BUSINESS & COMMERCIAL

Newsletter

ENTERPRISE

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JUNE 2020

ALBERT GOODMAN

CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

welcome

Wow! What a few months it has been!

Since our last Enterprise Newsletter in February, our lives have been dominated by the Coronavirus. We have been unable to see loved ones, the nation has been in lockdown, there has been unprecedented levels of financial support from government and of course, we all now know what furlough means!

We can all be proud of the way we have pulled together as a community, both locally and nationally, to help each other. This includes the fantastic work of our keyworkers, businesses collaborating and pivoting to provide new services and products, and I have to say we are so proud of our own amazing team at Albert Goodman who have worked tirelessly to support our clients throughout this pandemic.

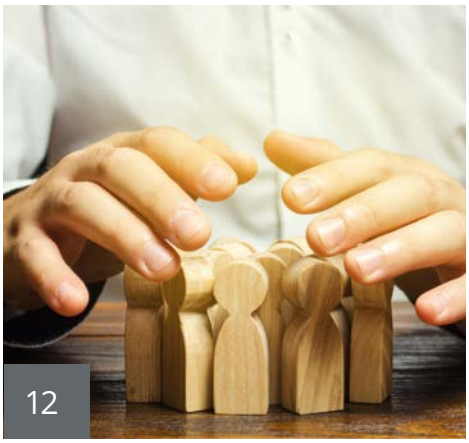
That said, the last few months have been particularly difficult for some. All of us will probably know someone, whether it be a friend, family, neighbour or colleague who have suffered with their mental health and disappointingly many business owners, who take their remuneration in the form of dividends, received little support from the Government despite being the risk takers driving the backbone of the UK economy.

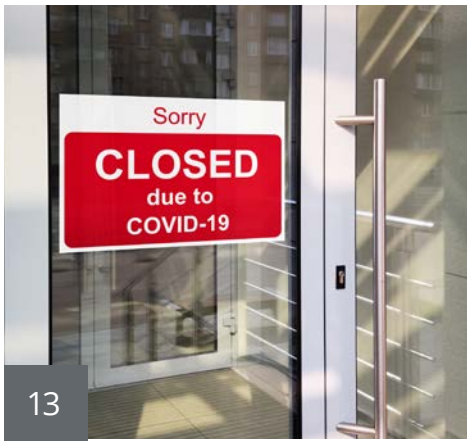
As lockdown restrictions are eased, many businesses are beginning to return to work or increase their levels of activity again. Coming out of the lockdown, is likely to be more challenging than going into it. Planning will be required to make sure premises are safe for staff and customers to return, there may well be supply chain issues in terms of sourcing materials and services, and managing cash and working capital will be crucial. A good forecast and consideration of different scenarios will be important in navigating this (particularly if you are considering developing new products or services or entering new markets) - if you would like some assistance with this please get in touch.

It is also a good time to review your personal position. Is your will up to date? If you have taken on more debt do you need to review your life, business or income protection cover? Is now the time to subscribe to our Tax Investigation Service given that HMRC may well need to increase the number of, or harden their approach on tax enquiries in order to recoup some of the financial support given during this pandemic. We explore some of these in more detail in this newsletter.

I hope you enjoy the read, but most importantly, stay well.

Mike Cahill
Partner





PRIVATE CLIENT

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LIFE AFTER LOCKDOWN - SO WHAT NEXT...?

As the lockdown restrictions begin to ease and we gradually start to move back to some kind of normality, what can or should you be doing to make sure that your business will survive once all the government support comes to an end?

Businesses in all industries and sectors have been affected in someway by the pandemic, but some more so than others. With many preparing to open their doors to the public again there is a lot of guidance out there about how to do this as safely as possible, but what about making sure you are doing it profitably?

With footfall in towns and cities likely to be down as people are fearful about going out and getting back to normal, how can businesses survive? Set out below are a few key factors to consider when looking at your business and preparing to move forward:

Identify unnecessary costs
Most businesses are operating at their most lean right now and have cut back on everything but the essential costs. With trade restarting, take this opportunity to rebuild the foundations to become stronger in the future by identifying all your costs and questioning their necessity.

