

MIDGLEY SNELLING LLP

# NEWS

SPRING 2010 EDITION

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# Welcome

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Welcome to the first issue of Midgley Snelling LLP News, which brings you updates and practical advice on issues that may affect you financially.

**Our bulletin contains a round-up of tax and financial news and developments that we hope will be of interest to both businesses and private individuals.**

With the start of a new tax year, this edition includes information on the changes to pensions and ISA allowances, as well as the new

penalties from HMRC for late payment. Finally, we take a look at how to make the most of your family business and how to ensure an increase in profits translates into cash.

We hope you enjoy reading Midgley Snelling LLP News and that you find it useful. We'd welcome your feedback on the content, or ideas for topics

that you'd like to see featured in future, so if you would like to comment please contact us at [email@midsnell.co.uk](mailto:email@midsnell.co.uk) or call **01932 853393**.

For professional financial advice, tailored to your individual circumstances, on any of the topics covered in Midgley Snelling LLP News, please contact us.

## Taxpayers warned over codes error

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Taxpayers are being asked to check their tax codes for the 2010-11 financial year carefully, amid fears that the introduction of a new computer system at HM Revenue and Customs (HMRC) may lead to too much tax being deducted from their salaries.

**The Chartered Institute of Taxation (CIOT) has expressed fears that the latest codes, which tell taxpayers how much their employers and pension firms will deduct in income tax, could be asking taxpayers to pay as much as £108 per month too much.**

The problem is thought to arise from the new computer system struggling to distinguish between current and previous employment, leading some people to be incorrectly listed as having two jobs at the same time.

The CIOT has called for HMRC to launch a publicity campaign to alert taxpayers to the potential problem, but HMRC has claimed there is no evidence of a widespread problem – although it said taxpayers should check their tax code and contact them if there was a problem, as usual.

CIOT president Andrew Hubbard said: "Most people on PAYE are used to assuming that what the taxman sends them is correct. Many file away coding notices without even bothering to check them.

"But this year, many of them are being given wrong information, and unless they spot it and tell HMRC, their employer will receive the wrong information too, and they could get a nasty shock when they open their April pay packet and see it is as much as £100 lighter than they are expecting."

HMRC has acknowledged that a large number of incorrect coding notices have been sent out, and said it was urgently reviewing those cases, beginning with the individuals it considered most at risk of being made worse off by the new codes.

For more information or advice about this issue, please contact us.



# Avoiding fraud for owner managed businesses

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Owner managed businesses can be particularly vulnerable to fraud, especially if a busy schedule means that the financial controller or bookkeeper has access to pre-signed cheques.

You may feel you can trust your employees implicitly but most people who commit such frauds appear respectable, diligent and upright – as if they were the last person who would do such a thing.

Whilst complex control mechanisms may not be feasible, there are a few simple measures that all owner managed businesses can employ to combat theft.

These include:

- Not using pre-signed cheques
- Not signing a cheque or authorising a payment without seeing the relevant documentation
- Having at least two signatories for any payments made by someone who is not the owner
- Ensuring proper authentication controls for

direct transfer payments

- Making sure that receipts are logged by someone other than the financial controller or bookkeeper
- Regular reviews of bank statements and the accounts by the owner manager to ensure there are no irregularities

For more information or advice about this issue, please contact us.



## Businesses face fines over online returns

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Small businesses with five or more employees must submit their Employer Annual Returns online by **19<sup>th</sup> May 2010** to avoid paying a penalty of up to **£3,000**.

Businesses which fail to comply will be charged a percentage of the amount paid late, with higher fines for consistently late payers.

Any employer who submits a paper form when they should have filed their returns electronically, even if it is before the 19<sup>th</sup> May deadline, could face a penalty charge.

Businesses with less than five employees have a year's grace before they too will be required to submit their returns online. There is also an exception for religious groups whose beliefs are incompatible with electronic communications.

While HMRC is providing its own software free of charge to help small businesses comply with the new regime, there is no consideration that these firms may not have the IT expertise to file their details online.

## Beware the Pension age change

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On 6<sup>th</sup> April 2010, the minimum age at which individuals can access their pension increased from 50 to 55.

The change means that those who are currently approaching 50 and thinking of retiring and taking their pension may have to delay retirement.

Individuals who are over 50 and have not already accessed their pension benefits will now not be able to take out any money from their fund until they are 55.

