



Coates and Partners Limited

Autumn 2008

Newsletter

Planning In An Economic Downturn

As concerns over the UK economy continue to grow, it is essential that all businesses, particularly small and medium-sized enterprises, are properly prepared for financially-testing times. Sound business and financial planning is always important, but especially so in an economic downturn.

The following steps can help you and your firm weather the 'credit-crunch' storm; but remember, there is no substitute for one-to one professional advice, so contact us today to give your business the best possible chance of success.

Debt management

This is essential in an economic slowdown – you will soon encounter difficulties if you allow outstanding debts to accumulate, a problem which is all the more likely in lean times. Make sure you have a clear policy for collecting debts and that customers are aware of it. Above all, ensure you enforce it. Pursue outstanding debts with letters and telephone calls and ensure that your terms of business allow for adding interest on overdue accounts.

Maintain customer loyalty

In difficult times it becomes harder to attract new customers. Therefore, it is more important than ever to maintain loyalty amongst your existing ones. Consider ways of developing and rewarding customer loyalty, such as selected discounts (especially for early payment), regular mailings or loyalty cards.

Beware of cutting prices

If receipts begin to taper off, it can be tempting to cut prices. But this can be a mistake. In a recession your costs will inflate and as a result you may be forced to raise prices to cover this expenditure. Cutting prices can also have the negative long-term effect of devaluing your image in the marketplace. Remember that suppliers might raise their prices as well, so try to negotiate a long term discount with them.

Don't skimp on marketing

The marketing budget is often the first casualty in a recession, but smart businesses continue to market through a downturn and position themselves to take full advantage of the upturn as soon as it starts. In tough times the marketplace becomes more competitive – you may need to market more vigorously, not less. If you do not have a strategic marketing plan, now is the time to draw one up.

Look after your employees

While job cuts may be necessary in some circumstances, you should always try to retain your key employees: their strengths will help you through an economic downturn, and you will need them when business picks up. You should use any dips in the market as an opportunity for key staff to develop new skills and coach newer members.

Planning ahead

Planning is vital for the success of your business. You need to plan the changes that can strengthen your enterprise against tough times, and how those changes will be put into action. However, planning is not just about 'worse case scenarios' – we can work with you to plan for your business future, offering advice on business management and tax planning and personal financial planning.

Contact us today and we will help you, your business and your family be financially successful, whatever the economic future holds.

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The Tax Band Turnaround: How Will The Changes Affect You?

In an emergency 'mini Budget' on 13 May 2008, Alistair Darling raised the personal income tax allowance to compensate those who lost out as a result of the withdrawal of the 10% tax band. The Chancellor may have hoped this headline-grabbing concession would silence his critics, but what do the changes really mean?

The basic rate 'tax cut'

The personal allowance for the current tax year (6 April 2008 to 5 April 2009) is now £6,035. This is £600 higher than the allowance announced in March 2008, and amounts to a £120 'tax cut' for basic rate taxpayers. When the new allowance is included in pay packets there should be a tax repayment of around £60 for basic rate taxpayers and a £10 reduction in tax for each of the months between October and March. However, self employed individuals will not benefit from the revised allowance until 31 January and 31 July 2009, when tax payments due for this tax year begin.

If you take a salary that just covers your personal allowance, you should be aware of moving your pay up to the new threshold of £6,035 (£503 per month), as the national insurance (NI) threshold has not changed. This remains at £453 per month, so any pay above that level will attract employees' class 1 NIC at 11%, (or a reduced rate if you are contracted out), and employers' NIC at 12.8%. This effectively leaves lower paid workers who earn between £5,435 and £6,035 per year in a 'NIC trap,' as they will pay NICs in 2008/09 but no tax.

Higher rate tax payers

Higher rate taxpayers are helping to pay for the increased allowance as the level at which they start to pay 40% tax is reduced from £36,000 to £34,800. This reduced threshold, coupled with the increased personal allowance, brings £600 of dividend income into the higher tax band to be taxed at 32.5% rather than 10%.

If your strategy is to keep your total income just below the higher rate tax threshold you should consider:

- paying £480 (net) of pension contributions, to increase the basic rate band by £600 (gross); or
- reducing the dividends you take from your company in 2008/09 so your total taxable income after the deduction of allowances does not exceed £34,800.

If your income is quite modest and largely comprises interest or dividends, you may now qualify to receive all of your interest without a tax deduction. We can help you calculate this - please contact us for more information.

