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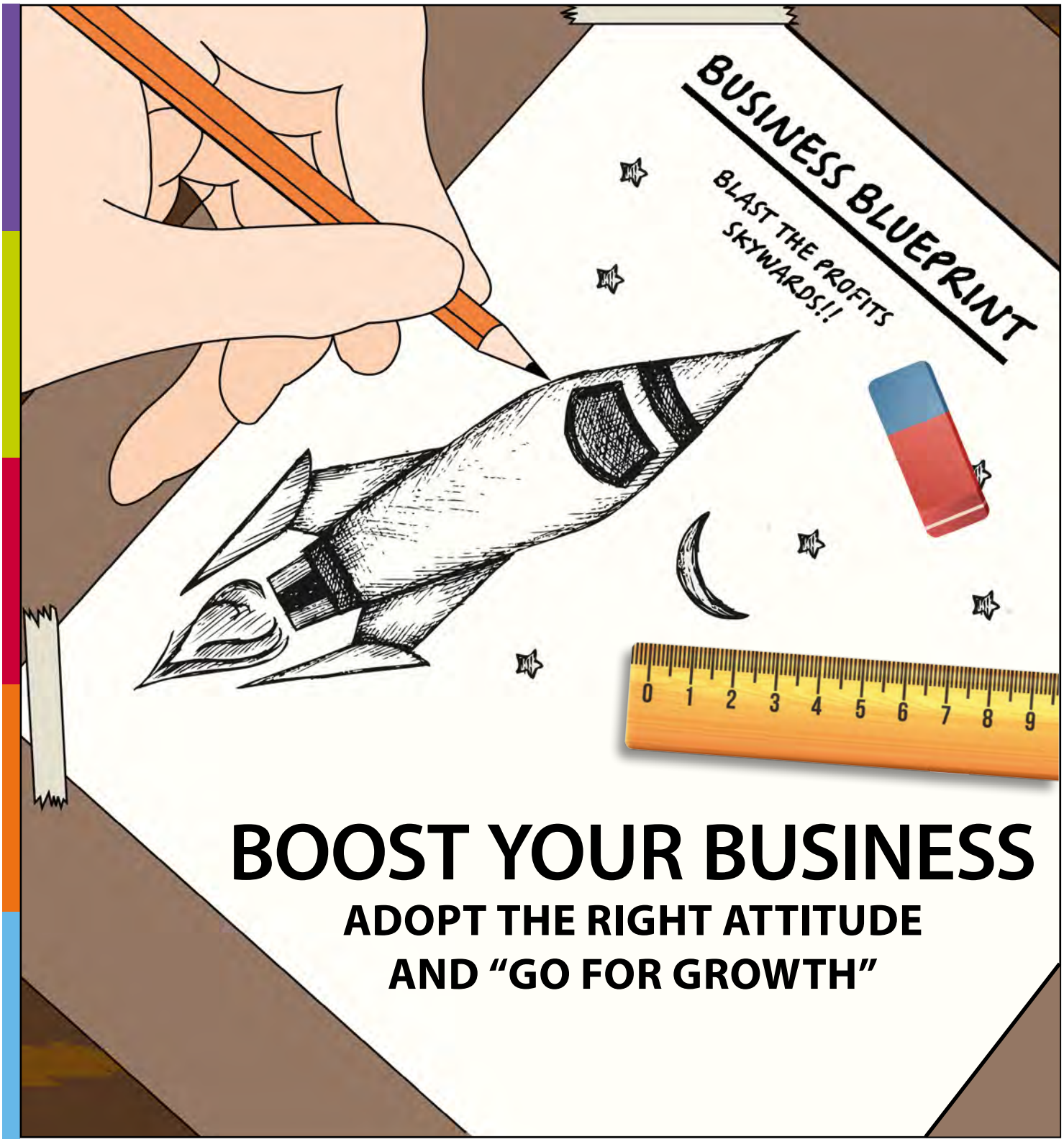
The Official Magazine

Financial Accountant

www.ifa.org.uk

January/February 2015



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IFA Notice Board

Have you renewed your 2015 membership?

If you have not renewed your 2015 membership please visit www.ifa.org.uk/renewal or fill out the method of payment form that you should have received, **by no later than Thursday 19th February 2015**.

If you have any questions on your membership renewal please contact the membership team on 01732 458080.

Are you eligible for Fellowship of the IFA?

If you:

1. are a member in good standing;
2. have been an Associate member of the IFA for 3 or more consecutive years;
3. have a minimum of three years' experience in a senior accountancy role

you would meet the criteria for fellowship. Simply email your most up to date CV to the IFA Membership team at membership@ifa.org.uk clearly stating in the subject line "Fellowship Upgrade". Your request for upgrade will be assessed within 10 working days from receipt of your email and confirmation as to whether your application is successful and the fees associated.

New CPD requirements

To find out about the changes that commenced on 1st January 2015, please visit the IFA website at www.ifa.org.uk/cpd/cpd-requirements

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delivers talent
delivers business know-how
delivers accountability

I am always interested in the opinions and experiences of members, so if you have something to share, please don't hesitate to email: **davidw@ifa.org.uk**

Plans, potential and prosperity

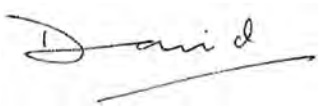
This column is entitled "The voice of the SME" and I am absolutely delighted that this voice has just got substantially louder. I am sure you will be aware that our members and fellows voted overwhelmingly in favour of the proposed amalgamation with IPA Australia. Of the votes cast, 96% backed the proposal – a resounding endorsement of your Council's strategic direction. We are now all part of a truly international organisation, representing the voice of the SME at the highest levels. Being part of the IPA Group means we are the largest accounting body in the world that is dedicated solely to SMEs and SMPs and the 20th largest accountancy institute. We speak for more than 35,000 SME accountants who are facing the same issues and problems no matter where they are geographically.

In the very short term we are focusing on the integration of our IT and other systems to ensure we can rapidly exploit the opportunities that the amalgamation presents. However, in parallel, we are now developing our strategic and operational plans to ensure we deliver the enhanced member benefits. We will be raising our quality standards and enhancing practice assurance in a way that will support members in practice rather than creating unnecessary bureaucratic barriers. Over time, our members will be able to access more technical resources, support material, improved educational tools and CPD offerings. We want to introduce new benefits for members in employment and are planning to increase our lobbying, consultation and research activities. Growth in membership, tuition providers and student numbers is a priority. However, our key aim will be to explore the possibility of the IPA Group seeking a royal charter.

> "We are now all part of a truly international organisation, representing the voice of the SME at the highest levels. Being part of the IPA Group means we are the largest accounting body in the world that is dedicated solely to SMEs and SMPs and the 20th largest accountancy institute

During the lead-up to the vote in December 2014, I and my chief operating officer, John Edwards, immensely enjoyed visiting the extended branch network. Many thanks to all members who welcomed us, and other council and management team members, so warmly. We really appreciate your engagement with the debate and the positive way in which the vast majority seized the opportunity to attend. We fully intend to continue the process of growing membership numbers and ensuring that we maintain and develop the IPA Group in a way that we can all feel proud of. In an increasingly globalised world, and where the pace of industry consolidation can only pick up, IFA members have chosen to lead not to follow and to ensure that the voice of the SME will be heard internationally, nationally and, critically, locally. I and my colleagues will continue to attend branch meetings throughout 2015 to share our plans and report on progress and to receive your feedback, which is extremely important to us.

I trust you are seeing light at the end of the tunnel in this tax return season and I wish you a peaceful and prosperous 2015 – a year that is full of so much potential.



David Woodgate
IFA Chief Executive

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QUICK VIEW

TAXATION

VAT MOSS

The VAT mini one-stop shop scheme (VAT MOSS) came into effect on 1 January 2015. From that date providers of digital services can register for the scheme and pay VAT to HMRC, rather than having to register in each country to which supplies are made.

www.lexisurl.com/ifa-1001

BUSINESS

Nuisance calls

The Department for Culture, Media and Sport is proposing that the threshold defining nuisance calls and texts could be lowered to those causing "annoyance, inconvenience or anxiety". At present, the criteria are "substantial damage or substantial distress".

www.lexisurl.com/ifa-1008

ACCOUNTING

New guidance

The FRC has new editions of *Internal control: Revised guidance for directors on the combined code* and *Going concern and liquidity risk: Guidance for directors of UK companies*. Its aim is to bring together elements of best practice so that risk management, sound business practice and internal control are embedded in the business process.

www.lexisurl.com/ifa-1002

PENSIONS

Pension factsheets

HMRC have published factsheets for employers and pension trustees on the closure of the additional state pension and the end of contracting-out for defined benefit pension schemes from April 2016.

www.lexisurl.com/ifa-1028

REGULATORY

Interim reports

The Financial Reporting Council has issued exposure draft *FRED 56: Draft FRS 104 interim financial reporting*. This will amend the FRC's existing guidance on interim financial reports for consistency with new UK and Irish GAAP (FRS 102).

www.lexisurl.com/ifa-1046

ACCOUNTING

Directors' interests

The decision of the Court of Appeal in *JKX Oil & Gas plc and others v Eclairs Group Ltd* [2014] EWCA Civ 640 clarified several points regarding notices under Companies Act 2006, s 793 to obtain information about interests in a company's shares. This can be obtained from any person the company knows, or has reasonable cause to believe, to be interested in those shares or to have been interested in those shares at any time during the preceding three years.

www.lexisurl.com/ifa-1023

TAXATION

Direct debt recovery

Enhanced safeguards in respect of HMRC's direct recovery of debt (DRD) provisions were announced on 21 November 2014. Among the changes, taxpayers will have 30 days rather than 14 to contact the department to arrange payment or challenge the demand and will have a legal right of appeal. The power to obtain details of bank accounts for a 12-month period has been dropped and HMRC have agreed to review the operation of DRD after two years.

www.lexisurl.com/ifa-1005

BUSINESS

Tobacco ban

Advisers of small shops should notice that their exemption from the tobacco display ban ends on 6 April 2015. From that date strict rules will apply and a first failure to comply may result in a maximum penalty of £5,000, a six-month prison term or both.

www.lexisurl.com/ifa-1040

TAXATION

Credit card campaign

The latest HMRC "amnesty" applies to traders who accept payment by credit card. Traders who have failed to declare such income can make a disclosure and pay the liability within four months.

www.lexisurl.com/ifa-1009

TAXATION

Business entity tests

From 6 April 2015, HMRC are withdrawing their business entity tests which allow businesses to determine whether they are subject to the intermediaries rules.

www.lexisurl.com/ifa-1050

IFA SUPPORTS UNIVERSITY OF WORCESTER WITH FINAL YEAR PRIZE

The Institute of Financial Accountants has further strengthened its relationship with the University of Worcester and shown its ongoing commitment to the accountancy degree students by sponsoring a final year prize. The IFA and the university's Business School already work closely together as their BA (Hons) accounting degree is an IFA embedded programme.

The prize that the IFA has sponsored is focused on international financial reporting standards for small and medium-sized entities (IFRS for SMEs). All students in their final year had to complete a project on this subject which culminated in an examination. This year's IFA prize was won by Sophie Lawson (pictured) who achieved the highest grade.

Sophie was delighted to win the prize and thoroughly enjoyed the module. She has had a keen interest in accountancy since the age of 16, taking the subject as one of her A levels and then continuing onto higher education, completing a BA (Hons) accounting degree.

Having recently graduated, Sophie's ambition now is to qualify as an accountant. She is studying for her professional qualification, having recently completed her first two exams. Like many graduates studying for a professional qualification, Sophie must combine studies with her day job at an accountancy practice in Bromsgrove. Her day-to-day involvement sees her preparing sole trader, partnership and limited company accounts. In addition, Sophie is responsible for preparing VAT returns and personal tax returns.

Sophie thoroughly enjoyed her degree and the variety of subjects that she studied. Her current challenge, which she is relishing, is to develop in her role while succeeding with each professional examination.

The institute congratulates Sophie on winning the IFA-sponsored prize and wishes her the very best in her career.

REGULATORY

Business finance

Legislation in the Small Business, Enterprise and Employment Bill will require the UK's largest lenders to share details of SMEs that they reject for finance. Information will be sent to platforms that will suggest alternative lending opportunities. Safeguards will ensure that SMEs are in control and are properly protected through the process.

www.lexisurl.com/ifa-1069

BUSINESS

Farming

Information on how the reformed common agricultural policy will apply should have been sent to farmers in England in November 2014. The leaflet also explains the eligibility criteria for the basic payment scheme.

www.lexisurl.com/ifa-1006

BUSINESS

Personal devices

The government has issued guidance for SMEs considering a "bring your own device" (BYOD) policy. The guidance looks at the key security aspects to maximise the benefits of BYOD while minimising the risks.

www.lexisurl.com/ifa-1021

REGULATORY

Surveillance

The Information Commissioner's Office has published an updated code of practice for businesses using closed circuit television cameras. Firms are legally obliged to follow the code to show that they have complied with the Data Protection Act.

www.lexisurl.com/ifa-1010

TAXATION

Pay day by pay day

The Low Income Tax Reform Group has called on HMRC to take more action to block the use of "pay day by pay day" (PDPD) schemes. This is where employers deduct travel expenses before calculating PAYE liabilities. If the travel expenses are subsequently disallowed by HMRC, the taxpayer has an additional tax liability.

www.lexisurl.com/ifa-1027

ACCOUNTANCY

Charity guide

Baker Tilly has published a short guide summarising the impact of the new statement of recommended practice on accounting for charities.

www.lexisurl.com/ifa-1011

TAXATION

Revenue Scotland

Revenue Scotland have set up a new website at www.revenue.scot. This has calculators for the land and buildings transaction tax and the Scottish landfill tax. Additional information will be added before these come into force in April 2015.

www.lexisurl.com/ifa-1049

BUSINESS

Social impact

The SROI Network (Social Return on Investment, soon to be Social Value UK) has launched an online tool to help organisations evaluate their social impact. This will enable businesses to adhere to the principles of best practice.

www.lexisurl.com/ifa-1012

EMPLOYMENT

Naming and shaming

The Department for Business, Innovation and Skills has "named and shamed" a further 37 employers for not paying the national minimum wage to their employees. As well as this adverse publicity, those that do not comply may also be fined up to £20,000.

www.lexisurl.com/ifa-1059

TAXATION

HMRC manuals

New guidance has been included in HMRC manuals as follows.

