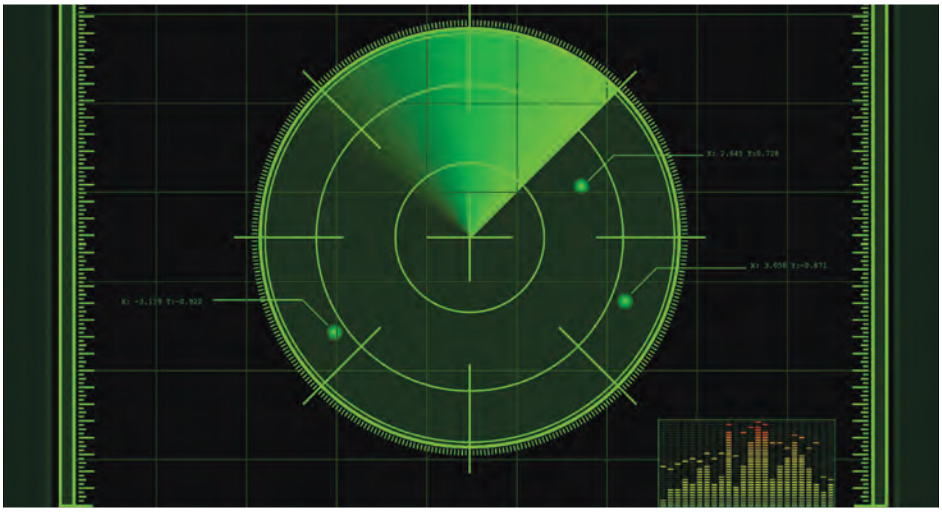
The aim of coding notices is to try and collect as near the right amount of tax due as possible, smoothing out cash flows both for the tax payer and the Revenue. Common errors seem to be:

- Codes are often automatically generated by computers. Where tax payer information is not fully integrated – especially where there are multiple employments – more than one personal allowance may be allocated. This may seem like good news but the resulting underpayment will be payable either when the self- assessment return is completed or when the Revenue spot the error.
- Again with multiple employments, there are instances where common sense would indicate a particular code adjustment but computer systems are not programmed with common sense!
- Codes may be set up to collect estimated underpayments of tax for a particular year. Unfortunately, the estimates are often not appropriate!
- Codes are not always adjusted to amend personal allowances where income exceeds £100K.

There are plans for a system where we, as agents, can amend codes online but this is not available yet. As we no longer receive paper copies of notices (although we can view some online) we need clients to tell us when they receive their copies, otherwise it is only at the year end when we deal with the tax return or see a PAYE assessment that the incorrect code comes to light.

The Revenue radar

ARE YOU ON THE TARGET LIST?



Over the last few years the Revenue has targeted specific areas which have been notorious for tax evasion or non-compliance.

The most publicised of these was the Offshore Disclosure campaign which targeted undisclosed income in foreign bank accounts. Following agreement with many foreign countries, Switzerland and Lichtenstein in particular, the Revenue now has access to more detailed information. This targeted activity proved to be so successful that the Revenue has extended its campaigns to include:

- direct selling
- e-marketing
- tuition and coaching
- VAT initiative
- electricians, plumbers and barristers

The latest campaign is targeted at sales of residential properties, both at home and abroad. Usually only one property – the main residence – can be exempt from tax, but over the years many people have invested in additional properties to use for holiday or rental purposes. If a gain (profit) is made on the sale of such a property, it should be disclosed on a self assessment tax return and any tax due settled. However, many people have not done this. The Revenue has access to Land Registry data and will be looking to match sales against their own tax records to identify possible non-disclosure.

If the Revenue discovers that tax has been lost then not only will the tax be recovered but interest and penalties will also be charged. Penalties can be as much as 100% of the tax lost! Usually, however, discounted penalties are offered for voluntary disclosure, which means that if a taxpayer discloses a tax issue before the Revenue finds it for itself the settlement will be more favourable. At the start of any particular campaign an amnesty is generally announced to allow tax payers to come forward and thereby mitigate penalties.

Although the Revenue is targeting high risk areas it continues to make random and specific enquiries into potential anomalies in returns and supporting information, so just because you operate in an area that is not on the current target list it does not mean you are off the Revenue's radar.

Our advice is that if you have income that the Revenue doesn't know about, it is always better to make a voluntary disclosure. Don't hesitate to get in touch if you would like help or advice.

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Less tax relief

ON PENSION CONTRIBUTIONS

There have long been tax incentives to pay monies into pensions. The reasons are not only political, due to the Government wanting people to provide for their future, but are also based on the premise that when the pension is drawn most of it will be taxable income.

Over recent years the Chancellor has reduced tax reliefs given on pension contributions. When the current Government took office the annual gross contribution limit was £255,000, reduced to £50,000 from 6 April 2011 and, with effect from 6th April 2014, lowered again to £40,000.

The limit is per pension input period, which is broadly 12 months and not necessarily the tax year. The complexities surrounding this issue are beyond this article, so it is wise to take advice when planning contributions. These limits are in addition to the requirement to have sufficient net relevant earnings at least equal to the pension contribution. The following is a reminder of how the relief works in practice.