One way of doing this is to use projections and budgets. A lot of businesses are encouraged to produce these when raising finance or looking to expand but instead of using them to predict the flow of money over the following months, use the data they contain as a tool to steer and monitor the business.

As trade starts up again, you have an opportunity to set up a simple system to really monitor performance and consider the impact of non-essential expenditure on profitability with a view to only spending on things that pay for themselves and add to the bottom line.

A virtual future?
Different businesses in different industries will have different costs, but there are some common denominators that have been generated by the virus itself.

The obvious one is the use of video conferencing. In the service industry, huge costs can be saved by running virtual meetings. Consider whether this can be applied to your business more, once lockdown ends.

If it can, not only will there be significant savings from a financial perspective, i.e. cutting down on travel costs, but also in time – arguably a more precious commodity in some instances. Not spending time on the road travelling from meeting-to-meeting will mean more time working on the business.

Staff appraisals
Savings can be made around the issue of staff potential. With businesses taking the opportunity presented by the Government and furloughing staff you may well have found that certain employees remaining in the business have had to take on more responsibility and cover multiple roles.

You will know who has stepped up to the plate which you can use going forward, and will help to develop the employee for the good of the business.

There are also opportunities presented by looking at what a company is actually capable of. It may be more than you thought. There have been many positive news reports about manufacturers who within days of the crisis expanded their operation quickly to produce face masks and ventilators. Many other businesses have also started or expanded delivery services where these weren't offered before.

Eggs in baskets
If your business came to a grinding halt because of the lockdown, is there anything that you could do differently that would have allowed you to continue to generate an income? For some businesses the answer is no, but for others, creating an online presence or offering a takeaway or delivery service has proved to be a lifeline and will perhaps be something that will continue post lockdown and add a new dimension to an already successful business.

However, post-lockdown you do need to carefully review costs associated with this new way of operating and make sure it is profitable.

In summary, by analysing data you already have, companies can take the positives from lockdown and emerge stronger and healthier than before.

Sharron Quick
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UPCOMING DEADLINES - P11D AND ERS

P11D - Benefits in Kind

With everything that is going on in the world at the moment and with so many people's routines being disrupted, it's easy to forget that we are now in P11D season with the deadline for the submission of these being 6 July. Any Class 1 A National Insurance Liability is due by 19 July (or 22 July if paying electronically).

No announcements have been made about any deferment of submissions or payment (although this may come) therefore if you provide benefits, you must ensure that the P11D's are completed as normal and all filing deadlines met.

As a brief reminder, a P11D is used to report certain expenses and benefits that are liable to tax. Typical benefits can include:

- Company cars
- Company car mileage allowances and fuel
- Company vans for private use
- Private car mileage allowances and fuel
- Motorcycles for private use
- Payments for use of home telephones
- Non credit card expenses payments
- Credit card expenses payments
- Working from home
- Private medical insurance
- Beneficial loans
- Living accommodation
- Assets transferred
- Other items, such as childcare costs, late night taxis etc.

If you require any assistance in dealing with your P11D's we are here to help. Please contact your usual point of contact or a member of our dedicated P11D tax team.

Employment Related Securities

A lesser known reporting requirement exists for gifts and awards of shares. Often known as employment related securities (ERS) such gifts/awards are commonly used by employers to reward, retain or provide incentives to employees. They can be tax advantaged or non-tax advantaged.

If new shares have been issued in your company, by way of a gift or award, it is possible that this may need to be declared to HMRC. Reporting requirements are similar to the P11D deadlines in that all such returns must be submitted by 6 July.

If you have issued new shares in your company and want to check if a declaration is required, please contact your usual point of contact or a member of our tax team who can assist you with your enquiry.

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INSOLVENCY

The good news is that insolvency practitioners are not just administrators and liquidators that clear away the pieces when businesses have hit the rocks leaving a trail of destruction in their wake. Many are qualified accountants who are adept at understanding accounts and even more so financial forecasts. They can then apply this knowledge to identify businesses that might be able to be rescued, perhaps utilising the specialist legal procedures available only to them, such as voluntary arrangements.

