

Bernard Harrington and Company

Business Intelligence

moving forward with you

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Finance Act adds to company burdens

Following Royal Assent of the Finance Act 2004, companies are facing a new penalty regime should they fail to notify the Revenue when they commence to trade. This could adversely affect the cash flow of new companies if they inadvertently fail to notify. Although the self-employed have had to meet these requirements for over three years, now for the first time, companies must provide notification when they commence to trade under this year's Finance Act.

Failure to do will result in a hefty penalty. Under the new rules, a company must provide notification within three months of it becoming liable to UK corporation tax. This applies to large and small businesses. For example, overseas companies which become resident in the UK (perhaps because central management and control is relocated to the UK) will have a notification requirement. In addition, this applies when a new company acquires a source of income, investment or trading. For the unwary, companies that have been dormant for a period and recommence to trade or make investments will also be required to notify.



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For companies failing to comply within the specified time limit, a penalty of £300 will be imposed, and an additional penalty of £60 per day if the failure continues can be levied. For new business, this could be a significant hit on cash flow. The new rules also set out a specific list of details that must be included in the company's notification including, name and nature of the trade, address of registered office, plus full names and addresses of company directors.

This requirement is on top of the obligation to notify the Revenue about directors' and employees' company share transactions. Companies have to disclose details of company shares and unapproved share options issued to their directors and employees, and they should do so by completing Form 42. This is an additional reporting burden on business. There are certain limited cases where a company may be spared from paying the penalty but being unaware of the new rules is not considered to be a valid excuse. We advise companies to double check their reporting obligations and contact us if in doubt.

Insuring your Business

Although most business people understand the need for insurance, a surprising number of businesses are uninsured, under-insured, or insured with out-of-date policies. You should check that your insurance for fire, loss of profits, employer's liability, public liability, and product liability is correctly arranged with suitable sums insured or indemnity limits. Any business could suffer a major loss in any one of these areas. Under-insurance will result in a proportionate reduction in an insurance claim, and could threaten the future of the business, or at the very least reduce its ability to trade. Conversely, over-insurance will mean wasted premiums because the liability of an insurance company usually extends only to the cost of reinstatement of the insured asset.



We have produced a guide to insuring your business which has been sent to all of our clients in recent weeks; if you are not already a client of ours and would like a copy of our guide, please do call us. We enjoy close working relationships with a number of very reputable general insurance brokers who can provide specialist advice in any situation.

straightforward

Like you, we're straightforward people. We give you straight advice, you take your business forward. No nonsense. Straightforward isn't it?

Credit management site for business start-ups

Good credit management from day one can mean the difference between the failure and the realisation of an entrepreneur's business dream. Basic credit management procedures are not difficult to master, and by applying them properly from the start, entrepreneurs can protect their valuable cashflow and maximise the chances of seeing their new venture succeed.



Government statistics show that around 170,000 new firms are registered every year and they are particularly vulnerable to cashflow difficulties in what is one of the most expensive phases of the business lifecycle.

The Better Payment Practice Group (BPPG) has created a website explaining the basics of credit management for start-up companies. The BPPG site for start-ups includes guidance on the elements of good credit management and steps the visitor through the following areas:

- ✓ Terms of trade
- ✓ Setting credit limits
- ✓ Credit checking – why & how
- ✓ Issuing invoices
- ✓ Collecting cash
- ✓ Late payment legislation

Other resources include a supplier's checklist, sample invoices and reminder letters and a PDF download of the 'The Better Payment Practice Guide to getting paid on time'. It may be no harm if the owners of some more mature businesses visited the site at www.payontime.co.uk/start_up/introduction.html

Landmark ruling on 'husband and wife' tax

The Inland Revenue has recently won in a landmark ruling on the so-called 'husband and wife' tax. The ruling means that the owners of Arctic Systems, an IT consultancy, will face a substantial tax bill. The ruling could also set a precedent for future cases.



