

MIDGLEY SNELLING

# NEWS

SUMMER 2011 EDITION



## What's the outlook for businesses in 2011?

We take a look  
at what you think

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# Welcome

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Welcome to the next issue of Midgley Snelling 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.**

In this edition, we consider the impact of the latest Budget on businesses and individuals, ways of making tax savings through using salary sacrifice schemes, the importance of tracking

down missing pension funds and the outlook for businesses in 2011, as well as saving for the future costs of further education. We also take a look at how to ensure that using social media doesn't hurt a business's carefully crafted reputation.

We hope you enjoy reading Midgley Snelling 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 News, please contact us.

## Businesses warned of the perils of careless tweeting

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**Be careful what you write could become a new business motto after it was announced that anything posted on Twitter is legally public and publishable, at least in the UK.**

Many companies now employ a particular member of staff or department to tweet about their firm as a means of creating an information hub for both customers and suppliers. Now this ruling means that any tweet is in the public domain and, more importantly, might be legally published in the future by anyone else.

Of course, most employers are very careful about what they say in any public forum and the written word can – and should – be edited before hitting the 'share' button, unlike spoken words. However, employers have little or no control over what might be written about them by staff.

The case came to tribunal because a civil servant, Sarah Baskerville, found that her tweets had been used in articles in national newspapers and complained to the Press Complaints Commission (PCC) about the invasion of her privacy.

In her tweets, Baskerville had spoken of being hungover at work, had criticised a course leader as being "mental," and had condemned government spin and waste; which the newspapers in question said went against the requirements of the civil service code on impartiality.

The PCC ruled against Baskerville's protestations that her tweets were private and only meant for her followers on Twitter. Indeed anyone with the slightest knowledge of social media would realise that tweets are frequently re-tweeted and can end up on the other side of the world in an instant.

Despite this being a privacy case, the implications for businesses are clear. Simply put, they shouldn't write anything on the internet that they wouldn't want their customers or suppliers to see, and should try to ensure that their employees don't either. Careless words may not be fatal, but they certainly can wound – and a good reputation is hard won, but quickly lost.



# Tracking down missing pension funds

**According to a study by Aviva, as people change jobs more frequently they are losing track of their pension schemes. Indeed 54 percent of Britons have no idea how they can access previous private pensions, leaving them at risk of not receiving their full entitlement when retired.**

Thirty percent of workers will have five jobs throughout their lifetime, with 28 percent of the UK's past and present full-time employees likely to contribute to two or more different pension schemes.

More than a third (37 percent) do not realise that they need to take action when they change jobs. A further 31 percent assume their employers will look after everything and 29 percent have decided not to give the issue another thought until closer to their retirement.

Nearly two-thirds (60 percent) are unaware

that they can combine their pension pots at retirement in order to generate the highest possible income. However, people with multiple smaller pensions tend to receive lower annuity rates than those with a single pot.

Individuals should therefore track down workplace pension schemes from previous employers, as well as personal schemes.

Since the Department for Work and Pensions set up a free Pension Tracing Service in 2005, it has been used by more than 350,000 people. Around one in five users had found a lost pension, providing average weekly payments of £16 or an average lump sum of £1,900. Some people received both a weekly payment and a lump sum.

Five percent of those surveyed received weekly payments of more than £100 and seven percent received a lump sum in excess of £20,000.

When asked why they had lost touch with their pension scheme, 68 percent said it was because they had moved on from an employer, with other reasons including moving house, employers changing name or closing down and simply losing the paperwork.

Pensions Minister Steve Webb said: "People need to make sure they're claiming everything they're entitled to in retirement. If you think you may have had a pension in a previous job or you once paid into a personal scheme that you had forgotten about, then the Pension Tracing Service may be able to help you to recover the money you invested."

The service uses a database containing information on more than 200,000 pension schemes and provides contact details of the potential scheme administrator to enable customers to make further enquiries. It can be contacted on **0845 600 2537** (textphone **0845 300 0169**), Monday to Friday, 8am to 6pm.

