ifa Institute of Financial Accountants
The Official Magazine

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July/August 2015

BUSINESS CHALLENGES

FUNDING, MARKETING AND BUSINESS DEVELOPMENT


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Institute of Financial Accountants

IFA Dates for the diary

IFA Business Development Workshop
Thursday, 30th July, London
Book now to secure your place!
www.ifa.org.uk/event/3246/london-business-development-workshop/

IFA IAB Joint Conference
Thursday, 17th September, Birmingham

IFA Midlands Conference
Thursday, 15th October, West Bromwich

IFA Southern Conference
Wednesday 11th November, London

Visit www.ifa.org.uk/events for more information and book your place!

2016 IFA and FTA Member Renewals
Avoid paying late fees and set up one of the following in advance:
- Set up a direct debit to make 1 easy payment
- **OR** pay in monthly instalments

To find out more contact the membership team at membership@ifa.org.uk

IFA Level 4 Learning Materials Now Available
We are pleased to advise that the IFA have further extended our provision of student resources to accommodate online learning for all Level 4 IFA qualification units.

All e-books will provide IFA students with practical understandings within an SME environment and are designed to support those working towards the completion of their IFA qualification and aspirations to become IFA and/or FTA members.

If you would like further information please contact the education team at education@ifa.org.uk

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

Growing businesses

Business is a thread that runs throughout this issue of *Financial Accountant* and business growth was one of the dominant themes of the first Conservative budget in 19 years and the first of the new parliament following the general election in May.

The strategy of the 2015 summer budget is to maintain growth – enterprise investment is 31.9% higher than in 2010 – and to transform the UK from a "low wage, high tax, and high welfare economy; to the higher wage, lower tax, lower welfare country we set out to create".

Freed from the shackles of coalition, Mr Osborne has set the agenda and terms of political debate for the next five years by establishing a bold new social and economic strategy for "hard working British people". So how will the policies set out in the budget impact upon start-ups, small and growth businesses?

- *Business tax roadmap*. A business tax roadmap will be published by April 2016. This will set out how the government plans to transform tax administration for individuals and small businesses over this parliament.
- *Reforms to the SME lending market*. Final legislation will be introduced to implement two major reforms to the SME lending market. The first will require the UK's major banks to share credit information on their SME customers with other finance providers through designated credit reference agencies (CRAs). The second will require those same banks to offer all SMEs that are rejected for finance the opportunity to be referred to a finance platform that can help match them with alternative lenders.
- *Corporation tax cuts*. Corporation tax will be cut from 20% to 19% in 2017 and then to 18% in 2020, potentially benefitting over a million businesses.
- *National living wage increase*. The national living wage will increase in April 2016 to £7.20 for anyone over 25 and will eventually rise to £9 an hour by 2020.
- *National Insurance contributions*. The employment allowance for businesses will increase from £2,000 to £3,000 in April 2016 in response to the increase in the national living wage. This will result in reduced National Insurance contributions for business owners and will enable companies to employ four full-time staff on the national wage without having to pay secondary contributions.
- *Annual investment allowance increase*. Following the temporary increase in the annual investment allowance, it will be permanently set at £200,000 from January 2016 onwards. The allowance enables companies to subtract the full value of all qualifying investment in plant and machinery, up to a total value of up to £200,000, from their pre-tax profits.
- *Power to the northern powerhouse*. A £30m fund for Transport for the North (TfN) over the next three years has been announced, with local authorities having more control over local transport and policies.
- *Changes to Sunday trading hours*. Sunday opening and closing hours will be devolved to local authorities and mayors.

"Mr Osborne has set the agenda and terms of political debate for the next five years by establishing a bold new social and economic strategy for 'hard working British people'.

There has been a mixed bag of reactions from the SME business community. On balance, while some will not be pleased with the increase in the minimum wage, the reduction in corporation tax, together with improvements to the National Insurance allowance, could encourage nearly five million micro businesses in the UK to take that important step in growing the business by employing their first, or perhaps second member of staff, in line with the chancellor's plans to increase economic growth.

John Edwards,
IFA Chief Executive Officer.

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QUICK VIEW

TAXATION

Summer budget

Guidance notes on the following aspects of the 8 July 2015 budget can be downloaded free from *Tolley Guidance*.

- Personal tax.
- Owner-managed businesses.
- VAT and other indirect taxes.
- Inheritance tax, trusts and estates.
- Corporate tax.
- Employment taxes.

www.lexisurl.com/ifa-1260

EMPLOYMENT

Workers' pay

Acas have launched a new guide for small firms that covers the basics of employment law on staff pay. The guide covers the essentials such as how to pay new staff, different types of pay systems, wage slips, staff absences, wage deductions and overpayments.

Top tips for employers on pay include.

- Compliance with national minimum wage (NMW) rules.
- Overtime pay is not compulsory, but NMW requirements must be met.
- A minimum of 5.6 working weeks' leave a year.
- Tips from a customer are not part of a worker's pay as they are the property of the worker. Only tips paid by an employer are wages.
- Staff must agree to changes to pay systems or arrangements.
- Men and women must be treated equally.
- Workers must have time off work for jury service, but do not have to be paid. Lost earnings can be claimed from the court.

www.lexisurl.com/ifa-1294

TAXATION

Employment allowance

The employment allowance is a maximum deduction of (currently) £2,000 a year from secondary Class 1 National Insurance liability. HMRC are aware that some agencies have been trying to exploit this be setting up several limited companies with a few employees in each to multiply entitlement to the allowance. HMRC consider that this scheme does not work and intends to challenge these.

www.lexisurl.com/ifa-1263

AUTO-ENROLMENT UPDATE

In June 2015, the first of 1.3 million small and micro employers saw their automatic enrolment duties come into effect.

Micro employers also include those who have just one worker, including employers of carers, personal assistants, gardeners and nannies and many of these employers will have limited experience of pensions. It is important that all employers understand that:

- they have automatic enrolment duties;
- there are consequences if they do not comply; and
- help is available from the Pensions Regulator.

Advisers and employers can stay up to date with the following resources.

- The Pensions Regulator – www.tpr/gov/uk
- Online guide to automatic enrolment for business advisers – www.tpr.gov.uk/essential-guide
- Information on postponement – www.tpr/gov.uk/postponement
- Subscribe to The Pensions Regulator's news-by-email: *Spotlight on AE* – www.tpr.gov.uk/subscribe
- YouTube – www.youtube.com/user/thepensionsregulator
- Webinars and LinkedIn Q&As – www.tpr.gov.uk/events

LEGAL

Proper wills

The importance of properly executed wills was highlighted by *King v Chilterns Dog Rescue* [2015] EWCA Civ 581. It had been claimed that the deceased had made a gift as a donation in anticipation of death, which overrode the terms of her will. However, because this turned on statements made four months before her death, the court held that the deceased had plenty of time to redraft her will. A weak claim to a "death bed gift" would not take the place of a properly drafted will.

www.lexisurl.com/ifa-1286

TAXATION

VAT learning

HMRC have updated their VAT webinars, e-learning, emails and videos.

www.lexisurl.com/ifa-1266

Cash lump sums taken by **90%** of pensions claimants

PENSIONS

Freedom

Research by Zurich Insurance indicates that 90% of pensions claimants taking pension benefits are opting for cash lump sums. The remainder are opting for an annuity or drawdown. Of those accessing their pensions, 80% are taking less than £10,000 and the average withdrawal is £4,000.

www.lexisurl.com/ifa-1261

EMPLOYMENT

Child care vouchers

The childcare voucher (CCV) scheme will close to new entrants in autumn 2015 when the new tax free childcare scheme will start. Reports suggest that many families may be better off with CCVs rather than the new scheme.

www.lexisurl.com/ifa-1265

TAXATION

Offshore evasion

HMRC are consulting on their new regime to crack down on offshore evaders. This will include:

- a new criminal offence for offshore evasion;
- a new criminal offence for corporates who fail to prevent tax evasion;
- increasing the financial penalties faced by evaders;
- new civil penalties on those who facilitate tax evasion; and
- public naming of evaders and enablers.

www.lexisurl.com/ifa-1272

REGULATORY

Childcare grants

Starting in April 2015, nurseries, out-of-school clubs and childcare services for disabled children are entitled to an increased grant of £1,000 (up from £500) and childminders can receive £500 (up from £250).

www.lexisurl.com/ifa-1281

REGULATORY

Enterprise Bill

The government plans to create a small business conciliation service. The aim is to allow small businesses to resolve disputes quickly and easily, especially regarding late payment disputes.

www.lexisurl.com/ifa-1269

EMPLOYMENT

Summer interns

HR advisers Deminos warn that firms should understand the difference between offering work experience and internships. There is a difference between students simply shadowing employees and internships where the worker is expected to carry out duties similar to employees. In the latter case, they should be paid the national minimum wage.

www.lexisurl.com/ifa-1262

EMPLOYMENT

Zero hours

The Small Business, Enterprise and Employment Bill will ban exclusivity terms in zero hours contracts. Regulations will deal with employers who avoid the ban and provide for compensation for employees who have been offered a contract with an exclusivity clause.

www.lexisurl.com/ifa-1278

REGULATORY

Companies House

Companies House has updated its guidance on liquidations and insolvency. The latest version (3.10) has a basic overview and detailed information about required documents.

www.lexisurl.com/ifa-1267

TAXATION

Scottish income tax

The liability to pay the Scottish rate of income tax (SRIT) will be based on where a taxpayer lives rather than where they work. Draft technical guidance has been published.

www.lexisurl.com/ifa-1264

40%

of employers say that employee absence has increased

EMPLOYMENT

Employee absence

A recent survey indicates that long-term employee absence is rising, although sickness absence rates are falling. 40% of employers said that long-term absence had increased, against 22% that said it had fallen. 43% of employers felt that the "fit note" is not helping employees return to work earlier than previously.

www.lexisurl.com/ifa-1288

TAXATION

Corporate debt

HMRC have updated and brought together documents and material on the taxation of corporate debt and derivative contracts.

www.lexisurl.com/ifa-1268

EMPLOYMENT

Leave rights

A new free guide from Acas explains the leave rights available for antenatal and adoption appointments – about 39,000 calls are made to Acas each year about parental issues.

The new guide covers the basics of leave rights and legal requirements.

Top tips for employers and prospective parents when considering leave requests are as follows.

- Pregnant employees are entitled to reasonable paid time off for antenatal care.
- Fathers, partners and civil partners can take unpaid time off for two ante-natal appointments.
- Surrogate parents could have similar entitlements.
- Employees who are adopting are entitled to take paid time off.

Appointment time off is capped at six and a half hours.

www.lexisurl.com/ifa-1295

Disciplinary Hearing Tribunal Orders

MR COLIN DAVID WILLIAMS FTA

58 VISTULA CRESCENT, HAYDON END, SWINDON, WILTSHIRE, SN25 1QE

Complaint

The complaint is that Mr Colin Williams is liable to disciplinary action under IFA's Bye-Laws 12.3 which states that:

"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 judgements 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".

because:

On 28 November 2014, Mr Williams was convicted of three counts of theft (by an employee) and three counts for fraud by abuse of position and sentenced to a total of 42 months imprisonment.

Hearing date

23 April 2015

Conclusion

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

The Disciplinary Committee were of the view that his conduct had been wholly unacceptable and is likely to have brought the profession of accountancy into disrepute. The Disciplinary Committee found the offences committed by Mr Williams 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 Williams should be expelled from membership of the IFA and be directed to pay a fine of £5,000 and costs of £2,100 with respect to the complaint.

TAXATION

HMRC and the budget

All HMRC's tax-related documents relating to the summer 2015 budget are on the department's website.

www.lexisurl.com/ifa-1270

ACCOUNTING

IFRS for SMEs

The International Accounting Standards Board has published amendments to the International Financial Reporting Standard for Small and Medium-sized Entities. These must be applied for annual periods beginning on or after 1 January 2017.

www.lexisurl.com/ifa-1271

BUSINESS

Prompt payment code

The Department of Business has introduced new terms for organisations to pay suppliers within 30 days as the norm as a requirement of the Prompt Payment Code and includes a maximum 60-day payment term. The code gives clear guidance to organisations about payment procedures and sets out fair practices for public authorities and organisations to follow when dealing with suppliers. Around 1,700 organisations and public authorities have signed up to this voluntary code.