- *Inheritance Tax Manual* – on new intestacy rules and lifetime transfers.
- *National Insurance Manual* – on employment income from third parties and confirming that National Insurance will not be refunded when income tax relief is granted under ITEPA 2003, s 554Z14 ("Relief where earmarking not followed by further relevant step").

www.lexisurl.com/ifa-1070

REGULATORY

BIS factsheet

The Department for Business, Innovation and Skills has published updated factsheets relating to the Small Business, Enterprise and Employment Bill. The factsheets cover these areas:

- access to finance;
- small and medium businesses – information to finance platforms;
- regulatory reform;
- public sector procurement;
- public house code adjudicator and the pubs code;
- childcare and schools;
- education evaluation;
- company transparency;
- company filing requirements;
- directors' disqualifications;
- insolvency; and
- employment.

www.lexisurl.com/ifa-1013

ACCOUNTANCY

Community companies

Since 1 October 2014 community interest companies no longer have been subject to the maximum dividend per share cap which restricted dividend payments to 20% of the paid-up value of a share. The performance-related interest cap rose from 10% to 20%, but the maximum aggregate cap has been retained at 35%.

www.lexisurl.com/ifa-1071

HEALTH AND SAFETY

Work driving

Not-for-profit organisation Brake International is encouraging small businesses to improve the safety of employees when driving for work with online webinars and seminars.

www.lexisurl.com/ifa-1015

TAXATION

CASCs

HMRC have published a tax information and impact note about changes to the rules relating to community amateur sports clubs (CASCs). The eligibility conditions that apply to all sports clubs that are registered or wish to register as CASCs have been updated and the corporation tax exemptions for trading and property income will be increased.

www.lexisurl.com/ifa-1056

HEALTH AND SAFETY

Increased fines

Figures released by the Health and Safety Executive show that fines for health and safety offences have risen from £13m in 2012/13 to £16.7m in 2013/14. There were 674 prosecutions, with a 84% conviction success rate. The average fine was £19,000.

www.lexisurl.com/ifa-1017

REGULATORY

Late payment

The government has issued new guidance on the Late Payment Directive. This came into force on 16 March 2013 to combat late payment in commercial transactions by simplifying the process of pursuing payment across the EU. Debtors can be forced to pay interest and reimburse reasonable recovery costs if they do not pay for goods and services on time (60 days for business and 30 days for public authorities).

www.lexisurl.com/ifa-1018

PENSIONS

Auto-enrolment

The Pensions Regulator has warned that about 20% of small businesses and around 50% of micro-businesses do not know their auto-enrolment staging dates.

www.lexisurl.com/ifa-1072

REGULATORY

Equal pay

New regulations to make employers follow equal pay legislation came into effect on 1 October 2014. Unless they are exempt, companies that breached equal pay law must produce an audit of their pay structures.

www.lexisurl.com/ifa-1029

BUSINESS

Online provision

Ofcom has launched a dedicated online portal from Ofcom, which is designed to help small businesses make the most of communications services. The site includes advice on choosing or switching to a new provider, navigating and negotiating contracts, and resolving complaints with a provider.

www.lexisurl.com/ifa-1075

EMPLOYMENT

Disciplinary process

Acas has published the results of its consultation on a small revision to the code of practice on disciplinary and grievance procedures. The code has now been updated to take into account the EAT decision in the case of *Toal v GB Oils* on the right of accompaniment to disciplinary and grievance hearings."

www.lexisurl.com/ifa-1045

BUSINESS

Cyber security

A new course is designed to help members of the legal and accountancy professions protect themselves and their clients from cyber attacks. Developed by government and industry, the course should increase awareness of common cyber risks and threats in the workplace and advise on preventing these and dealing with them.

www.lexisurl.com/ifa-1048

REGULATORY

Trading disclosures

Companies Act 2006, s 82 requires companies to disclose their name in certain places.

To emphasis the importance of such "trading disclosures", the Department for Business, Innovation and Skills has recently publicised the names of those penalised for failing to do so.

www.lexisurl.com/ifa-1047

EMPLOYMENT

Senior employment

Many companies do not carry out suitable levels of due diligence when appointing candidates for senior posts, according to the due diligence firm HireRight. It is imperative that businesses scrutinise their screening and recruitment policies.

www.lexisurl.com/ifa-1051

BUSINESS

International trade

HMRC have added a series of webinars on aspects of international trade to their website. There is also an option to sign up to business emails.

www.lexisurl.com/ifa-1042

TAXATION

Self-service

HMRC's digital strategy report suggests that most of the interactions between the department and taxpayers will be by an automatic digital self-service system.

www.lexisurl.com/ifa-1007

ACCOUNTING

New UK GAAP

New UK GAAP became mandatory for accounting periods beginning on or after 1 January 2015. EC listed groups can still use EU IFRS for their accounts.

www/lexisurl.com/ifa-1044

STEVE AKERS

It is our sad duty to report that Steve Akers, the well-respected treasurer and committee member of the IFA's North & West Yorkshire branch, passed away on Friday, 19 December 2014 at the St Gemma's Hospice in Leeds. Steve had been seriously ill for some time, but was still in good spirits when visited by friends and fellow committee members from the institute at the end of November.

Steve joined the IFA in 1984 and had always been an active member of his local branch, attending regular meetings and representing its committee at national institute conferences. He was a friendly member of the team, ready to express his views. His good-natured humour will be missed. He was continually available to give a helping hand arranging speakers and his prompt production of branch accounts for the annual general meeting and the efficient running of its financial affairs was greatly appreciated.

Steve will be very much missed by all the branch and committee members who send their sincere condolences to his family and friends.

Zeeshan Rizvi,
Chair, North & West Yorkshire branch.

TELL US YOUR NEWS

We would love to hear from IFA and FTA members regarding their practices. Have you learned anything that could be passed on to other members through our "Sharing Solutions" pages? Have you taken on any new IFA or FTA members in your practice?

Send your news to Richard Curtis at: editor@ifa.org.uk.

BUSINESS

Russia and Ukraine

The Department for Business, Innovation and Skills has reminded businesses that sanctions are in place. Extended measures came into force on 12 September 2014.

www.lexisurl.com/ifa-1058

TAXATION

Tax account

HMRC have announced that more than half a million businesses have signed up to the online tax account ("Your Tax Account") to access and manage their tax affairs in a single, secure, online space. The service provides:

- links to the key transactions they need to complete (for self-assessment, corporation tax, PAYE and VAT);
- an overview of their key tax records;
- a summary of their current liabilities;
- direct links to information and guidance, plus interactive tools; and
- links to payment information and how to pay.

More services will be added as the product develops.

www.lexisurl.com/ifa-1043

TAXATION

Agent Update 45

HMRC have published *Agent Update 45*. This has information relevant to agents, including the following topics.

- The autumn statement.
- New rates of machine games duty.
- The employment allowance.
- Recovery of debt through PAYE.
- Shared parental leave.
- Updated guidance for calculating a company car benefit.
- The new online payment gateway.
- Current consultations.
- A "Working Together" update.

www.lexisurl.com/ifa-1057

EMPLOYMENT

Living wage

Referring to the basic cost of living in the UK, the Living Wage Foundation has calculated that the current UK living wage is £7.85 an hour and £9.15 an hour in London. Employers can choose to pay the living wage voluntarily.

www.lexisurl.com/ifa-1041

TAXATION

Oil and gas

HMRC have reminded taxpayers that special rules apply to workers in the oil and gas industry depending on their residence status and the place they are working. There are also National Insurance implications.

www.lexisurl.com/ifa-1055

BUSINESS

Competition law

A new guide to competition law risk has been published by the Institute of Risk Management and the Competition and Markets Authority. The guide is a brief outline of competition law and lays out the steps businesses can take to lower legal risks and underlines the important role of non-executive directors.

www.lexisurl.com/ifa-1052

BUSINESS

Start-ups

More than 25,000 businesses have been helped under the Start-Up Loan scheme, which provides financial support and mentoring to new entrepreneurs.

www.lexisurl.com/ifa-1060

DISCIPLINARY HEARING TRIBUNAL ORDER

Mr Shahzad Sultan (AFA and FFTA), FT Accountants Ltd, 3 Homer Street, Marylebone, London W1H 4NP

Complaint

The complaint is that Mr Shahzad Sultan is liable to disciplinary action under IFA's bye-laws 12.3, which states:

"Misconduct" includes (but is not limited to) any act of default likely to bring discredit to the member or relevant firm in question or to the Institute or the accountancy profession. The fact that a member or relevant firm has before a court of competent jurisdiction in the United Kingdom or in a superior court of any country whose judgments are in the opinion of the council (or committee of council) relevant, pleaded guilty to or been found guilty of, or found as fact to have engaged in any offence discreditable to them, ... or derogatory to the Institute or the accountancy profession ... shall be conclusive proof of misconduct".

On 17 June 2014, Mr Sultan was convicted of conspiracy to defraud and sentenced to 90 months' imprisonment. In addition, a forfeiture order under the Powers of Criminal Courts (Sentencing) Act, s 143 was made and Mr Sultan was disqualified under the Company Directors Act 1986, s 2 for 10 years. He was ordered to pay a victim surcharge of £120.00.

Hearing date: 3 October 2014, previous hearing date: 12 August 2014.

Conclusion

As a result of Mr Sultan's criminal conviction, the assertion of professional misconduct on the part of Mr Sultan was proved by the IFA.

The disciplinary committee was of the view that his conduct had been wholly unacceptable and was likely to have brought the profession of accountancy into disrepute. The disciplinary committee found the offences committed by Mr Sultan to be particularly serious. Honesty and probity are central to the professional duties of an accountant.

Taking into account the IFA's sanctions guidance, for the reasons given above, the disciplinary committee concluded that Mr Sultan should be expelled from membership of the IFA and be directed to pay costs of £3,730 with respect to the complaint.

Accounting measures

The annual accounts preparation process is an opportunity to ensure that valuable tax reliefs are not being overlooked. ***Martin Mann*** provides a useful checklist.

TEN SECOND SUMMARY

1. **Accounts are not always prepared for 12-month periods. Are the correct tax returns being prepared?**
2. **Has expenditure on the balance sheet been correctly classified?**
3. **Small companies should be particularly aware of the loans to participators rules.**

With 31 March fast approaching, and 31 December having recently passed, many tax practitioners will now be turning their minds to the end of year accounts preparation. This can easily slip into a straightforward historical exercise, but can you set your practice apart and apply some more thought to the process? This should help to avoid common mistakes, improve the accounting and tax advice that can be given and provide a better overall view of – and hopefully a boost to – the client's business.

This checklist and the accompanying notes are designed, therefore, to highlight some of the more important considerations that should be borne in mind from a direct and indirect tax perspective when working through a company's set of accounts.

Basis of preparation

Does the company have a long or short accounting period?

Corporation tax returns cannot exceed 12 months so if the company has a long accounting period it will be necessary to prepare two CT600 returns, the first for 12 months and the second for the "stub" period. These must both be filed on the first anniversary of the end of the company's accounting period.

CT600s can be prepared for periods of less than a year if the company has a short accounting period. However, limits and allowances (such as the annual investment allowance) will need to be reviewed to determine the applicable amount for the short period.

If the company is part of a group, long and short accounting periods will also have an impact on any group relief surrenders.

What are the principal activities?

The principal activities and accounting policies notes are often written by the finance team without input from tax professionals. However, it is important that they are reviewed by the tax team as illustrated below.

- Whether a company is a property trading, development or property investment company will affect the availability of entrepreneurs' relief for qualifying shareholders.
- The absence of any reference to research and development (R&D) expenditure (eg an accounting policy note) can lead HMRC to question the validity of any R&D tax claims.

When did the company start trading?

A newly incorporated company may not always start trading on the day that it launched. If this is the case, the company may need to prepare more than one CT600 return as follows:

- Return 1: From the date the company first became active (perhaps when it obtained a bank account) to the day before it started trading.
- Return 2: From the start of trading to the end of the accounting period.

Is the company a going concern?

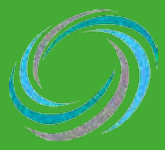
If the company has a qualified audit report on the basis of going concern, or if the accounts are prepared on a break-up basis, certain tax reliefs, such as R&D corporation tax relief (see later), will be denied.

Balance sheet

Tangible fixed assets – has the company incurred any capital expenditure in the year?

If so, it is important that the expenditure has been correctly classified, for example as follows.

- Assets purchased under a finance lease do not qualify for capital allowances; however, depreciation is – in most instances – tax deductible.
- Assets that have a short useful life can be categorised as short-life assets and kept separate from the main capital allowance pool. This election must be made within two years of the end of the accounting period and will enable



the company to accelerate balancing allowances on the sale or scrapping of the asset. Where it is impracticable to make the election on an asset-by-asset basis, HMRC will allow the short-life assets to be pooled. Disposals thereafter are on a "first in, first out" basis.

- Has all special rate expenditure, such as on lighting and electrical systems, lifts and escalators, been identified? Special rate expenditure only qualifies for an 8% writing-down allowance so it is worthwhile allocating the company's annual investment allowance to it in priority.

With the recent changes in the annual investment allowance – and in the complicated transitional rules for accounting periods spanning the rate changes – it is important to know exactly how much of this allowance a company is entitled to for each accounting period.

For example, a company with a 31 December 2014 year end will be entitled to an annual investment allowance of £437,500. So:

1 January 2014 to 31 March 2014

3/12 x £250,000 =	£62,500

1 April 2014 to 31 December 2014

9/12 x £500,000 =	£375,000
Total	£437,500

However, only £250,000 of the expenditure incurred from 1 January 2014 to 31 March 2014 will qualify.

Intangible assets

Does the company have any and, if so, when were they acquired and from whom?

Accounting amortisation and impairment of intangible assets acquired or created post-April 2002 is tax deductible.

Where the intangible asset has been acquired from a connected party the relevant date for deciding whether the amortisation is tax deductible is the date the connected party first acquired it.