Meanwhile, the higher personal allowances for those aged over 65 have not changed. However, if your age allowances were reduced due to the total level of your income, the minimum allowance you will receive for 2008/09 is now £6,035.

If you would like to know more about how the new rates could affect you, please contact us.

A New Lease Of Life For The Enterprise Investment Scheme?

The Enterprise Investment Scheme (EIS) has been around for a number of years. It is a scheme under which those prepared to invest new risk capital into new or expanding businesses can obtain tax breaks.

Subject to a number of conditions you can:

- get 20% income tax relief for the year of investment
- defer a capital gain realised up to three years before the date the EIS shares are issued, or up to one year after
- benefit from 100% inheritance tax (IHT) business property relief when you die!

All three of the above tax breaks have always been in existence, but the changes to the capital gains tax (CGT) rules earlier this year mean that CGT deferral has become more important than ever before.

How it works

If, for example, you sold an asset in 2007 which did not qualify for CGT taper relief, at a gain of £200,000, you could find yourself incurring a CGT bill of up to £80,000. However, if you invest £200,000 in EIS shares and retain them for the minimum three year period, the gain is deferred from 2007 to 2011 and the original £80,000 tax bill is cancelled. Instead, you will owe £36,000 (£200,000 at 18%) for the tax year in which you sell the EIS shares.

Too good to be true?

Well, you might say that! We have already hinted at the key warning – your investment will be for new and expanding unquoted companies, so there is a higher risk profile. However, if your investment does rise in value any gain will be exempt from CGT (only the original deferred gain becomes taxable when you sell), while if your shares fall in value you will at least have a loss which can be set against the deferred gain.

It is also worth noting that if you hold on to your EIS shares until your death, current rules will exonerate them from IHT (100% business property relief). So you could get 20% income tax relief and deferral of CGT at up to 40% now, the gain would wash out on your death, and the shares would pass to your heirs IHT-free!

We would recommend that you seek advice before considering an EIS investment and choose an experienced promoter to reduce your risk. Please contact us to discuss the tax rules in greater detail.

Benchmarking For Business

Remaining competitive in today's economic climate can be difficult. While ingenuity and innovation are essential business attributes, a lot may be learnt from the actions and processes of your closest competitors. As such, taking the time to conduct a benchmarking review can be a rewarding task – increasing your efficiency and, more importantly, your profitability.

What is benchmarking?

Benchmarking involves comparing your business processes, products or services against those of your nearest competitor or industry leader. A good benchmarking review will allow you to assess how well each aspect of your business is performing and identify areas for improvement.

In essence, benchmarking entails:

- establishing standards that will help you achieve the best relationships with your customers and the best results on your bottom line
- observing how others, either outside your organisation or elsewhere within it, attain these standards
- applying the knowledge gained to achieving and maintaining those standards yourself.

Benchmarking is not about copying others' successes, but learning lessons from them. If you want your firm to be a world leader you need to be constantly researching the best practices and adapting them to your own situation.

Where do I begin?

Identifying rival businesses is the first crucial step when undertaking a benchmarking review. Knowing who your competitors are, and what they are offering, can help you to

make your products, services and marketing stand out from the crowd. It will enable you to set competitive prices and help you respond to rival marketing campaigns with your own initiatives.

When deciding which competitors should form the basis of your benchmarking exercise, select firms of a similar size and with similar objectives to help you calculate industry yardsticks.

Smaller firms in particular can have difficulty in finding the equivalent information about other firms with which to make comparisons, especially if the other organisation is a competitor. However, you do not need to source the data directly from the other firm. There is a surprising amount of information available in magazines and newspapers, trade association reports, and various publicly accessible databases.

To benchmark successfully, however, it is not always necessary to measure your performance against that of a competitor. Comparing certain procedures with businesses in parallel industries or even in completely unrelated trades can often be very revealing and lead to creative, lateral thinking – a key element in the process of innovation.

Internal processes

You might also begin to benchmark internal processes such as stock levels or stock turnaround times, quantity of waste or rejects generated, cost of sales or sales per employee. Besides facilitating continuous improvement, this also helps to create a culture of settling for nothing but the best within your organisation.

If you are interested in these and other ways of improving your business processes and profitability, please contact us.

Avoiding The VAT 'Penalty Trap'

Making a mistake in your VAT calculations can prove costly, particularly in view of the recent changes to the penalty regime. Of course, avoiding errors altogether is ideal, but what action should you take if you do make a mistake?

If you make an error in your VAT calculations you may include the under or overpayment in your next VAT return, providing the net errors for the period are within the specified limits.