Those aged between 50 and 55 who have already accessed their pensions will be able to

continue taking the existing benefits, but cannot take additional ones until they reach 55.

This change could have significant consequences, particularly for individuals who need funds before their 55<sup>th</sup> birthday, for a specific purpose.

In addition, the state pension age for women will be increasing to 65, with the changes phased in between 6<sup>th</sup> April 2010 and 6<sup>th</sup> April 2020. This will affect women born between 6<sup>th</sup> April 1950 and 5<sup>th</sup> April 1955. All women born on or after 6<sup>th</sup> April 1955 will not receive their state pension until they reach age 65.

As a result, employers will need to deduct, record and pay employee National Insurance contributions (NICs) for women over 60 up to their new state pension age, in addition to the compulsory employer NICs. Employers should, therefore, ensure they have accurate dates of birth for all their employees to make sure payments are made correctly.

Further changes to the state pension age for both men and women will come into force from 2024.

Any individuals affected by these changes should seek financial advice and make any necessary changes.

# Call for better handling of bereavement

HMRC needs to improve the way it treats recently-bereaved people, according to a campaigning organisation.

The Low Incomes Tax Reform Group (LITRG) has called for HMRC to pilot a 'Tell Us Once' scheme, whereby the bereaved can report a death to a single government agency, which would then notify all the relevant bodies – saving

people the trauma of having to report the same death several times to different departments.

The group also suggested that HMRC should offer face-to-face help and home visits for vulnerable taxpayers, or pay for the voluntary sector to do so, and wants the department to take steps to end the overpayment of tax by elderly people.

LITRG chairman John Andrews said: "LITRG tries to join up the activity of HMRC with other departments, such as the DWP and we are continually frustrated at the silo mentality of ostensibly customer-facing organisations.

"People need the maximum support from all government departments at the time of bereavement."

# Making the most of your family business

Working with your family can bring benefits, such as a shared commitment to the business, the willingness for family members to work harder and the ability to reinvest profits back into the business. In addition, the shared values can create a corporate culture with a lack of bureaucracy, which is far more able to adapt to difficult trading conditions than more rigid large-scale organisations.

However, there will also be challenges that need addressing to ensure the business achieves its full potential. These include the constant presence of work, even in leisure time, and the strain of separating business and family relationships when making decisions or facing disagreements.

It is necessary, therefore, to lay down rules on how the family business will be managed. These formal arrangements should cover shareholder agreements and how and when dividends will be paid, as well as responsibilities and other issues that may disrupt the business – such as establishing boundaries between family and business time.

While it may be tempting to rely on informal unwritten rules, it is better to put things on a more formal footing. This ensures that all shareholders agree to and abide by the rules, which is particularly helpful when not all the shareholders actually work in the business.

Such agreements can also help avoid future

conflict and prevent disagreements about the way the business is run. It is important that the agreements are reviewed regularly to ensure they are still relevant and everyone understands the implications of any future decisions.

Should there be any discord about the details of the arrangements, an independent advisor with experience in family businesses can provide guidance on finding a solution everyone is happy with. Banks, accountants and lawyers can also offer alternative methods for handling growth, strategies and long-term planning, enabling family members to consider all the options that may be best for the business.

While this is suitable for issues that affect everyone, there are some major issues, such as succession planning, that only top-level management should decide on.

It is vitally important to plan for the future with a succession planning policy that covers at least the next five years. When considering the roles that may become available and who will fill them,

plans also need to be made for the central roles and agreed amongst the senior team.

It is also important that the skills and interest of the next generation are developed to ensure they have the expertise and enthusiasm to take the business forward. This will require gradually handing over responsibility to younger family members, which can be hard for the founders to accept, and can also create confusion if job roles become blurred.

Family issues should not be allowed to corrode the business. Matters such as divorce or health problem should be addressed away from work, and in a way that is not focused on the business.

By establishing such rules and having boundaries in place, it is possible to get the best out of working in a family business whilst minimising possible conflicts.

For more information or advice about this issue, please contact us.

# Small firms offered free course in procuring public contracts

The government has relaunched its "Winning the Contract" course to help smaller firms pitch for the £220 billion of public sector business available each year.

The free course provides hints on how to find

and identify opportunities in the public sector, as well as explaining the procurement process and showing how to submit tenders.

Originally launched in 2007, the course was refreshed and extended last year. The previous

£49.99 price tag has also been dropped so that more businesses, regardless of their size, can use it.