A new Code Compliance Board has been set up to ensure signatories are adhering to the code's terms and to investigate any complaints from suppliers about non-compliance.

www.lexisurl.com/ifa-1284

REGULATORY

Consumer rights

The Consumer Rights Act received royal assent on 26 March and should come into law in October 2015.

www.lexisurl.com/ifa-1273

TAXATION

Annual report

HMRC have published their annual report and accounts for the year ended 31 March 2015.

www.lexisurl.com/ifa-1277

Volunteers needed

HMRC ARE LOOKING FOR VOLUNTEERS TO TEST THEIR AGENT ONLINE SELF SERVE (AOSS).

The AOSS is being designed by HMRC to improve online services for agents. Once live, the service will make it easier and quicker to register with HMRC as an agent. The service will also help agents to:

- confirm and update their client list;
- access services and view clients' records in one place;
- keep clients' tax affairs up to date;
- carry out the same online tasks as their clients;
- reduce the need to contact HMRC; and
- reduce costs for themselves and HMRC.

HRMC have been working with agents to test the system. With an expanded view of employer clients' PAYE accounts launching shortly (which will provide a monthly breakdown of employers' PAYE liabilities and how the payments received have been allocated to each period), HMRC are looking for more volunteers to become involved in testing the system.

If IFA and FTA members would like to be involved, please complete HMRC's questionnaire by 30 October 2015, giving HMRC key information they need about the agent's business. The agent will then be sent a personalised link inviting them to join the service.

It would be helpful if IFA volunteers who sign up could please send feedback of their experiences to anned@ifa.org.uk.

Agents can also post views or suggestions about AOSS on the Tax Agent Blog (https://taxagents.blog.gov.uk).

Anne Davis, head of regulation and policy, IFA.

TAXATION

Direct marketing

HMRC's *Revenue & Customs Brief 10/2015* explains the department's approach to supplies of direct marketing that have been wrongly treated as zero-rated supplies of delivered goods. HMRC consider that these must be treated as standard-rated direct marketing services

www.lexisurl.com/ifa-1274

BUSINESS

Insurance terms

The British Insurance Broker's Association has carried out research showing that 29% of SME's do not read the terms of their insurance policy in full.

Further, about a quarter of directors fail to read the terms and conditions of their business bank account, and only 10% read the terms and conditions of their software licenses.

Research shows that **29%** of SMEs do not read insurance terms

www.lexisurl.com/ifa-1285

BUSINESS

Rural funding

Local Action Groups will award LEADER funding to local firms, communities, farmers and land managers. The funding can be used for projects that benefit the rural economy.

www.lexisurl.com/ifa-1275

REGULATORY

Food standards

Guidance for Scottish businesses involved in catering and food is obtainable from the new Food Scotland organisation.

www.lexisurl.com/ifa-1276

TAXATION

Savings allowance

HMRC are consulting on the personal savings allowance that will be introduced from 6 April 2016, when tax will no longer be deducted at source from bank and building society interest.

www.lexisurl.com/ifa-1279

EMPLOYMENT
Early conciliation

Workplace expert Acas reports that the first year of early conciliation (EC) show that more than 83,000 cases were dealt with in 2014/15 and eight out of 10 people who took part were satisfied with the service they received.

The EC service is a means of trying to resolve employment tribunal claims without the need for legal action.

www.lexisurl.com/ifa-1290

BUSINESS
Intellectual property

A new toolkit developed by the UK Intellectual Property Office (IPO) will help small businesses to use their intellectual property assets to secure the finance they need for future growth. The toolkit contains advice on understanding the value of IP assets to prepare them for finance applications, plus guidance on developing an effective IP strategy to potential lenders.

www.lexisurl.com/ifa-1283

TAXATION
Repayment claims

HMRC have updated their guidance on the forms to use when taxpayers are not going to work for at least four weeks and are not claiming:

- jobseeker's allowance;
- taxable incapacity benefit;
- employment and support allowance; or
- carer's allowance.

Form P50 will be appropriate in most cases, but form P50Z should be used when a pension pot has been emptied.

www.lexisurl.com/ifa-1293

EMPLOYMENT
Hot weather

Acas has launched new guidance today to help employers manage the workplace issues of hot weather. Top tips include:

- maintaining reasonable workplace temperatures;
- keeping cool at work;
- provision of suitable drinking water;
- relaxing dress codes; and
- taking care of vulnerable workers.

www.lexisurl.com/ifa-1292

TAXATION
Deeds of variation

The government is reviewing the use of deeds of variation (DoV) for tax purposes and, in particular, wants to hear from individuals or professionals who may have experience of using one.

www.lexisurl.com/ifa-1280

TAXATION
HMRC contact

HMRC have issued guidance on how to recognise when a contact from the department is genuine.

www.lexisurl.com/ifa-1291

EMPLOYMENT
Working fathers

A new flexible working guide from Acas has advice on helping working fathers spend more time with their families.

www.lexisurl.com/ifa-1296

TAXATION
Non-residents

HMRC have updated their guide for non-UK residents.

www.lexisurl.com/ifa-1282

BUSINESS
Energy saving

The Department of Energy and Climate change has published guidance to help SMEs become more fuel-efficient. The guide suggests that the average firm could reduce energy bills by 18% to 25%.

www.lexisurl.com/ifa-1304

BUSINESS
Exporting

A new website backed by business and government aims to help small and micro businesses find the support they need to start selling overseas. Companies can get free online information and advice on international growth. There are connections to organisations providing support for exporters.

www.lexisurl.com/ifa-1299

BRIEFS

Finance Bill

The summer Finance Bill has recently been published.

www.lexisurl.com/sfb2015

Fraud and error

In its July 2015 *Fraud and error stocktake*, the National Audit Office reports that In 2013/14 the Department for Work & Pensions and HM Revenue & Customs overpaid benefits and tax credit claimants by £4.6 billion because of fraud and error, and underpaid claimants by £1.6 billion

www.lexisurl.com/ifa-1300

Time to pay

From 3 August 2015, unless the method is not possible, all new time to pay arrangements must be made by monthly direct debit.

www.lexisurl.com/ifa-1301

Agent Update

HMRC's *Agent Update 48* has been published. This has information on documents to support loan and mortgage applications and Class 2 National Insurance contributions.

www.lexisurl.com/ifa-1302

Employer Bulletin

HMRC's June 2015 *Employer Bulletin* has information on National Insurance for apprentices, allocation of PAYE payments, forms P45 and starter declarations.

www.lexisurl.com/ifa-1305

Insurance

Recent research indicates that small businesses must be aware of the pitfalls of underinsurance. In particular, unpredictable and severe weather can have adverse effects on SMES.

www.lexisurl.com/ifa-1298

A blue budget for business

Richard Curtis considers the first all-Conservative budget for almost 20 years. Is this good news or the blues for SMEs?

TEN SECOND SUMMARY

1. **Changes to the rules on the taxation of residential property.**
2. **Pension tax relief restrictions for high-earners and more change is on the horizon.**
3. **Corporation tax reductions, but the annual investment allowance is fixed at £200,000 from January 2016.**

I always associate the budget with spring. By and large, the days are still cold and rainy, evenings are dark and there is only the occasional sight of the sun. How odd to be thinking about the Budget when the skies are blue, the sun is shining, strawberries are on "two-for-one" offers and tennis is back in the news. But putting its unseasonal appearance aside, George Osborne's first fully conservative budget on 8 July contained some surprises and was probably broader than we would have originally guessed.

Because we are mainly interested in SMEs, let's take a look at measures that are most likely to affect the clients of IFA and FTA practitioners.

Individuals

Advance notice was given of the promised "tax lock" – the pledge that rates of income tax, Class 1 National Insurance and VAT would not rise in this parliament.

The personal tax allowance will rise to £11,000 from 2016/17, £11,200 for the following year, with a future target of £12,000.

Those acting for non-domiciled clients will need to take a close look at three fundamental changes. From 2017/18 – for income tax, capital gains tax and inheritance tax purposes – it is expected that an individual will be deemed to be UK domiciled:

- if they have been UK resident for at least 15 out of the past 20 tax years;
- for five tax years after leaving the UK and becoming non-resident if they acquired a deemed domicile under the 15-year test; and
- if they had a UK domicile of origin and later left the UK and acquired a non-UK domicile of choice, but subsequently returned to the UK.

From April 2017, non-doms will be unable to take advantage of the excluded property rules to avoid inheritance tax on UK residential property held through an offshore structure.

Inheritance tax

The expected addition to the inheritance tax nil-rate band for a main residence was introduced. The figure of £175,000 was widely anticipated which, when added to the £325,000 nil-rate band will bring a couple's potential exemption up to £1m. However, the new relief will be introduced in stages:

Year	*Additional nil-rate band*
2017/18	£100,000
2018/19	£125,000
2019/20	£150,000
2020/21	£175,000

Advisers with wealthier clients should note that this extra inheritance tax relief will be withdrawn for estates valued at more than £2m. The relief will taper down at £1 for every £2 above that amount.

Pensions

The restriction on pensions tax relief for those with an annual income of more than £150,000 (including their own and their employer's pension contributions) will be introduced. From April 2016, the annual allowance of £40,000 will be reduced by £1 for every £2 of excess income over £150,000 down to a minimum of £10,000. It will not apply to anyone whose income, excluding pension contributions, is less than £110,000. There will be changes to pension input periods to accommodate this change.

Image: iStock

Also as expected, the pensions lifetime allowance will reduce from £1.25m to £1m from 6 April 2016. As with previous reductions, protection will be available for those with pension pots of more than £1m at 6 April 2016.

A big surprise was the reform of dividend taxation. From April 2016, the dividend tax credit will be abolished and the first £5,000 of dividend income will be tax-free. Above that, and depending on total income, dividend income will be taxed at:

- the dividend ordinary rate of 7.5% (up from a current effective rate of 0% once the dividend tax credit is taken into account);
- the dividend upper rate of 32.5% (up from a current effective rate of 25%); or
- the dividend additional rate of 38.1% (up from a current effective rate of 30.56%).

Advisers will need to calculate the effect on present salary/dividend mixes and there may be benefits in advancing the payment of dividends into the current year.

Also relevant to those trading through companies is that further reform of IR35 is expected as HMRC have been told to “improve the effectiveness” of the rules on personal service companies.

Property income

In a controversial move, the chancellor announced that tax relief on the finance costs of landlords will be restricted to the basic rate of tax and this will be phased in over a four-year period. Although this primarily relates to mortgage interest and mortgage arrangement fees, it also includes any interest paid on loans used to buy furniture or fixtures. The measures *appear* not to apply to:

- trustees or corporate landlords;
- commercial property; and
- furnished holiday lets.

For those letting furnished residential property, the 10% wear and tear allowance is to be abolished from April 2016 and replaced with a new relief for the “actual costs of replacing furnishings”.

Rent-a-room relief had remained frozen at £4,250 since 1997 and this will increase to £7,500 from 2016/17.

Business taxation

Annual investment allowance

The annual investment allowance (AIA) has fluctuated over the past few years and was due to fall from £500,000 a year to £25,000 from 1 January 2016. Instead, from that date the new annual rate will be £200,000, with a commitment to retain that level for the rest of this parliament.

Employment allowance

Good and bad news regarding the employment allowance deduction from secondary Class 1 National Insurance contributions. From 6 April 2016 this will no longer be available to one-man companies whose only employee is the director. On the plus side, the allowance will increase from £2,000 to £3,000 from that date.

Averaging of profits for farmers

Farmers will welcome the proposal to extend profit averaging from two years to five years from April 2016. Although the calculations appear complicated, the marginal relief will be dropped.

Corporation tax

More surprises came with the news that the main rate of corporation tax will fall to 19% from 1 April 2017 and to 18% from 1 April 2020. Is this to compensate businesses for the proposals to increase the national living wage?

There are also wide-ranging changes to the rules governing the taxation of corporate debt, loan relationships and derivative contracts. Tax relief on purchased goodwill and certain customer-related intangible assets will no longer be available for trading purposes for acquisitions made on or after 8 July 2015. Nor will brought forward, current year and group relieved losses and management expenses continue to be available for offset against controlled foreign company profits.

Conclusion

The budget contained many surprises, especially for those who thought that it would largely comprise measures that were unable to be included in the first Finance Act 2015 because of the election time constraints. In particular, the new rules on the taxation of dividends will mean that the salary/dividend mix, whereby entrepreneurs take their drawings from limited companies, should be reviewed before the end of this tax year.

FURTHER INFORMATION

Free technical guidance on the summer budget is available from Tolley Guidance at www.tolley.co.uk/summerbudget.

Richard Curtis is the editor of *Financial Accountant* magazine. He can be contacted at: richard.curtis@lexisnexis.co.uk.