New rules

For VAT periods ending before 30 June 2008 this error reporting limit was £2,000. However, for VAT periods beginning on and after 1 July 2008 this limit is increased to the greater of:

- £10,000 or
- 1% of the turnover for the period in which the error is found (box 6 on the VAT return), subject to a maximum error of £50,000.

Reporting the mistake

Where the net VAT errors - underpayments set against overpayments - exceed these limits, you should write to the VAT

Voluntary Disclosure Office and divulge the details of your mistake. You can use VAT form 652 to do this, which can be downloaded from the HMRC website, or you may supply the following information on business headed paper:

- the VAT period when the error(s) was made
- how the error occurred and whether it relates to purchases or sales
- your calculation of the mistake and the total VAT payable or refundable.

The VAT office will normally reply with a demand for interest on the late paid VAT, if the error produces a net underpayment of VAT. Even if your net VAT error is within the error reporting limits, please discuss the situation with us before correcting the fault on your VAT return – it may be possible to minimise any penalty charged by writing to the VAT office instead.

Notification and details of the error should be mailed to the VAT Voluntary Disclosure office that deals with your post-code area. The correct address for your location can be found by contacting the VAT national advice line on 0845 010 9000.

We can help you with your VAT queries and concerns – please contact us for further advice.

Are You Up-to-Date On Home Working Expenses?

HM Revenue and Customs (HMRC) has recently increased the tax free allowance for home working expense claims from £2 to £3 per week. The new allowance, which is intended to reflect rising energy costs and the increased expense of running a home office, became effective earlier this year. However, claiming expenses is not always straightforward as different rules apply to different categories of worker.

Under HMRC guidelines employees who work from home fall into two categories:

Type A: those who choose to work from home occasionally

Type B: those who are based at home and do not have an alternative workplace.

We have provided further guidance below to help determine an employee's status.

Type A: Occasional home workers

According to HMRC, type A employees have a choice about their working arrangements. In this situation the employee can submit an expense claim to the employer for the additional household expenses that are incurred from working at home. These costs would include the increased energy required to heat and light the property for longer and, if metered, the extra water consumed. While the cost of business related telephone calls may be reclaimed, a proportion of the telephone line rental may not. Mortgage and general insurance charges are also ineligible for recovery because such expenses are fixed, irrespective of the working location.

Submitted expense forms should be supported by receipts, which can be tedious to collect and process. As an alternative individuals may claim a flat weekly scale rate from their employer, which from April 2008 is set at £3 per week. Receipts are not required for expenses paid up to this scale rate, but business telephone costs may be paid in addition to the weekly allowance. It is worth noting that expense claims should be submitted to the employer and not directly to HMRC on the employee's Tax Return.

Type B: Permanent home workers

Type B employees have no choice about working from home, as this is their permanent base. In this circumstance the employer will not provide an office at an alternative location. If an employee's contract requires them to work at home, they may submit a claim on their Tax Return for the expenses of supporting a home office, providing the employer does not meet these costs. However, the employee is required to demonstrate that all of their work is completed in the home location and that it would not be possible to perform this work from a public place such as a local library.

HMRC prefers employees to reclaim the costs of home working from their employers and, as a result, will only agree to a personal claim from an employee if the employer refuses to meet the employee's home working expenses.

Home working is an increasingly popular option for many employees. For more help on the tax implications, please contact us.

Business Mileage: Don't Stall Over VAT Fuel Recovery

For many business owners, motoring costs represent a significant proportion of their firm's expenditure. As fuel prices climb to unprecedented levels, reclaiming VAT on car fuel is an ideal way to recover some of these draining costs. However, it is imperative that this process is carried out correctly as this is often one of the first areas that a VAT inspector will study when reviewing your accounting records.

If you pay a mileage allowance to your employees for business journeys made in either their own vehicle or a company car, you can reclaim the VAT on the fuel element of those mileage payments.

How it works: Private vehicles

The mileage allowance for private cars is 40p per mile for the first 10,000 miles and 25p per mile for additional business miles driven in the same tax year. These rates have remained unchanged for more than six years and they are deemed to include an element of reimbursement for the vehicle's other running costs. To calculate the fuel only element you should refer to the HMRC advisory fuel only rates, published at: www.hmrc.gov.uk/cars/advisory_fuel_current.htm. These rates are re-issued at least every six months and the latest rates apply from 1 July 2008, though by concession they can be used from 1 June 2008. In order to reclaim the VAT component of the fuel element, firms should retain VAT receipts to cover the amount of fuel that is deemed to be used in the business journey. When an employee submits an expense claim for business mileage he or she must state the engine size of their car, or the band it falls into, and provide VAT receipts for the fuel purchased. It does not matter that the employee initially purchased the fuel rather than the business.

