

Business Matters

News & Information from **Hammonds** Chartered Accountants and Business Advisers

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Hammonds

Chartered Accountants and Business Advisers

Keeping an eye on your cash flow

Cash is the lifeblood of a business, but with so much emphasis usually put on profitability, it can be easy to overlook this fact. Of course, the bottom line is important, but poor cash flow management can drive a profitable company out of business, especially when the economy is struggling.

The risk is especially great for expanding companies. For example, if billing is delayed at the same time as stock is accumulated to fulfil increased orders, you can find yourself short of the cash needed to pay suppliers and employees.

The benefits of projection

Cash flow projections are critical, especially in times of need, but you don't have to wait for a crisis to benefit from good cash flow planning. A properly developed cash flow projection can help a business foresee and prepare for potential

shortages. Cash flow management can also help you:

- Maintain adequate cash reserves to pay accounts, expand the business and invest in facilities and product development
- Reduce interest costs through managed borrowing
- Increase interest income by transferring surplus funds into interest-bearing accounts
- Receive discounts through bulk purchasing
- Improve relations with the bank manager

Businesses that prepare cash flow projections often learn something about their systems, and the process often has some positive side-effects. For example, you might discover that you need to pay more attention to certain customers, or that you can time payments to suppliers more beneficially.

You can find a checklist and some ideas for getting started on a cashflow projection inside, but make sure you call us if you want help in moving your business forward.

Helping you and your business

We can help with many areas of your business and personal finances. Why not call us now and we'll arrange a meeting to discuss:

- Preparing cash-flow forecasts
- Improving your business profitability
- All-round strategies for minimising your business tax burden
- Protecting your business from financial disaster
- Raising finance and maximising the value of your business
- Timing transactions to reduce the tax bill
- Maximising wealth within the family using your annual exemptions and tax breaks
- Retirement planning strategies for you, other family members and your business
- Making ends meet in retirement
- Exit strategies and estate planning, for a secure future

Putting together a plan and putting that plan into practice will ensure a clear financial future for yourself, your family and your business. Why not call us now?

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Preparing your partnership

No partnership lasts forever – although some, especially those that resemble ‘Grandad’s axe’ (two new heads, three new handles) do last for a very long time.

However, there may come a day when the end of your partnership is in sight. This may be because:

- the business is being incorporated
- the business is no longer profitable
- the majority of the partners all wish to retire
- the business is being sold
- the partners have ‘irreconcilable differences of opinion’ over the way the business is to go forward, or perhaps they simply no longer want to work together.

There are many reasons why a partnership might be coming to an end, and care needs to be taken if a tax ‘penalty’ is to be avoided. For example, on the sale of a partnership business to a plc, the best strategy might be

to incorporate the business, then take shares or loan notes in exchange for your shares in the business. As well as reducing the cashflow impact of the sale on the new owners you may, with care, be able to shelter or defer substantial capital gains. This might not be a strategy suitable for all sales, but we can advise you regarding your own particular circumstances.

No-one starting a business will naturally plan for its end, but we can help you by discussing the partnership agreement. Just as it is important to agree who puts what into the new partnership and what profit share they will take, so it is

important to set out in your partnership agreement exactly what each party will be entitled to when they leave, or when the partnership comes to an end.

Will a departing partner be entitled to only his or her share of the original capital, to a share in the tangible assets and goodwill, or to an annuity? This should all be set out in your partnership agreement – as should the procedure in the event of a dispute.

It is important that a structure is created for the management of your partnership, and for a successful exit from it, whatever the future may bring.

Cashflow projecting: Getting started

A simple system can be set up by creating a spreadsheet to track cash flowing in and out. A more sophisticated analysis might include monthly cash projections for the next 12 to 18 months.

First, forecast your operations on a monthly basis for the required period. You can project the cash receivable based on sales and the collection process. Direct costs will be directly related to sales and stock levels. Finally, payments to suppliers and expenses need to be taken into account, based on the payment due dates.

Once you’ve projected your cashflow based on this forecasted data, you can budget for capital expenditures, unusual sources of cash or other factors that might affect cashflow.

A cashflow forecast can help you manage debt more effectively, maximise your return on excess cash and ensure that funds are available when they’re most needed. We have experience in helping clients build and manage their cash flow. Do contact us to discuss how we can help your business.