Moving up a gear

Bill McGregor considers the tax and other implications that must be taken into account when a business incorporates.

TEN SECOND SUMMARY

1. **Consider National Insurance and VAT liabilities.**
2. **Entrepreneurs' relief is an important factor.**
3. **Stock and asset transfer implications.**

Many businesses start as sole traders and partnerships, but as they become – we hope - increasingly successful and profitable, serious consideration is often given to incorporation. This may provide a greater degree of credibility and a company can be set up for less than £100. There are annual accounting and compliance requirements to be considered, but what are the tax and other implications?

National Insurance

The Class 4 rates for the self-employed are 9% and 2% on profits above £42,385 from 6 April 2015. For an employee the rate is 12% and an additional 2% charge for all earnings over £42,385 from 6 April 2015. Historically, on incorporation, National Insurance contributions can be avoided by taking a small salary up to the lower threshold and taking the balance of post-tax profits as dividends. However, following the announcements of new dividend tax rates in the July budget, advisers will need to review the nature of their clients' drawings.

In relation to dividends, it must be remembered they are not deductible expenses for corporation tax purposes, they must be paid to all shareholders and are not considered as earnings for pension contribution purposes.

VAT

Consideration should be made as to whether the transfer of assets from a sole trader or partnership to a company on incorporation is a "supply" for VAT purposes. The sole-trader or partnership should de-register within 30 days of ceasing to make taxable supplies and the company should immediately register for VAT. HMRC can allow the same VAT number to be retained. This is easier from an administrative point of view, but a disadvantage can be that the company inherits the VAT history of the sole trader or partnership.

Stock transfers

A sole trader or partnership will be deemed to have transferred stock to the company at market value.

If the stock is worth more than the sole trader or partnership paid for it, the transfer will give rise to a taxable profit in the final period. The sole trader or partnership may elect to transfer the stock at the higher of its original cost or price actually paid by the company.

If we assume the company makes no payment, the stock is transferred at cost avoiding a tax charge for the sole trader or partnership. The company will have a lower base cost for the stock, so a future sale gives rise to a higher taxable profit in the hands of the company. This can be an advantage because companies usually have lower marginal tax rates than individuals.

Capital gains

Usually a transfer of assets will take place; often the most important being goodwill which may create a significant capital gain. This, however, can be deferred until any later sale of the company if the business is transferred in exchange for shares in the company.

Individuals will be prevented from claiming entrepreneurs' relief if goodwill is sold to the company for cash or debt on or after 3 December 2014.

Entrepreneurs' relief

Entrepreneur's relief is generally available to reduce the amount of capital gains tax payable on gains arising on the transfer of assets to a company when a business is incorporated. Where

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a seller has operated the original business for 12 or more months before the transfer, they can claim entrepreneur's relief on the gains made on the transfer of "relevant assets". The tax rate payable on the net gains is reduced to 10%.

The assets transferred may well include goodwill. This can be made up of the value of the business reputation, continuing contracts and customer relationships. The goodwill transferrable must be valued at its open-market value at the transfer date, this can be a very difficult exercise.

There are forms of goodwill which cannot be detached from the individual business owner. For example, the "personal goodwill" of an individual cannot be transferred.

Despite such difficulties, many accountants still assign a high value to goodwill transferred on incorporation.

A large capital gain is then created in the hands of the seller because goodwill will normally have no value on acquisition. The seller may not receive payment immediately for the assets acquired so the unpaid balance is left as outstanding on a director's account within the company. The director subsequently extracts the balance as tax-free and National Insurance-free payments from the company.

The seller has correctly paid capital gains tax at 10% on the gains made and there is no avoidance of tax in this arrangement. The rules for entrepreneurs' relief were altered for business disposals made on or after 3 December 2014. Entrepreneurs' relief from that date cannot apply to a gain arising from the transfer of goodwill to a close company where that company is a "related party" to the seller.

Entrepreneurs' relief still is available on gains from the transfer of other relevant assets on incorporation; however, goodwill is no longer considered to be a "relevant asset".

There are other reliefs that can reduce the amount of capital gains tax payable on incorporation. The main reliefs are incorporation relief (TCGA 1992, s 162) and holdover relief (TCGA 1992, s 165).

Capital allowances

Balancing allowances or charges will arise because, on the final day of trading, the sole trader or partnership will be deemed to have sold all items of plant and machinery to the company at market value. The new company acquires plant and machinery at its market value. However, first year allowances will not be available to the company in respect of these acquisitions.

A joint election can be made to transfer the plant and machinery at its tax written down value. This results in no balancing adjustments in the final tax year. This election is optional for the trader and may not be appropriate if valuable balancing allowances would arise.

Losses

A profit-making business is more likely to be incorporated than one that makes losses. If a loss is made in the year of incorporation there are certain options. They can be relived against future income received by the taxpayer from the new company. The losses are relieved against employment income in priority to dividends and interest. The loss can be carried back against taxable profits of the three preceding years. The relief is given against the later years' profits first. The loss is increased by any overlap and unrelieved trade charges and the loss available to carry back is the loss of the 12 months up to cessation. The loss may also be relieved against total income either in the year of the loss or the preceding year. There is no carry forward under TA 1988, s 385 because the trade has ceased.

Pension provisions

It should be possible for the company to make pension contributions to a registered pension fund, such contributions are deemed to be a private expense for sole traders or partnerships.

Stamp duty land tax

When assets are transferred to a company there may be stamp duty land tax (SDLT) charges to consider. Debtors and goodwill do not give rise to a charge, but land and buildings may do so.

Summary

In concluding, owning a company might seem impressive to your friends at the local golf club, but considering the use of a company for tax reasons is something that needs careful consideration and depends on your own specific circumstances. Always seek professional advice.

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Guarding the domain

Protecting online assets in this digital economy is a must. ***Mark Field*** outlines some key areas.

TEN SECOND SUMMARY

1. **Businesses can be affected if owners don't take control of their website.**
2. **A backup policy and a real back up plan could save time and trouble.**
3. **Use social media but ensure that the main website is the hub of activity.**
4. **Getting the best hosting deal is often a question of simply asking.**

Business domain names are a valuable business asset and advisers should ensure that these are registered under the trader or company's name. It is not unusual to see website designers, freelancers and agencies registering domain names in their own name, often because it is quicker and more convenient. However, this can cause issues further down the line if the business wishes to change provider or a dispute arises. If the business is not the registered owner they do not legally own the domain name. As a result, the associated website attached to it (and all email accounts) can disappear overnight. Once details have been checked as up to date, make sure the domain is on "auto renew" each year. Failure to do so might mean that someone else, perhaps a competitor, could purchase the domain name.

"In the absence of any terms and conditions that state the contrary, the website and the content belong to the designer.

There are several free services where a business can check the availability of a business domain name. One is www.whois.sc where details of the domain's registered owner, its expiry date and the hosting company can be found. The consequences of losing a domain name will be far-reaching. Not only is the domain name the main entry point for the business website, but it will also be displayed on stationery, adverts, banners, flyers, and a whole host of marketing collateral; do not lose control or possession of it.

DIY websites

Let's take an example that will apply to all of us with a business website. A contractor or a reputable professional web agency is engaged. After agreeing on the content, branding and general design aspects of the project a professional website is built that reflects the business. Payment is made and the website is live; but who owns the website?

The UK Copyright, Designs and Patents Act 1988 states, "Copyright is an automatic right and arises whenever an individual or company creates a work. To qualify, a work should be regarded as original, and exhibit a degree of labour, skill or judgement."

In the absence of any terms and conditions that state the contrary, the website and the content belong to the designer. Therefore, do ensure that all rights are transferred to the business proprietor.

Hosting

A website needs to be hosted somewhere to enable the general public to view it. A trusted web agency will do this for a monthly or annual fee, but there are differences in the quality of service which impact on the usability of the website.

Here is a quick overview of four of the most common types of hosting. Most business websites will fall into one of these categories.

- *Shared hosting*. Most small companies, whether they know it or not, are generally on a shared hosting platform. Their website sits alongside others on the same server and they all share the same resources. For hosting companies to make money, the more websites the better. It is quite typical to see 2,000 to 3,000 websites on the same server and this can cause slow loading and performance issues. It is not ideal for shopping cart sites, ecommerce, high traffic sites or where spikes in visitors are expected. If we compare shared hosting to everyday life, it's like living in an open community where everything is shared among everyone in it.

- *Virtual private server.* The VPS offers more power and flexibility than shared hosting. A separate administration login will allow resources to be allocated, services can be started and stopped as required and more control and management can be taken over the site and emails. Using our housing analogy, this is like owning a penthouse suite in a large complex. All the utilities are owned and paid for by the business which has a certain amount of control and independence, but the building itself is not owned.
- *Dedicated server.* This is where the business in effect owns the server and is therefore responsible for maintenance, security and upgrades. It is a faster and more robust solution than the previous ones, but it is also more expensive. This usually means having a technical person to maintain the server on a regular basis. This is like owning a home.
- *Cloud-based hosting.* Think of cloud-based hosting as electricity or gas. It works on a similar grid system and the user can use as much or as little as they see fit. Any spikes in demand are taken care of and payment is by reference to use. As it is a distributed system, the performance, security and reliability are very good and are included in the price.

The cost of hosting space has reduced greatly over the last few years and a business should ask its provider whether it is on the best type of server and payment plan. An ethical company or person looking after the hosting of the website will not want to lose the business's custom and will try and ensure that it is getting the best deal possible.

Social media

Unlike a website, a business has no ownership of the social media platforms such as Facebook, LinkedIn and Twitter. It is simply a guest with a number of profile pages. While the advantages and reach of social media in today's business world cannot be denied, it should not be relied on as the only form of online presence. The business should always publish quality, original content on its own website first and then distribute snippets and teaser copy to social media platforms. There are two reasons for this.

First, Google favours highly relevant and *original* content and this will help search engine page rankings.

WEBSITE CHECKLIST

- Make sure that the business owns and controls access to its domain name and hosting account.
- Check that the hosting package is fit for purpose.
- Have a backup policy and practical disaster recovery solution that is regularly reviewed.
- Ensure that systems are in place to back up emails, website and online content

Second, the business should aim to drive customers back to its website so that they can engage in products and services. The business website will have the content and information available for any prospect to make an informed decision. Generally, social media is not a good place to start selling. Instead, use it to provide interesting, thought-provoking and original content. This should lead people to the main website.

Backups

A business should consider how quickly it could have website content up and running if its online content were lost. This also applies to electronic communications and storage. Answering this question should result in a backup plan. Most websites, databases and email accounts can be backed up very easily. The recommendation is to back up to an external provider, many of which provide free accounts that include 5GB of storage, which is plenty for most business's needs. Find out how and how often the business website data is backed up. The frequency of this will be determined by the type of site. Having a readily available backup may save your business.

Be secure

Online security is always in the news and just because the website and email system is stored or hosted by a major industry player does not guarantee that it will not be hacked or compromised.

Remember, it is not the hosting companies' responsibility to secure the website, it lies with the business. At worse, the hosting company will simply isolate and disable a compromised account so that this does not affect others. Being hacked has knock-on effects that can be painful. It may result in a domain name being blacklisted. This means that the domain name is not trusted. This not only affects the website, but also all email accounts. Suddenly, emails are going into the recipient's spam filter or not even reaching that far. The process of getting a domain name "whitelisted" again can take weeks.

Remember, it is easy to take website and email facilities for granted and taking steps to guard these valuable assets can be well worth the effort.

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A successful sale

Building a successful business is only one part of the story and ***Paul Herman*** explains how entrepreneurs can unlock further value when it is time to retire or move on to new opportunities.

TEN SECOND SUMMARY

1. **Understand the market conditions beyond the specific business that is being sold.**
2. **Carry out due diligence and consider the extent to which information should be divulged.**
3. **Maintain a calm and controlled attitude rather than emotional responses during negotiations.**

Selling a company, while hopefully being an exciting time for any business owner, can be fraught with challenges. Managing a sale process entails a number of constantly moving parts and the businesses that reach the finish line are those that are best prepared for the big day. So before considering a sale exercise it is crucial to understand developments in the sector and wider market. Movements of key competitors can affect both the market dynamics and value expectations so keep a keen eye on what is going on. Activity in a particular sector is also a positive sign for further deal activity so always take unsolicited approaches seriously.