So how do these work?
Basically voluntary arrangements allow a business to package up its unsecured debt into a pot which is then frozen preventing creditors taking recovery action. Those creditors might typically include suppliers, HMRC taxes and some loans. The business then makes payments towards that pot out of future profits such that the creditors in the pot might receive a return which would be better for them than if the business went into a more terminal insolvency procedure. These arrangements typically last for 5 years and might return anything from a third to all of creditors' money over that time.

These arrangements even allow for the restructuring of the business concerned in a more radical way than might otherwise be possible. For example, surplus employees can be made redundant with the government picking up the cost so avoiding the trap of needing to slim down due to lack of cash but that lack of cash preventing redundancy costs being met. In a similar way it may be possible to return assets no longer required on finance and hand back locations no longer required to landlords.

Thought through and with realistic forecasting these arrangements are a very useful business recovery tool allowing the existing owners to stay in place usually with the existing secured finance and without all the upheaval of something more drastic. However, they are not suitable for unprofitable businesses as cash flow will soon expire and contributions will become unaffordable causing the arrangement to default.

No good?
If an arrangement is not appropriate for whatever reason, a pre-pack purchase of the business from a company administration or liquidation might be the answer. After appropriate marketing beforehand and providing this is both the best offer on the table and leads to a better result than selling the assets concerned piecemeal, it may be possible to purchase the existing business and required assets immediately from an administrator / liquidator upon their appointment. This leaves much of the debt behind and allows the existing shareholders to regain control.

As always, every case hinges on its own circumstances and specialist advice will need to be taken. However, the key thing if you are struggling now or expect to be so in the future is to take that advice early to maximise the possibilities as then all may well not be lost.

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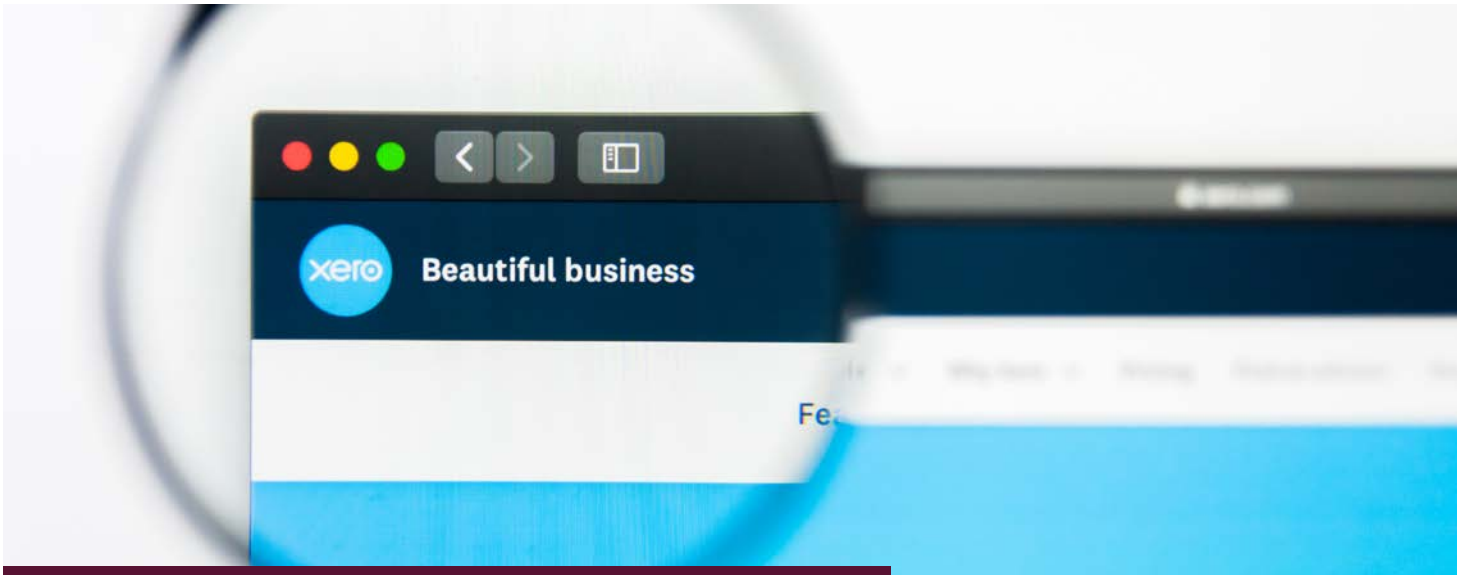

