Business Matters

News & Information from Hammonds Chartered Accountants and Business Adviser — Winter 2002

Geoff Miles.

Hammonds

Chartered Accountants and Business Advisers

Excellent First Year for Hammonds . . .

After more than twenty years as a partner in a City practice Geoff Miles is enjoying life assisting fellow entrepreneurs. After taking early retirement he left commuting behind when he started a new practice, Hammonds, near his home in Beckenham, Kent. Geoff was joined by a specialist tax partner, Sandy Kinnear, and business has been increasing to such an extent that there has been a recent need to recruit more staff.

'I realise now I should have made this move years ago' said Geoff. 'I enjoy acting for local companies and individuals - it makes me feel part of the local community. Some of my clients from the City practice still retain me and new clients are steadily coming on board. These are based throughout London and the south east of England.'

Geoff's expertise lies in the many years he has worked with entrepreneurs in all areas of commerce, and other organisations such as charities and professional bodies. Local companies are increasingly using their accountants as business advisers and Geoff offers 'Strategic Planning' as part of Hammonds specialist services. Solicitors will find Hammonds' forensic accounting service invaluable.

Geoff is a regular attendee at events organised by the Institute of Directors Surrey Downs Branch and the Bromley Chamber of Commerce.

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Registered to carry on audit work by The Institute of Chartered Accountants in England and Wales

Make the most of us...

Here are just some of the ways we can help you and your business. Call us now and we'll arrange a meeting to discuss:

- **Strategies for improving your planning and business profitability**
- **Raising finance to fund investment and expansion**
- **How to protect your business from financial disaster**
- **How careful timing of transactions can reduce the tax bill**
- **Retirement strategies, and how retirement planning can work for you, other family members and your business**
- **How to maximise the price you receive for your business, and how to minimise the Revenue's tax take**
- **Strategies to crystallise capital gains and losses**
- **Using your annual exemptions to redistribute wealth within the family and make more use of tax breaks**
- **Reducing the inheritance tax on your estate, and strategies to cover any remaining liability**

We can help you determine a clear financial future for yourself, your family and your business. Contact us today.

IN THIS ISSUE

Funding your children's education

Every parent wants to give their children the best possible start in life – but the prospect of funding a child's education right through to University can be daunting. However, with careful planning and good advice, you can avoid any education headaches.

Private or state school?

If you wish your offspring to attend a private school, as about 7% of children do, you will of course have to pay fees. These range from around £6,000 to £16,000 or more a year, depending on the school.

But even the state sector begins to look expensive when you do the sums. A recent survey by Norwich Union found that a state school education from the age of five to sixteen will cost parents an average total of £9,515. This includes 22 school trips, 44 shirts or blouses, 33 pairs of trousers or skirts, 22 jumpers and 22 pairs of shoes!

Clearly, even a 'free' education will cost you money – but if you start planning and saving now, you will be able to budget to meet these costs.

Higher education

Even just a few years ago, many University students qualified for a grant which helped towards their tuition fees and living costs. Now students, or their parents, can expect to foot a fairly substantial bill – approximately £6,000 per year at the least. One solution is to take advantage of student loans, which can be repaid after graduation. But the latest findings suggest that students can expect to leave University with debts in excess of £10,000. So if you wish your children to avoid starting their career already in debt, you should consider planning now to help fund their higher education.

Taking the right action now could give your children a head start, not a millstone round their necks.

Average cost per child per year*	£
School lunches for 36 weeks	324
Clothes/shoes	178
Transport for 36 weeks	108
Books	31
School trips	84
Sports kit	57
After-school clubs	45
Extras	38
Total	**£ 865**

* Norwich Union School Sums survey Sept 2002

If you have children, or if you intend to start a family, it is essential to start considering the costs of their education. Good financial management will help you meet your needs, so why not contact us, and we'll help you develop plans to provide for these costs.

Education Essentials

- Calculate how much you'll need – and don't underestimate the costs
- With school funds tight, don't overlook the advantages you can give your child through buying educational toys, books and computer discs – or the cost.
- Start planning early and save as much as you can in advance of times of major expense.
- Choose savings schemes carefully – make sure you can withdraw money as the costs need to be paid, or look at specific school fees plans.
- Check for bursaries or scholarships that may be available through the school or the Local Education Authority.
- Consider buying – if your child is going to University or college in a distant city consider helping him or her to buy a house instead of renting a flat. With care and rising property prices there is potential to fund the mortgage by taking in lodgers and for a tax-free gain on the sale of the house if you get all the steps right.
- Take the right financial advice if you are considering savings plans, school fees plans or helping your child to invest in property.