YOUR QUESTIONS ANSWERED

Q *I have been told that there is a new simplified VAT scheme that might be suitable for my business. How does it work?*

A You are probably thinking of the Flat Rate Scheme, which came into existence on 25 April 2002. It was designed to reduce the cost of complying with VAT obligations by simplifying the way small businesses calculate their VAT. The scheme saves time by removing the need to calculate and record output tax and input tax to calculate the net VAT due to Customs & Excise. The VAT in a period is calculated by applying the flat rate percentage to the tax inclusive turnover for the period.

It is available to businesses who expect their turnover in the next 12 months to be no more than £100,000 taxable supplies (£150,000 from April 2003). Taxable supplies are calculated by looking at the total of supplies at the positive and zero rates, excluding VAT and the value of any capital assets expected to be sold.

Customs & Excise have published a table showing rates applicable to many business sectors. These range from 5% (retail food, newspapers, confectionery) to 14.5% (computer and IT consultancy). The particular flat rate to be used depends on which trade sector most accurately reflects any particular business. If a business includes supplies in two or more sectors, the percentage to be used is that appropriate to the main business activity as measured by expected turnover in the year ahead.

If you are making supplies to other VAT registered businesses, you give them a VAT invoice charging VAT at the normal rate for the supply (not the flat rate percentage).

Most traders with qualifying turnover are eligible to join the scheme, but there are a number of exclusions designed to prevent abuse of the scheme as well as a few to avoid complex interaction with other schemes. The scheme is optional, but traders wishing to join should complete Form VAT 600 (FRS) (which can be printed off the HM C&E website at www.hmce.gov.uk).



Cashflow – should you be worried?

20 signs that your business could be facing cashflow problems

In times of economic uncertainty, cash is undoubtedly king. To help you focus on your cashflow and profitability we have prepared this checklist. Simply answer 'yes' or 'no' to say whether each statement is true for your business. If you have more 'no' answers than you are comfortable with, you may be facing cashflow problems. Call us to discuss an action plan.

	Yes	No
When we receive a job, we know we can complete it and be paid on our terms		
We send a bill as soon as we complete a job		
Invoicing documents are accurate, complete and clear		
Our credit procedures alert us to problem customers so that we can follow up on outstanding accounts		
We monitor and enforce our credit terms and obtain deposits from 'doubtful' payers		
We finance capital expenditure in the most cost-effective manner		
Our pricing reflects time spent on jobs and covers associated risks		
Employees understand the importance of the business's cashflow		
We complete work efficiently		
We catch mistakes before they reach customers		
Mistakes cause us to improve processes		
We keep a close eye on budgets throughout the year		
We determine the viability of outsourcing work		
Adequate controls are in place to control employee overtime		
We are effective in negotiating materials and supplies contracts		
We forecast cashflow monthly and base our financial arrangements on our projections		
Our bank is our partner and understands our business and its financial needs		
We always see that work is done by the least expensive, capable employee		
We link staff pay to productivity and company profits		
Our standard operating procedures are written down and everyone follows them		

A greener car for the Spring?

Since the change in the basis of calculating the taxable benefit of a company car, most company drivers have become far more aware of the CO₂ emissions of their particular car, and are taking a keener interest in the 'greenness' of the proposed replacement.

Essentially, the rule is that the more carbon dioxide the car emits, the higher the percentage of the car's list price is charged to tax. Rates for 2003/04 start at 15% of list price for petrol cars emitting CO₂ at a rate of less than 160g/km, 18% for most diesels, in both cases rising to a maximum of 35%.

There are variations to the rules for older cars, Euro IV diesels, hybrids and cars running on LPG, for example.

What few drivers realise is that if their employer pays for even a spoonful of fuel used for private travel, they are also liable to pay tax on the car fuel benefit.

With effect from 6 April 2003, the provision by your employer of any fuel for private travel will result in a tax charge on a fuel benefit calculated by multiplying

£14,400 by the car benefit percentage. The result is a minimum tax bill for most of £500 per annum, rising to a maximum of over £2,000.

So, what can you do to avoid the car fuel benefit charge? In a nutshell, you need to be sure that you pay for all fuel for private travel, and that your employer bears the cost of fuel used for business travel only.