If a tax payer pays £800 into a pension fund, the pension provider claims basic rate tax on that contribution and £200 would be claimed back from the Revenue, giving a total contribution of £1,000 into the pension pot. A higher rate tax payer is entitled to relief at their top rate so for the 40% tax payer a further £200 is claimed within the self-assessment return.

In addition to tax relief, pension contributions can have other advantages, for example, ensuring continuation of Child Benefit or maintenance of personal allowances – both of which disappear at certain income thresholds.

The £50,000 pension contribution limit is based on the total contribution (which in our example was £1,000) and includes any employer contributions. For the rarer final salary schemes the contribution is worked out as broadly the increase in the value of the promised pension over the tax year. If the limit is exceeded an income tax charge will be payable. Tax payers are allowed to bring forward unused allowances from the previous three years and, subject to sufficient net earnings, can pay significant contributions. So in theory, if no contributions had been made in the last three years, the maximum contribution for 2013/14 would be £405,000 or for 2014/15 would be £190,000.

If you have questions about pension contributions and taxation, get in touch.

For the record

It is a statutory responsibility for all taxpayers to keep financial records but the complexity will depend on the business and the taxpayer's affairs.

Directors of limited companies have a further obligation to comply with the Companies Act, which requires them to be able to show the financial position of the company at any point in time, albeit with a little preparatory work.

Proper records mean that businesses should have sales and purchase invoices, bank statements, paying in slips and cheque stubs till rolls, wages records, mileage records and, for some, even appointment diaries. Under self-assessment all taxpayers, including companies, must keep records sufficient to substantiate all entries shown on the tax returns.

As a general rule businesses should keep these records for a minimum of 6 years and for non-business clients for 22 months, although we do recommend 6 years for everyone.

Electronically held records must be accessible for any required period. If you do not receive paper bank statements make sure they are downloaded and saved/printed. Retain back ups and periodically check that they can still be read/restored.

If proper records are not kept and tax return figures cannot be supported the Revenue is able to - and will - charge penalties. For company directors failure to keep records can lead to disqualification.

Revenue compliance checks fall into various categories and for simple matters the Revenue is trying to resolve these over the phone with the taxpayer. They are not always contacting the agent. Although this is efficient, make sure you verify that it is a genuine call, be careful giving personal information, and answer only if you are sure. If there is any doubt refer the enquiry to your tax advisor.

If you need advice on maintenance of records, tax returns or liaison with the Revenue, please get in touch.

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Junior Squash Tournament

We were delighted to join law firm Birkett Long LLP, in sponsoring one of the country's largest Junior Squash competitions, which took place on 23/24 March 2013.

Club Kingswood in Basildon played host to the Essex Junior Open, where a total prize fund of over £1,000 attracted over 120 of the country's best young squash players, with some excellent showings by Essex players. The packed venue was treated to some thrilling matches over the two-day event. All-in-all there were around 210 scheduled matches across 10 different age group events, with an incredibly high standard of squash on display throughout.

The picture above shows the winners with Andy Hewes from Baker Chapman & Bussey (far left) and Martin Hopkins from Birkett Long (third from right, back row).

Survey Winner

Thank you for participating in the client survey that we carried out at the end of 2012. The winner was Clive Hawkings who received a £50 voucher for a meal at The Green Room Bistro on North Hill, Colchester.

Tax benefits

FOR WORKING PARENTS

The Government has announced new tax incentives for childcare that will start to take effect from the autumn of 2015.

At the moment, employer supported childcare is available but offered by less than 5% of employers. It gives parents relief for income tax and NI contributions of up to £55 per week, per parent.

The new system will be available to famlies where both parents work and earn less than a total of £150,000 per year, and are not receiving support through tax credits or universal credit.

Parents who meet this criteria will receive relief on 20% of the costs of childcare up to a maximum of £6,000 per child per year. Unlike the previous scheme, which was capped at £110 for two parents, this scheme is calculated per child and will mean that parents can claim a maximum of £1,200 for each of their children.

Details of how the scheme will work are still unclear and the Government is planning a period of consultation. It is anticipated that parents will be able to open a voucher account online, using their vouchers for any Ofsted regulated childcare facilities.

RTI

Real Time Information, or RTI, is now in force. This is a significant change that means employers now have to submit PAYE in real time but to date our clients have not come to us with any major problems in using the new system. However, if you do experience problems or have questions, please ask - we will be very happy to help.

ISA limits rise

Saving in an ISA continues to be an attractive proposition for many of our clients, particularly in an environment where investment interest is low.

The 2013/14 maximum savings level has been raised to £11,520 of which up to half can be put into a cash ISA. The remaining amount - or the full allowance - can be invested in a stocks and shares ISA.

It is always worth checking the interest you are getting on your ISA. More institutions have ISA products that allow transfers in from existing ISAs, but make sure the proper steps are taken to ensure the transfer in does not lose its ISA status.

Increase in

NATIONAL MINIMUM WAGE

Increases have been announced to the national minimum wage that will come into force in October this year.

The rate for adult workers will increase by 12 pence to £6.31 per hour and for 18-21 year olds by 5 pence to £5.03 per hour. Workers aged 16-17 must be paid a minimum wage of £3.72 per hour.

The low increases reflect the fact that the economy remains sluggish and average earnings are growing at a very slow rate.

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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