Example

Fred drives 1,000 business miles in his own car, which has a 1500cc diesel engine. The value of the fuel used according to the fuel advisory rates is 13p per mile: £130. The VAT element is $7/47 \times £130 = £19.36$. Fred must supply his employer with fuel receipts totalling at least £130 to allow the business to reclaim the VAT shown on those receipts.

How it works: Company cars

Some companies may pay for the entire quantity of fuel consumed in a company car, which will inevitably include fuel used in private journeys. This takes the business into the realm of the VAT fuel scale charges, and brings the increased risk of incorrectly recording the figures on the VAT return as exemplified below. A new table of scale rates is published in the Budget each year to take effect from VAT periods beginning on and after 1 May.

Example

Albert drives a company car with CO2 emissions of 180g/km. His employer pays £500 for fuel that is used for both business and private journeys. The business can then recover input VAT on the fuel using the following calculation: $7/47 \times £500 = £74.47$. However, as some of this fuel was used for non-business purposes the VAT scale charge will need to be applied. This is effectively an output VAT charge on the fuel supplied to Albert that he uses privately, but the scale does not vary with the miles driven per quarter or year, only with the CO2 emissions of the vehicle. The VAT scale charge in this case is £49.30.

Advice for employers: How to recover VAT

In your VAT return you need to include £49.30 in box 1, and reclaim £74.47 in box 4. The VAT exclusive value of the scale charge (£281.70) is included in box 6 of the VAT return, which is the outputs box. It is possible that the output VAT in box 1 will exceed the VAT reclaimed in box 4. In this case your business will lose out by operating the VAT scale rates. The only way to avoid this is not to reclaim VAT on any fuel purchased for company vehicles, but you must tell HMRC when you change your practice in this area. Alternatively, you can ask your company car drivers to pay for their own fuel and then pay mileage allowances for business journeys only.

We can help you calculate and reclaim VAT on car fuel – call us for further advice and information.

Employed Or Self-Employed?

Should you treat the people who work for you as employed or self employed? This seems deceptively simple, but it is important to get it right as a mistake can lead to serious consequences. In an attempt to clarify the situation, HM Revenue and Customs (HMRC) has released new guidance to help people calculate their employment status for tax and national insurance (NI) purposes.

The new guidance

Factsheet ES/FS1 – *Employed or self employed for tax and national insurance contributions* – provides updated advice for employees in view of the new construction industry scheme as well as managed service companies.

HMRC's latest guidance makes it clear that 'employment status is not a matter of choice,' as it is based on the terms and conditions of the agreement you have with who you work for. The new pamphlet also reiterates that the responsibility for making sure it is correct remains firmly with the employer. While it replaces part of the IR56 publication (*Employed or self employed?*), employers have been advised to refer to the original IR56 until further information is released.

How do you decide?

Although there is no clear-cut answer to this question, generally workers are employed if they work for someone and do not have the risk of running a business. Workers are self employed if they are in business for themselves and are responsible for the success or failure of that business.

Factsheet ES/FS1 includes a series of questions to test the particular circumstances of any working relationship and thus help determine an individual's employment status. These cover areas such as:

- being allowed to get someone else to do the work
- working under detailed instructions

Business Round-Up

Changes to the National Minimum Wage

From 1 October 2008 the main adult rate of the National Minimum Wage (NMW) rises from £5.52 to £5.73 per hour.

In addition, the hourly development rate for those aged 18-21 increases from £4.60 to £4.77 and the rate for workers aged 16 and 17 climbs from £3.40 to £3.53 per hour. The new rates are based on the recommendations of the independent Low Pay Commission, which was asked to monitor and review the impact of the NMW.

Following a series of high profile breaches, the Government has also outlined proposed changes to how the NMW is enforced, including tougher penalties for employers that fail to comply with the obligatory wage.

The reforms, which form part of the Employment Bill, include granting greater inspection powers to NMW compliance officers and strengthening the penalty regime for offences committed under the new legislation. The Government is also consulting on plans to introduce a fairer method of calculating arrears for workers who have been underpaid.

Furthermore, the Bill contains changes to the way criminal offences existing under the NMW Act are investigated and enforced. In particular, for the most serious cases, offences may be tried in the Crown Court. Subject to parliamentary approval, the new provisions are expected to come into force in April 2009.