Is the company carrying on R&D activities?

If a company is carrying on R&D, regardless of whether it is capitalised in the balance sheet, the company may be eligible for enhanced corporation tax relief on the qualifying expenditure incurred in the year. It does not matter what industry or sector the company is active in.

Following announcements in the autumn statement on 3 December 2014, R&D relief is even more valuable. The rates from 1 April 2015 are now:

- 230% for a small and medium-sized company; and
- 11% for a large company that has elected into the above-the-line tax credit regime.

The company should ensure that it includes all qualifying expenditure in the claim because costs such as employer's National Insurance contributions or amounts incurred on qualifying indirect activities are frequently missed.

In addition, 100% capital allowances may be available for expenditure (including buildings and cars) on items directly acquired for R&D.

Are any of the company's products/processes patentable?

For companies developing patented technology, products or processes an election into the patent box regime should be considered because it could reduce the rate of corporation tax payable on patent-related profits to 10%.

Stock

Has the company appropriated any fixed assets to stock or vice versa?

The appropriation of fixed assets to stock will trigger a capital gain for the company based on the market value of the asset at the date it is transferred. However, an election can be made within two years of the end of the company's accounting period for the appropriation to be at cost. This means that, for tax purposes, a higher profit will arise on the sale of the stock. This will be taxed as "trading income" rather than a capital gain if no election is made.

No such election can be made on the transfer of assets from stock to fixed assets, so if assets are taken out of stock by the company, this is a deemed market value disposal for tax.

Debtors

Has the company made any loans to its shareholders?

With the tightening of the loans to participators rules in FA 2013, companies that are controlled by five or fewer shareholders or any number of shareholder directors (close companies) should be particularly vigilant of these rules.

It is no longer possible for a shareholder to repay the loan shortly before the year end only to take it out again afterwards. In such an instance the "bed and breakfasting" rules would treat the new loan as a continuation of the old one and a 25% penalty corporation tax charge (under CTA 2010, s 455) would arise.

Has the company written off or impaired any intra-group loans?

If so, the impairment/write-off will not be tax-deductible for the company that made the loan. Conversely, there will not be a taxable credit in the borrowing company.

Creditors

Does the company have a pension or salary/bonus creditor at the year end?

If so, it is worth remembering that:

- tax deductions are available for salaries/bonuses that are paid within nine months of the company's year end; and
- employer pension contributions qualify for tax relief only when they are paid so it will be necessary to adjust for any opening or closing balance sheet amounts.

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The season of goodwill?

Fundamental changes to capital gains tax entrepreneurs' relief mark the end of the season of goodwill, writes ***Russell Cockburn***.

TEN SECOND SUMMARY

1. **From 3 December 2014 the ability to obtain capital gains tax entrepreneurs' relief on a transfer of personal goodwill is restricted.**
2. **Transfers of goodwill did not attract stamp duty land tax and could be amortised by the acquiring company.**
3. **Could there be be a stamp duty charge on goodwill transfers in the future?**

In his autumn statement on 3 December 2014, the Chancellor mentioned in passing that the government intended to "strengthen" the rules for capital gains tax entrepreneurs' relief. Whenever I hear a valuable tax relief being referred to using this sort of terminology I immediately suspect that devilry is afoot. I was not mistaken.

The relief has been watered down, not strengthened, or at least that's what some tax commentators are saying. Overnight, Mr Osborne has removed a tax planning strategy which has been used by many small businesses in recent years when they incorporate their trading activity and transfer it to a company. The technique first became popular during the taper relief years, 1998 to 2008, and has continued to be used after the introduction of entrepreneurs' relief.

Goodwill transfer restrictions

Briefly, since 3 December 2014 it has been made more difficult, if not impossible, for a sole trader or partnership to "sell" their business goodwill in a tax-efficient manner to a limited company formed to take over the business. Entrepreneurs' relief and a 10% tax rate will no longer be available against a sale of goodwill in these circumstances.

This does not mean that the relief will not in future be available against a sale of other assets to a limited company controlled by an individual; and it continues to be available against goodwill sales to unconnected persons generally. Business premises or other chargeable assets will still attract entrepreneurs' relief on incorporation and thus achieve a 10% tax rate. These other types of transactions have not been attacked by the Chancellor's new anti-avoidance provision.

More specifically, what has been stopped is the sale of goodwill to a limited company where this asset has not been recognised in the business accounts. Until now, this has been an opportunity for the business owner to create a significant director's loan account balance on the incorporation. In effect, this can be drawn thereafter with only a 20% corporation tax liability and no other income taxes or National Insurance contributions falling due. Consequently, when such a sale takes place in future, the capital gains tax rate will be either 18% or, more likely, 28%. Inevitably, this tactic will become much less attractive for many business owners.

The tax attractions

This "sale of goodwill" technique had become fairly widespread in recent years alongside the popularity of incorporating smaller businesses as top personal income tax rates rose to 50%, now 45%. What HMRC clearly find so unpalatable is the number of businesses that have been selling goodwill based on their own valuations (whether professionally obtained or otherwise) and creating these loan account balances in circumstances where the department is convinced that there is no saleable goodwill attaching to the business at all. This is the much vexed issue of "trade-related property", summarised in detail by HMRC in the practice note with the November 2013 *Agent Update* (www.ifa.org.uk/files/october-november2013.pdf) and which so many accountants and tax practitioners find contentious.

The attraction of transferring goodwill on incorporation was, of course, that, first, it does not carry a stamp duty land tax liability whereas property value does and, second, goodwill could attract amortisation corporation tax relief inside a limited company unless the predecessor business was active before 5 April 2002. Thus, the company could previously obtain a tax relief for something which was, in effect, first accounted for on and after the incorporation of the business.

A contentious point

Whether HMRC are correct in their arguments about goodwill and trade-related properties is a highly contentious point. They also argue that many businesses cannot have any free and transferable goodwill separate from the personality of the individual business owner. Although this may be true in some cases – and I would argue they are the more extreme examples – I have certainly seen HRMC adopt this approach where their view is that the activity and trade could not be sold separately from the property or premises from which the business operates. This is a very controversial point of view and one with which many accountants and tax advisers and some valuers take serious issue.

I know of many businesses that are sold for a price well in excess of the value of the property or properties from which they operate. It is therefore surely axiomatic that there is a freely saleable and transferable goodwill value that has little or nothing to do with the type of business or the location from which it trades. But this is exactly what HMRC continue to argue in many cases.

Clearly, the department is fed up with dealing with such cases and has decided "no more". Some readers will still be in correspondence with the HMRC's "cross departmental directorate", which was set up to consider these issues, especially in areas such as medical practices. The future for those engaged in running such arguments against HRMC does not look bright. They seem determined to dig in their heels and are apparently prepared to take test cases to the tribunal. Perhaps the fact that HMRC have felt it necessary to legislate suggests that they are less sure of their ground than they would like us to believe.

Entrepreneurs' relief restrictions

Whatever the rights and wrongs of these arguments about "free", "inherent" or "personal" goodwill, the availability of entrepreneurs' relief against gains arising on incorporation is now to be limited to real property and similar asset disposals to the company; goodwill is excluded. This does not mean that goodwill sales to arm's length third parties in genuine commercial deals will not attract the relief in future, they will. It's just that it is not to be obtained when one sells one's own goodwill to one's own company. Neither will such a "sale" enable the company to claim amortisation relief against the cost of the goodwill inside the company against its profits chargeable to corporation.

Personally, I am a little surprised that the Chancellor did not go all the way and change the law to stipulate that goodwill is henceforward chargeable to stamp duty land tax while he was at it. After all, he messed around with stamp taxes enough in his autumn statement so another little billet-doux on the topic wouldn't have looked at all out of place, would it?

Help for HMRC

Some commentators have suggested that this move by the Chancellor is a response to a plea for assistance from HMRC because they do not have the resources to challenge the number of cases where such "incorporation goodwill sales" have been effected.

Certainly, cases I have dealt with seem to take an inordinate length of time for replies to come back from the officials dealing with them. Others have suggested that HMRC is attacking the cases with the wrong strategy and that, instead of arguing about the merits of different types of goodwill or the valuations attributable to them, they would have more chance of success using the transactions in securities legislation or old case law such as *CIR v Cleary* 44 TC 399. There, a sale of shares in one company to another owned by the same individuals was deemed to be a tax avoidance strategy to extract funds at reduced tax rates from the first.

Whatever the merits or otherwise of HMRC's arguments, the sale of goodwill to create a large loan account balance using entrepreneurs' relief has now been curtailed as a tax-planning technique. Business owners looking to extract profits from a business as capital not income will now have to look elsewhere.

FURTHER INFORMATION

Draft legislation: Capital gains tax – denying entrepreneurs' relief for disposals of goodwill to related companies and explanatory notes: www.lexisurl.com/denyer

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Boosting your business

Are you building a business, steering it or launching it? ***Steven Afshar*** provides some thoughts on the importance of having the correct attitude.

TEN SECOND SUMMARY

1. **The metaphors that are used to describe a business may reflect or influence the proprietor's attitude towards it.**
2. **Can drastic decisions be taken by a proprietor who believes that they have "nurtured" a business since its birth?**
3. **A change in the way that a business is perceived may be the key to future success.**

There are many "get rich" tips, tricks and techniques out there, but lots of people see their efforts and investment disappear. Why? Put simply, because these tips etc don't work. Many would-be entrepreneurs are also obsessed with outcomes and objectives, but if their business fails, this could be down to its initial internal structure. This can be a major contributor towards the stresses and strains that they experience. In part, this is because, while business "gurus" are continually telling us how easy it is to get rich, many entrepreneurs have little idea of the hours of frustration they will experience in achieving success. I believe that one of the primary areas contributing towards a business owner's frustration is the attention they pay to the identity of their business.

From the ground up

Entrepreneurs often say that they are "building a business". For example, how many times do we hear expressions such as "I've constructed a website… We've built a webpage… We have a blueprint… We have a design…"?

Owners will commonly make other comments along a construction theme, such as "it's our blueprint of a business, it's built on solid foundations, I'm building the business up"; but think about this: buildings don't move, they are solid and static. Accepted, it is to be hoped that they are built on firm principles, but they are not "going" anywhere. And if a huge amount of effort has been put into creating a business structure, how is the owner going to feel if circumstances change so that it is no longer needed or considerable expense is required to adapt it? Will the owner have such an emotional attachment to their business structure that this prevents them taking tough decisions?

An ailing child

Taking this idea of emotional attachment a stage further, some entrepreneurs talk about their business as though it is their baby and it has a life of its own. However, if a business does have a life of its own, how much control does the proprietor have? As those with children will appreciate, probably not as much as they would like.

The danger here is that businesses can get out of control quite quickly.

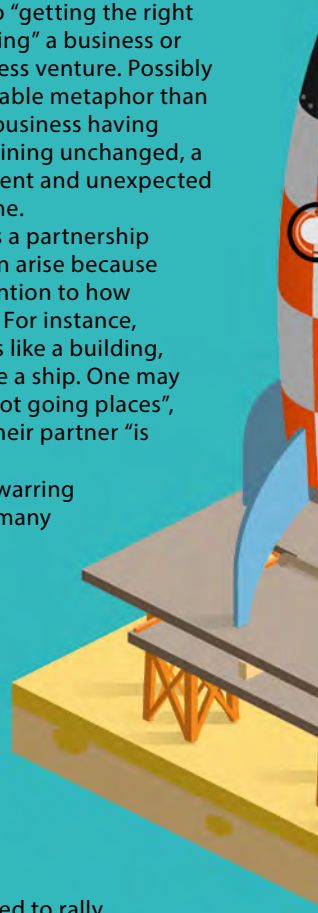
For those who use this metaphor, this may be unimportant if the business is making money. However, if their "child" is ailing and is unprofitable, can the proprietor be dispassionate or will they, as the "parent", press on regardless and attempt to nurture it by pumping in money. If the business is not expanding, could that be the fault of the owner for not letting it "grow up"? Have they become over-protective and are thus the cause of its immature condition?

Boats and battles

Shipping metaphors are also common in the UK and comments may allude to "getting the right people on board…", "launching" a business or "setting sail" on a new business venture. Possibly a voyage may be a more suitable metaphor than construction. Rather than a business having been created, but then remaining unchanged, a voyage may suggest movement and unexpected events that must be overcome.

Particularly where there is a partnership or co-directors, problems can arise because they may not be paying attention to how each perceives the business. For instance, one may look at the business like a building, while the other thinks it's like a ship. One may complain that the other "is not going places", while the other thinks that their partner "is going overboard".

Other entrepreneurs use warring or gaming metaphors. How many of us have heard business owners saying things such as: "Our advertising campaign requires military precision... This is a hostile takeover… We are engaged in a marketing campaign… We're moving in on our competitor's territory… We're going head to head with the competition… It's a minefield out there… We need to rally the troops…".

