

Business Matters

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

Winter 2004/05



Hammonds

Chartered Accountants and Business Advisers

An Eye on the Competition

As all good chess players know, if you only think about your own moves, you will almost certainly lose. Similarly, in business it is always worthwhile conducting some form of analysis to keep an eye on what your competitors are doing. Competitor analysis is most effective when it is focused and leads directly to real business improvement.

What you need to know

The type of information about your competitors that will be most useful will vary depending on the nature of your business, but key areas will include:

- **Products** – in terms of quality, pricing and range on offer
- **Image and perception** – which specific areas of the market do they appeal to?
- **Customer service** – including ordering, delivery and after-sales support
- **Marketing strategies** – in terms of sales and advertising, and also their reaction to any changes in the marketplace, including challenges from you.

Compiling the information

Information can be gathered from a variety of sources. Find out what people say about your competitors by talking to customers, suppliers, distributors, industry commentators and staff joining your organisation. Find out what they say about themselves by examining their website, job adverts, their annual reports, and their visible publicity, brochures and products.

It can be useful to create a simple table for each competitor, giving them a mark out of ten for each area you have chosen to focus on. Make an honest assessment of your own business in these areas, and you will be able to see at a glance the areas of comparative strength and weakness.

Interpretation and implementation

By focusing on a small number of key issues, you will be able to analyse areas where you can take advantage of your strengths, or conversely, areas where you are most vulnerable. You can also look at strong competitors, from whom you can learn, and new entrants to the market, who might have a fresh approach to sales or customer service.

The important thing is to concentrate on lessons you can learn and competitive insights, rather than just measurement. Try bringing together key managers and staff members in 'focus' sessions – perhaps over a working lunch.

Competitor analysis should be an ongoing learning process. Its principal value should be as a spur to strategic and innovative thinking, and it should result in the implementation of practical ideas and actions.

Ongoing competitor analysis can reduce the risk of being overtaken by existing competitors, or by new forms of competition. But it will also help you to be proactive and avoid complacency. So whether in chess or business, if you want to win, it is as important to think about your opponent's moves as it is your own.

OUR SERVICES Here are some of the ways that we can help you with your personal and business finances.

Why not call us now and we will arrange a meeting to discuss:

- Year end and pre-Budget tax planning
- Improving your business profitability
- Maximising wealth within the family using your annual exemptions and tax breaks
- Retirement planning strategies for you, other family members and your business
- Strategies for minimising your business taxes
- Exit strategies and estate planning, for a secure future

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Pain-free capital gains

Paying tax when you make a profit on the sale of an asset can fairly be described as a 'pain'. And, as with some physical pains, when it comes to paying a capital gains tax (CGT) bill, sometimes you might just have to put up with it.

But before you accept that tax is unavoidable, let us consider some of the ways it can be reduced or avoided? Here we look at just some of the CGT painkillers.

Make the most of annual exemption

For 2004/05 you are able to make capital gains of up to £8,200 before you pay any tax. However, that £8,200 is on the net 'profit' after reduction for indexation allowance and taper relief.

You might make a profit of £10,000, but because you can claim indexation and taper relief, the taxable gain might be less than £8,200 – so there is no tax to pay.

If you are selling assets like shares, your gain on the entire holding, after reliefs, might still be more than £8,200. So what else can you do?

You might:

- transfer some of the shares to your spouse to double your exemptions
- split the sale between the current and next tax years. Sell one half of your shares this side of the end of the tax year, the second half after 5 April. Combine this with a transfer of half the shares to your spouse and when you both sell your shares you can quadruple your exempt amount – how does £32,800 of tax-free gains sound?

Delaying the sale of part of your holding can also help ease the pain on a sale, by delaying payment of some of the tax. For instance, delaying a sale by one day – from 5 to 6 April 2005 – will delay the tax by one year.

Make use of losses

In the past you might have sold assets at a loss, or you might have assets currently showing a loss which you could realise now to offset current year gains.

You need to be careful – for one thing the 'tax tail' should never 'wag the investment dog'. Care also needs to be taken because the loss is taken off the gain as reduced by indexation, but before taper. In some cases trading losses can be used to offset capital gains – contact us for more information.

Second homes

Do you have more than one property? Your main home should be CGT-exempt. But, subject to time limits on making and varying elections, you can extend main residence relief to give a measure of relief when you come to sell your second home. This is done by making a timely election so that for a short period (perhaps as little as two weeks) the property is your main home for the purposes of CGT.

The important point is not the length of the time you claim, but the 'quality'. That is why it is easier to make the claim for a second house than for a holiday home. After the two weeks have elapsed, vary the election so the exemption transfers back to your main home. As a result, you lose the exemption for two weeks on the main home, but the same period plus the last 36 months' ownership is now exempt for the second home.