Last week the Inland Revenue's Special Commissioners ruled it was right to stop the couple from reducing their household tax bill by equalising shareholdings and paying dividends to reduce their combined tax liabilities. The Commissioners, in a split decision, said family-run firms, where the couple share tax liabilities in this way have an unfair advantage if the income is mostly generated by one spouse.

This decision could result in hundreds of thousands of small businesses facing unexpected tax demands running into millions of pounds. This aggressive approach from the Inland Revenue, driven by a desire to maximise revenue at the cost of certainty and transparency, is damaging the economy. It remains to be seen exactly how the ruling will affect the majority of family-run businesses, and it may not apply in all cases.

We believe the current application of Section 660A to be incompatible with the concept of Self-Assessment, and the principle of independent taxation of spouses. The ruling will not affect all family-run businesses, however, and the Revenue's attempts to go back six years with their claim failed. Properly structured, most businesses can avoid or rebut challenges of this sort from the Revenue so make sure you contact us for advice if this case may be of relevance to you or if you are worried about its implications.

A man was crossing a road one day when a frog called out to him and said, "If you kiss me, I'll turn into a beautiful princess." He bent over, picked up the frog, and put it in his pocket. The frog spoke up again and said, "If you kiss me and turn me back into a beautiful princess, I will tell everyone how smart and brave you are and how you are my hero." The man took the frog out of his pocket, smiled at it, and returned it to his pocket. The frog spoke up again and said, "If you kiss me and turn me back into a beautiful princess, I will be your girlfriend for an entire week."

The man took the frog out of his pocket, smiled at it, and returned it to his pocket. The frog then cried out, "If you kiss me and turn me back into a princess, I'll marry you, cook your meals, and do your laundry." Again the man took the frog out, smiled at it, and put it back into his pocket. Finally, the frog asked, "What is the matter? I've told you that I'm a beautiful princess, that I'll marry you, I'll cook your meals and even do your laundry. Why won't you kiss me?" The man said, "Look, I'm an accountant. I don't have time for a wife, but a talking frog is cool!"

Changes to Employment Law

Significant changes in employment law came into effect on 1 October 2004. The aim of these changes is to reduce the number of employment tribunal applications (which have trebled in recent years) but there is considerable doubt about whether this will be achieved. The new rules lay down certain procedures that must be followed before a claim may be brought before an employment tribunal. The theory is that these procedures will resolve problems that might otherwise lead to employment tribunal claims. The sanctions for not following the procedures include an increase, of up to 50%, in the compensation payable by the employer if the claim proceeds to a tribunal.



The new rules are complex and cumbersome, so it is helpful to summarise when they apply. Broadly speaking, they must be followed if you:

- (a) intend to dismiss an employee for any reason;
- (b) intend to take disciplinary action against an employee; or
- (c) receive notification of a grievance from an employee.

If the appropriate new rules are not followed by the employer, any dismissal will automatically be unfair. Furthermore, all employers must now set out in writing to employees dismissal and disciplinary procedures which have to comply with the new rules. Failure to do this can lead to financial penalties for the employer.

One point that should not be overlooked is that, even if you already have dismissal and disciplinary procedures in your contracts of employment, they are unlikely to meet the exacting requirements of the new rules. We have specimen sets of such procedures which meet the new requirements. You are welcome to a copy of them from us without charge upon request.

The Disability Discrimination Act

The final aspects of the 1995 Disability Discrimination Act, covering the issue of physical access and employment for disabled persons will come into force on 1 October 2004.

What do the new rules cover?

The duty of all service providers to make 'reasonable adjustments' to their premises so that disabled people do not face barriers to access, and the new obligation on employers with fewer than 15 staff to ensure fair treatment of disabled workers.



What do they mean for your business?

Anyone who provides a service to the public or a section of the public will need to make 'reasonable adjustments' to their full range of physical features, such as kerbs, steps, doors and toilet facilities.

Small businesses, which have previously been excluded from the Disability Discrimination Act, will have to comply with the legislation, and must ensure that they don't discriminate against a disabled person at any stage of the employment process, from recruitment to promotion and dismissal.