CLOUD ACCOUNTING

When I wrote my cloud article for our last newsletter at the start of the year my plan was to focus on a different cloud app in each edition. A lot has happened since then and we are all considering what the "new normal" will look like for our businesses and our lives. I therefore thought it would be useful to look again at some simple cloud solutions that can be part of this and help us find our way through these uncertain times:

- With social distancing measures in place, and wanting to keep touching and handling to a minimum, using paper based records which need to be physically delivered between you, your bookkeeper and us is not practical.
- Desktop systems which can result in your records being on the computer in your office or business premises when your bookkeeping needs to be done somewhere else is not viable.
- Getting paid quickly and keeping up-to-date with your finances is even more important than ever.
- You need to focus on running your business and not wasting time on labour intensive systems.

Solutions include:

- A cloud-based accounting system can be accessed anywhere there is internet access. Anyone with the correct security permissions can access the same set of data. You can therefore access your accounting records along with your bookkeeper and us without having to leave home.
- Your cloud system can be linked to your online banking so that your bank transactions are fed directly into your accounting system daily. No more handling paper statements and manually entering into your records.
- Invoice processing can be automated with systems that capture, analyse and post invoices, receipts and statements into your accounting system. Documents can be uploaded using a mobile device, desktop, email, or scanner and then all your documents can be accessed in one centralised, digital system of record. Next time you are asked if you want a paper receipt say no thanks and get it emailed directly.
- Cash and cheques pass through many hands before they reach your bank account. Get paid more cleanly and quickly by adding a payment service to your invoices. Systems such as Stripe allow you to receive online payments from the full range or debit and credit cards. A portable card machine is also an excellent way to get paid if you don't raise invoices and enables you to take contactless payments.

Pulling these together, a perfect solution is a Xero subscription for your cloud accounting with an Open Banking feed from your bank account and Hubdoc invoice automation. With the AG Xero discount applied, this system costs from just over £20 per month plus VAT. Payment services can be added for an additional cost.

Further apps and solutions are available to suit you and your business, and we have a team of cloud experts who can help get you up and running.

Please speak to your usual AG contact for more details on any of the above and more, and let us help you find the "new normal" for your business.

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EVERY THREAT IS ALSO AN OPPORTUNITY...

"It is an ill wind that blows no good", or so the saying goes.

Although we should not belittle the significant damage to the economy and individual personal situations, there are also opportunities arising from the current situation. This article briefly considers a few ideas which might be relevant depending on your circumstances.

Incorporation of a business
If a business is a sole trader or partnership there may be benefits of converting to a limited. However there can be barriers to incorporation which arise from high asset values or Income Tax charges on close of business. In the current situation profit levels and asset values may be low which could make incorporation more accessible.

Operating as a limited company can bring a number of advantages including:

i) Creation of a tax free loan account which can be used to manage income levels and avoid higher rate taxes in the future.
ii) Accumulation of surplus income or necessary working capital in relatively low tax environment (Corporation Tax is just 19% compared with 45% top rate of Income Tax)
iii) Easier mechanisms for succession, redistribution of income and wealth.

Share options
The current low value of businesses may mean that share options are under water (the exercise price is higher than the current market value of the shares). In this situation it may be worth re-issuing options at the current low value. Equally this may be exactly the time to issue new share options to capture the current low values.