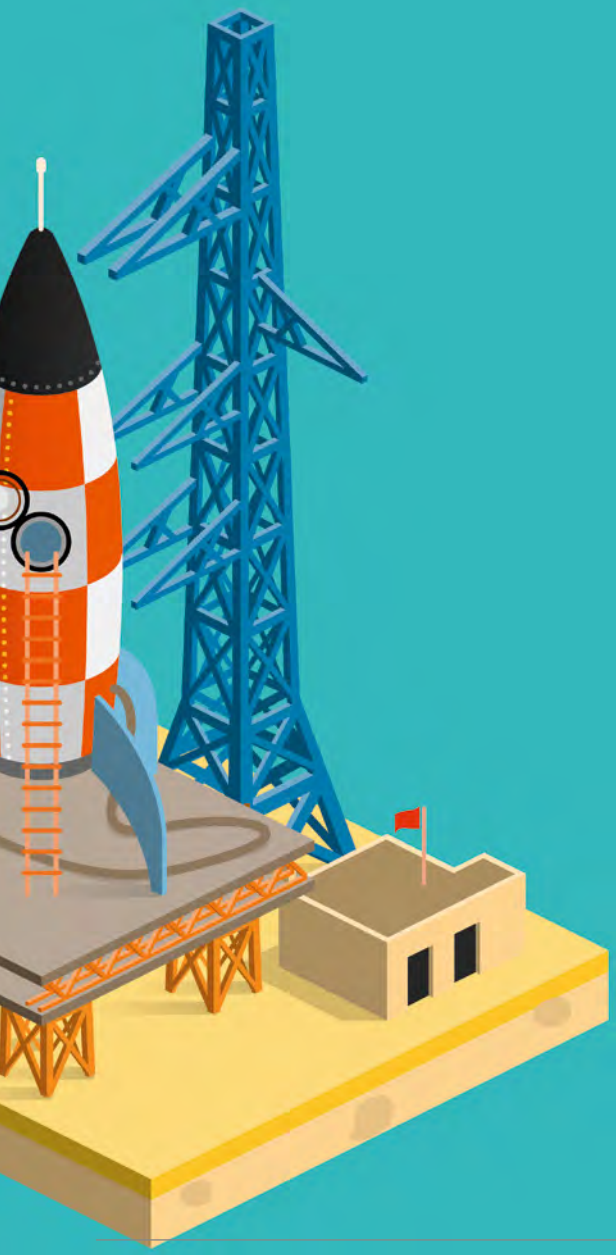


Expressions relating to war and games can overlap because many games are played as mock battles: football, rugby and chess, for example. As for business people who use such metaphors, there are winners and losers in this game: it's a "cut-throat" business with high levels of aggression and competitiveness.

There is a possibility that using sports team or military types of structure and associated terminology may tend towards conflict. And if the business is organised along the same lines, how does this work in terms of the flow of information? Are employees prepared to talk to managers on an equal footing or does the hierarchical structure work against this?

Attitude and achievement

The types of assumptions that we make and the terminology we use in respect of ourselves and our business colleagues can create different reactions and perceptions – and this is where stress and frustration can arise in business relationships. The paradox is that many people in all sorts of businesses will use descriptions and metaphors similar to those mentioned above; but we must remember that, in essence, some people are static and some people are going places.



So how to establish one's own metaphorical business structure? By carefully answering the question: "what is your business like?"

Putting the focus on a metaphorical description may result in a surprise. It could well be one of the structures mentioned above or something else. Pay attention to the description and create as many idioms as possible. For example, one business owner said he felt "lost at sea, floating aimlessly in the dark depths of the ocean". Idioms for this could be "a feeling of support, but a lack of direction" or "just about keeping one's head above water" or "trying to stay afloat".

Business is not easy; if it was, everyone would be fabulously successful. However, it can be made easier by paying attention to how it is referred to because within is a gem definitely worth uncovering. And, like any picture, your metaphor is worth a thousand words. Often, identifying the metaphor for a business can be enough to facilitate a change of attitude and thus make the decisions and behaviour changes that are required to achieve better outcomes.

Boost the business

Identifying and being aware of the business metaphor that has consciously or subconsciously become an underlying principle of the business is simply the first step. The next is to ask whether this is working as a positive or negative influence. If business performance has been sluggish is this because the proprietor's mental attitude is impeding rather than encouraging it? For example, if too many "warlike" metaphors are bandied about is this how the customers are seen – as enemies rather than potential allies? If it is construction phraseology that's to the fore, is this business in its early stages or undergoing a restructuring – where this might be relevant – or is too much emphasis being put on its internal workings rather than its external dealings with clients and suppliers?

Perhaps when discussing matters with a business client you hear them using agricultural expressions such as "planting the seeds", "sowing new ideas" and "taking a product to market". Does this reflect the dynamic approach that is really required? Do they need to switch their thinking to "blast the profits skywards"? Would a "quick launch" enable them to become "a rising star"?

Attention paid to the internal workings of a business in this way may provide the "eureka" moment that is so desperately required to give the boost it needs to get it "off the ground" … oops there I go again with another metaphor.

Steven Afshar is fully certified through the Coaching Academy as a small business coach working with companies up to 300 employees. He carries his ethos of principled living into organisations because its people are a company's most prized asset and the success of any company is predominantly down to its leaders. For more information, contact him by telephone on 02392 984252 or email at steve@mind-craft.co.uk

A financial framework

Accountancy and tax planning is all very well, but advisers need to watch for financial planning opportunities as well. ***Minesh Patel*** provides some straightforward suggestions.

TEN SECOND SUMMARY

1. **Changes in pension rules can be an opportunity to review the tax relief available to clients.**
2. **Forward planning is required to make sure that full advantage is gained from inheritance tax reliefs.**
3. **Self-invested personal pensions can provide a tax efficient means of holding commercial premises.**

Modern financial advisers build financial plans to help their clients achieve their ultimate lifestyle goals and objectives. The aim is to understand the relationship the client has with money. Within this framework, tax-efficient investments aligned to attitude to investment risk are integral. This article considers various opportunities that accountants and tax planners should look out for.

Personal tax return

Pensions have undergone considerable change recently and are a very powerful tax savings vehicle. Individuals receive relief at the rate of income tax paid, achieved by increasing the basic rate tax band. From age 55, up to 25% of the fund can be withdrawn as a tax-free lump sum with the remaining 75% available for either annuity purchase or direct withdrawal of income (known as capped or flexible withdrawal). The payment of contributions personally in the tax year will reduce the income tax liability of the year of payment and the payments on account for the following year if other income is likely to remain constant or reduce.

An individual can pay a maximum of £40,000 in 2014/15, and unused relief of up to £50,000 for the three previous tax years (reduced by any personal or company contributions already paid) can be taken into account. That said, tax relief can only be given on up to 100% of earnings. Savings and investment income are not relevant income for the purposes of this calculation. In addition, to take advantage of unused relief from previous years, a pension plan had to exist in those years even if contributions had not been paid.

Bank and building society interest

The current low interest rate environment means that interest earned on most accounts is negative after allowing for inflation. The impact of inflation is often overlooked by savers, especially those who also pay income tax on the interest. Savers should maximise their ISA allowances (currently £15,000 per person) to ensure that some of their savings are free of income tax. For those with children under 18, the junior ISA can be used as long as savings do not fall foul of the £100 rule on parental gifting.

For those aged 65 or over, National Savings are introducing high-interest savings accounts for three years and one year paying 4.0% and 2.75% respectively on savings of up to £10,000. For larger amounts of savings, an offshore investment bond is worth considering with any interest being free of income tax during the period of investment. For UK tax residents, income tax arises only when the offshore investment bond is sold.

Remember that these strategies only reduce the effects of income tax. Interest rates are low and a financial planner will aim to build a portfolio of investments including cash deposits, equities, corporate and government bonds and property to achieve inflation-plus returns over the longer term. At the core of the financial plan is an assessment of of the client's attitude towards risk that informs the investments made.

Greater tax efficiency

For experienced equity investors, payments into venture capital trusts (VCTs) or enterprise investment schemes (EISs), which invest in smaller companies, will benefit from 30% income tax relief. In the case of an EIS, the tax relief can be related back to the previous tax year even after a tax return has been filed and completed. A further benefit of VCT and EIS investments is that dividends are free of income tax and can be used to generate tax-efficient income. EIS can also be used to offset chargeable gains from investment bonds, investment products that were commonly used for many years.

These factors lead to a natural opportunity for tax and financial planners to work together closely for individuals who are reaching retirement and selling their businesses. This is a period of transition requiring management, and a financial planner will use cash flow models to structure the

correct balance between income and expenditure. Accountants prepare company accounts that include a balance sheet and profit and loss account, while the financial planner performs a similar task for individuals by analysing income, expenditure, and assets and liabilities, particularly relevant to those reaching the end of their working lives. Advisers need to be aware of tax planning opportunities such as the following.

- *Inheritance tax planning*. Risk assessments will uncover planning methods that are suitable for consideration, such as business property relief schemes that eliminate inheritance tax after two years. If many of the assets are property, the tax planner can create innovative trust and company structures to manage the inheritance tax liability; perhaps using discretionary trusts to roll over property-related gains. The ability to make gifts out of excess income is a useful exemption.
- *Capital gains tax*. "Bed and breakfasting" is a widely used process where shares and investment portfolios have built up substantial capital gains. The sale of portfolios and shares that are then repurchased after 30 days will, in most cases, result in a lower liability. Such planning is required at least annually. Additional planning opportunities include the transfer of shares and portfolios between spouses. Using the annual capital gains allowance to transfer shares into investment ISAs is also tax efficient especially when combined with capital losses to offset other gains.

Company accounts

As outlined above, significant pension payments are permissible each year. If profits are generated, and if the pattern is likely to continue, employer-sponsored payments into a recognised pension plan can reduce the company's liability to corporation tax. When companies prepare management accounts, profit extraction through pensions is more easily planned.

A self-invested personal pension (SIPP) that allows investment into commercial property combines financial planning and tax planning. A SIPP can be used to buy the commercial property then rented by the business. If there are insufficient monies in the SIPP, a part-purchase between directors and the SIPP could be considered. There are some distinct tax advantages: rental income accrues in a tax-free environment and the sale of the property is free of capital gains tax. For business owners seeking an exit strategy, commercial property held in a SIPP represents two opportunities:

- it can form part of the sale price; or
- the business could be sold, but the commercial property retained and leased to the new owners thereby creating an income stream for the SIPP. SIPPS are free of inheritance tax and if death occurs before age 75 the pension fund can be paid out as a tax free lump sum. Pensions are a good estate planning tool.

The final issue is that the current lifetime allowance for pensions is £1.25m and tax penalties apply if this is exceeded, for example if clients are or have been members of final salary pension schemes. Advice is clearly required in such circumstances.

Charitable considerations

Many clients express strong preferences for ethical and charitable considerations to be taken into account when building financial plans and investment portfolios. It is important to review the following points.

- *Payments to charities*. Is gift aid being used to reduce income tax and increasing the size of the donation through tax relief? Could this be used to restore personal allowances when income exceeds £100,000?
- *Reduced inheritance tax rate*. Estates that give away 10% of their value to charity reduce inheritance tax to 36%.
- *Cash surpluses held by charities*. Is there a case for a diversified portfolio of investments with an ethical criterion central to the investment strategy?
- *Charitable trust*. Such a trust may be used when personal preferences for charitable giving can be created and designed.

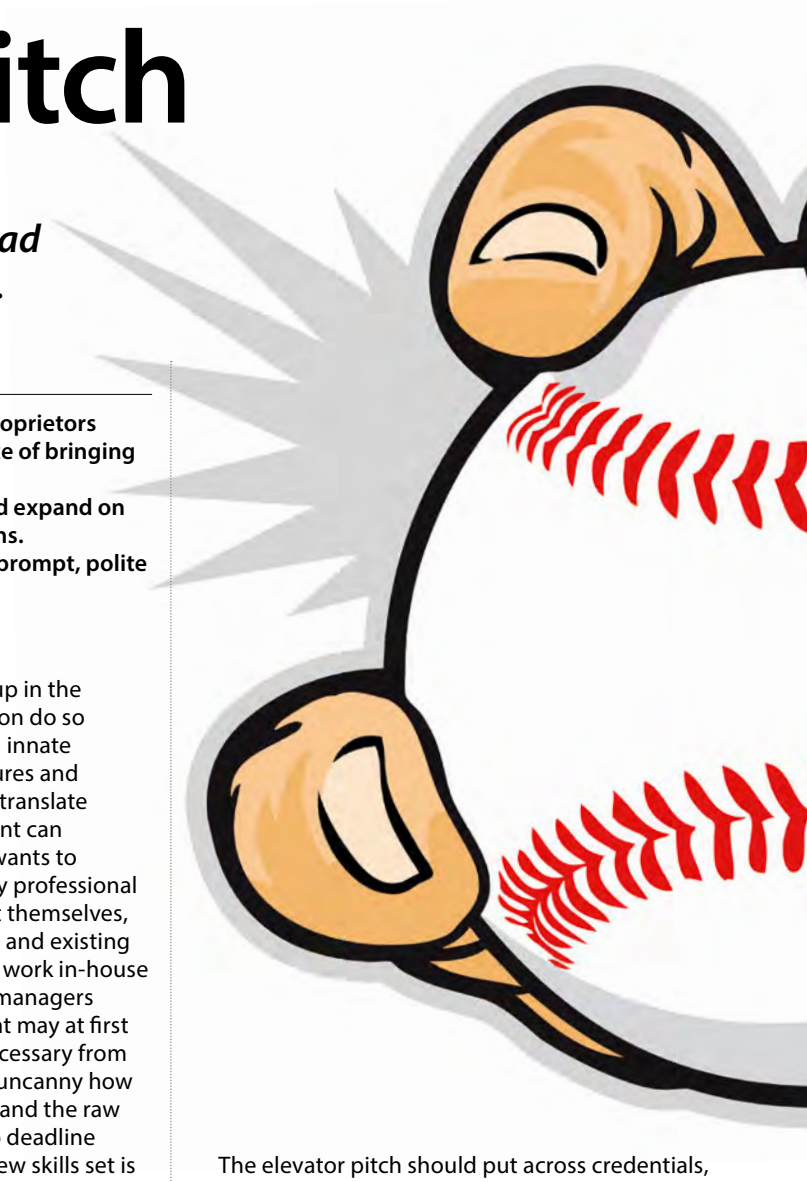
Summary

It is easy for those advising purely on accountancy and tax to overlook financial planning aspects. Naturally, care must be taken by those who are not qualified financial advisers to avoid straying into the provision of advice. However, an awareness of some of the opportunities that are available should enable information to be provided that can enhance the business of both the adviser and their client.

Minesh Patel is the managing director of EA Financial Solutions and a chartered financial planner. He was awarded overall life and pensions adviser of the year at the Financial Adviser Awards 2014 and SIPP/individual adviser of the year. He writes frequently in the media and was rewarded in 2013 by achieving the Unbiased Media Awards Adviser of the year. Minesh can be contacted by phone on 0208 4463231, email minesh@eafsolutions.co.uk or vist: www.eafsolutions.co.uk

Your best pitch

You can't just pitch up and expect to make a good impression. ***Georgiana Head*** recommends planning and preparation.