When working with a business to prepare for a sale it is crucial to carry out a full review from the "drains up" of all business activities and ask some critical and objective questions. Does the company have any loss-making products or services which are not adding value? Does it have a unique selling point that is not being maximised to its true potential? A buyer is looking to understand the future upside so highlighting this potential is crucial.

Opportunity and timing

A buyer will often pay more for a business with credible growth opportunities. It is therefore vital to articulate the potential of a business by emphasising new products, markets or clients. Each opportunity should be proven and monetised to improve its credibility. As well as growth, there are often several simple and cost-effective measures that can be undertaken to instantly increase the value of a business. These can include updating the website and reviewing the previous three years of accounts to remove non-recurring items.

Timing is everything when it comes to maximising the value of a business at exit and can make the difference between sale success and failure. Getting timing right is driven by a range of internal and external considerations not all of which are in the control of management. Factors that can be controlled include business positioning, financial performance and retention of key employees; those that can't include competitor strategies, health and general economic conditions. Always try to sell when the time is right.

Data and diligence

The sale process naturally requires a whole range of documents and information which should be readied in advance. Forward planning can significantly help to smooth the sale process and reduce the time taken to completion. All documents should be stored together in a confidential online data room. This facility will allow the potential investor/buyer to access documents at any time during the due diligence process without any detraction from day-to-day business activities.

During the due diligence process a purchaser is looking to verify what they have been told and to price chip the sale valuation. While it is tempting to provide as much information as possible, only supply that which is strictly necessary. When a trade investor/buyer requests commercially sensitive information always seek justification. Giving away too much detailed information could be counter-

productive and create a risk in the mind of an investor/buyer which has no real justification.

Keeping the due diligence process as confidential as possible is critical for two reasons. First, a high level of commercially sensitive information is discussed during due diligence which could be used against the business if appropriate non-disclosure agreements are not in place. Second, once the planned sale becomes public knowledge employees may be less motivated to work for the existing senior management team and key customers could have a negative reaction. In the event that the sale does not proceed, the wider market may wonder why and might question the business credentials.

Negotiations

Once the type of potential investor/buyer for a business has been evaluated it is crucial that the company is then presented in a way that will be most attractive to them. A financial investor will generally look for a strong management team capable of running the business without direct day-to-day involvement. Alternatively, a trade investor will often take a more hands-on approach and look to build cost and sale synergies between businesses. If there is more than one interested party, competitive tension can build up. Managed correctly, this can help maximise the achievable sales value.

When negotiating a sale it is important to agree key terms upfront. The heads of terms stage of the sale process provides an ideal opportunity for these to be agreed and sets a precedent for future negotiations. If a business owner is not happy with the terms at this stage, the best option may be just to walk away and save time and money. The moment that a potential investor/buyer is given the upper hand is when the chances of maximising sale value are jeopardised.

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Ensuring you insure

Many of the terms an investor/buyer will include in the heads of terms and eventual sale and purchase agreement can be mitigated by using suitable warranties and insurance. Understanding and negotiating warranties is a critical element of negotiations and often requires expert advice from an experienced adviser. Avoid inserting terms into the small print that can make a deal fundamentally unattractive.

Investors/buyers have many different motives and understanding these from the outset is often critical to effective negotiation. The purchaser will undoubtedly change from "best friend" during initial discussions to a much harder stance during contract and price negotiations. Be calm but firm during negotiations and not overly emotional or aggressive; this can be perceived as a weakness by a potential buyer. A calm controlled approach is more likely to achieve a desirable outcome from the negotiations.

There are always issues that arise during negotiations that cannot be resolved easily. The materiality of each issue should be assessed in the context of the entire sale process and, if proven to be immaterial, should not be laboured over. There is no point losing sleep over issues that will make no difference to the eventual sale proceeds so pick battles carefully. Focus on the more important issues which will have a real impact on the sale proceeds.

Conclusion

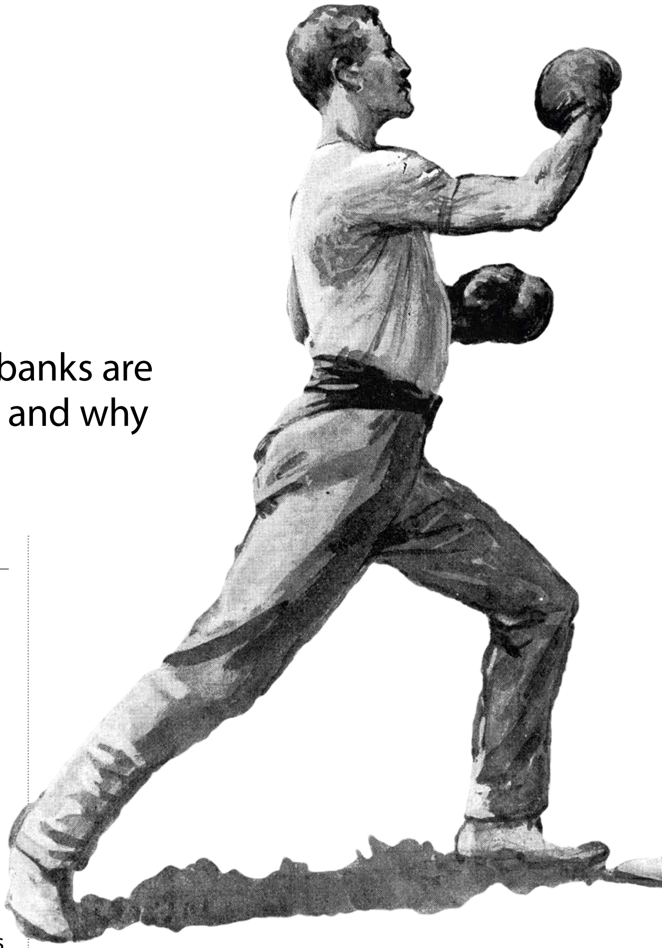
Selling a business is often a life-changing event and should ideally be done when the seller is emotionally and financially ready. This may prove difficult if they receive an offer that simply cannot be refused or if personal issues or business changes compel a sale. Knowing the level of income that an entrepreneur needs to sustain a comfortable lifestyle is another issue that should be assessed well before sale completion and factored into price negotiations.

Preparation is everything when it comes to selling a business and achieving the desired result. Understanding the competitive landscape, profiling future acquirers and conducting a rigorous review of the business should be done from the outset. A credible and detailed opportunity map with a focus on growth in conjunction with strategic use of the heads of terms, a cool negotiating head and a constant awareness of the "big picture" are all key ingredients to completing a deal.

Paul Herman is founder and CEO of Bluebox Corporate Finance. He has sold more than 50 private businesses including Smythson, Gü, Princess Yachts, Watches of Switzerland and Vapestick. Bluebox provides expert advice and services for entrepreneurs on the journey to exit and manages the sale itself. The team covers SME's across the UK and clients include a number of professional service practices. Paul can be contacted by email at: paul.herman@blueboxcfg.com or telephone: 0207 015 2200.

The new challengers

Mark Sismey-Durrant considers how challenger banks are filling the void in lending to the SME community and why alternative finance providers are here to stay.



TEN SECOND SUMMARY

1. **Alternative sources of finance should be positioned to help SMEs as they emerge from recession into growth.**
2. **Smaller challenger banks can provide specialist business lending and retail savings products to SMEs.**
3. **Small businesses are still unfamiliar with the substantial range of finance providers and products available to them.**

As the UK continues to ride the wave of the post-recessionary period, much anticipated economic improvement has widely been attributed to the success of SMEs. These are labelled the lifeblood of the British economy and are a demographic that accounts for almost half of all private sector turnover. But what does the shift in the UK lending landscape mean for a community that relies so heavily on access to finance and capital to fund growth? And what is the impact of years of market concentration, dwindling domestic competition and at a time when business borrowing dried up as banks reigned in their lending? Alternative sources of finance, including challenger banks, should be able to help.

Defining a challenger

Perhaps the most widespread understanding of the term "challenger bank" is that they are smaller banks, set up with the intention of competing for business with large, long-established national banks. Certainly, the emergence of challengers over the past few years has been welcomed by the Bank of England and has resulted in a thriving sector offering alternative finance and a diversification of products to service niche markets that have been largely neglected by bigger traditional banks.

All challengers have successfully negotiated the stringent regulatory hurdles to gain authorisation; several have floated on the stock market and, crucially, many exist specifically to help serve the requirements of the SME community.

KPMG's recent report, *The Game Changers*, has provided a thorough analysis of the current state of players in the banking sector and the typologies of challenger banks. It is perhaps simpler to define challengers as a group in terms of what they are *not*, namely the "Big Five" high street banks.

According to KPMG, there are three distinct categories of challenger bank: larger challengers, smaller challengers and large retailers. The latter group includes the likes of M&S Bank and Tesco Bank, which focus on consumers, offering savings products and mortgages. The larger challengers are more established brands – TSB for example – and most provide both business and consumer-banking services, although some, like Virgin Bank, only offer products for the consumer.

Smaller challengers deliver a mix of specialist business lending products to SMEs and typically have a retail savings offering too. In so doing, they are meeting the needs of these SMEs for specific lending skills and are filling the void in SME lending left by the Big Five in the wake of the credit crunch, funding this lending with deposits from consumers.

Fostering competition

Despite the influence that the financial services sector has over the fate of the UK economy, the UK's banking sector has been one of the least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competitive for many decades. Primarily, this has been caused by years of market concentration and the dominance of larger lenders. Between them, they have controlled the majority of the personal current account market and small business banking sector. SMEs often do not warrant the "relationship" approach that they need from their clearing bank and specialist challengers can fill that void.

More recently, the government has attempted to address the lack of competition within business banking and in 2014 the Competition and Markets Authority launched an inquiry into the sector to investigate the supply of personal and current accounts and of banking services to SMEs. We await the outcome of this in 2016 but, certainly, regulatory and political efforts continue to pave the way for the emergence of alternative finance providers, putting the shortcomings of the past few years under the spotlight.

Whatever may come from the inquiry, the anticipation surrounding economic improvement in the UK will be largely dependent on SMEs. They continue to represent the most exciting and innovative business sector, but depend heavily on access to finance and working capital. That is why this market needs to be addressed: to give SMEs a real choice of providers and the confidence to access competitive rates and products to realise their ambitions and meet their precise needs.

Customer service

For new banks to compete in the business banking market and to challenge high street banks, they have to offer something noticeably different. New banks see this as an opportunity and have set about this in a variety of ways. Some have tried to create fresh and striking brands, others are leveraging technology and keeping their platforms online only to avoid the traditional branch network and to reduce costs. Some more specialist challengers focus on the expertise of their people.

The common trend among all challengers is to focus on excellent customer service. This is one area where new banks have a noticeable advantage over the long established players. Older banks also face more IT legacy issues than the newer challengers.

Of course, challengers will be no better than the Big Five if they cannot deliver on the promise of unrivalled service. Good customer service in the SME finance world means creating personalised solutions rather than taking a "one-size fits all" approach. Challengers are equipped to take a traditional relationship-based approach to banking, where the bank really takes the time to get to know the customer and their precise needs, bypassing any computer or automated decisions and understanding the real customer objectives.

The challenge

The emergence and success of challenger banks demonstrates the long-standing requirement for something beyond the dominance of larger banks. Not only to drive sustainable lending and economic growth, but to improve competition and choice for customers and small business.

The "challenge for challengers", however, is an educational one in raising awareness of funding opportunities among SMEs. Small businesses are still unfamiliar with the substantial range of finance providers and products available to them and the significant benefits of dealing with specialists that truly understand their business, which goes far beyond just products. This is reflected by the 70% of SMEs who, when seeking bank finance approach just one provider, and the 90% who stick with their current account provider.

There are encouraging signs that this is changing: the growth in SMEs using asset-based lending, a previously underused way of getting working capital, is one example. However, it will be up to the banking community to appeal to SMEs with products focused on the individual.

Conclusion

SMEs are the lifeblood of the UK's economy and are the home of innovation and entrepreneurial spirit. As we move from a period of stagnation to growth, the opportunities for small businesses to expand are only going to increase. Now is the time for SMEs to seize the day and there is every indication that challenger banks, both existing and new, will continue to play a vital role in fulfilling the demands of this important demographic.

FURTHER INFORMATION

Further information
British Business Bank - *The business finance guide*: www.lexisurl.com/BFG2014
KPMG – *The game changers*: www.lexisurl.com/KPMGcbr

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Visit: www.htb.co.uk

Constructing cornerstones

Business is not just about having a great product or service. ***Helen Moloney*** explains how to build a successful marketing strategy.

