

# Business Matters

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

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**Hammonds**

Chartered Accountants and Business Advisers

## Conducting a successful interview

**H**iring suitable staff is essential to the success of your business, but it can be difficult to know if your interview procedures are really effective. Here are some of the factors to consider if you want to avoid losing a great candidate, or employing an unsuitable one.

### Clarify the requirements

Draw up a job description detailing the responsibilities involved. This will help you to clarify the type of skills and experience that you're looking for in the employee. Make a list of these characteristics and compare it with your evaluation of the candidate.

### Prepare yourself

You want the candidate to be relaxed, not overly wary, so explain the form the interview will take beforehand. Be prepared to answer the candidate's questions about the company's size, mission, culture and future. The interview is a two-way process, and in a competitive job market you will wish to create as good an impression for applicants as they do for you. Why not put together a one-page factsheet with details about the business?

### Take notes and be consistent

Keep notes of your impressions as the interview

progresses. These will act as an *aide memoire* when interviewing a large number of candidates, and will also help you to be consistent and use the same criteria for each interviewee.

### Check references

Be sure to follow up references from candidates' previous employers. Remember that what is not said can be as important as what is said.

### Set the right questions

Everybody knows the classic interview questions. But standard questions can elicit standard responses, so you need to focus on what it is you are really trying to discover about the candidate. The old favourite "Where do you see yourself in five years time?" won't necessarily tell you how the applicant will actually perform in the specified role.

Interviewers are increasingly using open-ended 'behavioural' questions which allow the candidate to demonstrate how he or she has acted in relevant situations in the past. For example, you could ask the applicant: "Can you describe a time when you were hard-pressed to meet a difficult project deadline with limited resources? How did you handle the situation?"

**See inside for ten great interview questions – both 'traditional' and 'behavioural'.**

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## STRATEGIES FOR 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:

- Improving your business profitability
- Preparing cash-flow forecasts
- All-round strategies for minimising your business tax burden
- Raising finance and maximising the value of your business
- Strategies to crystallise capital gains and reduce losses
- Maximising wealth within the family using your annual exemptions and tax breaks
- Retirement planning strategies for you, other family members and your business
- Exit strategies and estate planning, for a secure future

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# Finding the money to develop your business

**A**re you looking to start a business, or in need of capital to expand? There may be good news for you, as the Treasury has recently made announcements that could increase the range of options and make it easier to access business funding.

## External finance

For most businesses, the principal source of funding has traditionally been in the form of overdrafts and fixed term loans, which account for about 50% of all external finance. The Bank of England has said that there is 'no real evidence of firms having difficulties accessing bank finance'.

However, the need for some form of security can occasionally result in even the most well-presented request for funding, accompanied by an impressive business plan, being declined. And with over 40% of business funding being provided by hire purchase, leasing, trade finance, invoice financing, partners and shareholders, less than 10% is provided by venture capital sources.

## Debt finance

Many lending institutions have developed 'credit scoring' techniques that assist them with small business funding applications. The determining criteria include credit history, past bank account management, the applicant's track record in business and willingness to invest their own money in the business, and evidence of repayment capability based on a business plan.

If an individual does not have a previous track record and has little or no capital, the application will focus on the entrepreneur's ability and willingness to provide some form of security against the borrowing. One possible source of guarantee for finance is the Small Firms Loan Guarantee, which provides a guarantee of 75% for loans, from a minimum of £5,000 to a maximum of £250,000.

## Equity alternatives

Equity finance accounts for about 8% of external finance for small and medium-sized businesses. Those companies that do attract this type of funding tend to be highly innovative and have a prospect of good growth.

Over the past five years Venture Capitalists have invested about £33 billion in up to 7,000 unquoted companies, while some estimates indicate that 'informal' investors – such as friends, family or 'business angels' – invested as much as £12.8 billion in UK small businesses between 1999 and 2000.

According to 97% of respondents to the Government's 'Bridging the Finance Gap' consultation, there remains a significant lack of equity finance available, but this is a source of funding that looks set to increase in the future.

## Business angels and informal investors

There are reckoned to be 20,000 to 40,000 angel investors in the UK, putting between £500 million and £1 billion per annum into between 3,000 and 6,000 businesses.

An InvestorPulse survey showed that in 2002, 75% of angel investors made investments of less than £50,000, with an overall average investment of £35,000.

## Enterprise capital funds

The Government has announced its intention to launch a series of 'pathfinder' funds, based on the US-style 'Small Business Investment Company' (SBIC) model. These are to be known as 'Enterprise Capital Funds' (ECFs), and will involve the Government offering debt at a favourable rate of interest to privately owned and managed funds. An ECF would then be able to access private funds and offer these pooled funds to UK businesses.