TEN SECOND SUMMARY

1. **Employees as well as business proprietors should remember the importance of bringing in new work.**
2. **Get the basics of a pitch right and expand on this for more formal presentations.**
3. **Don't forget the little things: be prompt, polite and well dressed.**

Most people who end up in the accountancy profession do so because they have an innate understanding of figures and are bright enough to translate legislation into something that a client can understand. However, anyone who wants to succeed beyond a certain level in any professional environment must be able to market themselves, their firm and their work to potential and existing clients. Even those accountants who work in-house need sales skills to persuade owner managers and board members to do things that may at first glance seem unpalatable, but are necessary from a tax or reporting point of view. It is uncanny how a promotion due to hard endeavour and the raw ability to complete technical work to deadline and profitably means that a whole new skills set is required at a managerial level.

Senior managers are likely to spend at least one-third of their time on some form of marketing or business development – bringing in work to "feed" more junior staff, keeping clients happy and gaining more work from them. Directors and partners may spend most of their time winning new work and retaining clients and will increasingly move away from advising. Even the sole trader finds that his time is split between doing the work and bringing it in.

Pitching ability

A key skill in the armament of the modern accountant is therefore the ability to pitch. A first step is to be comfortable with a basic "elevator pitch" that can be used as an introduction. The elevator pitch is an explanation of who you are and what you do which takes no longer than a ride on a lift between floors. This is the foundation that can be used at a networking event or as the beginning of a longer pitch – see "The Quadrille" (*Financial Accountant*, May/June 2013) for a summary.

The elevator pitch should put across credentials, and the type of business undertaken. If some human element and humour can be added so much the better. Always try to finish with a question. Fundamentally, beyond proving credentials, the key to any pitch is to establish the prospective client's issues and needs and explain how to resolve them.

An accountant should outline the work they do for their types of clients and what might set them apart from competitors.

In a more formal environment, take a cue from the Big 4 accountancy firms. They are brilliant at putting together client pitches and proposals and often work from a basic template – often in Powerpoint. This makes documents look slick and professional, and the joy of modern technology lets anyone with a decent word processing package create a desktop published set of slides. These can appear every bit as professional as those with a team of marketing staff behind them. I would also say that little touches like binding the slides make a big difference to how professional it looks. Increasingly, the fashion in pitch documentation is "less is more". So instead

of reams of text, use images to act as an aide memoire and prompt for the presenter rather than as subtitles to the pitch. They also give impact to the presentation – as an example, images of existing client logos are always far stronger than a list of names. Similarly, a picture of you and your team is much stronger than any written description.

The initial issues

Once credentials, training, the firm, and experience of working with similar clients and industries have been covered, a pitch for advisory work might also include some technical content about the issues facing the client and what needs to be done. Generally, though, at an initial meeting the key is to gain the client's trust and to get them talking about the work that they want undertaken.

An essential element of any pitch or presentation to a future client is to ensure that as much research as possible has been done before the meeting. Understand the scale of the business, have copies of recent accounts, know who the competitors are and the issues that are likely to affect their business in the next couple of years. Even if pitching to the local sports club rather than a FTSE100 company, still try to obtain some basic financial information. What stage is the business at? Is the business owner close to retiring, has there been recent heavy investment and is the business looking to expand? Insightful questions can show that research has been done and that there is an interest in the business.

Some people talk about persuasion being key in a pitch, but I worry that this has too many negative connotations and smacks of trying to change someone's core beliefs. Enthusiasm is more powerful. Clear enthusiasm for the job, current clients, recent pieces of work and the target client's business can prove to be a winning combination. A pitch is really no different from an interview – a client target should never leave a meeting thinking "nice person, but I'm not sure whether they really want the work".

Tell clients that their business is valued and remember to thank clients for the business that they are giving. For example: "Thanks for that, this is a really interesting role for us to fill and right up our street; I really appreciate you giving me the opportunity to work on it."

Half the battle with a pitch or presentation is simply about being polite. Never turn up late, always allow plenty of time for the journey there and for parking, security clearance and so on. Don't park in someone else's space and be pleasant to everyone in the office, from the security guard to the receptionist. Obviously, this should come naturally, but everyone has an off day and remember that the pitch starts right at the office entrance. Dress smartly; this is a sign of respect and shows that the prospective client's business is taken seriously.

Turn off mobile phones on arrival. Don't make the fatal mistake of getting into a long and involved client conversation while waiting in the customer's reception and then having to abruptly cut off the call when the person you are meeting arrives. Whatever you may think, this rarely makes you look busy and important.

Make sure you have spare copies of any slide packs and business cards in case the client brings along someone who was not expected – even a junior who is work shadowing; how would they feel sitting in on a meeting without the documentation?

Be honest, don't oversell and do tell the truth. It is more effective to explain that work has been carried out for similar clients, but not on this scale which is why the contract would be so important, than to be "economical with the truth" and suggest that similar-sized groups have been dealt with. Most people subconsciously can read a lie in someone's body language and lose trust – and no one wants to give work to someone they don't really trust.

Fundamentally, a pitch is rather like a first date: it is the beginning of a potential relationship. Is there enough common ground and interest on both sides to make it work? Give it your best shot.

Without tempting fate, ***Georgiana Head*** is a tax recruiter who has never yet, in 17 years of tax recruitment, lost a client pitch. She can be contacted by telephone on 0113 280 6766 or email: georgiana@ghrtax.com.

A new year's resolution

Business is always important, but ***Chris Blantern*** advises that the underlying legal aspects should not be ignored.

TEN SECOND SUMMARY

1. **The suitability of the business structure should be reviewed on a regular basis, not just at the outset.**
2. **Understanding the legal commitments of premises, employees and borrowing is essential.**
3. **A little forethought regarding potential future problems can yield dividends for all.**

The start of a new year reminds us to review the past one and look forward to setting objectives for the coming year; to make "new year resolutions" and commit to doing those things that we have long put off.

A new year review of a business framework is a health check for any business, whether it be for the adviser's or one of their clients. And reminding clients about such a health check is a way of adding value that opens discussions to a range of strategic issues for the year ahead. Whether it is your own practice or the SMEs that you advise, there is always a need to ensure that the business structure is appropriate and the legislative requirements are in place. With many new businesses starting up in this "golden age" of entrepreneurship, the time to get the right base in place, and from which they can go forward, is at the outset.

Corporate structure

The first major legal decision that any business owner faces is the format for the enterprise, whether it be sole trader, partnership, limited liability partnership or limited company.

The benefits and legal headaches created by each option vary. Sole trader is easiest, quickest and cheapest, but confers virtually no tax advantages and places the risks wholly on the business owner. Company registration limits liability, but has some associated costs and legal obligations that should be considered. This is nothing new, but is always worth reiterating.

Whether a partnership, limited liability partnership or limited company, it is vital to document the relationship between those involved, whether as partners or shareholders. Although the future of the business may be unknown, it is certain that business owners will fall out at some time, whether the business is successful or not.

Decisions about the future direction of the business are common. Many small businesses are founded by friends and family, or colleagues from another business setting, so it can be tempting to not bother with the small print of a shareholders' or partnership agreement. But, regardless of the nature of the business, it is likely to be a significant asset and main source of income so it is essential to regulate the relationship between the partners or shareholders. A well-drafted agreement will make it clear who controls what, what everyone's responsibilities are, and the rewards and exit rights of each partner or shareholder. So "when" that disagreement does occur it is clear what happens next and time, emotional energy and money are not wasted.

Succession planning

Unfortunately, perhaps the only real certainty in life is death. Consequently, provision should be made for what will happen to shares in the ownership of any business when the owner or one owner dies, or who will make decisions in respect of the business if the owner or one owner is incapacitated due to accident or ill health. Ensuring business continuity and preserving the asset that is the business is the key.

From making a will and lasting powers of attorney to shareholder agreements and cross-option agreements, it is vital that documentation is in place to protect the business owner (and his or her family) and the business (and its employees).

Premises

Obtaining suitable commercial premises is one of the crucial steps for many SMEs. With this comes

the need for sound legal advice when acquiring or negotiating a lease, not least to ensure that protection is in place if the best laid plans go awry.

A lawyer can investigate any premises that the business intends to acquire or rent and help avoid nasty covenants in the lease. Considering the availability of a break clause enabling the lease to be brought to an end before its full term brings flexibility to the arrangement should the premises become unsuitable.

If premises are to be purchased, how are they to be owned? By the business, by a pension fund or by the business owners and leased back to the business?

Funding

Most SMEs will require capital at one point or another. This often takes the form of private investment or a bank loan. Negotiating terms with banks may seem an uphill struggle in the current economic climate, but consider the importance of legal advice. Entering into any financial agreement wise to its legal implications is imperative and should be an aim of every SME.

Employees

Even now, many SMEs still hire staff without bothering with formal procedures, employment contracts or terms. This can create needless uncertainties about pay, benefits, terms and duties and perhaps prove costly in the long run. Any subsequent investor or buyer or lender will be keen to see that a business is well managed and organised and clarity on staff employment terms is one marker. The business can also protect itself by imposing post-termination restrictions.

Legislation in this area is changing all the time, so getting it right early will ultimately pay off. If the business is already established, a review of staff terms can be undertaken relatively easily and the appropriate policies and contacts put into place to ensure legislative compliance. Business owners need to be aware that staff acquire some legal protection from the beginning of their employment, such as the rights to an employment contract and not to be discriminated against. However, others – such as the right to a fair dismissal – are now only available after two years of employment. Compliance is essential because an employment tribunal claim could completely derail an otherwise successful small business.

Property and protection

One asset of the SME sometimes neglected and undervalued is the need to protect its intellectual property and brand. Many see this as too expensive, a waste of time and too difficult to enforce. This is an illusion.

Copyright, for example in software, does not need to be registered at all – merely produced in physical form, written down, and asserted with proper use of a "C" notice. Likewise, a UK or European trademark is not expensive to register. Patents are certainly more complicated and expensive, but even an application can reassure investors and deter potential infringers.

Commercial agreements

At last the business has a client or a customer – a cause for celebration if ever there was one.

Think a handshake or email exchange will form the agreement? Often this is not enough. A simple email will miss out detail on payment calculations, payment dates, allowable deductions, obligations to resolve adversities and termination rights. Making provision for these hazards in advance is far more prudent than when the parties are in the middle of an argument and not thinking clearly.

Setting up and regularly reviewing businesses terms and conditions sets the parameters within which the company trades. Having these well drawn up often prevents a potential dispute before it starts because the issue of concern is covered.

More complex arrangements may need a more bespoke commercial agreement, such as supply or distribution agreements. It is vital to document the terms upon which business is done.

Finally

The potential hazards and pitfalls for any new or established SME may seem daunting. But they do not need to be, and the role of the professional adviser is a key element to any business. The "trusted adviser" should be able to help steer the business past the obstacles that will arise, ensuring that any hazards or pitfalls become opportunities to the long-term benefit of the business. Accountants and lawyers can be vital parts of the business, ensuring a fruitful relationship for all into the future.

Why not make a new year resolution to review the building blocks of your business and those of your clients?

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In good company

Able to deal with the incorporation of a new or existing business? ***Sue Richards*** provides an overview of the basic requirements.

TEN SECOND SUMMARY

1. **The Companies House web incorporation service can be a useful facility for those forming straightforward limited companies.**
2. **Avoiding common problems with company names and addresses will prevent rejection of incorporation applications.**
3. **Incorporation is only the start of a process and statutory filing obligations must not be forgotten.**

The government's "red tape challenge" has had mixed reports of success and the Small Business, Enterprise and Employment Bill will implement some more of the changes arising from this initiative. The streamlining of the work involved in the preparation and filing of accounts with Companies House is just one example of where efficiencies have been found and brings accounting and company secretarial work closer together. So, for those thinking of "boosting their business" by developing a wider range of services for their clients, a familiarity with the core company compliance requirements of Companies House is a logical next step.

Forming a company

Companies are incorporated by Companies House, which divides the UK into three jurisdictions: England and Wales, Scotland and Northern Ireland. Each office keeps the records of the companies in its area. In straightforward cases, the quickest and cheapest method of incorporation is to use the Companies House web incorporation service or, for those with access, other approved software.

The service is for standard incorporations so is not suitable if changes to the model articles are needed, or for names that require special permission. It is also possible to register a company using the paper form IN01, downloadable from the Companies House website. Once incorporated, the company is given a unique number and issued with a certificate of incorporation. The company's name can be changed in future, but its unique registration number remains the same.

The company's constitution

On incorporation, a company requires a framework that sets out the rules and regulations under which it is run. These are the articles of association and many companies choose to use the default "model" articles prescribed in the Companies Act. As with any attempt to standardise, the model articles will not suit every purpose and circumstance. However, they were drafted with a "think small first" approach, and this may be adequate for many small owner-managed businesses. Deciding whether the standard articles are appropriate is an important consideration, but specialist advice is not always necessary immediately. It is possible to incorporate using the standard articles and seek further professional advice – for example, from a chartered secretary or a solicitor.

The company also needs a memorandum of association. This is the statement signed by the company's first shareholders to confirm that they wish to form the company and give their consent to take at least one share.

Names and business names

Choosing the right name for the company is important and checks should be made to ensure that the proposed name will be acceptable. The Companies Act restricts the use of certain words and symbols and requires specific descriptions of the legal status (such as "limited" or its abbreviation and plc). There are also rules about names that are "too like" or the "same as" another already registered. The Companies House "WebCHeck" service is a free database, enabling users to discover whether a name has already been used. Companies House also provides detailed guidance on what is or is not permitted.

The registered office address is where official communications (for example from HMRC) will be sent. It must be a physical address in the same country in which the company is registered. A PO box number on its own is not enough. Very often, the registered office is the address of the person managing the company's tax affairs.

Although all companies must have a name registered at Companies House (the company

REJECTION REASONS

Common reasons why an incorporation might be rejected.

- Problems with company names.
- Problems with addresses.
- Some items of information have been omitted, although using the Companies House web incorporation service will avoid this.

FURTHER INFORMATION

Companies House web incorporation service: www.lexisurl.com/CHwebinc
Form IN01 – Application to register a company: www.lexisurl.com/IncForm
Leaflet GP3 (February 2014). *Life of a Company part 2*: www.lexisurl.com/CHlife2

name), they can trade under a different one (the business name). Many of the same rules that apply to company names also apply to business names. Some common reasons why an incorporation may not be approved by Companies House are shown in ***Rejection Reasons***.