Action to take

In addition to reviewing your employment policies to ensure there is no discrimination, you must make sure that your business premises are accessible to people with disabilities. You should take into account all aspects of your business premises, both indoors and outside. Draw up an access plan to allow sufficient time to implement any necessary refurbishments. You may like to arrange a professional access audit.

For more information on the new obligations for businesses, visit www.drc.org.uk/open4all
Further guidance on the Disability Discrimination Act 1995 is available at: www.disability.gov.uk/dda

SMEs can halt decline by adopting a longer-term view



The task of building and maintaining a sustainable business could never be described as a walkover. Get it wrong, and you could be staring down the loaded barrel of corporate failure. Get it right and you will earn the respect and loyalty of those who matter most to your business: your customers, your employees and your shareholders. The secret of a sustainable business model for SMEs lies in an organisation's ability to identify the potential signs of decline and address them through strategies that actively promote longer-term survival. All too often, companies rely on short-term wins, such as rapid expansion or cost-cutting to drive their businesses forward, forgetting to take a multi-angled view of the operation from the perspective of their customers, employees, managers or shareholders.

Business success hinges on building strong internal teams that function well together and operate successfully as a whole. SMEs can boost their chances of success by being vigilant and learning from one another's mistakes and can keep longer term-goals in mind by regularly asking:

- ✓ What is this business trying to promote?
- ✓ What does this business need in order to (continue to) be successful?
- ✓ How can we track and measure that success?

Eight ways to maintain a long-term focus

- ❑ Be focused: concentrate on your strengths rather than going head to head with stronger and better established enterprises outside your area of expertise
- ❑ Adopt a simple business model: don't seek refuge in jargon and complexity at the expense of transparency
- ❑ Be customer aware: always keep customers and suppliers in the loop about changes which may affect them
- ❑ Keep your approach fluid: share ideas and practices across functions so that processes remain solutions-driven
- ❑ Value your employees: put your staff first and keep low morale at bay by ensuring that teams are developed and rewarded
- ❑ Open up a two-way dialogue: encourage staff involvement and participation by avoiding a top-down approach where instructions are given and targets set without securing buy-in from employees
- ❑ Maintain a balance: don't go too far one way by focusing disproportionately on soft issues (culture, people) or hard issues (cost-cutting and redundancies)
- ❑ Avoid poor change management: be adaptable to change and develop the right managers for the job; recognise innovation as being key to success.

Did you know?

Any photocopying of pages from journals etc by a business is now only allowable if the business making the copies has individual permission from the publisher or a blanket licence obtained from the Copyright Licensing Agency Ltd. The cost of this is approx £100. Printing from websites counts for this purpose as copying. Any copying not covered by express permission or blanket licence is both a civil wrong and a criminal offence.



Buying a business – Part I



Research indicates that more than half of all acquired businesses fail to meet the expectations of the purchaser - acquiring a business requires much more than simply meeting a price. Firstly, it is important to know from the outset why you are looking to acquire another company. It is not enough that the company is available - an acquisition needs to fit your existing business strategy and make sense in your long-term objectives. Always consider whether you really need to acquire the company - is there another alternative? For example, if the company you are looking at is dependent for its success on one or two people, would it be possible to make those people a better offer? That could get you the ingredients for the success without having to pay for all of the company. Sometimes, though, the only practical option is acquisition - particularly if you are trying to establish market leadership or acquire complementary products or markets.

The wish-list

Having decided to buy, consider first the characteristics of a company that would fit your strategic goals and the type of deal you have in mind. Building up a profile of your ideal target will save a lot of time in the process, helping you to identify and eliminate the wrong companies quickly. This process is valuable even if a potential acquisition approaches you – make sure that they fit your plans and strategy; mistakes can be expensive.

In particular, think about:

- products and services – do they complement or compete with yours
- minimum/maximum levels of turnover and profitability
- minimum/maximum market share and growth prospects
- type of customers/relationships
- location/geographic coverage
- consolidation opportunities
- management skills.

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www.bhonline.co.uk

With regard to the acquisition itself, consider:

- minimum and maximum value of the deal
- the type of consideration that you can offer (cash/shares/loan notes?)
- whether some of the consideration should be deferred or linked to results.