Winning the Contract is available online at [www.businesslink.gov.uk/procurement](http://www.businesslink.gov.uk/procurement).

# Are we in the eye of the storm?

Despite the number of companies that failed in the final quarter of 2009 showing a 1.1 percent year-on-year drop, evidence is mounting that the UK may be at the mid-point of a W-shaped recession, with a substantial rise in corporate insolvencies due during 2010 and 2011.



In the fourth quarter of 2009, over 137,000 companies faced critical financial problems and another 4,000 faced significant problems, despite the positive effects of the government's fiscal stimuli and other support initiatives, such as the Business Payment Support Service (BPSS).

The BPSS and Business Payment Support Line were set up to offer businesses, the self-employed or self-assessment

taxpayers in temporary financial difficulty the opportunity to pay corporation tax, income tax, national insurance contributions, PAYE, VAT and other taxes to a timetable they can afford and without surcharges on the payments involved.

Thousands of businesses have taken advantage of the flexible tax payments, with over 242,000 time to pay arrangements agreed and over £4.2 billion in tax liabilities deferred.

Although the BPSS has now been extended for the lifetime of the next Parliament, there are reports that HMRC is now taking a tougher line, particularly with repeat requests.

Consequently, it has never been more essential to seek specialist professional advice if your business is facing financial difficulties.

For more information or advice, please contact us.

# Ensuring you have the cash to match your profits

Turnover is vanity, profit is sanity and cash is king – so the old maxim goes.



So how can businesses ensure that when they have made a profit, they also have the cash that goes with it? After all, where does cash go to?

Most of the time, the discrepancy between actual profits and the corresponding cash is not

related to fraud or theft. There are a number of other factors which, either in isolation or combined, can reduce cash flow.

The first of these is customers with outstanding debts who are trying to stretch their credit terms. So the first port of call should be to look at how much you are owed and how long the debts have been outstanding for.

As repayments for loans and other borrowing do not form part of the profit and loss figures, they affect the amount of cash available without showing up on the profit and loss account.

It is a similar picture for purchases of machinery, equipment and vehicles. Only the depreciation for such items will appear in the profit and loss statements, and, as this will be relatively low in the first year, such purchases are often a major reason for discrepancies between profits and actual cash.

The same is also true of directors' loans and dividend payments, which will have no impact on profits, but can significantly reduce the amount of cash available.

A final consideration is stock levels. If these are too high, businesses run the risk of being stuck with slow moving or outdated products. Stock purchases are only offset against profit when an item is sold, so cash can be tied up unnecessarily.

So how can you manage your cash more efficiently?

Firstly, ensure that you get paid based on your credit terms. Buy just the stock that you need for the very near future, and only pay suppliers when required. Consider spreading your purchases of machinery and equipment, so that they don't all have to be paid for at the same time.

Another important point to consider is loans and other borrowings to make sure you are making the minimum repayments possible.

Finally, ensure that directors' loan repayments and shareholders' dividends are affordable before they are paid out.

For more information or advice about this issue, please contact us.

## HMRC introduces penalties for late payment of PAYE

In addition to fines for incorrect filing of Employer Annual Returns, HMRC has also announced penalties for anyone who fails to make their PAYE in-year payments in full and on time after May 2010.

The penalties, which will be charged in the following tax year, apply to:

- Tax
- National Insurance Contributions (NICs)
- Construction Industry Scheme deductions
- Student Loan deductions

Large employers and contractors will still be

obliged to pay electronically, but the new penalties will replace mandatory electronic surcharges.

HMRC indicated that the penalty amount will depend on how often payments are due.

- **Monthly and quarterly payments:** penalties will start at 1 percent of the late amount and will increase to 4 percent, depending on how many times your payments are late.

No penalties will be imposed on those who make just one late payment in a single tax year, unless that payment is more than six months late.

- **Monthly and quarterly amounts more than six months late:** if the monthly or quarterly payment is more than six months late, HMRC will charge a penalty of 5 percent of the late amount. They may charge further penalties at 5 percent if you have still not paid after 12 months.
- **Annual payments:** HMRC will issue up to three penalties of 5 percent of the amount that is late, depending on how long the payment has been outstanding.

Further information on the new penalties is available at [www.hmrc.gov.uk/employers/payee-penalties-faqs.htm](http://www.hmrc.gov.uk/employers/payee-penalties-faqs.htm).