Transferring an unincorporated business (such as a sole trader) to a limited company can be more complex. In effect, the newly incorporated company buys the business and assets of the existing sole trader. In such cases, tax and cash considerations can be important, so careful planning and timing of the change is essential.

After incorporation

All companies are required to make "trading disclosures" – baseline information about themselves – which is publicly available. This includes displaying the company name at the registered office and any location, apart from a residential address, where it carries on its business. The company's name, address and business name should be shown on hard copy or electronic versions of business headed paper, invoices, orders and receipts, cheques and other formal documents. The company's name must also appear on its website and on email.

The Companies Act also requires private companies to keep formal records ("statutory registers") relating to directors, secretaries, shareholders, mortgages and charges. Very often, the person or firm that acted on behalf of the client in forming the company will include the registers as part of their service, written up to include the details of the first directors, secretary and shareholders. Most private companies keep two additional registers – of share allotments and share transfers. These are not statutory requirements, but they are helpful in keeping track of a company's issued share capital.

After incorporation, consideration should also be given to banking, tax and insurance arrangements. HMRC are notified when a new company has been incorporated and will contact the registered office to fix the dates for filing corporation tax returns. Arrangements for VAT, PAYE and National Insurance contributions (if relevant) will also have to be made.

Common changes

In its publication, GP3 *Life of a Company, part 2*, Companies House provides helpful guidance on the procedure for common changes for which it needs to be notified.

ICSA

IFA members interested in providing company compliance services can brush up their knowledge by attending one of ICSA's many training courses. IFA members can also consider joining ICSA as an affiliate for ongoing information and support. Affiliate members benefit from free networking and professional development events, regular weekly e-briefings, a monthly magazine, *Governance + Compliance,* together with discounts on ICSA training courses, conferences, events and published materials. Affiliate members can access member-only guidance and technical know-how, as well as legal and technical helplines.

To find out more about ICSA's work, have a look at the website (www.icsa.org.uk) or contact the client relations team on +44 (0)20 7580 4741; email: membersupport@icsa.org.uk.

IFA members who join ICSA as affiliates can save £50 on the usual fee of £150 plus VAT by using code INSTFA15 until 31 March 2015.

- *Changing the company's name.* Unless the articles provide for some other approval, a company can change its name with the agreement of the shareholders. The same rules outlined above on choosing company names will apply and the change should be notified to Companies House, using the appropriate form, together with the notice of passing the special resolution of the shareholders.
- *Change of registered office address.* This can be changed at any time by resolution of the directors. The same rules on the location and nature of a registered office address still apply. The change should be notified to Companies House on form AD01.
- *Appointment and removal of a director.* A company's first directors are those listed on the application to form the company. The procedure for new appointments is usually covered in the articles. Companies House should be notified of changes on form AP01 or AP02 within 14 days of appointment. The appointment takes effect as soon as it is approved by the directors or a shareholder meeting (or some other date agreed by them), not from the date that the details are received at Companies House. When a director resigns or their appointment comes to an end for some other reason, Companies House should be notified using form TM01 within 14 days of the resignation or termination date. Other circumstances, such as the death of an owner-manager, are usually covered in the articles.

Conclusion

An understanding of the processes and requirements of forming a limited company can be a useful addition to the services that an accountant can provide. However, it must be remembered that company formation is simply the start of an ongoing process and that there are statutory obligations to be complied with. Further, and particularly where an existing business is incorporated, tax and other considerations should be taken into account.

Sue Richards is strategy director at ICSA. She is responsible for developing and implementing the Institute's strategic plan and direction. She also has overall responsibility for ICSA's content, including media relations, the publishing business and the Institute's magazine, *Governance + Compliance*. Sue can be contacted by email at: SRichards@icsa.org.uk

Nothing ventured…

Perhaps a simple motto can help to focus your practice development efforts, suggests ***Richard Curtis.***

TEN SECOND SUMMARY

1. **Learn from your business mistakes, but don't dwell on them.**
2. **Make sure that the structure of a business or a specific transaction is the correct one.**
3. **Always take time to make a business plan and then regularly check progress against it.**

Do we all have mottoes by which we live our lives? Perhaps it's a generational thing, but the Bob Dylan documentary *Don't look back* always comes to my mind. Try to learn from your mistakes – and from your successes – but don't dwell on the past. What's done is done and until they invent the time machine it's not possible to go back and undo the things we've done. Such little "bon mots" can also be useful in business; perhaps it's not possible to build a complete successful business plan on one, but they do have their place and, like a mantra, can help to refocus efforts towards business success. What's mine? Well there are quite a few, but I do have a personal favourite.

Nothing ventured…

I was recently talking to a friend who has given herself a couple of years to build a small business and was looking into various possibilities. Being December, she mentioned that she had made and was selling Christmas cards and told me about a small shop that sold them. I probably should not admit this, but I was imagining something amateurish, but passed by anyway and was very impressed by the quality of the product. When we next met, I suggested that she get in touch with a large local department store. She looked doubtful – what interest would a large store have in a local micro-business? My reply was: "If you don't ask, it's already a 'no'."

Many people start a business, but are embarrassed to go out and look for work. Having set up, perhaps found a workplace and had some business cards printed, they expect customers to beat a path to their door. Unfortunately, that rarely happens and "if the mountain won't come to you, you must go to the mountain." We all fear rejection, but in business we must face that fear. If nothing is ventured, nothing is gained. After all, what's the worst that can happen to a request for business? The potential customer says no. And if you don't ask, it's already a no.

Finance...

Ian Clark, IFA London branch chair, prefers to concentrate on the underlying financial prospects of a business and said that his favourite saying is: "Turnover is vanity, profit is sanity, but cash is reality." Ian advises that the underlying principle here is that there is seldom any point in chasing turnover without profit except in very special circumstances. That said, even profit is not good enough if a business cannot get the money receipts into the bank quickly enough.

...and figures

The importance of looking at the financial structure of transactions is also reflected in the thoughts of Paul Journeaux, Devon and Cornwall branch chair, particularly when one is looking to obtain tax relief. "It's not what you do, it's the way that you do it," says Paul and, as an example, he referred to some business sponsorship deals.

In *Interfish Ltd v HMRC* CA [2014] EWCA Civ 876, a fishing business made substantial sponsorship payments to a rugby club. HMRC disallowed the payments on the basis that they were not "wholly and exclusively" for the purpose of the company's business, but partly because the company's controlling director was keen on rugby and wanted to strengthen the club. HMRC's view was upheld in the tribunals and the Court of Appeal.

By comparison, HMRC allowed sponsorship payments to another rugby club by Southwest Communications (see [2012] UKFTT 701 (TC)). The reasoning is unclear, but may have been because there was clearer evidence of the benefits

of the sponsorship and also the argument that the rewritten legislation in ITTOIA 2005, s 34(2) allows for reasonable apportionment between expenditure incurred for both trade and non-trade purposes.

Especially in the close relationships that may exist between small businesses, where much may be agreed verbally, it can be important to ensure that underlying documentation supports the expressed intention of the parties.

Planning is everything in such cases.

The planning theme

This emphasis on forward planning was also the principle underlying the mottoes of Ali Redwood, the principal of TaxAssist Accountants, Portishead, and the IFA branch chair for the West of England & South Wales.

"I have a few favourite sayings: 'it's not a sprint, it's a marathon'; 'failing to plan is planning to fail'; and 'if you're going through hell, keep going'. All of these sum up my feelings about my business, but in a positive way.

"The past five years, since starting my business, have been tough and I have had successes and failures along the way. The key things to remember are to maintain focus regardless of the obstacles that appear in the way, plan where you want to be in five years and align all actions towards that goal. When things go wrong, just remember those targets and keep going. Someone who is committed, focused and doing the right things will get there."

The right thing

The question of what exactly is the right thing with regards to tax is now much easier to ask than to answer. Ken Voller, FFTA ATT, says that one of his favourite expressions is that "if it sounds too good to be true, it doesn't always mean that it is."

"HMRC use the phrase 'if it sounds too good to be, it probably is' to discourage taxpayers from entering into schemes or arrangements. However, if this maxim is applied too far, taxpayers start to doubt perfectly reasonable tax planning. For example, with regards to capital gains tax calculations for the sale of a previously owned main residence that has been let out. We work out the gain and then exempt not only the period of own residence, but the last 18 months and the period of letting – subject to the rules and the £40,000 limit. That sounds too good to be true, but it isn't."

Persistence

As Ali implies, for most of us being in business is not an easy option and it is the ability to keep going in the face of life's adversities that is another key to success.

Businesswoman Rita Joshi's favourite saying is: "It's the squeaky wheel that gets the grease." This can probably be summarised as "persistence pays off". Perhaps this has an echo from Ali Redwood's advice to "keep going". It's a fine line between being persistent and making an absolute nuisance of oneself, but Rita suggests that keeping a sense of proportion and perhaps more importantly of humour is essential. "Even if you think that you are never going to see that potential customer again, don't let negotiations become bad-tempered – who knows whether they may talk to other possible customers? You need to be persistent because you want the business, but keep things good-natured. No one wants to feel that they have been pressurised into a deal so if you can leave a small gap for either side to back down gracefully, this allows both parties to feel that they have come to a mutual agreement. And if the potential customer does not buy your product, remaining good humoured will hopefully still allow for the possibility of further meetings or negotiations in the future."

The holistic approach

The motto of Zeeshan Rizvi, chair of the IFA's North & West Yorkshire branch is reflected in his aim to provide "an excellent service to existing customers". We would probably all agree with this and Zeeshan's explanation is that the main source of attracting new customers for an established business is its existing customers. If they are receiving a great service, word-of-mouth recommendations should bring in more future customers than costly advertising.

"Participating and networking with Working Together groups and IFA meetings on both a local and national level will advertise your business with potential new clients. Of course, being courteous and friendly, always smiling and providing useful advice will not hurt either," said Zeeshan.

Say what?

Being able to roll out a pithy business saying at the appropriate opportunity may bring a smile, but it will not, by itself, bring success. That depends on putting words into action and different challenges will call for different approaches – some of which I hope are reflected above. As noted by Zeeshan, providing a great product at the right price is key. To conclude, it might be timely to remember one underlying principle, as expounded by US businessman Hal Rosenbluth:

"There is only one boss: the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."

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What a relief

Business rates can be a substantial expense for any small business. ***Beth Morton*** recommends that the full benefit of any available relief is obtained.

TEN SECOND SUMMARY

1. **A full structural review of business rates is to be undertaken, but must be fiscally neutral.**
2. **The 2014 autumn statement introduced a new limited relief for retail properties.**
3. **Understanding the conditions for small business rate relief and ensuring that claims are made.**

Ratepayers, business leaders and retail groups have been calling for a change in the rating system, describing the current one as "out of date" and "not fit for purpose". The Chancellor announced a full structural review of business rates in his autumn statement on 3 December 2014. Those calling for change appeared placated by this until they read the small print: any change in the system would have to be fiscally neutral.

The rateable value

Business rates are calculated using a property's rateable value, which represents the rent that the property would be let for on a set date. This value is then multiplied by the business rates factor – basically, the percentage or how many pence for every pound of rateable value the business will be billed. The current multipliers are shown in ***2014/15 Multipliers***. In Scotland, the 'multiplier' is called the 'poundage rate'.

Let's say that a property occupied by a small business in England outside the City of London has a rateable value of £10,000. The current multiplier percentage for a small business in England is 47.1, so it would pay £4,710 for the 2014/15 rating year.

The multiplier varies depending on whether the business is in central London, England, Wales or Scotland and usually increases in line with inflation, according to the retail price index. For these purposes, a "small business" is one that occupies a property with a rateable value below £18,000 or £25,500 in greater London. In the autumn statement, the Chancellor announced that the increase in the multiplier would be capped at 2%. Because the multiplier increases year on year, ratepayers' bills will still rise in April 2015, but these will not be as high as anticipated. This increase will be applied automatically across the board, but there are some reliefs that are applicable to ratepayers, especially small businesses and those on the high street that can help relieve the strain of business rates.

In the April 2014 budget, the Chancellor announced some new reliefs to help fledgling high street businesses, and extensions or changes to these were made in his autumn statement. An outline of these reliefs and the autumn statement changes follow.

Retail relief

This new relief applies to premises that have a rateable value of less than £50,000 and are classed as being used wholly or mainly for the purposes shown in ***Retail Property***. This means that they are used for the sale of goods, providing a service, or selling food and/or drink to the public.

RETAIL PROPERTY

Shops, charity shops, opticians, post offices, furnishing shops/display rooms, car/caravan show rooms, second-hand car lots, markets, petrol stations, garden centres, art galleries (where art is for sale/hire), hair and beauty services, shoe repairs/key-cutting, travel agents, ticket offices eg for theatre, dry-cleaners, launderettes, PC/TV/domestic appliance repairers, funeral directors, photo-processing outlets, DVD/video rentals, tool hire, car hire, restaurants, takeaways, sandwich shops, coffee shops, pubs and bars.

The retail relief allows companies to obtain up to £1,000 off their rates bill during the 2014/15 rating year. Note that the relief is not applied automatically and a business must make a claim to its local authority. Advisers should ensure that any clients that are potentially affected enquire about this.

In the autumn statement, the Chancellor announced that the retail relief would continue for another year and would be increased from £1,000 to £1,500 for 2015/16.

Reoccupation

Reoccupation relief is available for businesses that are looking for premises or have recently moved into new premises. The Chancellor announced reoccupation relief in his April 2014 budget and it took effect from 1 April 2014. The relief applies when a business moves into a property that has

2014/15 MULTIPLIERS

England		City of London		Wales
Standard	*Small business*	*Standard*	*Small business*	*Standard*
48.2%	47.1%	48.6%	47.5%	47.3%

been empty for 12 months or more and where it was previously used for retail purposes. However, the new occupier does not need to be using it for retail use.

In such cases, the new occupier could be eligible for 50% relief on their business rates. The relief is available for only 18 months, subject to the first date of occupation falling between 1 April 2015 and 31 March 2016 and the property remaining occupied. It is also worth noting that the relief is granted against the property, not the occupier. Consequently, if a new occupier moves in the relief continues until the end of the term.