Investment companies
Introducing a personal or family investment company into a business structure may be easier at the moment with low share values. An investment company can be used as a low tax vehicle for accumulating surplus income from an incorporated business where the shareholders are unconnected and therefore don't want their wealth retained in the trading company. It also provides a vehicle for redirecting income and wealth to other family members whilst retaining control, without creating a reservation of benefit. They can also be a useful and more tax efficient alternative to a discretionary trust.

Inheritance Tax planning
With asset values low at the moment it is a good time to consider whether this is an opportunity to move assets to the next generation or into trust to minimise future exposure to Inheritance Tax.

Business restructuring
The current crisis has highlighted the financial risk associated with trading businesses. A simple group structure can segregate valuable assets from the inherent trade risk without undue complexity. Classically, a holding company is inserted above a trading company which can be achieved without any adverse tax implications.

Whatever changes you might be considering it is important that the arrangements are considered carefully to ensure there are no unexpected or adverse effects. If you would like to discuss your plans in more detail please speak to your usual contact at Albert Goodman or contact me direct.

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IN CASE YOU MISSED IT...

In the Spring budget, the Chancellor Rishi Sunak announced a service improvement that will make the tax free child care scheme (TFC) compatible with school payment agents operating cashless systems.

This means parents of around 500,000 school-aged children across the UK will be able to put the support towards the cost of their wraparound childcare in before and after school care settings.

Until now support has not been available for those using school payment agents, which run the digital payments systems for schools.

Now these online systems will be integrated with the TFC system so that parents can use the subsidy for breakfast and after-school clubs.

TFC is available to parents, including the self-employed, in the UK with children under 12 (under 17 if disabled). Parents open an online account to pay for registered childcare, and the childcare provider must be signed up to the scheme.

For every £8 paid in, the government adds an extra £2, up to £2,000 a year for each child, increased to up to £4,000 for a child with disabilities.

Previously, money had to be transferred to a specific account. Now, following the Chancellors announcement, TFC can be transferred to systems such as ParentPay which is in use at more than 11,000 schools and used by about three million parents.

Take-up of TFC, which followed on from the childcare vouchers scheme, has been slow. HMRC's own research, published earlier this year, suggested around 1.3 million families have qualifying childcare costs and are eligible to be assisted by the scheme but found low levels of awareness had delayed take-up.

Parents can use TFC all year round, including during school holidays once they have set up an account, but need to sign back in every three months and confirm that their details are up-to-date to keep getting government top-ups.

More information on TFC can be found here - https://www.gov.uk/government/news/tax-free-childcare-10-things-parents-should-know