# Paying for a university education

According to the National Union of Students, those attending university are likely to have average debts of around £40,000 once they finish their studies. This will comprise annual living costs of £10,600 and university tuition fees of £9,000 from September 2012.

**Consequently, students and their families will need to plan in advance how to fund these costs in the future.**

While the government plans to continue lending students the money to pay their fees, graduates would be required to pay their loans back once they earned over £21,000 – although this threshold is set to rise each year in line with inflation. Each month, graduates would pay back nine percent of any income above £21,000.

Those who are unable to work, or whose income does not reach the threshold, would not be required to pay the money back, and if their income drops below £21,000, payments would then stop. In addition, if the loan is not paid off within 30 years, it will be written off.

Although some students are entitled to maintenance grants, and can take out additional loans to cover living expenses such as accommodation and food, the reality is that many will be required to accept the student loans offered.

However, this could put many youngsters off

attending university – especially when the debts incurred will reduce the amount that can be borrowed when they are looking to buy their first place.

As a result, the families of potential graduates should be looking to begin saving for such costs as early as possible in order to take maximum advantage of the compound interest provided.

Although Child Trust Funds have now been axed, the government has announced a new tax-free savings account that will be available from autumn 2011, in addition to the other long-term savings products already available.

The new product will act just like a junior ISA with investments available in cash or stock and shares, and the money will be locked in until the child reaches adulthood.

Opening a deposit account when a child is born and paying in £100 each month could result in a nest egg of around £27,000 when they turn 18 – assuming the account pays 2.5 percent each year net of tax.



A similar investment in a Stocks & Shares ISA with growth of seven percent could be worth £38,000 over the same time period.

In both cases, these sums would make a welcome dent in the costs of further education.

# The outlook for business in 2011

According to research by Aviva, over a third (40 percent) of the 500 owners of small and medium enterprises questioned believed that 2010 had been a tougher year than initially expected. Only 23 percent said that it had been better than predicted.



Nearly two-thirds (61 percent) of business owners anticipated that conditions would remain difficult in 2011. Those who were particularly pessimistic about 2011 included the Welsh and East Midlanders (both 71 percent), those from the East of England (67 percent), professional offices such as surveyors, and restaurant (63 percent) and salon trades (63 percent).

Almost a third (30 percent) believed there was a real risk of a double dip recession, with tradesmen most fearful of this (39 percent). Indeed, 11 percent said that they would stop trading unless business conditions improved.

In contrast, only 17 percent believed that the economy would improve in 2011.

In order to make the best of the difficult conditions, the proportion of SMEs reducing employees' wages or hours has risen to 17 percent, while 16 percent are reducing their temporary staff levels and 12 percent their numbers of permanent staff. Those in the catering and restaurant sector are most inclined to reduce staffing or pay (35 percent).

In 2011, the top issue for a third of businesses is maintaining their cash flow, peaking at 36 percent for the professional services sector. Indeed these firms are the most pessimistic about their business projects for the year,

with nearly two-thirds (64 percent) expecting business conditions to remain difficult.

Other major concerns include declining sales (27 percent) and the rise in VAT (22 percent).

In order to remain in profit throughout 2011, nearly two-fifths of businesses (39 percent) will diversify the products and services they offer, while almost a third (31 percent) of manufacturers will be reducing their prices.

All this proves that planning and preparing for the future is still key for all businesses. Regularly reviewing and adjusting your business plans is vital for continued success, as is seeking specialist financial advice.

# The latest Budget: how will it affect you?

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As businesses and individuals continue to be weighed down by economic burden, Chancellor George Osborne delivered his "Budget for growth", designed to encourage enterprise, export and manufacturing, as well as helping families who are struggling financially.

**While the Chancellor outlined a plethora of measures designed to meet these aims, we will now outline the main proposals that affect individuals, businesses and charities.**

## Individuals

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Individuals earning less than £115,000 a year will benefit from an increase in the tax-free personal allowance on income tax to £8,015 from April 2012, which is in addition to the £1,000 increase from the previous Budget.