The relief is applied after any other relief has been applied and the council will need to examine leases and tenancy agreements, perhaps visiting the premises to ensure that the property was genuinely empty and any new occupation is genuine. The application of this relief is discretionary and councils do have the right to refuse applications if they feel that these conflict with the wider objectives for the local area.

Small business rates relief

A business that occupies a property with a rateable value of less than £12,000 and occupies only one property (or has two properties that each have rateable values below £2,599) is eligible for small business rates relief.

If the rateable value of the property is less than £6,000, the relief applied should be 100%. If the rateable value is between £6,001 and £12,000, a sliding scale from 100% to 0% of the relief is applied. If the rateable value of a business that is receiving the relief increases, or if it moves to an additional property, the council must be informed. It is also a criminal offence to apply for the relief and withhold or manipulate information in order to gain it.

Small business rates relief is applied to the property and not the ratepayer. Thus, if a company moves from those premises to a property with a higher rateable value the relief would be either recalculated or removed depending on the rateable value of the newly occupied property.

In the autumn statement, it was announced that the relief, in its current form, would be extended into 2015/16; after this, the boundaries and scales for the relief may change.

Local discounts

In addition to the reliefs set by the government, local discounts to business rates are also available. The Localism Act has also been introduced. This allows councils more flexibility because they can now help businesses and organisations in their area by granting local business rate discounts. When considering applications for local discounts, the council will take account of any discount that will result in a substantial positive impact on taxpayers in the area.

For example, whether the organisation provides substantial and/or essential long-term benefits to the community or whether any discount could have an anti-competitive effect on other businesses. Application for these reliefs must be made directly to the council outlining why a specific business should get the relief.

Conclusion

The structural review of business rates to make a system that is more fluid and fit for purpose may yet be a little while off; however, in the meantime, the government is making small steps to lessen the burden for small businesses and those on the high street. Whether these steps are enough and whether any review will go far enough remains to be seen.

FURTHER INFORMATION

Business rates: www.gov.uk/calculate-your-business-rates

Beth Morton is head analyst at business rates experts BWB. She can be contacted by phone on 01244 893 309 or email beth@bwb.co.uk. Visit: www.bwb.co.uk.

Sharing solutions

Practical hints and tips on accountancy, tax and general business matters.

PRESENT THE CONTRACT

When you make a deal that requires a legal contract, be the one who provides the first written version. By doing this, the counter party can be supplied with a proposition that favours you or your client. Even though the main terms will have already been agreed, there will be details that have not.

The counter party may edit your document, but will do so from your starting position, not theirs, and may not even notice some small points. That applies even if the counter party is represented by a solicitor. A solicitor will propose many small edits to earn his fee, but will stick to the time-honoured way of amending the document proposed by the other.

Continuing on the theme of legal documents, there are likely to be far fewer business disputes – and a greater proportion will be won – if legal documents are written in simple language rather than jargon. Nowadays, a judge is increasingly likely to make a decision based on what the parties intended, rather than the actual words used. Simple language makes the intention clearer. Of far greater importance, however, is the proposition that someone who understands every word of his contract is far more likely to honour it than someone who does not. So, if anyone supplies a document that has to be read more than once to understand it, question whether it should be signed at all.

Thomas Taylor MA FCCA,
Net Lawman Limited.

POWER OF ATTORNEY

Individuals can arrange their own power of attorney for £110 on the government website: www.gov.uk/power-of-attorney. However, it is dangerous to "do it yourself" if the person is not totally clear of the outcome that they are trying to achieve. We have seen terrible issues for those living with dementia who are unable to make a will or power of attorney and the Court of Protection is the only route.

Age UK and the Alzheimer's Society also have good information. See www.lexisurl.com/alzpoa and www.lexisurl.com/aukpoa.

Geoffrey Rogers,
Geoffrey Rogers Chartered Accountants.

REPAYMENT OF CTA 2010, S 455 TAX

Until recently there was no provision for making a formal claim under CTA 2010, s 458 for repayment of tax paid under CTA 2010, s 455. Having researched this, I discovered that a letter must be sent to the corporation tax office. Fair enough, but when I did this a letter came back saying that another letter must be sent. When I advised the tax office that I had already sent a letter, it transpired that this should have been sent no more than a month before the day on which the relief is due. This was because there was no way to log a s 458 claim in the system and the credit could not be posted before it was due, which in my particular case was 1 January.

Having originally written in the autumn, it was necessary to make a diary note to send the same letter again in December. Having gone through this process, I now find that HMRC have recently introduced online form L2P to enable a close company that has paid tax on a loan to a participator to reclaim it once the loan has been repaid, released or written off.

See www.lexisurl.com/FormL2P.

Sally Walker,
Sally Grant Limited.

STAMP DUTY LAND TAX

A major change in the autumn statement was that stamp duty land tax (SDLT) on residential property would, from 4 December 2014, be calculated by reference to the various rates applicable on each "slice" of the purchase price, rather than applying a single rate to the whole amount. HMRC's notes on this reform state that "all residential property transactions worth less than £937,500 will pay the same SDLT or less compared to the current system." While this is true, practitioners should also note that, due to the impact of the previous rates, a reduced liability will also arise under the new system if the consideration falls between £1,000,001 and £1,125,000. A comparison of the old and new liabilities can be obtained by using the SDLT calculator on the GOV.UK website at www.lexisurl.com/sdltcalc.

Richard Curtis,
Editor, Financial Accountant.

A stronger voice

Following the recent decision by IFA members to approve Council's amalgamation plans, ***Andrew Conway*** sets out his initial thoughts and welcomes members into the new enhanced accountancy organisation.

TEN SECOND SUMMARY

1. **As the legal and administrative issues relating to the amalgamation are concluded, the real work of the new organisation starts.**
2. **The integration of systems will improve the working and efficiency of the organisation and provide further opportunities.**
3. **A new website extolling "1 plus 2 plus 3": one member, two institutes, and three benefits: greater efficiency, greater effectiveness and greater member value.**

Happy new year to all IFA members and *Financial Accountant* readers. It promises to be a very busy 2015 and I hope that it will be a fruitful and prosperous year for all of us.

I am very pleased with the outcome of the amalgamation of the IFA and the Institute of Public Accountants in Australia (IPA) and I have been heartened by the strong support that so many of you showed at voting time in December. Now that the official and contractual arrangements are in place, the real work starts. There is much to do in terms of transition and this will see greater efficiencies between the two organisations while we maintain the identity of both.

Efficiency and integration

We are working on system and process integration to ensure a reliable continuity of service that will be seamless to members worldwide. I am confident that we will gain much efficiency from this work. This will, in turn, support our resource as we put a plan in place to deliver new member benefits.

There is a roadmap in place that will ensure we live up to our promises of delivering new member benefits. Although this will not happen overnight, we have already started discussions with strategic and commercial partners to deliver products and services that will support the efficiency and growth of members' businesses.

Our management team will be looking at other areas of the business that can deliver enhanced member benefits, such as the development of improved continuous professional education and development and new communication channels for better information sharing.

Linking up

As a starting point, we shall be establishing a joint IFA and IPA LinkedIn Group. The aim of this is not to replace individual organisation groups but to open the doors for both sets of members to introduce each other, to converse and to share information that is of common interest.

To further encourage the sharing information and communication across the two organisations, we are developing a website based on our concept of "1 plus 2 plus 3" (one member, two institutes, and three benefits: greater efficiency, greater effectiveness and greater member value). The website will be a place to share staff and member profiles, news and information and will have the potential to create ongoing dialogue during the transition phase.

Benefits for small business

We should all be proud to have established the world's largest accountancy organisation that is focused on the SME/SMP sector and I am committed to a stronger and more credible voice for the small business sector globally. The small business sector is critical to the global economy and I am committed to supporting small business efficiency and productivity.

I am confident of our performance to date and, with the recent amalgamation, I truly believe that many new opportunities will arise in other markets from which we will all benefit.

In the meantime I look forward to meeting you face to face as soon as possible as we all enter a new and exciting phase of development into 2015 and beyond.

Andrew Conway FIPA is the chief executive officer of the Institute of Public Accountants in Australia, an organisation with more than 26,000 members and students in more than 50 countries. Andrew's academic background and qualifications are in commerce, education and commercial law.

Local branch needs you

Adam Lizzimore provides details of forthcoming branch meetings

Over the past twelve months we have added a further five branches across the Midlands and the West of England and South Wales. This made 2014 a tremendous year for the development of the IFA local branch network. The network now consists of 19 branches in total and we are working to identify members to operate the vacant Bucks, Oxon & Berks branch, bringing the network to full strength.

Branch benefits

The local branch network will be very active during 2015, with plans to run six meetings in each area, Each meeting provides a convivial environment that makes it easier for members to network with like-minded professionals and to establish useful business connections. Mambers also gain valuable continuing professional development (CPD) hours covering a wide range of SME and SMP-focused topics presented by experts in their field.

In response to the new CPD requirements for all members, which came into force on 1 January 2015, local branches are being encouraged to feature two topics at each meeting; one focusing on technical issues and the other on soft business skills. This will maximise the appeal to members working in practice and those employed in business.

Behind the scenes, the IFA has developed an extensive support infrastructure to enable each local branch to provide members and their guests with a consistent and memorable experience, irrespective of which local branch they attend.

Support your local branch

By the end of 2015, we aim to double the average attendance levels that each branch achieved in 2014, so more members can experience the improvements that we have made to our network. To achieve this aim, we need more members to support the activities of their local branch. In particular, we want to encourage the following groups to attend on a regular basis.

- Non attending IFA/FTA members.
- Non IFA/FTA work colleagues of current members.
- Non IFA/FTA finance professionals, known by current members to be interested in SME accountancy and tax issues.
- Non IFA/FTA finance professionals working for members' clients.
- Young aspiring finance professionals known by members who could be encouraged to qualify with the IFA.

Can you play your part by bringing along a like-minded friend, colleague or student?

FRI, 20 FEBRUARY 2015 (2:00PM – 5:00PM)

Northern Ireland Branch

Capital allowances update: **Lovell Consulting**
Inheritance tax planning: **Scott Ward** of Planet Matters
Dunsilly Hotel
20 Dunsilly Road, Ballymena, Antrim, BT41 2JH
Confirm attendance at: www.lexisurl.com/ni107

TUE, 10 FEBRUARY 2015 (7:30PM – 9:30PM)

Merseyside, Cheshire & North Wales Branch

Community interest companies
Sara Burgess of Companies House
Holiday Inn
Lime Street, Liverpool, Merseyside, L1 1NQ
Confirm attendance at: www.lexisurl.com/Mer107

TUE, 10 MARCH 2015 (7:30PM – 9:30PM)

Merseyside, Cheshire & North Wales Branch

Capital allowances (Properties): A representative of **Tax Adjusters Ltd**
Holiday Inn
Lime Street, Liverpool, Merseyside, L1 1NQ
Confirm attendance at: www.lexisurl.com/Mer108

WED, 25 MARCH 2015 (4:00PM – 9:00PM)

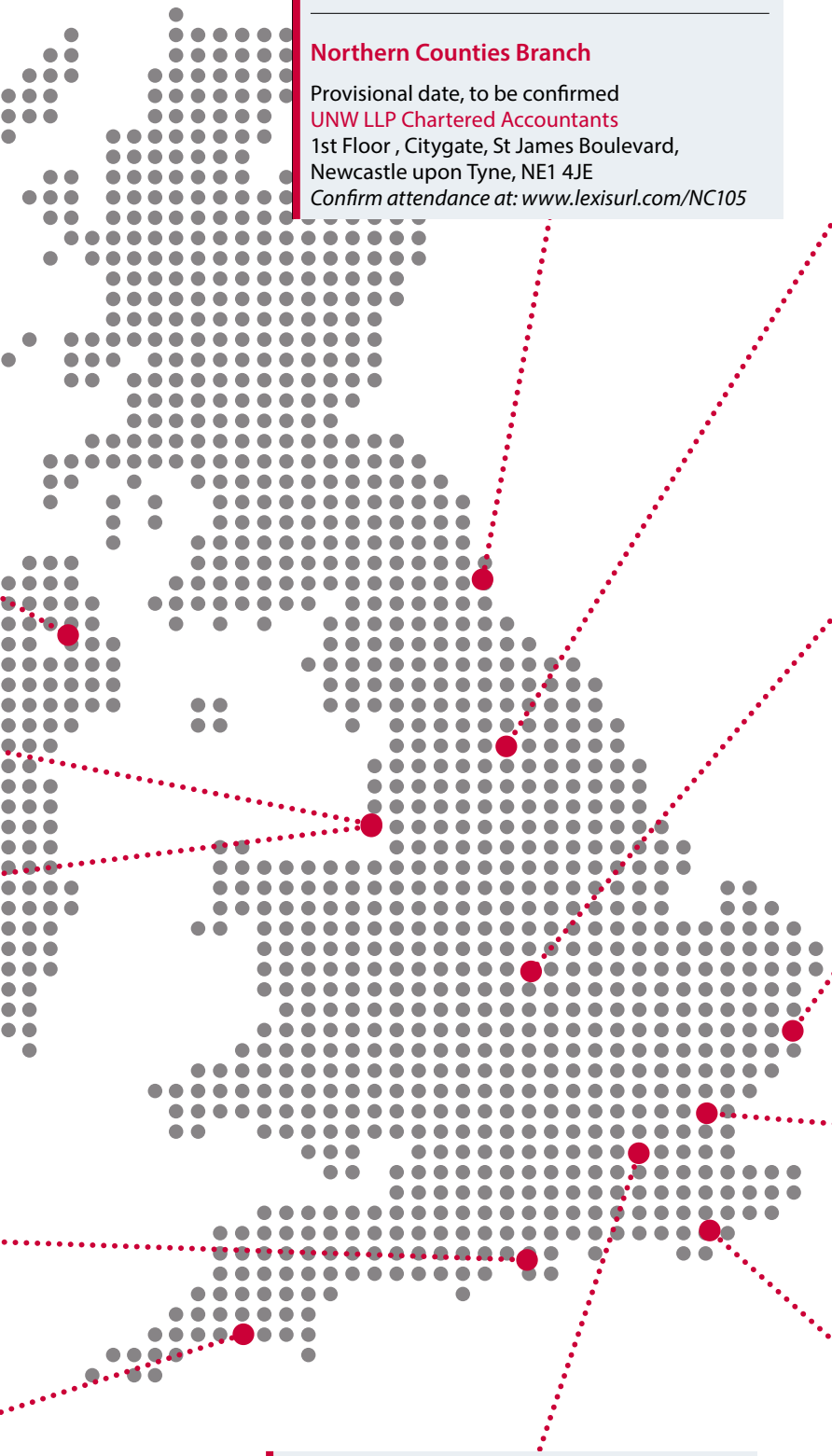
Hampshire & Dorset Branch

Programme to be confirmed
Marwell Hotel
Thompson Lane, Colden Common, Winchester, Hampshire, SO21 1JY
Confirm attendance at: www.lexisurl.com/HD110