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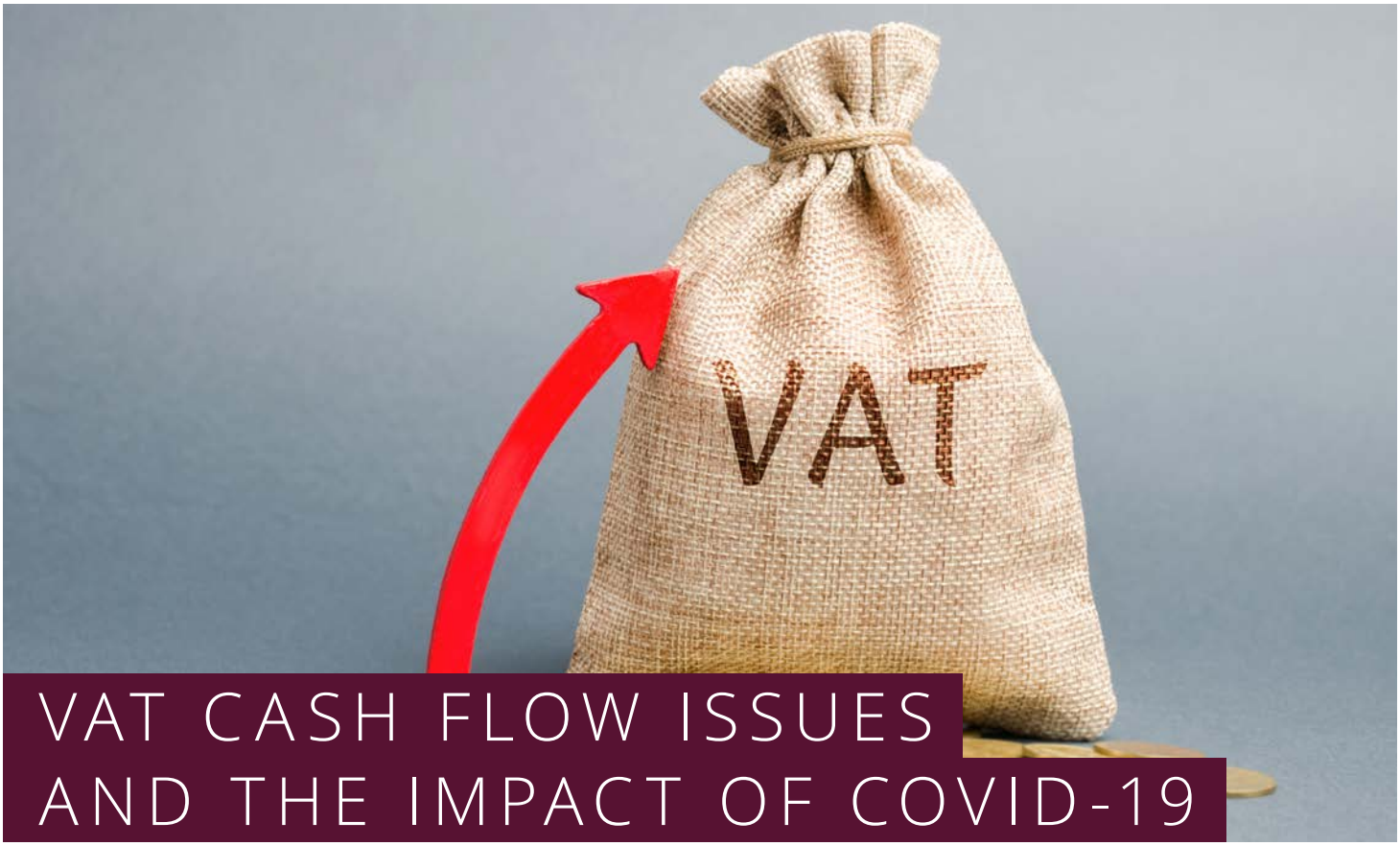

VAT CASH FLOW ISSUES AND THE IMPACT OF COVID-19

Although HMRC have put specific measures in place to help businesses with their VAT obligations during the current COVID-19 pandemic theses are in the main temporary measures. There already a number of existing VAT accounting processes that can be put in place to ensure that the burden of VAT is reduced. Here are some of the areas that are worth reviewing:

Bad debt relief

Subject to certain conditions all VAT registered organisations using the normal tax point rules can make a claim under bad debt relief where their sales invoice has not been paid within six months of its due date. The debt has to be written off in the accounts and in this way the VAT due on the invoice which has already been paid to HMRC as output tax can be adjusted through the VAT return when the claim for bad debt relief is made.

It also needs to be noted that there are similar provisions for creditors where any VAT claimed on a purchase invoice which has not been paid within six months of its due date has to be repaid to HMRC.

Cash Accounting Scheme

Under this scheme the accounting date for VAT purposes shifts from the usual tax point date of the invoice to the date when the payment is received or made. This removes the issues of accounting for VAT on invoices which are not paid. The Scheme is open to any business where the taxable turnover is expected to be below a VAT exclusive figure of £1.35 million over the following twelve month period.

Tax points and continuous supplies of services under normal VAT accounting rules there is a basic tax point when services are performed/completed. However there are special rules for those supplies of services which provide that payment is made periodically. These types of services are referred to as continuous supplies of services; there are no basic tax points and the actual tax point is restricted to the earlier of the receipt of payment or date of the tax invoice.