Investors in Enterprise Investment Schemes now receive greater income tax relief – up from 20 percent to 30 percent. From April 2012, they will be able to invest up to £1 million in these schemes.

Another measure to be introduced in 2012 is the linking of the rates for direct taxes to the Consumer Price Index (CPI).

Additionally, 10,000 first-time homebuyers will receive help in purchasing newly built flats and houses in England. The scheme will require the buyer to put up five percent of the cost, while the Government and home builder would both contribute 10 percent.

Individuals will also benefit from a number of other measures, including a freeze

or reduction on council tax in every English local authority, a cut in fuel duty of 1p per litre and a ten percent inheritance tax discount for those who leave ten percent of their estate to charity.

## Businesses

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Businesses are also able to benefit from tax saving measures, with corporation tax cut by two percent – instead of the one percent originally planned.

Tax simplification also played a leading role, with 43 tax reliefs being scrapped by the Chancellor following recommendations from the Office for Tax Simplification.

There was also a boost for small firms, with a moratorium on new regulation for firms with fewer than 10 staff for three years. The business rate relief holiday for small firms will also be extended by another year until October 2012.

Entrepreneurs' relief doubled from £5 million to £10 million in April, while capital allowances doubled from four to eight years in a bid to encourage more investment in new equipment.

Research and development tax credits for small businesses increased to 200 percent, with a following increase to 225 percent from April 2012.

Twenty one new "enterprise zones" will be launched, backed by tax incentives, while new rules will require planners to prioritise jobs and growth when making planning decisions.

Additionally, a consultation on merging income tax and National Insurance in the longer term was outlined, which is designed to remove the unnecessary costs for businesses of having two separate taxes.

## Charities

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Gift Aid will be "dramatically simplified" with the introduction of an online filing system in 2013. Consequently, it will be possible to claim Gift Aid on donations up to £5,000 without the need to fill out forms or envelopes.



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## Beat the National Insurance hike with salary sacrifice

Despite the partial reversion of plans to increase National Insurance (NI) contributions for employers, employees still face a one percent hike across the board at the start of the new tax year.

Consequently, salary sacrifice schemes, where employees swap some of their taxable income for other benefits, such as childcare vouchers or pension contributions, are likely to become increasingly popular.

These benefits are paid for before individuals receive their salaries, and, as such, they do not attract income tax or NI contributions.

The savings made can be invested in the benefits provided or added to the employee's wages, providing a further incentive for making the swap.

However, such arrangements must satisfy a number of conditions for them to be approved by HM Revenue & Customs (HMRC). Consequently, the agreement must be in writing, signed and dated, and must not be retrospective.

In addition, salary sacrifice schemes rely on changing the employee's contract, as they are an enforceable variation of their right to salary.

As a result, they should not be considered as a temporary measure.

Despite the obvious benefits outlined above, such arrangements may not be suitable for all staff. For example, any employees on low wages could see their entitlement to state benefits, State Second Pension and employee benefits, such as death-in-service, adversely affected by such schemes.

Salary sacrifice agreements can be used for defined benefit schemes, with the NI saving being used to top up the scheme or to offer other benefits.

## Business record checks

Around 50,000 small businesses are set to be targeted by HM Revenue & Customs (HMRC) amid concerns that their record-keeping is not what it should be, and is resulting in unpaid tax.

HMRC is targeting firms which it believes have underpaid tax because they have not kept the correct records, with fines of up to £3,000 in the pipeline for firms where HMRC finds records are not in good order.

The department has already consulted on

how to implement the new penalty and a timeframe in which to allow record-keeping to be brought up to date.

HMRC has said that forcing smaller firms to keep better records would benefit them in the long term, as it would improve their wider

financial management.

It is important that all records are in good order and support the figures submitted to HMRC. For more information, or advice on how to improve your record-keeping procedures, please contact us.

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