## How we can help

As accountants we have experience in working with clients and advising on available financing options, and lenders recognise the important role we play alongside businesses. If you see a need arising in your own business or know anyone else who would benefit from our expertise in raising finance, do please let us know.

## Raising finance – the essentials

### 1 Choose the right financier

Learn about the various sources of finance and select those best suited to your purpose. If in doubt, seek our help.

### 2 Provide the financier with the right information

Make sure that you fully understand the information that the bank (or other financier) requires. This often means much more than basic financial projections. A financier usually needs to gain an appreciation of the business, the quality and depth of management and the key people involved.

### 3 Take professional advice

It is best to use the services of a professional when preparing and presenting your proposal. We can help you prepare a solid, detailed business plan that will attract financial support, and perhaps identify potential financiers who will meet your needs.

A well-prepared proposal presented to a carefully chosen lending source will have a greater chance of success. It is worth investing enough time, preparation and effort to get it right.

# MANAGEMENT TOP TENS

## Ten great interview questions

It can be difficult to know whether your interview techniques are genuinely effective. Here are five great 'traditional' interview questions, and five of the increasingly popular 'behavioural' type questions.

### 'Traditional' questions

- 1 Why are you here?
- 2 What motivates you?
- 3 How do you take advantage of your strengths and compensate for your weaknesses?
- 4 What's the one accomplishment you're most proud of and why?
- 5 What are the most important attributes of successful people, and how do you measure up?

### 'Behavioural' questions

- 6 Give an example of a time when you needed to adjust quickly. What did you do and how successful were you?
- 7 Describe an occasion when you had to deal with a difficult customer. What solutions did you come up with?
- 8 Tell me about a time when you had to make an important decision and a colleague strongly disagreed with you. How did you resolve the issue?
- 9 Describe a time when you were asked to do something for which you had no training. How did you handle the task?
- 10 Tell me about a period when your workload became very heavy. How did you cope with the pressure?

## Ten ways to improve your marketing

No matter what line of business you are in, some form of marketing is essential. And whether you have a marketing department or the marketing department is you, putting these pointers into practice could greatly improve your performance.

- 1 Make sure your products or services are distinguishable from those of your competitors
- 2 Have a marketing plan – and follow it!
- 3 Respond quickly to customer complaints, investigate the causes and fix the problems
- 4 When you lose customers, contact them to find out why
- 5 Uncover customers' needs. Find out what they really want from your business
- 6 Identify emerging or new markets for your products or services
- 7 Keep your existing customers aware of all the services you can offer
- 8 Keep your sales forecasts and statistics up-to-date and distribute them to appropriate employees
- 9 Make sure that staff who come into contact with your customers or clients have high morale and present a positive image of your company and its products and services
- 10 Use your remuneration structure to motivate and reward sales people.

## Must the 'middle classes' bear the tax brunt?

**Inheritance tax (IHT) has been called 'a tax on the middle classes'. And to some extent that is exactly what it is – at one end of the scale are those who do not have the wealth to bring them into the inheritance tax net, but at the other end there are the 'rich', who can afford to give up wealth in their lifetimes, and thus minimise their taxable estates at death.**

But for those falling between these extremes, inheritance tax can be a real worry – especially when the main taxable asset is the family home.

For families with wealth tied up in a family business, planning to reduce tax can be relatively easy. Through tax holdovers and exemptions the business might be passed on to the next generations with little or no tax to pay – but care needs to be taken if tax traps (the opposite of loopholes!) are to be avoided. And to an extent money and investments can be passed on, through simple lifetime gifts or trusts. Trusts can be used to leave the older generation with some control over the assets.

This may be beneficial in case younger family members need financial guidance. Please check the latest position with us before you act – tax law, and particularly law aimed at reducing tax avoidance, frequently changes.

### The family home

The biggest problem comes with assets which cannot be broken down, and therefore need to be retained by the current owners – the middle class 'mum and dad' with a house worth more than the IHT nil rate band (£255,000 in 2003/04) are a prime example. But here, too, careful planning can reduce or eliminate an IHT liability on death. As a

first step, you might switch ownership of the house from a joint tenancy to a tenancy in common – that means that rather than the deceased's share of the house automatically passing to the survivor, a separate asset is created which can then be left in the Will to the children. That can in turn lead to problems if the children want to sell the house to realise the value of their share. If this is a concern, then speak to us about possible options.