This process will usually mean that the supplier issues a request for payment for the services and follows it up with a tax invoice once the payment has been received. There is a cash flow benefit as the output tax is only paid to HMRC once the payment has been received from the customer.

Returns and error correction

It is worth monitoring the VAT accounting figures to pick up on changes quickly. A switch can be made from quarterly to monthly VAT accounting periods where a business expects to be in a repayment position.

In addition, a review of the VAT accounting should help identify any errors promptly. These can be corrected through the returns where they fall below certain limits but there is not anything to stop a disclosure being made outside of the returns. In some cases an over payment corrected in this way can be quicker than waiting for the due date of the VAT return to take it into account. However there is no guarantee that a disclosure will

COVID-19 IMPACT

be quicker as HMRC are currently taking some time to process error adjustments. If return preparation is an issue a request can be made to HMRC to use estimated figures. This should be done before the due date of the relevant return.

HMRC are still carrying out checks to verify repayment returns and it is always worthwhile to have the documents to support a claim readily available so that it can be provided to HMRC quickly to resolve the check so that repayment is released.

Where any schemes are used ensure that they are still appropriate. In particular anyone using the Flat Rate Scheme who experiences change in their trading pattern should carry out an exercise to see whether it is more beneficial to return to normal VAT accounting than to continue using the Scheme.

VAT Groups

VAT has to be accounted for on supplies of goods and services made between commonly controlled companies where output tax has to be accounted for by the supplier and input tax can be claimed by the recipient. The dates of the VAT returns for each company should be the same to remove the cash flow disadvantage. A further way of resolving this would be to set up a VAT group for the companies so that any supplies between them are disregarded for VAT purposes and treated as outside of the scope of VAT.

There are other advantages to a VAT group in terms of reduced administrative and compliance costs, but any application needs careful thought as there is joint and several liability for all group members for the tax due from the representative member.

Payments on Account Scheme

Large VAT payers (those whose liability is higher than £2.3 million a year) are required to make instalment payments on account to HMRC rather than making payments by the due dates of their VAT returns. If the liability falls it is worth contacting HMRC to agree a reduction in the instalment amounts or, depending on the values and timings, to discuss removal from the Scheme.

Please get in touch if you would like to discuss any of these issues in greater depth.

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CORONAVIRUS JOB RETENTION SCHEME: CHANGES FROM JULY ANNOUNCED

The Chancellor recently set out more detail on how the Coronavirus Job Retention Scheme (CJRS) will continue to support jobs and business as people return to work. Here's what we know so far:

From 1 July 2020, businesses will be given the flexibility to bring furloughed employees back part time. This is a month earlier than previously announced to help support people back to work. Individual firms will decide the hours and shift patterns their employees will work on their return, so that they can decide on the best approach for them - and will be responsible for paying their wages while in work.

From August 2020, the level of government grant provided through the CJRS will be slowly tapered to reflect that people will be returning to work. That means that for June and July the government will continue to pay 80% of people's salaries. In the following months, businesses will be asked to contribute a modest share, but crucially individuals will continue to receive that 80% of salary covering the time they are unable to work.

To enable the introduction of part time furloughing, and to support those already furloughed back to work, claims from July onwards will be restricted to employers currently using the scheme and previously furloughed employees. **The scheme will close to new entrants on 30 June, with the last three-week furloughs before that point commencing on 10 June.**

From 1 July, employers will be able to agree any working arrangements with previously furloughed employees. The scheme updates mean that the following will apply for the period people are furloughed:

- June and July: The government will pay 80% of wages up to a cap of £2,500 as well as employer National Insurance (ER NICS) and pension contributions. Employers are not required to pay anything.
- August: The government will pay 80% of wages up to a cap of £2,500. Employers will pay ER NICs and pension contributions – for the average claim, this represents 5% of the gross employment costs the employer would have incurred had the employee not been furloughed.
- September: The government will pay 70% of wages up to a cap of £2,187.50. Employers will pay ER NICs and pension contributions and 10% of wages to make up 80% total up to a cap of £2,500. For the average claim, this represents 14% of the gross employment costs the employer would have incurred had the employee not been furloughed.
- October: The government will pay 60% of wages up to a cap of £1,875. Employers will pay ER NICs and pension contributions and 20% of wages to make up 80% total up to a cap of £2,500. For the average claim, this represents 23% of the gross employment costs the employer would have incurred had the employee not been furloughed.