TEN SECOND SUMMARY

1 **To ensure that the right marketing activities are used, understand the competition and potential customers.**
2 **Customers, particularly "millennials" increasingly use the internet to research and locate products and services.**
3 **Track and measure the results of marketing activities.**

To successfully market any business, no matter its size, industry, or the market in which it operates, there needs be a marketing strategy and plan to work to. Without this a business will invest considerable time and money in marketing campaigns that do not work. Marketing activity without a clear direction and strategy not only results in little or no return on investment, but can waste time and resources dealing with the wrong type of leads.

Marketing plans come in a wide range of shapes and sizes from simple two-page headline documents to full-blown multi-channel epics, but to ensure their success there are four cornerstones that need to be considered across them all.

The target audience

First, to develop and deliver an effective marketing strategy the target market must be understood. Only by knowing and truly understanding the needs of potential customers can the right marketing activities, channels and messaging be selected that will engage and deliver results.

A good starting point is an analysis of the existing customer base. Reviewing existing customers and looking for similar characteristics will enable the different customer groups to be segmented. For consumers, these similar characteristics are likely to include age, gender, income, products purchased, average order values. If they are businesses, they could be industry sector, size or geographical location.

Once profitable customer segments have been identified it is easier to understand their needs, issues and the triggers they respond to, the products or services they are likely to need and the price points they are comfortable with. Armed with this knowledge it is possible to develop marketing messages that resonate with them.

As well as an analysis of existing customers, market research is an invaluable tool to identify new groups of potential customers. Obtaining information about needs, tastes and spending habits will help identity new customer segments and the types of marketing and sales activity they will respond to.

Know the competition

Business competition is likely to be intense and must be understood before developing a marketing strategy. Invest time in researching how they engage with or sell to target markets. This should enable a business to benchmark its own products and services and help shape the direction of marketing campaigns.

There are many ways this information can be obtained, from simple online research through mystery shopping to more detailed analysis using specialist research tools.

Once this detailed information is to hand, analysing strengths, weaknesses, opportunities and threats enables a business to be assessed against its competitors and within the marketplace. It is also a great tool to identify any internal issues that might need to be addressed, such as pricing, customer delivery or internal sales processes, before launching specific marketing activity to the relevant target audience.

This clear understanding of where the business stands in terms of its offering, internal processes and competitor benchmarking, combined with a clearly defined target audience will help to shape the direction of marketing activities for each customer segment. This will help to create marketing messages that will instigate persuasive conversations with potential customers.

Image: iStock

A digital marketing strategy

The internet has transformed the way that customers locate and purchase products and services and, to respond, a business needs to include online marketing within the mix. The extent to which this needs to feature depends very much on its target market and industry.

The rapid increase in ecommerce and online-only businesses demonstrates the shift online of potential customers. An increasing number of traditional bricks and mortar businesses realise that they need a strong online presence. Why? Because customers increasingly use the web to research and locate products and services, as well as to engage with and ultimately buy from businesses that supply them.

None do so more than the "millennials" – a generation more likely to use online channels to locate and purchase products and services than any previous one. This cohort comprise a large percentage of the purchasing population and as much as 82% of their shopping time is spent online. The internet is so ingrained in their personal shopping habits that even when looking to find a product or service at work, it is the first place they go.

Millennials are also more receptive to online marketing campaigns. Social media platforms are where they locate and interact with friends, build relationships, make and share recommendations and, ultimately, locate and engage with brands.

As this generation move into middle and senior management positions, these buying behaviours will continue to transform the way that businesses shop for products and services. This means that even traditional B2B (business to business) companies must have a marketing strategy that gives them a strong online presence.

Track and measure the results

One of the key elements to any marketing strategy, but one that is never given enough time and consideration, is campaign tracking and measurement. Without a clear set of objectives for the campaign, relevant key performance indicators, and processes to track and measure the results, there is no way of knowing how successful a campaign is. There are many ways to track and measure the success of marketing campaigns.

Although website analytics is one of the more obvious measurement tools available, it is still surprising how many businesses do not have Google Analytics or a similar tool installed on their website. Or, if they do, they don't regularly review the results or proactively use them to help shape their marketing activity. Understanding which marketing channels and campaigns are driving traffic to its website is a simple way that a business can measure its performance. The use of custom reports, goals and conversion tracking assists understanding how each campaign or segment is responding to each campaign, so that changes can be made where necessary.

Monitoring phone calls is an obvious but often forgotten tool. For many businesses, especially those not selling directly via their website, their potential customers make contact by phone. If these calls are not recorded and linked back to the marketing activity that generated them, the business will never receive a true indication of the success of that activity. Simple processes such as asking every enquiry how they heard about the business or using different phone numbers for specific campaign materials all help to monitor the success of marketing activity.

Whether a business uses an Excel spreadsheet or a custom tool, a customer relationship management system of some sort will enable a business to analyse marketing success. This is particularly important for businesses not selling directly online, where sales are not being recorded on a website, or those who operate multi-channel campaigns. Having every enquiry recorded and tracked back to a specific campaign and then linked to actual sales will enable informed decisions to be made, not only about the performance of specific activity but to help shape future campaigns. Over time, this information will build into a valuable resource to help identify trends and feed into the wider business strategy.

Conclusion

The above are all ways in which a business can track and measure the effectiveness of marketing activity. The next stage is to create a series of key performance indicators (KPIs) that enable the business owners and senior management teams to more easily review progress at a high level. KPIs provide an overview of the activity in an easy-to-read and understandable way.

Covering these main areas when developing a marketing strategy for a business will ensure that it will deliver a return on investment.

Helen Moloney is the business development director at All Things Web®, a digital marketing agency with offices in Bristol and Swindon. She has considerable experience in running multi-channel marketing campaigns in both the corporate and SME markets, particularly financial services. She can be contacted by telephone on 01793 766040 or email: helen@allthingsweb.co.uk. Visit: www.allthingsweb.co.uk

Looking for funding

Philip Rooms explains why entrepreneurs should not be afraid of venture capital funding.

TEN SECOND SUMMARY

1. **Insufficient capital is a common cause of business failure.**
2. **Entrepreneurs seeking business funding may perceive negative aspects.**
3. **Despite a possible loss of overall control, venture capital funding may bring many real benefits.**

How many businesses fail because they are under-funded? Insufficient capital persistently ranks in the top five reasons for business failure. The mechanical process of winding up a business starts when it has insufficient funds to pay suppliers, employees' salaries, or payroll taxes. Interestingly, entrepreneurs in France (where I have been based for 20 years) can generally obtain long payment delays for both social charges (which amount to 60% of gross pay) and business taxes if they make a compelling argument to the relevant government department. Often, such letters simply delay the inevitable, but sometimes they can help avoid a temporary shortfall in working capital.

Running out of cash may be because of poor planning or a chronic inability to collect payment from customers on time. Business problems associated with planning or receivables management can usually be addressed by IFA member advisers, but in this article I will focus on the problems of insufficient capital.

I have met and worked with a number of entrepreneurs who have taken a very dim view of venture capital (VC) firms. Reasons to avoid VC funding include the following.

- Loss of business control.
- The founder of the business will do all the work while others make all the money.
- The founder will be forced to hire people they don't know or they may even be replaced.
- The business will be turned into a large organisation where the founder will have to worry about hundreds of employees and be a good manager or leader.

Having heard, during discussions with a number of entrepreneurs, all the above arguments for not going down the VC funding road, I would agree

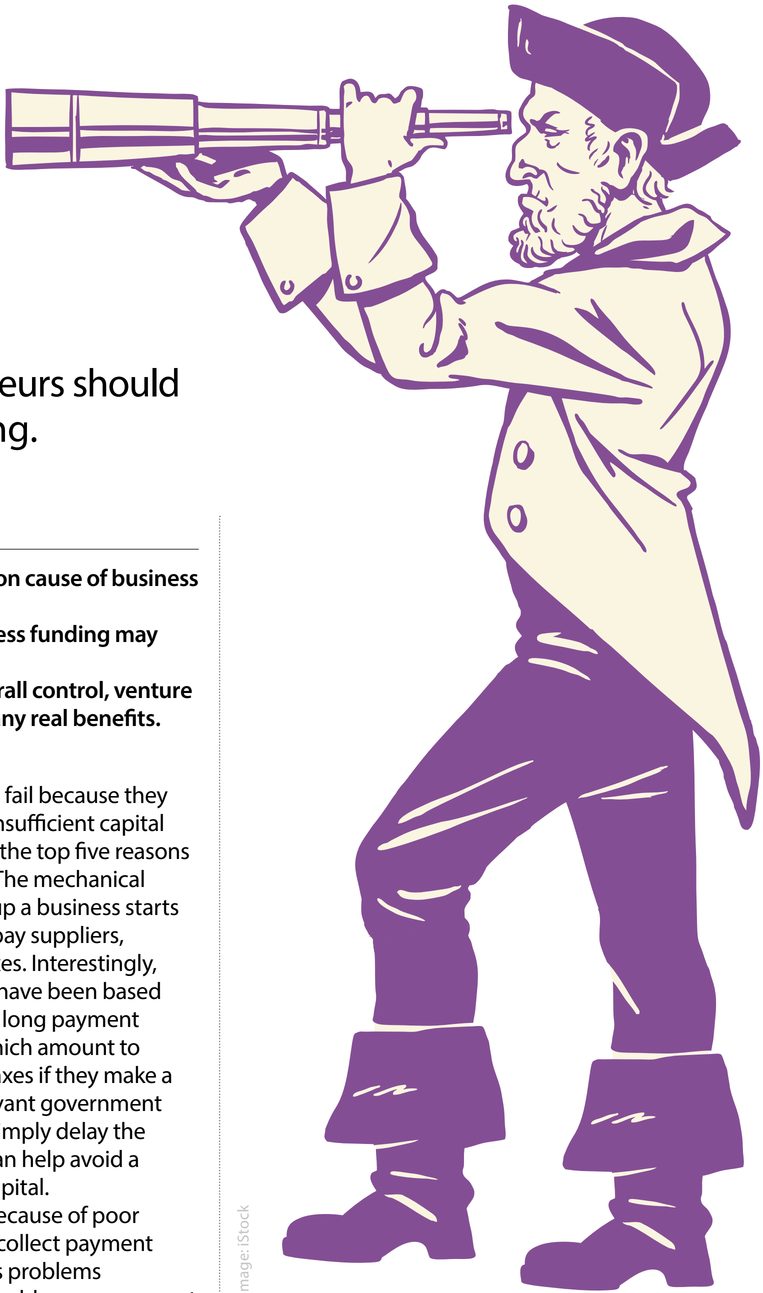


Image: iStock

that, in some respects, they are legitimate concerns. However, I also have board level experience of working with VC funds and have been able to gain very useful insight into how they operate. These perceptions enable me to address entrepreneurs' concerns one by one.

Losing control

If the entrepreneur allows more than 50% of the share capital to be owned by VC funds, mechanically he will lose control. On the other hand, VC funds rarely fund business ventures alone – they like to share the risk. So it is more than likely that while several VC funds may collectively own more than 50% of the company, one fund investor *alone* will not have overall control. It will probably take two or more to have a majority vote and VC board members may not always have the same point of view.

Further, the founder entrepreneur carries influence far in excess of their percentage shareholding. They are very likely to remain in the driving seat for as long as they want to. And they will not have to mortgage their personal property, as they would if funds were obtained from a bank.

Doing all the work

A common argument is that the VC firm or firms will benefit from the profits generated by the business while the founder does all the work.

Again, there is an element of truth. VC funds may collectively own a large majority of the shares. Total fund shareholdings of 80% or more are not uncommon so they would enjoy 80% of the ultimate value of the business. However, it must not be forgotten that they are also taking 80% of the risk and business success is not a foregone conclusion.

In reality, the mere fact the funds are on the board of directors means that the entrepreneur's chances of success will increase exponentially. VC fund representatives are experienced business people. They always have large address books, contacts who may be potential customers and partners or other business associates who are able to provide strategic advice free of charge. The simple fact that they have invested money in a business means the founder should have the financial means to make it work.

Finally, an entrepreneur who obtains VC funding will generally be able to pay themself the market rate remuneration for the job they are doing. Such rewards are likely to be considerably less when funding is limited.

Replacement

The entrepreneur may be worried that the VC funds will insist on hiring people unknown to them or that they may even be replaced. If such an eventuality occurs, it is because the VC investors believe that there is either a knowledge or capability gap that needs filling before the business can succeed.

