

## What to do

### WHEN THE BANK SAYS 'NO'!



There has been a lot of recent media attention on bank lending. The banks tell us that they are open for business and lending to the right customers. But it appears that there are occasions when the customer's idea of a reasonable proposal does not match that of the banks.

Customers understand that in the current climate the banks are risk averse and they know that having banked with them for donkey's years with an unblemished record is no longer enough to guarantee a loan. But when a bank says 'no' it should provide the customer with its reasons.

If customers consider those reasons not to be fair there is an appeal procedure offered by all banks. In October 2010 Britain's biggest banks made a commitment to launch a new appeals process for SMEs with the aim of being more transparent. The procedures vary from bank to bank but all must follow the same principles:

- the decision must be reviewed internally by someone who was not involved in the original decision
- they must consider all the information originally provided and may ask for more
- the result of the appeal will be communicated to the customer in writing within 30 days
- if lending is still declined the bank will provide alternative sources of finance or direct the customer to other forms of support

The process is being monitored by an Independent Reviewer to assess whether the banks are abiding by the principles and to annually report on findings. The Independent Reviewer will not review individual lending decisions.

The Independent Reviewer's second annual report was issued in June, covering the year ended 31 March 2013. The report shows that the number of appeals has increased by 52% on the first year, probably indicating a greater

awareness that the process exists. The report also shows a decision overturn rate of 39.2%. When credit card decisions are excluded, the overturn rate has dropped during this period from 32.6% to 29.5% and the increase in number of appeals has risen by 35%. The majority (79%) of appeal cases are for lending requests of under £25k; higher amounts tend not to go to appeal so frequently as they involve more senior and experienced staff and the decisions are better communicated to customers.

The overturn percentage is significant enough to persuade customers that an appeal may be worthwhile, however the fact that overturn rates are falling would indicate that the banks are getting better at making the right decision in the first place.

The report gives an insight into reasons for declines. For funding under £25k, 47% are down to poor credit scores, whereas 48% of declines on loans over £25k are largely down to affordability, although a significant reason (20%) is a particular bank's appetite. This relates to their target exposure in particular sectors and could mean that where one bank says 'no' another may say 'yes'.

You can give yourself the best possible chance of acceptance by following a few guidelines. Time is often a critical factor when there is a need for finance, so ensure proposals are properly presented and realistic. Make sure your credit score history is accurate and, if necessary, cleaned up, know your rights and, finally, have a back-up plan.

At Baker Chapman & Bussey we can help in preparation of your business plan and cash flow projections, and with the important task of putting your case across to the bank in the most effective way.

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## It's not all bad

### BAD DEBTS MAY NOT HAVE QUITE THE IMPACT YOU FEARED



The experience of a bad debt can range from a minor irritant to business critical. Over the past few years of recession we have seen an increase in the number of businesses that have experienced the pain of non-paying customers.

A welcome recompense comes from HM Revenue & Customs. Many know that bad debts are an allowable deduction from the taxable profits of a business, but less people know about VAT bad debt relief.

The total tax relief can be quite significant. Take the example of a sole trader who is well into higher rates of tax and incurs a bad debt on an original sales invoice for £10,000 plus VAT of £2,000. The income tax relief is 40% of the net amount, i.e. £4,000, and the VAT will be reclaimed for £2,000. So although the non-payment has been for £12,000, the actual cost after the various tax reliefs comes to just £6,000.

The relief is obviously only available to those who are not using VAT cash accounting, and have hence already paid output VAT at the time the sales invoice was issued. However, as long as certain conditions are met, the business can reclaim that VAT back. The conditions are as follows:

- the claim must be made within 3 years and 6 months of the original due date of payment
- the debt must be more than 6 months unpaid from the original due date of payment
- the debt must not have been paid, sold or factored under a valid legal assignment
- the debt must be written off in the business accounts

The original invoice will need to be retained as part of the workings supporting the VAT return, together with documentary evidence of any payments on account to show the final amount of the claim. A credit

note does not have to be issued to the customer, as these are only required when goods are returned or there is an agreed price reduction.

The relief is claimed in Box 4 of the VAT return. Any subsequent payment made by the customer after the debt has been written off will create a standard rated supply and should be included in Box 1 of the relevant VAT return.

Recent changes to VAT rates have caused confusion in respect of which rate to apply to the bad debt. The relief is on the rate of VAT shown on the original sales invoice, irrespective of the VAT rate at the time of claim.

We advise clients to consider these reliefs when deciding whether to take action against a non-paying customer. The costs of court action, risks of non-recovery and time frames of payment, as well as the time taken away from profitable activities, should all be considered when evaluating a response to bad debt.

## DON'T IGNORE RTI

A lot has already been said about HMRC's move to Real Time Information, or RTI. Until now, the Revenue has adopted a lenient approach and has not handed out penalties for non-compliance, but all that will change from 6 April 2014.

From that date Full Payment Submissions (FPS) will need to be made on or before the date you pay your staff. Submissions after 'pay day' will incur penalties on a scale up to a maximum of 5% of the tax and NI shown on the report in question. Interest will also be charged.

According to the Revenue, 85% of employers are now doing submissions but that leaves 167,000 who are not! HMRC is writing to remind employers that they

must comply, even where there are no payments to be made. Remember too that the Revenue must be informed when a payroll scheme is closed.