Employers will be required to submit data on the usual hours an employee would be expected to work in a claim period and actual hours worked. Employees who believe they are not getting their 80% share can also report any concerns to the HMRC fraud hotline and HMRC have confirmed that they will not hesitate to take action against those found to be abusing the scheme.

Whilst the introduction of part-time furlough a month sooner is welcomed, the system will become more complex to manage and care needs to be taken to ensure staff are paid the correct amount and claims to HMRC are accurately calculated.

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COVID-19: CHANGING LIVES AND A THREAT TO BUSINESS

This pandemic has changed the way we live over the short term and will have longer term implications for us all. Many of us will have had direct experience of the effect this virus has had and over time we have learnt that no one is immune.

Business has been significantly impacted with some winners and many more losers but we will come out the other side. To help to maintain business generate income and your standard of living there is some government support, many will be considering or have taken a Business Interruption Loan or Bounce Back Loan.

What else should a business consider, what would the banks like to see to encourage them to provide that support and give them the certainty that they will get their money back under any circumstances Bounce Backs loans guaranteed 100% by government, but only 80% of a Business Interruption Loan is guaranteed. You still need to pay it back so what happens if a business owner or key person to the business dies before that the loan is repaid?

Business is successful because of the effort, belief and resourcefulness of the business owner. Without these skills and attributes business will fail regardless of how much money is lent to recover from COVID-19.

Why protect a loan?

It provides additional confidence to the bank and helps secure the loan you need. If a business owner dies or becomes critically ill it will help you, your family, your business and others that are dependent on you.

How can I protect it?

Critical Illness Cover provides a lump sum when diagnosed with a specified Illness such as cancer, heart attack or stroke. Life cover on the other hand, provides a lump sum if you die.

What's in it for me?

Helps to get the financial support you need, when you need it. Helps to safeguard you, your family, your business and those who depend on the business, for their financial security.

What now?

Find out what you need, what it will cost and make sure that if you claim it will go to the right place. It is also important to get advice on who is the best provider and how it should be arranged - cheapest is not always best.

Free initial discussion:

For independent advice on the whole of market, please get in contact.

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Director

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TAX INVESTIGATION SERVICE

Whether you are among the winners or the losers, there is no doubt that the government has provided unprecedented support to businesses as part of its Covid-19 package. However, this support will need to be funded and tax increases and changes to tax reliefs are inevitable.

Further, whilst tax enquiries are generally currently on hold, it has to be a given that the frequency and tenacity of these will increase once HMRC staff return to their day jobs. We have also seen the worrying trend of HMRC alleging deliberate behaviour when tax errors are found, increasing the penalty rates chargeable and placing further financial burden on businesses. In some cases, this can also result in the threat of being 'named and shamed' as a deliberate defaulter.

Dealing with even the most straightforward enquiry can be time consuming and complex, easily resulting in a few thousand pounds of additional accountancy fees, regardless of whether or not additional tax is found to be due. The work often requires senior tax teams to be involved to help navigate through the enquiry process and achieve the best outcome for your business. There does not need to be an error before HMRC carry out a check – they have the power to select your return for review on a random basis.

In order to help reduce cost for our clients, we are pleased to offer our Tax Investigation Service (TIS) which, for a small annual subscription fee, enables us to deal with HMRC's enquiry on your behalf without the need for you to worry about incurring additional accountancy fees, helping to give you peace of mind that you do not have to 'settle' with HMRC simply to keep your professional fees down.

Our TIS also covers our costs for helping on a PAYE or VAT records check, as well as on any enquiry into your personal or business tax returns and, even when you are looking to reduce your overheads, is one cost that may prove to be a false economy. If you do not already subscribe to this valuable service and would like further information, please speak with your usual AG contact.

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