Seasonal Tax Tips

Make your Christmas merrier (and wealthier)…

Avoid a New Year hangover

To ensure your employees don't face a tax bill after the Christmas party, keep the cost of your firm's annual function below £75 a head.

In the bleak midwinter…

Winter weather means increased costs for business. Have you considered the enhanced capital allowances for energy-saving equipment?

Have you considered the energy-efficiency of your business? An energy-use audit can lead to a significant reduction in your business' energy costs.

Sleigh bells ring…

If you're ordering your new car for the Spring, have you considered the implications of the new rules on company car tax and the provision of fuel? The emissions-based tax charge already applies to company cars, but the new charge on fuel provided for private use will begin to bite from April 2003. We can help you to weigh up the costs of your next company car.

YOUR QUESTIONS ANSWERED

Q *My father and I own a limited company and we have one share each. I actually run the business, but he has loaned money as necessary from time to time. We're looking for the best way to pay ourselves and people keep mentioning dividends. I'm a bit wary because I understand that dividends have to be paid equally and that's not what we want. It looks as though I'm going to have to take a bonus. Can you help?*

A *What you say is quite true where dividends are of the same class, but a very useful procedure would be to convert your shares to different classes. By convention, share classes are often identified as 'A', 'B', 'C' etc (you can have as many classes as you want).*

So if you were to convert your shares so that your father had one 'A' share and you had one 'B' share, you could extract income in whatever proportions you choose.

The dividend route can be a very efficient way of getting paid, because:

a) Under present legislation, dividends are not liable for national insurance contributions;

b) For basic rate taxpayers, the personal tax charge is covered by the tax credit and so there is no further tax to pay.

Please bear in mind that there are prescribed formalities that have to be observed when amending your share capital structure, and it is essential to seek our advice.

Six steps to an effective business plan…

If your business is running perfectly, wastes no money, is making maximum profit and dominates its market, then you can pat yourself on the back and get back to work. But if you think your business performance can improve and, amidst the meetings, phone calls, e-mails and office crises, you find it difficult to know how to begin, then you will benefit from reviewing your business planning.

Don't confuse business planning with crisis management. The former should prevent the latter. Making time for planning now can reduce the time you spend fighting fires later. Here are six key steps that can lead to an effective plan for your business:

Step 1: Establish your mission

In essence, your mission statement explains why your business exists. When you encounter a problem or a key decision, the answer will be informed by your mission. Think about why you started the business, and imagine where you want it to be in the future. These two elements will provide your mission statement.

Step 2: Analyse your SWOT

With your mission statement in mind, analyse your business's strengths, weaknesses, opportunities and threats. List each category in full and be honest. Done correctly, this 'SWOT' analysis will help you to take an objective, critical, unemotional look at your business in its entirety.

Step 3: Develop a plan

Try this exercise: from each SWOT category, choose three to five important items. Then set goals to maximise your strengths, correct your weaknesses, make the most of your opportunities and nullify your threats. For example, you could decide to focus more strongly on a particularly successful product or service (a strength), and abandon a side-project which is costing time and money for little return (a weakness). Remember that you can't do everything yourself. Think about how you will delegate tasks and involve all the staff. Avoid dwelling on the negatives – set yourself realistic strategies for improving the business.

Step 4: Create a budget

All missions and strategies need money to succeed. A smart budget will help you to regularly review your expenses and make financially beneficial decisions. You may need to take a wide variety of factors into account when setting your budget. This is where we can help you – why not give us a call?

Step 5: Put it in writing

Make sure you write down your finished plan. Include the mission statement, SWOT analysis, goals and plans, budget and forecasts, and make it clear who is responsible for doing what. Share it with your key staff and shareholders, and encourage their input.

Step 6: Make it a living document

This is vital! Make your business plan a living document that you and your staff can frequently update and improve. Consider reviewing it monthly to track your progress and readjust your strategy as necessary. Hold yourself and your staff accountable for meeting the plan's goals, and think about introducing an incentive programme to keep everyone motivated.

And six reasons why business plans fail…

You may well have prepared a business plan some years ago to present to your bank manager. If you revisit that plan now, you will probably be surprised by how little relationship the position of your business now bears to that predicted in the plan. The reality is that most business plans fail. Here are some of the traps to avoid:

1: A dead document

A business plan that is created for a purpose and then discarded will always become obsolete fast. Making your business plan a living document (see step 6) is essential if you don't want the whole process to be a failure. Only a regularly reviewed and updated plan can be the spur to look critically at your business on a recurring basis.

2: Over-optimism

Most business plans are over-optimistic, especially as regards predicted sales, often massively overestimating the size of the market. Research your market thoroughly. Too many business plans include a SWOT analysis, but concentrate on the strengths and opportunities and ignore the threats and weaknesses.