The same steps can be taken for a holiday home, but here it is often more difficult to prove that the property has in fact been occupied as a residence. But if between moving out of one main home and into the replacement, you occupy the holiday home as your **only** residence, an election might succeed.

Finally, more and more people are letting their old homes when they move on. The period qualifying for the main residence exemption will have been established to the extent of the period from purchase to departure, plus the last 36 months. But to that you can also add the residential lettings exemption, up to a maximum of £40,000 each (so up to £80,000 for a couple).

Shelters

Any investments you may have in ISAs or PEPs are exempt from tax on capital gains. Make sure you take advantage where possible.

Deferrals or matching reliefs

Sometimes you need to think 'outside the box'. Schemes offering tax reliefs and deferrals include the Film Finance Scheme, the Enterprise Investment Scheme and your pension policy.

As with all painkillers, you must read the instructions on the packet! Take the right steps, at the right time, and with the right advice. We look forward to seeing you for your consultation, the next time capital gains tax looks likely to be a pain!

Business Brief: Are you aware of the new Chip and PIN rules?

Under the new 'Chip and PIN' system, when cardholders purchase goods using a credit or debit card, they are required to type a four-digit pin number into a keypad, rather than signing a receipt.

However, from 1 January 2005, retailers who do not adopt the Chip and PIN system could face financial implications under the so-called 'liability shift'.

Visa and MasterCard have mandated that liability for fraudulent transactions at the point of sale, where Chip and PIN could have prevented the fraud, will shift to the retailer. This could potentially make retailers responsible for substantial financial losses.

Furthermore, it has been suggested that retailers without Chip and PIN facilities are more likely to be targeted by fraudsters.

Despite this, a recent survey has indicated that 47% of retailers are unlikely to have installed the machines by the January deadline, and there have been calls for banks and credit card companies to allow retailers more time to install the new technology.

Employee disputes – the new rules

A series of changes to the regulations governing dismissal, disciplinary action and grievances in the workplace, came into force on 1 October 2004.

The Employment Act 2002 (Dispute Resolution) Regulations 2004, which affect all employers, are designed to significantly reduce the number of tribunal claims, by encouraging internal dispute resolution.

What do the new regulations mean?

- All employers, regardless of their size, must have in place minimum procedures for handling disputes, which must be followed by the employer and the employee
- Full details of the grievance must be set down in writing, and provided to the other party
- The employer must invite the employee to attend a meeting to discuss the issue before action is taken (except in the case of employee suspension)
- The employer must inform the employee of their decision, and offer an appeal should the employee not be satisfied
- Written information about disciplinary procedures and the new minimum standards must be provided to staff
- Dismissals will automatically be considered unfair where the disciplinary procedures apply but are not followed
- The time limit for lodging a tribunal claim will be extended where resolution procedures are underway.

Action to take

You should make sure that you have in place a disciplinary procedure which covers the key procedural requirements.

You must also produce a written document detailing your firm's disciplinary procedure, should you not already have done so, or if the new regulations have changed your policies in any way.

Further information and guidance are available from the Department of Trade and Industry's Employment Relations Directorate (www.dti.gov.uk/er).



'Red Tape Day' Round-up

Other new legislation that came into effect on 1 October 2004 – the so-called 'Red Tape Day' – included:

Amendments to the Disability Discrimination Act

These cover the issue of physical access and employment for disabled people. Under the new rules, all service providers must make 'reasonable adjustments' to their premises, and all employers must ensure that disabled workers are treated fairly.

For more information see www.drc.org.uk/open4all

Changes to the National Minimum Wage

The new National Minimum Wage rates have now come into force, bringing the main adult rate to £4.85 an hour, and introducing a new rate of £3 an hour for 16 and 17 year-olds.

Q: Do I need a Will? A: Yes, you do.

...That's the simple answer. But we know that a very large number of people have never made a Will. Perhaps they think they do not need one, or that they can put it off until later.

But since nobody knows when they are going to die, you should make a Will today. Here are our answers to some of the most frequently asked questions about Wills.

Why do I need a Will?

Unless you have a Will in place, your estate will be dealt with under the intestacy laws, with no regard for what you might have wanted and no provision for inheritance beyond your immediate family. In many ways, the intestacy laws are old-fashioned, and in particular they provide little security for unmarried couples.

When should I have a Will drawn up?

You can have a Will drawn up at any time from the age of 18. We would suggest that you begin now, and that you speak to us to make sure that what you are planning is tax-efficient.

Will it be expensive?

This depends on the degree of complexity you want to include. The simplest Will might cost in the region of £100 to £200.

Should my spouse or partner have a Will too?

Unless both partners have a Will, all couples will be storing up the same problems until the second death, while married couples might also miss out on some simple steps to reduce inheritance tax.

What do you think of 'DIY' Will kits?

They can be fine, but you need to make sure that you cover all the things you want to include, and that you follow all of the steps to make your Will 100% effective. For example, sometimes DIY Wills fail because they are not witnessed.