However, such occurrences are rare for the simple reason that VC funds, or at least those that I have worked with, have neither the time nor the inclination to go out looking for replacement managing directors or other senior executives. They invest in a portfolio of ventures and the representative assigned to one company may have as many as 10 others to follow at the same time.

Consequently, a VC fund will resort to such action only if they forced into it by persistent bad performance. If the managing director repeatedly meets his budget, forecast and sales targets (previously negotiated with the investors), nobody should want to replace him.

Once the business grows to a certain size and complexity there may, of course, be a perceived need to hire other senior executives and at that time the VC funds may suggest that certain positions need to be filled. However, the managing director and founder of the company should enjoy a level of status and influence level far above his arithmetic shareholding value. VC funds will not overburden the business's profit and loss account with unnecessary labour costs.

Outgrown by the business

Is there a danger that the business will become too large? I once asked an entrepreneur whether they would prefer to own 90% of a company that is worth £250,000 after five years or 10% of a company that is worth £10m. He had difficulty responding, which surprised me because the potential of the business he was trying to build was evidently enormous.

Nevertheless, those entrepreneurs who have a more parochial mindset may indeed prefer the former. Many sense that they will have difficulty adapting to an environment where they do not make all the decisions or where they have to manage difficult but highly talented employees. Perhaps this is because they have limited managerial or leadership skills – both of which can be acquired.

The risk of staying small is that the business stagnates or fails completely because it lacks adequate funding. The business may never even reach a stage where it is worth £250,000 without proper funding. Sometimes, it is impossible to avoid the fact that getting things done properly costs money.

Private equity firms

Bear in mind that private equity (PE) firms, which also provide funding for businesses, are vastly different in nature to VC firms. The former prefer more mature businesses that are in trouble and they will be much more interventionist in their approach. Their objective is generally to acquire troubled firms at a rock bottom price, do whatever is required to make the company profitable and resell it within a two to five-year time span. They will not hesitate to make drastic changes to both business model and the management team.

Obtaining VC funding

So how do entrepreneurs obtain VC funding? There is of course a mode d'emploi that can be found on a number of different websites, notably Wikipedia.

Without a business plan or at least an executive summary, a working product or service model and a number of initial paying customers, it is going to be a challenge to obtain such funding. In the early or pre "go to market" stage, entrepreneurs will probably need seed funding – sometimes provided in part by family and friends but also by business angels or those VC firms who specialise in this. Later, as the business grows, further funding can then be sought from the same or other VC firms.

Obtaining VC funding is both challenging and rewarding and the potential benefits to entrepreneurs, in terms of adequate financing, strategic support and business contacts should not be ignored.

Philip P Rooms, AFA, MBA is an experienced finance leader for both SMEs and larger quoted companies in the technology sector. He has worked with more than a dozen different VC firms during his career, and more recently as an independent member of the board of directors of a software company funded by VC firms. Based in France, he now works as a consultant to CFOs, entrepreneurs and business leaders throughout Europe. Philip can be contacted by email at: prooms@rocketmail.com.

The liquidation process

Richard Simms explains the importance of understanding solvent and insolvent liquidation processes.

TEN SECOND SUMMARY

1. **The reasons for a corporate insolvency.**
2. **The importance of choosing the correct insolvency process and how this can facilitate a return to profitable trading.**
3. **The end of HMRC's extra-statutory concession C16 and why using a formal solvent liquidation process can reduce tax liabilities.**

Many people hear the word liquidation and automatically think it is a negative process for businesses which are in trouble and that have fallen into insolvency through the fault of the directors. The aim of this article is to explain why insolvency may occur and to highlight just how helpful a liquidation process can be for both an insolvent and solvent company.

How can insolvency occur?

There are many reasons why insolvency occurs within a limited company. Putting aside director misconduct, other causes of a company's insolvency may be as follows.

- Receiving late payments from customers.
- A company they have been dealing with has entered a formal insolvency process which has had a knock-on effect.
- A dip in their market place means sales are low.
- Increased competition.
- Incorrect pricing on goods.

These unfortunate incidents can impact negatively on a trading company with the ultimate result that company must deal with insolvency and enter a liquidation process if there are no alternatives available. Entering into a voluntary liquidation process means the directors are trying to minimise the risk to creditors, which in an insolvent situation is the correct thing to do.

Why choose a liquidation process?

Whether a company is struggling with insolvency or is simply looking for a way to close down their solvent business effectively, there is a liquidation process to suit.

For an insolvent company many directors may think that they can trade their way out of their troubles.

If that is not possible they may believe that they can simply stop trading with the hope that no one will notice. However, choosing a liquidation process will ensure that all of the loose ends are tied up. This, in turn, will ensure that there is a clean break for all of the directors involved and that there are no angry creditors chasing after the money that they are owed.

What is a solvent liquidation?

The term "solvent" means that a company's assets must exceed their liabilities and that they are able to pay all of their creditors in full within 12 months, including statutory interest.

Image: iStock

A members' voluntary liquidation (MVL) is the formal liquidation process that is used to close down the affairs of a solvent company. The alternative process is an informal option which is called a "strike off".

Since changes to the legislation in 2012, for a final shareholder distribution of funds that exceed £25,000 to receive automatic capital tax treatment (this is where distributions are classed as capital receipts rather than income) an MVL process will need to be used. This system replaces HMRC's extra-statutory concession C16 which would have been used previously to receive these tax benefits.

The tax benefits of a capital rather than income distribution are the main reason companies use an MVL process. If the distribution in respect of shareholdings is to be treated as a capital rather than an income distribution there is the possibility that this will benefit from capital gains tax entrepreneurs' relief. If this is available it can reduce the tax rate down to a low 10%. This tax saving therefore usually outweighs the cost of the liquidation process itself.

The actual process is also a huge benefit to the directors because it provides the chance to dissolve a company in the correct way and not leave any unattended issues behind. The process can also benefit the accountant because it would provide further chargeable hours of work to prepare the accounts needed in this process.

> "A creditors' voluntary liquidation is a formal liquidation process used to close down the affairs of an insolvent company.

What is an insolvent liquidation?

The term insolvent means that a company cannot pay their creditors as and when the payments fall due and their liabilities exceed their assets.

A creditors' voluntary liquidation (CVL) is a formal liquidation process used to close down the affairs of an insolvent company.

A CVL is the voluntary liquidation process initiated by the shareholders of the company. It is the process of closing down the insolvent company and selling its assets to pay back a "pence in the pound" distribution to its creditors. This is on the assumption that there are the funds available to do this. This process will require an insolvency practitioner to be appointed as liquidator to manage and oversee the process.

Compared to a court-led liquidation, this process gives the director the flexibility of deciding which insolvency practitioner to appoint. It also offers them the chance to purchase the assets and goodwill of the business at a fair value if they wish to start afresh in a new trading company. This is a real benefit because the director can choose to restart their business if they so wish by using the CVL as a business rescue process. Alternatively, they can go ahead with full closure of their company.

The court-led liquidation process is called a compulsory liquidation. Usually, this process is initiated by a disgruntled creditor who is tired of waiting for payment and begins legal proceedings in an attempt to obtain the funds they are owed.

Why is understanding this important?

As the role of the accountant has developed into more of an advisory role for some clients, understanding different processes that could benefit or help them is important. Being able to offer advice on insolvency and the best practice in closing down a solvent company will help to show that the best options available have been researched and are understood. It will also highlight the adviser's efficiency and dedication to providing the best service possible for their clients across a wide range of areas.

Richard Simms is an insolvency practitioner and the managing director at FA Simms & Partners Limited. To understand more about how a liquidation process can help clients and their limited company speak to an insolvency practitioner on: 0845 200 8271. Alternatively, a selection of help sheets can be requested, in either hardcopy or via email. Contact: enquiries@fasimms.com.

Finding the right mix

Mark Finn emphasises that small and medium-sized business must find reliable sources of finance to ensure future growth.

TEN SECOND SUMMARY

1. **SMEs should be wary of funding their business with unreliable sources of borrowing.**
2. **The testing application processes of banks can dissuade businesses from loan applications.**
3. **The government must make SME productivity a key priority over the next five years.**

Official data indicates a rosy picture for the SME lending market, as both mainstream and alternative financers appear to be lending more than they did in the past. The Bank of England reported a £600m extension of loans to SMEs in the first quarter and the Asset Based Finance Association announced that £18.9bn was lent to businesses in the first quarter of 2015, a £1.2bn increase from the same time last year.

However, when we speak to small business owners and decision-makers themselves, a different picture emerges. Despite the fact that funders are willing and able to lend, UK SMEs are still relying on unstable or limited sources of finance. According to our latest survey of UK SME decision-makers, more that one in 10 are borrowing money from friends or family, while around one in four are actively using a bank overdraft to fund their business. While traditional overdrafts may seem to be a suitable option, often the limits agreed by banks are too low to make a real difference.

Mind the financing gap

The findings of our recent study are worrying because the reality points to a huge untapped financing resource that is readily available to small businesses. The number of small businesses still relying on unstable sources of finance is in complete conflict with the huge levels of funding that asset-based finance firms are able to provide, with other companies boasting the capacity to fund via more stable and sustainable forms of financing such as invoice finance. The government should realise that a lack of funding is not the problem here; it is a lack of awareness of the full range of financing options that is slowing sustainable growth. Rather than increasing the number of sources through which SMEs can receive money, the business secretary should encourage businesses to take advantage of the funding that already exists so they can move their businesses forward.

Unreliable funding options are attractive because of their immediacy and short-term benefits. Banks make rejections, while a friend is much more willing to help out. But with 17% of the SMEs we spoke to saying that unreliable cash flow is the greatest threat to their business, it is counter-intuitive to borrow from peers. Relying on overdrafts, credit cards and money from friends and family ultimately hinders long-term growth because fast-growing SMEs' funding needs change and their requirements become more sophisticated.

Many might also believe that using personal savings is a risk-free and interest-free option for injecting funds into a business. However, when that unexpected "rainy day" arrives, they may wish they had not relied on those crucial savings. It is important to look beyond the alluring short-term benefits towards long-term stability. With that in mind, many might assume that a standard bank loan is the safest bet, but there are actually a myriad of choices available to UK SMEs. While trusted advisers, accountants and solicitors are aware of these options and associated benefits, small businesses are all too often unaware of the sources of finance that are available to unlock working capital, such as invoice and lease finance.

The shifting lending market

Bank lending still has a role to play within the financing spectrum, with 13% of UK SMEs saying they finance their business using a standard bank loan. But a good proportion (15%) of small businesses fear that their request for funding will be declined – usually after an extremely testing application process which can force businesses to jump through a number of hoops. A similar proportion (14%) tell us that they simply do not want to use a bank and would prefer to rely on their own funds, suggesting that distrust towards the banks is still deeply rooted among a bruised small business community. While the banks typically focus on the financials and the balance sheet, invoice financing looks at the quality of the assets underlying the business, which can often lift the cap on funding by a large margin.

Following the financial crisis and the increased capital and liquidity requirements on banks, it is clear that they are no longer the only show in town. There are a number of providers that can provide for small businesses' increasingly complex needs. To maximise their potential and turn towards growth, small businesses must consider the full funding mix, which could mean a combination of different types of financing, including revolving-credit funding. The government has a role to play here in encouraging small businesses to think holistically about the right form of funding for their specific needs.

Peer-to-peer (P2P) lending is on the rise, but it is still in its infancy. P2P lenders are largely unproven and untested, so there is no knowing how they would cope in the event of a downturn or how they would fare in a recession. Relying on this type of lending when the prospect of a recession is very real is a risk in itself. Meanwhile, although banks are starting to take risk on their balance sheets again, small businesses remain distrustful and would prefer to draw upon their own financial resources rather than turn to a bank loan. But SMEs' need for stable cashflow remains and the independent financing sector is therefore more important than ever. With a range of stable and sustainable options available, businesses do not need to put themselves in the firing line when working capital is there for the taking.

Image: iStock

> "Businesses do not need to put themselves in the firing line when working capital is there for the taking.

Solving the productivity puzzle

Despite signs of GDP growth, UK productivity is still sadly lagging behind all other developed nations. With small and medium-sized businesses a key component of the UK economy, the government is sure to make SME productivity a key priority over the next five years. Greater awareness of the full funding mix – and all the options available to SMEs – would allow businesses to make long-term investments to deliver future growth, rather than grasping at solutions that only offer short-term benefits, helping to improve productivity over the long term.