# EFG Scheme helps over 5,000 firms

Launched in January 2009, the government's Enterprise Finance Guarantee (EFG) scheme lent more than £580 million to over 5,000 small businesses during its first year of operation.

The scheme, which will now continue until 31<sup>st</sup> March 2011, sees the government guarantee up to 75 per cent of loans to companies with an annual turnover of up to £25million. Businesses can borrow from £1,000 to £1 million over a term of up to 10 years.

Those funds can be used for investment in the

business, or to refinance existing borrowing.

A recent report by Durham University into the effectiveness of the scheme found that 94 percent of respondents said the loan had improved their business prospects, while 84 percent said it had improved their prospects of survival.

If you wish to apply for the scheme, a carefully prepared business plan is essential, as the lender must certify that you are a viable business at the time of agreeing the loan.

Midgley Snelling LLP can help you prepare your

application and supporting information, including:

- Business plan – with details of what the loan is for
- Financial projections
- Historic trading figures
- Statutory and management accounts
- Information on any other public funded support received by your business in the last three years

For more information or advice about this issue, please contact us.

## Insure key personnel for business survival

Recent research by Scottish Widows has shown that 2.6 million sole traders in the UK have at least one person whose loss through death, critical illness or serious accident would greatly affect the profitability, and even the survival, of the business.

Despite this, 81 percent of sole traders have no insurance to protect against this drop in profits and the ensuing costs of filling the vacancy – despite the fact that 77 percent believe their business would not survive the loss. In fact, sole traders are three times more likely to insure their office equipment than their key personnel against death and critical illness.

All this means that 2.4 million businesses have no cover should the worst case happen.

Key Man Insurance provides a safety net should a major shareholder, loan guarantor or employee with specialist skills and knowledge be lost, ensuring the business survives the transition period.

It also proves to investors and business partners that the company can afford to and makes the time to insure its valuable assets, which is especially important for smaller businesses looking to grow through partnerships.

Both the company and the named individual benefit from this insurance, and should the business receive a death benefit from the policy, it will be considered tax-free.

It is also worth considering partnership/director share purchase cover, which protects both families and co-owners in the event of the death

of a director or partner. This provides the remaining co-owners with the money to buy out the deceased's family at a fair price.

In addition, nearly three-quarters of sole traders do not have an exit strategy in place, either because they do not plan on leaving the business in the foreseeable future or they have not considered it.

It is vital to consider in advance how a business would continue to function should disaster strike. Having detailed plans in place now could save a lot of worry in the future.

For more information or advice about this issue, please contact us.



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## Making the most of your ISA allowance

Since 6<sup>th</sup> April 2010, everyone has been able to benefit from the increased £10,200 allowance (£5,100 cash) which has been available to the over 50s since October 2009. So take time to consider which ISA account will best meet your needs in 2010/2011.

**The earlier in the tax year you invest in an ISA, the more advantage you gain, as your money is outside the reach of the taxman for longer.**

There is no need to declare any income from an ISA. For cash ISAs, the interest is tax-free, and, if you choose to invest in stocks and shares, the capital growth and dividends will not attract any further tax.

Even if you are using your full allowance, it is advisable to review your current ISA assets regularly and possibly move some to potentially

more profitable or less risky investments within an ISA wrapper, which can be done without losing the tax advantage.

Any money saved from previous tax years can be transferred from a cash ISA to a stocks and shares one with no effect on the annual allowance. However, if you do this, the amount cannot then be transferred back into cash.

It is also possible to transfer money saved in a cash ISA this tax year to a stocks and shares one, but the whole amount saved in that tax year,

right up to the date of transfer, must be moved. This is then treated as if it had been invested directly into stocks and shares, and it is possible to save or invest the rest of the annual allowance for that year, including £5,100 in cash.

For more information or advice about this issue, please contact us.

## Statutory Payments for 2010-11

**The new Statutory Payment Rates for 2010-11 have been announced. The new rates are as follows:**

- The current Statutory Sick Pay (SSP) weekly rate of £79.15 is being retained for 2010-11.
- The Statutory Maternity Pay (SMP) standard rate will be £124.88 for payment weeks beginning on or after 4<sup>th</sup> April 2010. The current rate is £123.06.

The same weekly rate applies to Statutory Paternity and Statutory Adoption Pay.

If you would like any help with any of these statutory payments, please contact us.

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