Do I have to use a bank or solicitor?

Many people make a bank or solicitor one of their executors, either because they are trusted advisers or because they want someone familiar with all the legal aspects to handle the estate. This is obviously not without cost, but it might help avoid potentially expensive mistakes or distress for family members.

Can I make sure my spouse benefits from my estate, but also protect my children?

This is just one area that we would like to discuss with you. Using a Will trust or entitlement to income for your surviving spouse can mean that they have the use of the income from your estate, but the capital is secured for your children. Or perhaps your spouse has the use of your house, for life, but the property then passes to your children.

Once written, can my Will be changed?

Small changes can be made by adding codicils, but we would recommend a complete re-draft if there have been major changes since the original Will was drawn up.

It is recommended that you keep your Will under regular review; regard it as a 'living document', to be changed as your family and financial circumstances change.

We can help you to keep your Will tax-efficient, and ensure that as much of your wealth as possible goes to the people you want it to go to.

Pre-Budget Report 2004

Although his Pre-Budget Report speech on Thursday 2 December focused primarily on the areas of science, skills and the Government's ten-year plan for childcare, Chancellor Gordon Brown did announce a number of measures of significance for businesses and business-owners.

Small Firms Loan Guarantee Scheme

Recommendations made in October 2004 are to be fully implemented. These include: expanding the lending limit to £250,000 for all qualifying businesses (this has previously only been available to businesses that have been trading for more than two years); and raising the turnover limit from £3 million (£5 million for manufacturers) to £5.6 million for all eligible businesses.

Extending the commitment to training

The Chancellor again announced measures designed to promote a UK-wide 'learning culture'. While the UK continues to enjoy a lower level of unemployment than most of its European neighbours, it appears to lag behind in the overall level of skills.

New measures to address this include the introduction of a National Employer Training Programme. This will succeed the Employer Training Pilots that have to date operated in one-third of the country, with over 15,000 employers and 100,000 employees participating.

Widening employment opportunities

With the number of people unemployed and claiming benefit in the UK having been less than one million since early 2001, the Government continues to introduce new policies aimed at reducing the level of unemployment, which is currently at 4.6%. These include extending the Pathways to Work pilot scheme and assistance to encourage those claiming incapacity benefits to move into work.

Personal taxation

Whilst allowances will generally rise in line with inflation, the personal allowances for those aged 65 and over will be increased in line with earnings.

Individual Savings Accounts (ISAs)

The higher limit on investment in ISAs, currently £7,000 overall and including up to £3,000 in cash, remains until at least April 2006. The limit might then have reduced to the original level (£5,000 overall, up to £1,000 in cash) but it is proposed that the higher limit will remain until 2009.

Child Trust Fund

The Fund becomes fully operational in April 2005. All children born since

1 September 2002 will be entitled to £250, with children from low-income families entitled to £500.

To this, family and friends can add up to £1,200 per year, and the interest on the account will be tax-free. The Government is now consulting on the proposal that there should be a second payment when the child reaches seven years of age, of the same amount.



WEB WATCH ESSENTIAL SITES FOR BUSINESS OWNERS

The Carbon Trust www.thecarbontrust.co.uk/energy
Free, practical advice for businesses on reducing energy use

Government consultations www.consultations.gov.uk
Find out about – and take part in – Government consultations

New Academy of Business www.new-academy.ac.uk
Information for entrepreneurs and managers on issues of sustainability and corporate responsibility

ROSPA www.rospa.com
Advice and information on occupational health and safety from the Royal Society for the Prevention of Accidents

REMINDERS FOR YOUR DIARY

December 2004

- 31** Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2004
- 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 2003



January 2005

- 1** Due date for payment of Corporation Tax for period ended 31 March 2004
- 14** Due date for income tax for the CT61 quarter to 31 December 2004
- 19/21*** Quarter 3 2004/05 PAYE remittance due
- 31** First self assessment payment on account for 2004/05
- Capital gains tax payment for 2003/04
- Balancing payment - 2003/04 income tax/class 4 NICs
- Last day to file the 2004 Tax Return
- Last day to pay personal pension premiums and elect for carry back to 2003/04

February

- 1** £100 penalty if 2004 Tax Return not yet filed. Additional penalties may apply for further delay. Interest starts to accrue on 2003/04 tax not yet paid
- 2** Last day for notifying car changes in quarter to 5 January – P46 (Car)
- 28** Last day to pay any balance of 2003/04 tax to avoid an automatic 5% surcharge

* With effect from 6 April 2004, all employers with more than 250 employees must make their payments of PAYE Tax and NICs electronically, by either BACS or CHAPS. Payments previously due by the 19th must now be clear by the 22nd, but if the 22nd falls on a weekend or bank holiday, payment must clear by the last preceding working day.

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.