3: Ignoring the competition

Business plans commonly assume that the competition will make no competitive response or indeed, will have no new initiatives of their own. Study your competitors and try to second-guess their plans. A living document will take into account their actions.

4: New or old?

Too many business plans depend on doing something new, when what is needed is to find a better way of doing what is being done now.

5: Ignoring risk

What are the risks attached to the plan? Think through these and the costs of failure as well as the rewards of success.

6: Profit or turnover?

If expansion is planned, it should result in increased profits, not just sales. Expansion requires finance, people and other resources. Can you get them?

Remember, a good business plan is as much about the process as the final document. Creating your plan will open your eyes to the realities of your business. Keeping it updated will help you stay on the right track. For help with developing your plan, call us.

Pre-Budget Report - 27 November 2002

Consistent with his hard line on controlling public spending during the fire-fighters strike, Chancellor Gordon Brown outlined his intention to "steer a steady course" of stability with the emphasis on low inflation and sound public finances. Here are some of the key announcements made in Gordon Brown's Pre-Budget Report on 27 November 2002.

More support for business from Government departments

From April 2003 the new VAT flat-rate scheme is to be extended to businesses with a VAT exclusive turnover up to £150,000 (currently £100,000).

More businesses will be offered help and advice, rather than face automatic VAT penalties.

More generally, from April 2003 businesses with turnovers of up to £3 million a year will be eligible for the small firm loan guarantee scheme.

Employee Share Schemes

Employers who make available employee share schemes for their workforce are currently not automatically entitled to a deduction for any expenditure incurred. Provided the employees are subject to UK tax on award of the shares, or would be without other exempting provisions, there will now be a statutory deduction for the cost of providing shares to the schemes.

Changes will also be made to the rules for Qualifying Employee Share Ownership Trusts to ensure that the simplification and the deductibility is continued to be received in such circumstances.

Employee Benefit Trusts

Legislation is to be introduced which delays the corporation tax deduction for an employer in respect of contributions to an Employee Benefits Trust until such time as there is a payment made which triggers a matching charge to income tax and national insurance contributions.

This will prevent the abuse of such schemes in seeking the avoidance of tax and national insurance liability.

The national insurance regulations have also been changed with effect from 28 November 2002, to clarify where the ultimate responsibility for paying national insurance lies.

The Pre-Budget Report included relatively few major announcements, but there were measures, particularly in the areas of tax compliance and closing loopholes, that could affect you or your business. In fact, the Government is now planning to deploy a thousand staff whose duties will include cracking down on those who do not comply. Make sure that yours is not one of them – call us today.

EMPLOYERS' UPDATE

New National Minimum Wage Rates

As of October 2002 the national minimum wage rate for workers aged 22 or over rose from **£4.10** per hour to **£4.20** and the development rate, which applies to workers aged 18-21 inclusive, rose from **£3.50** per hour to **£3.60**.

The development rate is also payable to workers aged 22 or over who are in the first 6 months of a new job with a new employer and receiving accredited training.

If you have not done so already it is important to review employment policies in the light of these changes.

We are sometimes asked if we are able to serve 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.

WEB WATCH

ESSENTIAL SITES FOR BUSINESS OWNERS

Investors In People www.iipuk.co.uk
– Nationally-recognised employers' standard for good practice and training.

Small Business Europe www.smallbusinesseurope.org
– Site listing key 'euro issues' that this lobby group seeks to resolve for UK small businesses.

Mirago www.mirago.co.uk
– UK-focused business search engine.

Red Tape Monitor www.britishchambers.org.uk/cutredtape
– Site from the British Chambers of Commerce that monitors and advises on how to alleviate the 'red tape burden' on SMEs.

REMINDERS FOR YOUR DIARY

December 2002

31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2002

End of relevant year for taxable distance supplies to UK for VAT registration purposes

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes

End of CT61 quarterly period

Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2001

January 2003

1 Due date for payment of Corporation Tax for period ended 31 March 2002

14 Due date for income tax for the CT61 quarter to 31 December 2002

19 Quarter 3 2002/03 PAYE remittance due

31 First self-assessment payment on account for 2002/03

Balancing payment – 2001/02 income tax/class 4 NICs

Capital gains tax payment for 2001/02

Last day to file the 2002 tax return

Last day to pay personal pension premiums and elect for carry back to 2001/02

February

1 Liability to £100 penalty if 2002 Tax Return not yet filed

2 Last day for notifying car changes in quarter to 5 January – P46 (car)

28 Failure to pay any balance of 2001/02 tax leads to an automatic 5% surcharge

March

This is the month when the Chancellor is expected to present his Budget statement