### A second property?

Second homes and investment property can also lead to tax bills on disposal, either on a sale (capital gains tax) or on death (IHT).

But where the owners can establish a short period of use of the house as their private residence (the Inland Revenue has indicated that a two-week period of residence is sufficient, so long as your occupation has

the 'quality' of 'residence') they can elect to make the house tax-exempt for a short period, plus the last 36 months' ownership. Also, if the property has been let at some stage during the period of ownership for residential use, a further exemption of up to £40,000 to £80,000 for married couples is available.

What is essential is that there is a quality to the use of the property – a second home scores higher than a holiday cottage, for example – and that an election is made to transfer your main private residence exemption to the second home or investment property for a short period. The exemption is then lost for that short period on the original main home, but given this means perhaps two weeks out of ten years' gain is taxable (likely covered by the CGT annual exemption by the time of sale) the impact is likely to be small. Also essential is a reversion of the main residence election to the main home.

**The middle classes may not face quite such high tax bill, after all, but the Government is looking closely at some of the methods used to avoid tax and recently announced new rules to close some 'loopholes'. It is vital that you get advice on the current position and any changes in the pipeline before you put a tax mitigation strategy into action.**

# Budget Watch 2004

**F**or many the Budget is worth nothing more than a cursory glance at the headlines, with one or two changes perhaps catching the eye. The 2004 Budget on Wednesday 17 March might prove to be an exception, with changes expected which might fundamentally undermine some long standing means of achieving lower tax bills.

## 'IR591'?

The Chancellor caused something of an uproar in 1999 with IR35 - which became the legislation attacking tax savings previously achieved by the owner-directors of 'personal service' companies.

The 2004 Budget is expected to see even wider ranging powers given to the Inland Revenue to attack those running smaller companies who use a combination of the zero percent starting rate of corporation tax and profit extraction using dividends to minimise income tax and, in particular, national insurance costs.

Already dubbed 'IR591', after the obscure paragraph of the Pre Budget Report in which the Government's intentions were first hinted at, the new rules could take many forms to achieve what Mr Brown has described as making the owners of small companies pay "the right amount of tax".

With the ongoing debate over the s660A settlements legislation being applied to husband and wife businesses, the owners of small businesses do indeed live in 'interesting times'.

## TIP

*Some people who might think they would never qualify for means tested benefits might be entitled to Child Tax Credits.*

*Did you know that some families with an annual income of up to £66,000 can qualify? If you think you might be eligible, it's worth a call.*

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.

## Gifts relief

Also likely to be introduced in 2004 are changes which may mean it will no longer be possible to save tax, or to save as much tax, using gifts relief and gifts with reservation. The first of these has until now been used as a route to tax saving by converting a taxable asset in the hands of the original owner into a tax-exempt asset in the hands of, for example, an adult son or daughter of the settlor, or by maximising CGT business assets taper relief. The changes to the gifts with reservation rules are geared to the reduction of inheritance tax savings

achieved as a result of planning which meant assets could be given away, but still enjoyed by the original owner.

## Pensions reform

We expect some resolution of the process of pensions reform, with the cap on lifetime savings at £1.4 million. The Government has estimated that the cap will affect about 5,000 people - other commentators suggest that figure might be nearer 500,000.

**Interesting times? We will be watching the Chancellor's Speech closely. Be sure to call us if you have any questions.**

## WEB WATCH ESSENTIAL SITES FOR BUSINESS OWNERS

### Skills for Employers [www.skillsforemployers.gov.uk](http://www.skillsforemployers.gov.uk)

Government site aimed at helping the employer to 'make better informed decisions'.

### National Federation of Enterprise Agencies [www.nfea.com](http://www.nfea.com)

Independent, not-for-profit agency helping small businesses.

### International Council for Small Business [www.icsb.org](http://www.icsb.org)

A global association for small businesses.

### eSecurity4Britain [www.esecurity4britain.org](http://www.esecurity4britain.org)

Organisation aiming to help businesses use the internet with security.

## REMINDERS FOR YOUR DIARY

### March 2004

- 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 2003

### April

- 5** Last day of 2003/04 tax year  
Deadline for paying retirement annuity premiums to be carried back to 2002/03 and for 2003/04 ISAs
- 14** Due date for income tax for the CT61 period to 31 March 2004
- 19** Quarter 4 2003/04 PAYE remittance due  
Interest will begin to accrue on unpaid PAYE/NI for 2003/04
- 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 - 2003/04 PAYE returns - without incurring penalties.  
Last day for filing contractors returns, including CIS36
- 31** Issue 2003/04 P60s to employees