Finding targets

Once you have a picture of your ideal company, you need to find suitable companies. This stage of the process can take a surprising amount of time – up to a year or so in many cases. The number of potential targets will vary with industry and business size. There are four general options in the hunt for targets:

- **existing knowledge:** most acquisitions happen between companies that have an existing relationship of some sort, such as customer, supplier or competitor. Involve senior staff in the search, asking them to be alert for information that could indicate receptiveness to an approach (retirement of a key director, loss of a major contract etc)
- **circulate your wish-list:** many third parties will take the details of what you are looking for and keep them in mind. Investment banks and corporate finance houses are often retained to sell businesses and may have a match for you
- **advertising:** selective advertising can work but needs to be carefully targeted. Most successful advertising is sponsored by a corporate finance advisor
- **research:** this takes the most time and resources but, ultimately, is also generally the most successful. Accumulate and review as much information as possible on the markets, companies, products and services highlighted in your target profile. This takes time – you may prefer to buy in the expertise through corporate finance advisors so that management can continue to run the business. The majority of the fee in this case should be tied to successful acquisition; interview the advisors to make sure that they have the skills and experience to deal with the sector and size of business that you are looking for.

Once you have a target list, the negotiations start. Consider first how to open a dialogue with each target's shareholders; it may be more appropriate to use a third party such as a corporate finance advisor in the first instance. This allows you to test the waters and protect your company's identity for a while. In most acquisitions, the process needs to be considered and 'friendly'.

Could Your Business Survive Without You?



As accountants and business advisers we get to know our clients very well. From our position, it is all too clear that many business owners are too focused on today's problems to give serious thought to the future, and in particular to a future in which they will not play a part.

While the immediate challenges facing you in your business and personal life are undoubtedly important, you should also set aside some time to consider what would happen to your family and your business if you became seriously ill, incapacitated in an accident or died.

It is possible to take out life insurance and insurance against loss of earnings, but whatever event might trigger your removal from an active role in your business, whether permanent or temporary, you need to consider what steps you can take. As a business owner, you have responsibilities to staff and customers, too. Insurance can cover the immediate financial loss, but only some form of succession plan can create a structure to pass the management and control of your business into one or more safe pairs of hands.

Taking over the reins

If you are the sole owner of a business, you need to think about bringing family members into the management team if you want them to continue to be involved in running the business. If family members are not suitable, consider ways to ensure that key staff members can be retained and empowered to run the business, securing their own futures as well as those of your family. If the business cannot survive without you, are there steps you can take to maximise any value in the business, which can provide capital or an income in the future? If you are a co-owner of a business, the same basic points arise, though you will have the advantage of your partners' interest in continuing a successful business in your absence.

An essential element in a business or personal 'disaster' plan is that the key people need to know in advance what will be expected of them, and be comfortable with it. Once you have a clear idea of how you see matters developing, talk it through with the family members, colleagues and advisers who will have a role. Some people may feel unable to take a formal role - others may show hidden strengths.

Enduring power of attorney

One thing many people still overlook in planning for a crisis is that while they will have appointed executors who can step in immediately to manage their affairs in the event of a death, in cases where they are only ill or injured nobody is empowered to act for them. An enduring power of attorney formalises the situation, so that in the event that you are unable to manage your affairs, someone you trust can take over until you recover, or are well enough to resume control.

None of us knows what is around the corner. We can help you to formulate your own disaster plan - it is essential that you talk to us about what you can do now to protect yourself, your family and your business if the unthinkable happens.

Bernard Harrington BCom. FCA FCCA
Bernard Harrington and Company
Chartered Accountants
Blandford House
77 Shrivenham Hundred Business Park
Majors Road, Watchfield, Swindon,
SN6 8TY

t: 01793 780480
f: 01793 780180

bernard.harrington@bharrington.co.uk
www.bhonline.co.uk

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Newsletter Content

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, so please contact us for personal advice on your own affairs.

Disclaimer

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