WED, 18 FEBRUARY 2015 (5:00PM – 8:30PM)

Devon & Cornwall Branch

IT in the Professional Practice: **Tim Neason** of CF Systems
Coaching and its impact: **Deborah Southon** of Orchid Coaching
Plymouth Albion Rugby Club
Brickfields Recreation Ground, 25 Damerel Close, Plymouth, PL1 4NE
Confirm attendance at: www.lexisurl.com/Dev106



WED, 11 FEBRUARY 2015 (7:00PM – 9:00PM)

Northern Counties Branch

Provisional date, to be confirmed
UNW LLP Chartered Accountants
1st Floor , Citygate, St James Boulevard,
Newcastle upon Tyne, NE1 4JE
Confirm attendance at: www.lexisurl.com/NC105

THU, 19 MARCH 2015 (7:30PM – 9:30PM)

North & West Yorkshire Branch

Provisional date, to be confirmed
Weetwood Hall Conference Centre and Hotel
Otley Road, Leeds, West Yorkshire, LS16 5PS
Confirm attendance at: www.lexisurl.com/NWY107

TUE, 24 MARCH 2015 (6:00PM – 9:00PM)

East Midlands Branch

IFA and IPA Amalgamation update and Nest Pensions
Stoney Croft Hotel
Elmfield Avenue, Leicester, LE2 1RB
Confirm attendance at: www.lexisurl.com/EM110

MON, 30 MARCH 2015 (5:30PM – 9:00PM)

East Anglia Branch

Provisional date, to be confirmed
Cameo Hotel
Old London Road, Copdock, Ipswich, IP8 3TD
Confirm attendance at: www.lexisurl.com/EA110

MON, 16 FEBRUARY 2015 (6:00PM – 9:00PM)

Essex Branch

Companies House and changes to law regarding SMEs and powers of attorney
Jupiter House
Warley Hill Business Park, The Drive, Brentwood, CM13 3BE
Confirm attendance at: www.lexisurl.com/Ess107

TUE, 10 MARCH 2015 (6:00PM – 9:00PM)

Sussex Branch

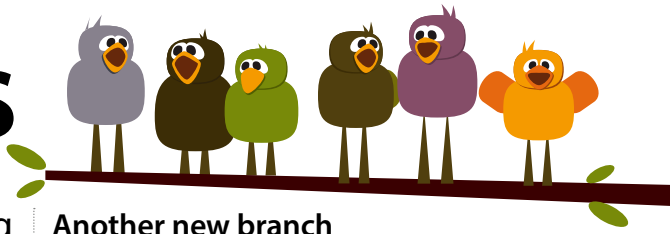
Pensions auto-enrolment: **Neil Mutton** of Q&A People Matter
Merger and Acquisition of Accountancy Practices: **Ron Goldsmith** of Goldsmiths Practice Services
Hollingbury Golf Club
Ditchling Road, Brighton, West Sussex, BN1 7HS
Confirm attendance at: www.lexisurl.com/Sus110

MON, 2 MARCH 2015 (6:00PM – 9:00PM)

London Branch

Provisional date, to be confirmed
The Wesley
81-103 Euston Street, Euston, London, NW1 2EZ
Confirm attendance at: www.lexisurl.com/Lon107

A new year and new local branches



Adam Lizzimore provides details of forthcoming local branch meetings, information on the latest new branch and a call to arms for the next one.

Ali Redwood FFTA

TEN SECOND SUMMARY

1. **2015 sees the introduction of the new continuing professional development regime – use your local branch to help maintain your CPD record.**
2. **The West of England and South Wales branch is about to be launched under the new local branch chair, Ali Redwood FFTA.**
3. **IFA or FTA members interested in establishing and operating a new branch in the IFA Bucks Oxon and Berks area should contact the institute.**

The Christmas and new year celebrations seem a distant memory now, but we hope that IFA and FTA members were able to enjoy the festivities, despite the self-assessment tax return season the end of its annual run.

This year looks set to be an increasingly interesting one with the outcome of the general election on 7 May seemingly one of the most unpredictable, providing added spice to the political background in the months ahead.

A successful merger

As a result of the overwhelming 96% vote in favour of the amalgamation of the Institute of Financial Accountants with the Institute of Public Accountants (IPA) of Australia, we are now part of the world's largest SME-focused accountancy organisation. In practical terms, qualifying IFA members can look forward to free reciprocal membership of the IPA on the first major deadline of April 2015, with increased benefits to all IFA members following in this transition year.

The new IFA and FTA continuing professional development (CPD) requirements were launched on 1 January 2015, although many members have been pre-occupied completing their tax return work as the self-assessment filing deadline on 31 January neared. Because CPD now applies to all IFA and FTA members, it is apt that the 2015 IFA local branch meetings are set to get under way in February, so please check out the branch map as well as the IFA website.

Adam Lizzimore is the marketing and communications manager of the IFA. As part of his role, he manages the activities agreed with local branch chairs to support branch activities, including the promotion of local events and website content. He can be contacted by phone on 01732 467131 or email: adaml@ifa.org.uk

Another new branch

We are delighted to announce that the West of England and South Wales branch will soon be launched under the stewardship of local branch chair Ali Redwood FFTA. We are very proud of the expanding branch network, which provides valuable support to IFA and FTA members and other accounting and tax professionals in their areas. A business professional, Ali has more than 25 years' practical experience in financial management, working in commercial enterprises at SME and corporate level.

Five years ago, she started her own accounting practice under the TaxAssist Accountants banner to provide other businesses with the high level of service and support she believes they should expect.

Business background

Ali has a strong background in management accounting, providing relevant and timely information to enable effective management decisions to be made. Her practice covers the west of Bristol, including Clifton, Westbury-on-Trym, Avonmouth and Portishead. She specialises in helping small businesses to report and comply with their accounting and taxation requirements, providing a full range of services from VAT, bookkeeping and payroll to tax planning and insolvency services. Ali will be deploying these principles and management skills to establish and develop the new branch with the assistance and support of a small group of volunteers.

Ali said: "I am genuinely looking forward to developing a welcoming, vibrant and engaging local branch in the West of England and South Wales. I was encouraged by the number of people at the joint IFA/IAB conference in November and hope that we can draw on those attendees and others to provide valuable impetus to our new branch."

Into the future

The addition of this new branch strengthens the IFA network to 19 groups, providing the institute with the greatest UK coverage it has ever had. Our goal this year is to expand further to 20 branches by establishing one for IFA Bucks, Oxon and Berks.

If any IFA or FTA members are interested in establishing and operating a new branch in this area, please contact marketing@ifa.org.uk or phone 01732 458080.

Transition time

With the change to FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland upon us, ***Stephanie Matthews*** considers the implications this will have when accounting for lease commitments.

TEN SECOND SUMMARY

1. **Finance leases and operating leases and the difference between them.**
2. **Accounting for leases and some practical examples.**
3. **The disclosure requirements for finance and operating leases.**

After more than six years of consultation, 1 January 2015 marked the largest change in the UK accounting profession for decades. Many of us felt saddened to see the old statements of standard accounting practice (SSAPs) and financial reporting standards (FRSs) that we knew and loved become but a distant memory. However, in its place FRS 102 promises a simplified reporting regime with more up-to-date and relevant accounting requirements that are less complex and onerous for SMEs.

One of the most significant changes, which will apply to most businesses, is in respect of accounting for leases.

Finance or operating?

FRS 102 (*The Financial Reporting Standard applicable in the UK and Republic of Ireland*) is similar to SSAP 21 (*Accounting for leases and hire purchase contracts*) because it also requires us to consider the risks and rewards of ownership when deciding whether a lease agreement is a finance lease or an operating lease. Those in which substantially all the risks and rewards of ownership of an asset are transferred will be classified as a finance lease. If the agreement does not transfer substantially all the risks and rewards of ownership it is classified as an operating lease.

There are several important factors to consider when assessing the risks and rewards of a lease agreement. The main one is whether the lessee has the right to use the asset for most, or all, of its useful economic life. Another is whether the lessee is required to insure, maintain and repair the asset.

When these considerations apply, the risks and rewards are transferred to the lessee and the agreement is classified as a finance lease. The commercial reality of such a transaction is the acquisition of an asset with financing from the leasing company. We would therefore recognise an asset and a liability on the statement of financial position.

However, FRS 102 does not contain the direct equivalent to the 90% test under SSAP 21, which allowed us to classify a lease as a finance lease if the value of the minimum lease payments was 90% or less of the fair value of the asset being leased.

Accounting for lease incentives

FRS 102 requires lease incentives and uplifts to be accounted for on a straight-line basis over the whole of the lease term, not just over the period to the first rent review as per SSAP 21.

Let us say that an entity enters into a 10-year lease over a building that has a life of 50 years. Lease rentals are £160,000 a year, with a rent review in year five. The lease contains an option to renew for a further five years at a rent to be negotiated, but not exceeding £160,000 a year. Under the terms, the landlord will contribute £140,000 towards alterations to the building to be made by the lessee. The alterations are for the purpose of the lessee's operations and do not represent a long-term enhancement of the value of the building.

In this example, the lease incentive is the £140,000 contribution from the landlord towards the building alterations.

Accounting treatment

Under UITF 28 (old UK GAAP), the lease incentive is spread over the period to the first rent review, which would be five years. As a consequence, the net rent charge to profit or loss in the first five years of the lease would be £132,000 (£160,000 – (£140,000 ÷ 5 years)).

FURTHER INFORMATION

FRS 102: http://www.lexisurl.com/frs102
SSAP 21: www.lexisurl.com/SSAP21

By comparison, under FRS 102 (new UK GAAP) the lease incentive is spread over the entire lease term, regardless of whether there is a rent review. The net rent charge to the profit of loss for the entire lease term is therefore £146,000 (£160,000 – (£140,000 ÷ 10 years).

Arrangements containing a lease

SSAP 21 applied only to leases, which were defined as arrangements forming a contract for the hire of a specific asset between a lessor and lessee. However, FRS 102 recognises that, although some arrangements may not take the legal form of a lease, the substance of the contract may convey the right to use an asset often with related services, such as outsourcing arrangements, telecommunications contracts and take-or-pay contracts.

The separate elements of such arrangements should be considered individually to establish whether there is a hidden or embedded lease, and the capital and revenue elements of such an agreement are accounted for separately. However, if the supplier is unable to split the capital and revenue elements the entire lease should be capitalised as a finance lease.

To illustrate, Company A has outsourced its IT equipment for five years, at an annual cost of £20,000. The outsource agreement contains two specific components and the annual cost can be split as follows.

- The supply of a server, which has been adapted to meet Company A's specific requirements, £5,000. The terms of the agreement state that Company A must insure the server and there is an additional charge for any maintenance work required.
- The supply and maintenance of 300 laptops, at standard specification, £15,000.

The agreement permits the supplier to replace the laptops at any time as long as there is no disruption to the IT services.

Accounting treatment

Under old UK GAAP, an expense for the outsourced cost in respect of this agreement would be recognised in the profit or loss on a straight line basis. FRS 102 (new UK GAAP) requires us to assess each element of such an arrangement to establish whether there is an embedded lease.

If we consider the server first, Company A has the right to control the use of the asset because it is on the business's premises for a set period. Therefore, the £5,000 outsource cost for this will be treated as a lease rental. Company A would need to determine whether the lease is finance or operating in nature. Because Company A is liable for insuring the server and must pay an additional fee for maintenance, the risks and rewards of ownership have been transferred to Company A. This is a finance lease and an asset and liability should be recognised.

Now we need to consider the laptops, which Company A does not have the right to control because they can be substituted at the discretion of the supplier. This is therefore an outsourcing cost and the £15,000 would be charged to the profit or loss.

Disclosure

FRS 102 requires the total future minimum lease commitment to be disclosed for operating leases, not just the annual lease cost, which was the requirement of SSAP 21.

The disclosure for finance leases remains unchanged under FRS 102.

Let us say that Company B prepares its financial statements to 31 December 2015. It rents its property under an operating lease which, at the end of the financial year, has three years to run at an annual cost of £30,000.

Accounting treatment

Under SSAP 21 (Old UK GAAP) at 31 December 2015 the company had annual commitments under non-cancellable operating leases as shown in ***Annual Commitments***.

Annual Commitments

	2015 £	2014 £
Within one year	30,000	30,000
Between two and five years	30,000	30,000
Later than five years	–	–

The treatment under FRS 102 (New UK GAAP) is that the company has entered into a rental agreement for its property, which is classified as an operating lease so it has obligations under this. At 31 December 2015, the lease has three years remaining (four years in 2014), with fixed monthly rentals over the same period. The future minimum lease payments are as shown in ***Lease Payments***.

Lease Payments

	2015 £	2014 £
Not later than one year	30,000	30,000
Later than one year and not later than five years	60,000	90,000
Later than five years	–	–
	90,000	120,000

In conclusion, more caution will be required when reviewing our business arrangements and accounting for leases under the requirements of FRS 102.

Stephanie Matthews FCCA, MAAT is a lecturer on accounting at the University of Worcester Business School. Previously, she worked for Grant Thornton UK LLP as an audit manager. Stephanie can be contacted by email at: stephanie.matthews@worc.ac.uk.

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