The Inland Revenue has published rates for fuel-only mileage which can be used

either for employees provided with all fuel to reimburse their employers for private-use fuel, or for employees who pay for all fuel themselves claiming reimbursement for business travel from their employers. The rates are not statutory, but the Revenue has said that if reimbursement is made at these rates, they will not seek to claim tax or NICs. Employers who require their employees to drive cars with higher fuel costs (four-wheel drives, for example) can negotiate a higher rate with the Revenue.

The advisory fuel only mileage rates for 2003/04 are as follows:

	Petrol	Diesel	LPG
Up to 1400cc	10p	9p	6p
1401-2000cc	12p	9p	7p
Over 2000cc	14p	12p	9p

Budget Watch 2003

It seems that every year there is a flurry of speculation before the Budget. Not wishing to be left out, here are some of the areas where the Chancellor may seek to make changes in his forthcoming Speech:

- A new Child Tax Credit and Working Tax Credit to include an allowance for many middle-income families employing nannies (CTC is expected by the Government to benefit families with an income of up to £58,000 per annum).
- The rules for tax on company vans to be changed. The system of charging tax of up to £200 a year for those driving company vans has come under some scrutiny – not least because some four-door pick-up trucks are now equipped and marketed as 'leisure' vehicles, and priced accordingly. Last year the Inland Revenue had to issue guidelines in conjunction with H M Customs & Excise, to clarify the treatment of such vehicles. Meanwhile, the Chancellor has announced a review of the whole area of tax on company 'vans'.
- The VAT turnover limit for businesses adopting the flat rate scheme will be increased to £150,000 (announced 27 November 2002).
- The end of capital gains tax retirement relief. The phasing out of retirement relief was announced in 1998, and will be completed at midnight on 5 April 2003.
- Income tax personal allowances for those aged 65 or more to increase, but the basic personal allowance frozen for those aged under 65 (announced 27 November 2002).
- Employers' main national insurance rates to rise by 1%, and the principle of a 'maximum' for employee (class 1 primary) and self-employed (class 4) contributions is breached. (From April 2003 all employees below retirement age will pay NICs at 1% on earnings over £595 per week, and likewise the self-employed will pay 1% of earnings over £30,940, all figures for 2003/04).

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

- The 10% supplement on charitable donations made through payroll giving will be extended to April 2004 (due to expire at the end of March, 2003, this supplement means that a donation worth £110 to a charity can cost as little as £60 to the donor).
- The 100% first-year allowance for small businesses investing in IT equipment to be extended beyond 31 March 2003.
- Employers will face yet more bureaucracy as a result of the introduction of new Statutory Paternity and Adoption Pay. The new payments begin with children born, or expected to be born, on or after 6 April 2003 or matched for adoption or placed on or after 6 April 2003.

Talk to us if you are concerned about, or interested in, any of these potential changes.



WEB WATCH ESSENTIAL SITES FOR BUSINESS OWNERS

Internet Public Library www.ipl.org

Articles on a vast array of topics.

British Employment Law www.emplaw.co.uk

Useful legal resource for UK businesses.

Where I Live www.bbc.co.uk/whereilive

Find out the latest news, travel and weather in any area of the country.

Dialogue With Business
<http://europa.eu.int/business/en/index.html>

Resource for businesses wishing to make use of the European Internal Market.

REMINDERS FOR YOUR DIARY

March 2003

- 31** End of corporation tax financial year
End of CT61 quarterly period
Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2002

April

- 5** Last day of 2002/03 tax year
Deadline for paying retirement annuity premiums to be carried back to 2001/02 and for 2002/03 ISAs
- 14** Due date for income tax for the CT61 period to 31 March 2003
- 19** Quarter 4 2002/03 PAYE remittance due
Interest will begin to accrue on unpaid PAYE/NI for 2002/03
- 30** Normal annual adjustment for VAT partial exemption calculations (monthly returns)

May

- 3** Last day for notifying car changes in quarter to 5 April – P46 (Car)
- 19** Last day for filing forms P14, P35, P38, and P38A – 2002/03 PAYE returns – without incurring penalties.
Last day for filing contractors returns, including CIS36
- 31** Issue 2002/03 P60s to employees