The Revenue is already charging penalties for FPS records that are incorrect. You may be 'let off the hook' once, but if you persistently send inaccurate records you are likely to be fined.

We advocate good practice from the outset. Now is the time to get your reporting in order so that you operate a streamlined system that will guarantee you don't have to pay penalties.

For help or advice about any aspect of PAYE, please get in touch.

## WORKPLACE PENSIONS

Auto-enrolment into the workplace pensions scheme has begun. Large employers were enrolled on 1 October 2012 and the roll out for all employers runs from then until April 2017. The new law means that every employer must automatically enrol workers into a workplace pension scheme if those workers:

- are aged between 22 and State Pension age
- earn more than £9,440 a year and
- work in the UK

Existing workplace pension schemes may qualify, depending on contribution levels. Qualifying schemes will carry on as normal. The start date for a business is known as the staging date. Gross contribution levels will be 3% for employers and 5% for employees, although these will be phased in over 3 years. The percentage applies to 'qualifying earnings' which are either:

- the amount the employee earns before tax (between £5,668 and £41,450 a year)
- the employee's entire salary or their wages before tax

The Government has advised that businesses will be notified 18 months prior to their start date and reminded at 6 monthly intervals.

As time is ticking we will be covering this topic again but we recommend you check your staging date on this website - you will need your PAYE reference: <http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx>

We advise you to review your workforce and evaluate the likely cost for your business. Employers will have to pay 3% on all qualifying earnings, so ensure you plan for this cost between now and your implementation date.

## CHANGES TO TAX INVESTIGATIONS



In previous issues of our newsletter we have advised that should the Revenue get in touch regarding a tax investigation, you refer them to your accountant.

We understand that the thought of a tax investigation sends shivers down the spines of most clients – even those who have nothing to fear! But changes are afoot that are likely to put taxpayers slightly more at ease.

Although these changes have not yet been verified, a pilot study to introduce a framework for tax investigations ended in March this year and we believe the Revenue intends to roll out this framework very soon. Under the new system, those subject to a tax investigation will receive written notification from the Revenue – at present they usually notify you by phone. You will have the choice of dealing with them direct or through your adviser but you must respond within one week. If you do not, HMRC will contact your accountant by phone within 14 days. If you don't have an adviser or the Revenue is unable to contact them, you'll be contacted direct.

Obviously, one week does not give much time to respond. Should you be on holiday, away on business or simply be distracted by work, you run the risk of missing the deadline. Should this happen, please contact us immediately so that we can get in touch with the Revenue on your behalf.

## Dedham Run



*Pictured above, winners Tom Wheeler and Katherine-Jayne Watts with head teacher of Dedham Primary School, Heather Tetchner*

We were delighted to sponsor the Dedham Run on 15 September 2013.

The fun run route goes through some of the beautiful Constable countryside surrounding the picturesque village of Dedham and allows runners to cover distances of either 10k or 3k. This year a

total number of 660 runners entered.

Winning male runner in the 3k event was Tom Wheeler, who completed the distance in 11 minutes and 39 seconds. Katherine-Jayne Watts was the fastest 3k female runner, completing her race in 13 minutes and 5 seconds.

## Zero hours

Zero hours contracts have hit the news recently. These contracts do not guarantee workers any fixed hours and therefore the worker's income fluctuates accordingly. The Chartered Institute of Personnel and Development (CIPD) reports that there are around one million people on these type of contracts, although this is disputed by figures from the Office for National Statistics (ONS), which claims just a quarter of a million have zero hours' agreements.

Hospitality, care, retail and agriculture are some of the sectors that make use of these type of contracts. Employers claim that they offer flexibility, both to them and to the employee, as well as providing a cost

effective way of filling short term vacancies.

Concerns have been raised about unscrupulous employers using zero hours contracts to avoid their responsibilities to their workforce. The survey by the CIPD found that 14% of workers on zero hours contracts were let down by their employers, who failed to provide them with sufficient hours to earn a living.

## Find it online

Regular visitors to our website will know that it contains a host of useful resources, such as tax calculators, latest business news and helpful tips. There's no need to register!  
[www.bakerchapman.co.uk](http://www.bakerchapman.co.uk)

## Don't cash in your pension!

Reports are coming to light of firms offering to 'unlock' the funds in your pension.

The Institute of Chartered Accountants in England and Wales (ICAEW) has warned of unscrupulous companies that are using misleading information to convince people that cashing in their pensions early would be a good idea. Known as pension 'liberation' the practice sometimes involves offering personal loans or cash incentives.

The ICAEW says that accessing pensions early can put some, or all, of the money in the pension at risk. Normally, the earliest age at which an individual would start taking a pension would be 55.

The danger lies in taxation. Those choosing to 'liberate' their pension may end up with a tax bill of more than half of the amount in their pension pot and, in some cases, additional penalties. In addition, the provider can charge up to 20%, making the overall proposition very unattractive. When not explained properly, individuals can make mistakes that will affect their living standards for the rest of their lives.

More information on how to spot and avoid fraudsters can be found on the Pensions Regulator website at [www.thepensionsregulator.gov.uk/docs/pension-liberation-fraud-action-pack.pdf](http://www.thepensionsregulator.gov.uk/docs/pension-liberation-fraud-action-pack.pdf). We would also recommend that people talk to their accountant or financial adviser before taking any action that may affect their pension income.

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