SMEs require temporal confidence and stability to flourish. Only once businesses have certainty on big picture issues such as monetary policy, tax rates and the UK's membership of the European Union, will they be able to tackle the productivity puzzle. UK SMEs want simplicity and stability from the Conservative government – but with high employment and low productivity, there is a possibility that the UK could enter another recession over the next two to three years. The government must address the economic challenges ahead and create a stable environment for small businesses to flourish – encompassing a reduction in the business tax rates and clarity on the tax regime over the next five years. Alternative lenders are able to provide certainty on cashflow, but not on policy change. That is why the new government would do well to make its intentions clear, so that small businesses can make long-term sustainable plans and start investing for their future.

Certainty

Small and medium-sized businesses require certainty: certainty of funding, certainty of taxation and certainty of the business environment in which they operate. Only then will they be able to turn their attention to boosting the productivity levels of their businesses. Only then will we see the UK catching up to, and hopefully surpassing, its counterparts on this key metric.

Mark Finn is managing director, invoice discounting at Bibby Financial Services. Formerly UK director of invoice discounting at Bank of Scotland Cashflow Finance, Mark has 30 years' experience in the finance sector. Throughout his career Mark has held a number of senior executive positions leading national client management and sales teams within the invoice finance market. Bibby Financial Services is an independent invoice finance specialist and a trusted provider of funding solutions to 7,000 businesses.

Can I keep it?

Martyn Durbidge considers the accountant's power to exercise a lien over documents and the handover problems that can arise from outstanding fees.

TEN SECOND SUMMARY

1. **Accountants may be disinclined to cooperate with a new adviser when there are outstanding fees owed by the client.**
2. **The IFA and FTA members' handbooks provide information, but legal advice is recommended in all but the most straightforward of cases.**
3. **There may be occasions when exercising a lien is suitable and proportionate, but the IFA does not encourage this as a means of recovering outstanding fees.**

When a new accountant sends their professional clearance letter – more properly called a professional enquiry letter – they generally ask for handover information. This information can be a mix of material, some of which will be owned by the accountant and some by the client. Problems can arise if the client has not paid their bill or if there is some other dispute surrounding the client's departure. The outgoing accountant, not surprisingly, is then unwilling to cooperate with the new accountant and will not provide the books, records and information requested in the professional enquiry letter.

Members refusing to release books and papers, – whether hard copy or digital, which are required by a new accountant – on the grounds that they are exercising a lien over that documentation is a common problem. This often leads to a complaint by the new accountant, or the client, against the Institute member.

The key IFA documents that contain information on liens are the IFA and FTA members' handbooks (pages 35 to 38 in the former and pages 28 to 30 in the latter). The information contained in both handbooks is identical and both make the point that, because lien and ownership of documents are legal questions, guidance can never replace legal advice. Legal advice is advisable in even the most straightforward of cases.

Before examining the topic in detail, it is important to understand the difference between "exercising a lien" and declining to release information that the adviser possesses. They are not necessarily the same.

What is a lien?

A lien is when a person retains someone else's property against a debt due to them. There are two types of liens.

The first is a "general" lien, which is when property is held against any debt. As an example let us imagine that Mr A borrows a power drill from their neighbour Mr B and a little later Mr B's son kicks his football through Mr A's window. In that case, and even though the two items are not related, Mr A might try to exercise a general lien over Mr B's power drill (ie he holds on to it) until Mr B, or indeed his son, pays for a replacement window.

The second type is a "particular" lien. This is where specific or particular property is held against a debt due in respect of that property. An example here would be where an accountant holds onto a client's records against fees charged for work done using those records.

If a person retains material that belongs to them in the first place, this is not a lien. In such cases, the information or a document need never be released. Of course, in the normal course of events we do, as a matter of professional courtesy, release information to the new accountant as requested in their professional enquiry letter and if we did not we would be open to criticism. However, it is important to be aware of the difference and how the work that is done and the nature of the client can change the question of ownership.

So who owns what?

This is a legal minefield and also depends on whether the accountant is acting as a principal or agent. If they are acting as principal more will belong to them than if they act as agent. But if the client is a limited company then information which was thought to be part of the working papers actually belongs to the client. As the IFA and FTA handbooks state, in cases of uncertainty, legal advice should be taken.


Image: iStock

If the adviser is acting as agent, as a general rule the client owns the following.

- Everything they give the accountant to help them do their job (such as financial records, invoices, bank statements, HMRC correspondence).
- Any final product of the accountant's instructions, such as final accounts and completed tax return.
- Correspondence generated or received by the accountant as part of their job.
- File notes generated by the accountant (and reflected in his fee note) to help him reach the final product.
- Statutory books of limited companies which have to be available for public inspection. This is of particular relevance to members who provide company secretarial services, eg articles of association, directors' minutes, register of members.
- Accounting records that must be available for public inspection, such as PAYE records, ledgers, journals, balances, schedules, invoices, cheque books and bank statements. The actual accounts themselves do not form part of the accounting records.

When acting as agent, the accountant owns:

- papers created to help him reach the final product, such as lead schedules and working papers, such as breakdown of debtors and creditors; and
- correspondence from the client and file copies of correspondence to the client.

What does the law say?

According to the law, accountants can only exercise particular liens, ie the right of an accountant to retain a client's property, until the client pays fees owed to the accountant in respect of that property. Accountants should note the following points.

First, a particular lien can only be exercised if the documents retained are the property of the client. The accountant cannot hold on to the directors' personal records if the outstanding fees are owed by the company.

Second, the documents that the accountant seeks to retain must have been obtained from the client, not by accident or improperly.

Third, work must have been done and a fee note rendered, and those fees must be in respect of the work on those documents. The accountant cannot hold on to papers relating to the 2015 accounts if the outstanding fees relate to the preparation of the 2014 accounts.

There are some other "rules" that crop up quite often.

- A lien cannot be exercised over the accounting records of a limited company, such as PAYE records, bank statements, invoices, ledgers, cash book, journals, trial balances (although the accounts themselves are not part of the accounting records).
- A lien cannot be exercised over a limited company's statutory books, such as the register of members, articles of association and directors' minutes.
- There will be difficulty exercising a lien over tax returns, because that could prevent a client from complying with the law.
- A lien cannot be exercised if the client company is in an insolvency procedure.

A lien should not be exercised when it would be inappropriate to do so. This might be when there are ongoing arbitration or legal proceedings or an agreement has been reached.

The IFA's position

If a member decides to exercise a particular lien, then the IFA strongly recommends that they record their reasons for doing so and also consider taking legal advice. Lien is a legal concept, so the IFA cannot determine whether any lien is valid or not; only the courts can do that.

Members need to be aware that exercising a lien may result in a complaint being made against them by the client or another professional accountant. If a complaint is received by the IFA, the Institute will follow due process and may need to prepare a case report for consideration by the IFA's investigations committee. Further information on the IFA's complaints process is available at: www.lexisurl.com/IFAcomp.

So, as the *Members Handbook* points out, taking legal advice needs to be considered before exercising a lien "in any but the most straightforward of cases". Further, members should think very carefully about taking such action and the nuisance value of a member's lien or non-cooperation will provoke ill-will. Although the IFA recognises there may be occasions when such action is suitable and proportionate, the institute does not encourage liens as a means of recovering outstanding fees.

FURTHER INFORMATION

Further information on the IFA's complaints process is available at: www.lexisurl.com/IFAcomp

Martyn Durbidge is IFA's disciplinary case manager. He previously worked in the ICAEW's professional conduct department for many years as a complaints assessor. Martyn can be contacted by email: martynd@ifa.org.uk

Summer meetings

Adam Lizzimore *outlines forthcoming branch and national meetings and reminds members of their CPD obligations.*

TEN SECOND SUMMARY

1. **New CPD requirements for all IFA members.**
2. **The institute recommends 30 CPD hours a year.**
3. **Register for local meetings to benefit for CPD.**

Members should be aware that, from the 1 January 2015, the new continuing professional development (CPD) requirements apply to all IFA and FTA members. The changes include the following elements.

- Whether members are in practice or employed in business, they will be required to complete and return an annual CPD declaration to the IFA between October 2015 and January 2016.
- The number of annual CPD hours is no longer prescribed, but the institute strongly recommends 30 hours CPD a year, of which 20 hours should be structured CPD.
- Members may be selected for monitoring so they must maintain all records and evidence of CPD activity.

Every year, the IFA chooses a random sample of 10% of members and will ask to see their CPD records to ensure that they have complied with the IFA's requirements. If a member is selected for CPD monitoring, the IFA will write to or email them.

To claim CPD from IFA events (local branch meetings, conferences, workshops etc) members must sign in on the day of the event. Confirmation before the event will be checked against the completed attendance list after the meeting. Members who have not signed in on the day of the event will not be able to claim CPD for that event.

For more information on IFA CPD requirements please visit: www.ifa.org.uk/cpd/cpd-requirements/.

THURSDAY, 30 JULY 2015 (9:30AM – 4:30PM)

London – Business Development Workshop

This one day event is focused on how a sole practitioner or small practice can gain new clients. The programme is supported with excellent materials and step-by-step guides that help drive your business and filled with tips and tricks to enhance your chance of gaining clients.

CCT Venues Barbican, London
Aldersgate House,
135 – 137 Aldersgate Street, London EC1A 4JA
Confirm attendance at: www.ifa.org.uk/events/national-events/

WEDNESDAY, 30 SEPTEMBER 2015 (4:00PM – 8:00PM)

Scotland Branch

Stuart Wilson, Ascarii. Cloud-based accounting solutions for small businesses.
Glasgow Caledonian University
Cowcaddens Road, Britannia Building, Glasgow, Lanarkshire, G4 0BA

THURSDAY, 17 SEPTEMBER 2015 (6:00PM – 9:00PM)

East Midlands Branch

Provisional date, full programme to be confirmed.
Cloud accounting and social media.
Stoney Croft Hotel
Elmfield Avenue, Leicester, LE2 1RB

THURSDAY, 6 AUGUST 2015 (6:00PM – 9:00PM)

South West Midlands Branch

Vicki White and **Ian Batkin** of Luvo Financial LLP. R&D Tax
Mark Field, DM Informatics. Online marketing.
The Abbey Hotel
Hither Green Lane, Redditch, Worcestershire, B98

TUESDAY, 8 SEPTEMBER 2015 (4:00PM – 7:00PM)

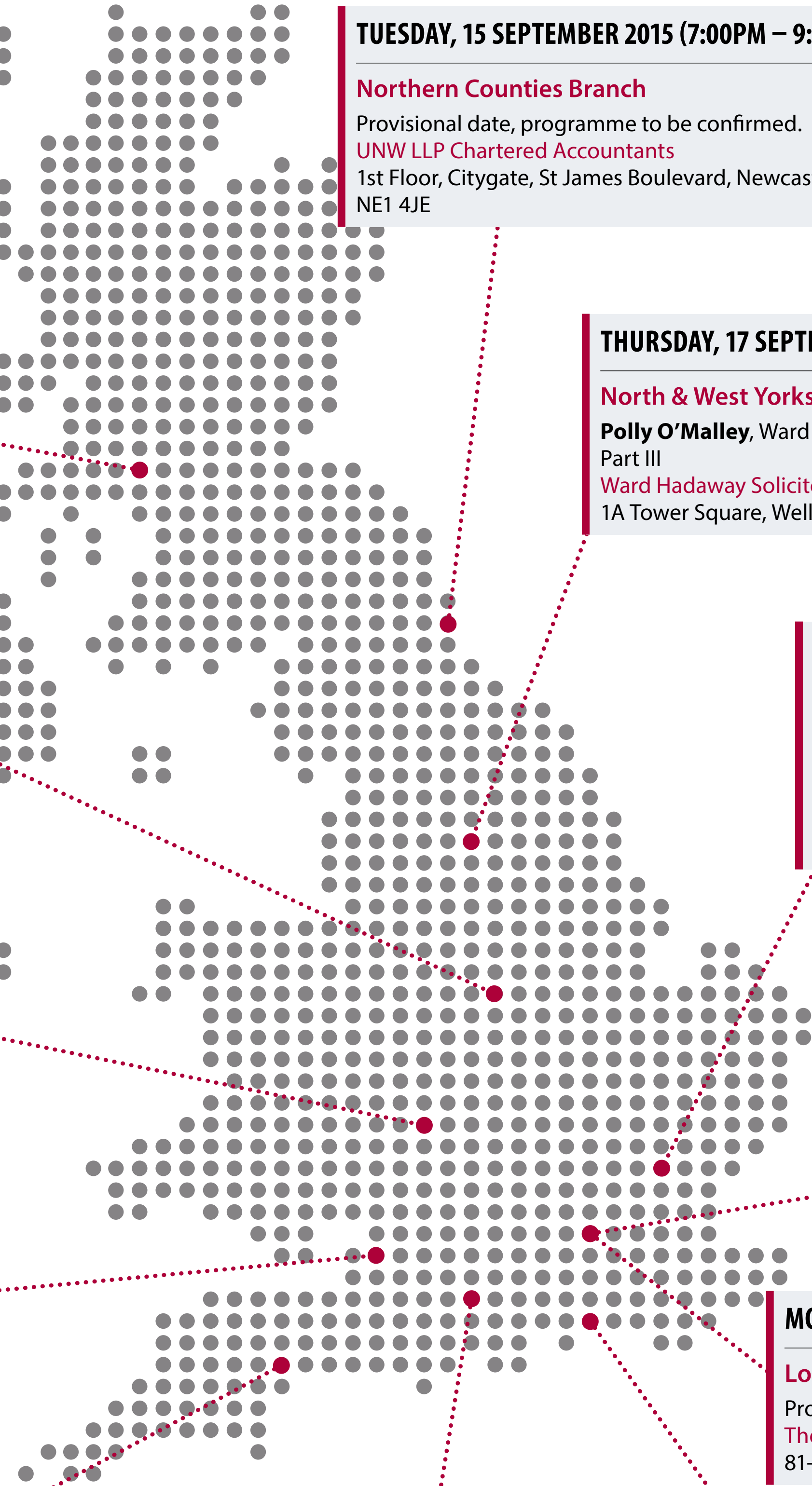
West of England & South Wales Branch

Provisional date, programme to be confirmed.
The Bristol Golf Club
St Swithins Park, Blackhorse Hill, Almondsbury, Bristol, BS10 7T