- working for other people
- correction of unsatisfactory work
- payment by the hour or overall contract price
- provision of materials and equipment
- integration with the employer's business.

These are matters of general employment law and not specific tax legislation.

When things get complicated

The questions in HMRC's new employment status leaflet should cover most situations, although exceptions will inevitably arise. If you encounter difficulties, you may find the online Employment Status Indicator (ESI) tool very useful. Visit www.hmrc.gov.uk/employment-status/index.htm to access the free online resource.

What if you are wrong?

If you treat workers as self employed and they are subsequently ruled to be employees, you could find that all the payments you have made will be treated as net payments, and you will have to pay the corresponding tax and employees' NI, as well as the employer's NI. You have no right in law to recover such items from your employees after the event.

You may also have to pay interest and penalties for incorrect returns.

It is important to act now to avoid incurring such penalties, so please contact us to discuss this subject in more detail.

Ruling on tips and the NMW

Meanwhile, a High Court has ruled in favour of HMRC and against Annabel's restaurant and nightclub by supporting current NMW legislation relating to waiting staff tips. HMRC argued that payment via a 'tronc' (an independent tips distribution scheme) does not count towards the minimum wage.

The judgement means that employers have to pay their staff at least the minimum rate regardless of any tips, gratuities, service or cover charges, so long as they are not paid directly through the employer's payroll.

Workers to be given right to request training

The Government has outlined plans to give workers in England the right to request time off for training relevant to their employment. An estimated 300,000 extra people could receive training if the new legislation is implemented as expected by 2010.

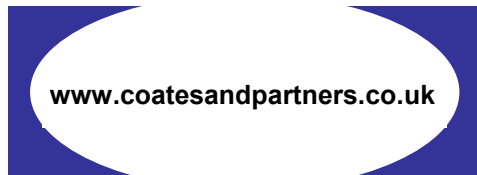
It is thought that the new entitlement will apply to all employees who have worked for their employer for 26 weeks, with requests likely to be treated in a similar way to those for flexible working.

The new legal right would not force employers to grant requests, providing they could justify the refusal on business grounds and had discussed the issue at length with the individual.

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"the forward looking accountants"

Coates and Partners Limited are based in Ashbourne. We are a four director firm with excellent staff support. We predominantly look after owner managed businesses and, as we have been established for over 55 years, many clients are second and third generation.

Although mainly based in Derbyshire, we have a nationwide client base, with some clients staying with us despite relocation. We have in excess of eight hundred clients made up of a wide range of businesses including a strong international section.

As you would expect from an established firm of Chartered Accountants, we provide a full range of compliance services, ensuring that all our clients, whether corporate or not, are carefully and efficiently looked after in all aspects relating to their annual accounts and resultant tax implications. However, in addition to these services, we offer an extensive range of business development services, including strategic management and development.

Please call us for a free initial consultation.

Web Watch - Essential Sites for Business Owners

www.e-skills.com

Provides advice, services and programmes to help develop and improve IT skills in the workplace

www.envirowise.gov.uk

Practical tips to help increase profits, reduce waste and minimise your environmental impact

www.getsafeonline.org

Free and objective advice on internet safety for you and your business

www.lowpay.gov.uk

Information on the National Minimum Wage, including past and current rates and consultations

Reminders for your Autumn Diary

September 2008

30 End of CT61 quarterly period.

October 2008

1 Due date for payment of Corporation Tax for period ended 31 December 2007.

5 Individuals/trustees must notify HMRC of new sources of income/chargeability in 2007/08 if a Tax Return has not been received.

14 Due date for income tax for the CT61 quarter to 30 September 2008.

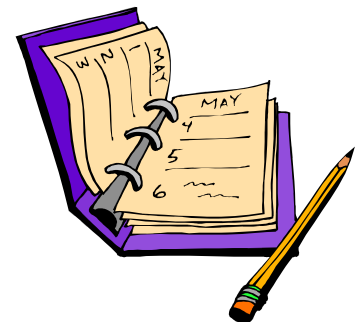
19/22 Quarter 2 2008/09 PAYE remittance due.

31 Last day to file 2008 Tax Return – paper version.

November 2008

1 Please ensure you are retaining your documents for the 2009 Tax Return.

2 Last day for notifying car changes in quarter to 5 October- P46 (Car).



This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases. It is recommended you seek professional advice before taking any action. No liability can be accepted by Coates and Partners Limited for any action taken or not taken as a result of this information.