WEDNESDAY, 9 SEPTEMBER 2015 (5:00PM – 9:00PM)

Devon & Cornwall Branch

Mark Tipper, Tailored auto-enrolment. Making auto enrolment easy.
Mark Field, DM Information. Website development and online marketing strategies.
Exeter Court Hotel
Kennford, Exeter, EX6 7UX



TUESDAY, 15 SEPTEMBER 2015 (7:00PM – 9:00PM)

Northern Counties Branch

Provisional date, programme to be confirmed.
UNW LLP Chartered Accountants
1st Floor, Citygate, St James Boulevard, Newcastle upon Tyne, NE1 4JE

THURSDAY, 17 SEPTEMBER 2015 (7:30PM – 9:30PM)

North & West Yorkshire Branch

Polly O'Malley, Ward Hadoway Solicitors. Employment Law – Part III
Ward Hadaway Solicitors
1A Tower Square, Wellington Street , Leeds, LS1 4DL

MONDAY, 21 SEPTEMBER 2015 (6:00PM – 9:00PM)

Essex Branch

Glyn Mummery, FRP Advisory. Members voluntary liquidations.
Kieran Mehngar, Mattioli Woods. Pensions, investments and employee benefits.
Jupiter House
Warley Hill Business Park, The Drive, Brentwood, CM13 3BE

MONDAY, 3 AUGUST 2015 (6:00PM – 9:00PM)

London Branch

Jack Mansfield, Companies House. Electronic filing of accounts.
Graeme Smallman, Ablestoke Financial Planning. Practical auto enrolment
The Wesley
81-103 Euston Street, Euston, London, NW1 2EZ

MONDAY, 28 SEPTEMBER 2015 (6:00PM – 9:00PM)

London Branch

Provisional date, programme to be confirmed.
The Wesley
81-103 Euston Street, Euston, London, NW1 2EZ

WEDNESDAY, 16 SEPTEMBER 2015 (4:00PM – 9:00PM)

Hampshire & Dorset Branch

Provisional date, programme to be confirmed.
Marwell Hotel
Ashstead Suite, Thompson Lane, Colden Common, Winchester, Hampshire, SO21 1JY

TUESDAY, 1 SEPTEMBER 2015 (6:00PM – 9:00PM)

Sussex Branch

Provisional date, to be confirmed
Hollingbury Golf Club
Ditchling Road, Brighton, West Sussex, BN1 7HS

Summer news

The IFA continues to work to enhance and develop the local branch network throughout the summer months, as ***Adam Lizzimore*** reports.

FURTHER INFORMATION

IFA/IAB Joint Conference
Date: 17 September
Location: Birmingham

IFA Midlands Conference
Date: 15 October
Location: West Bromwich

IFA Southern Conference
Date: 11 November
Location: London

Summer is in full swing and many of us are preparing to take a well-deserved break. While IFA and FTA members are away exploring or relaxing, they can rest assured that the institute continues to work behind the scenes to enhance their recognition through the "Voice of the SME", while organising CPD and networking opportunities.

Although we are still undergoing a transition, the IFA local branches have already held more than 50 local meetings so far this year. We are also very pleased to inform members that another new IFA branch has launched – IFA Bucks, Oxon & Berks – and it held its first meeting in Oxford. This latest group takes us to 19 active local branches. Well done to all of those who have and continue to make the IFA local branch network a continuing success.

To find their closest local branch, members should go to www.ifa.org.uk/branches/map/ and simply click on the pointers to see branch details.

Save the date

For the remainder of 2015 we will be holding three conferences, one of which will be a joint meeting with the International Association of Bookkeepers (IAB). The conferences are open to anyone who is interested in finance and accountancy, so please invite friends and colleagues. Dates and locations are shown alongside in ***Further Information***.

Planning is well underway and over the coming weeks programme and pricing details for all three conferences will be sent by email and displayed on the IFA website at www.ifa.org.uk/events/. To ensure that these notices are received and that they do not miss other news, members should check that they have provided us with their most up-to-date contact details. This can be done by logging into the member's area on the ifa.org.uk website.

To whet appetites, the programme of our conferences will cover topics including financial reporting and independent examinations to cyber security and payroll. While we finalise the details for this years' conferences why not get in touch and let us know what topics you want to hear in 2016 IFA and FTA conferences. Get in touch at talktous@ifa.org.uk.

Recommend a student

The IFA local branches play a major role in keeping members up to date on both the technical and softer topics that affect them and their client businesses as well as providing a great forum to network with like-minded people. They are free for anyone to attend and this includes those who are looking to start a career in accountancy or who are studying already.

Over the past 12months, we have seen some local branches engage with local universities and colleges to give those interested in finance and accountancy a taste of small business life. We are pleased that they have been hugely successful, with some students even being offered the opportunity to gain vital experience by working alongside IFA and FTA members to kick-start their careers.

For members who know someone who is looking for a career in finance and accountancy or who is deciding on which professional accountancy qualification they should obtain and is looking for advice, the IFA would be happy to help. Please contact education@ifa.org.uk.

We are pleased to advise that the IFA level 4 learning materials are now available and these further enhance the IFA's provision of learning resources, which all have an SME focus. To find out more please visit www.ifa.org.uk/learning/.

2016 membership renewals

Members can set up a direct debit to make renewal hassle free. Further, the membership fee can be paid in one lump sum or in instalments. We would ask those who have not yet set anything up to contact the IFA membership team at membership@ifa.org.uk to discuss their options.

Upon renewal this year, all members must submit an annual CPD declaration whether working in business or practice, in the UK or abroad.

For more information please visit: www.ifa.org.uk/cpd/cpd-requirements/.

Member feedback

In the May/June 2015 edition of *Financial Accountant* we asked members some questions on their thoughts of the general election and its impact on small business and the EU and its future. We would like to thank everyone for their feedback.

Although we have not been able to respond to everyone, these comments are crucial for us to better represent the membership when we engage with decision and policymakers on SME and SMP matters. I would ask members who have any further comments or opinions to please use their IFA local branch or get in touch via talktous@ifa.org.uk.

Adam Lizzimore is the marketing and communications manager of the IFA. As part of his role, he coordinates 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 020 7554 5190 or email: adaml@ifa.org.uk

Image: iStock

Sharing solutions

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

CHARITY GUIDANCE

As members may be aware, the Charity Commission has moved its content and joined the central government website: GOV.UK. To support charities and their advisers, in its recent newsletter, *CC News 50*, dated April 2015 (www.lexisurl.com/ccnews50), the Charity Commission provided five tips on how to find its guidance on GOV.UK. These tips are as follows.

- When using Google, Bing or other search engines, always include “charity commission” in your search terms; for example, “report serious incident charity commission”.
- Bookmark the list of topics, these list guidance for charities produced by the commission and others such as HMRC.
- Bookmark our homepage to use its quick links for common tasks like annual returns.
- When using the GOV.UK site search, choose to only show commission guidance in search returns by clicking on the drop-down “Organisations” filter and ticking “The Charity Commission” (alternatively you can also include ‘charity commission’ in your search terms).
- Click “The Charity Commission” link at the top of each page of guidance to return to our homepage or type “charity commission” into the GOV.UK search box.

Don’t forget that it is possible to receive the latest updates from the Charity Commission, which include its quarterly newsletter, by signing up to free email alerts at: www.lexisurl.com/ccemails.

Anne Davis,
Head of regulation and policy, IFA.

PRACTISING CERTIFICATES

Are you providing accountancy services to the public? The institute would like to remind all members of their obligation to hold a practising certificate and be supervised under the Money Laundering Regulations 2007 if they are offering accountancy services to the public.

The overall accountancy services that IFA members may undertake supervised by their IFA practising certificate are defined as:

- the preparation of financial records, returns, statements or information – this includes recording, review, analysis, calculation and reporting of financial information; or
- the provision of consultancy or advice concerning accounting or taxation matters; or
- the representation of a client to/before third parties in matters concerning accounting or taxation.

The IFA website includes further information on the types of services that are considered to be accountancy services, the requirements for a practising certificate, and possible exemptions. Go to: www.lexisurl.com/ifa-h6s.

Note that failure to have a practising certificate or be supervised for the Money Laundering Regulations 2007 by a member who is providing accountancy services to the public, may lead to disciplinary action by the IFA.

Members who need to apply for a practising certificate and anti-money laundering cover or who have any queries relating to these areas should contact David Haste (davidh@ifa.org.uk) in the IFA’s membership department.

David Haste,
Membership support executive, IFA.

COMMUNITY INTEREST COMPANIES

The IFA has recently received a call from a member on community interest companies (CICs) and whether they can prepare accounts.

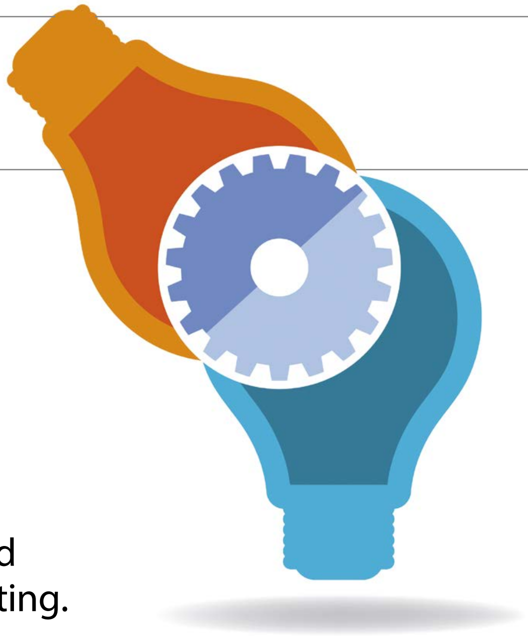
The position is that, as far as accounts are concerned, there are no restrictions on who can prepare accounts for a CIC. The accounts for such bodies are the same as for any other limited company, but the CIC must also submit an annual report to Companies House with the accounts.

The annual report and the accounts will then be copied to the CIC regulator.

It is worth noting that the CIC has additional conditions which must be met regarding asset lock, dividends payable and other matters. The CIC regulator’s website, at www.bis.gov.uk/cicregulator/ has additional guidance.

Particular guidance that may be of help is at: www.lexisurl.com/ifa-t2d.

Sophie Clemence,
Marketing assistant, IFA.



Share your views

Anne Davis suggests that IFA members should engage in the consultation on charity accounting.

FURTHER INFORMATION

The closing deadline for the above consultations is 18 September 2015. Further information is available on the SORP microsite (www.lexisurl.com/sorp5). The IFA will be responding to these consultations.
If you would like your reviews to be considered as part of IFA's response, please send comments to Anne Davis (anned@ifa.org.uk) by 31 August 2015.

Anne Davis is head of regulation and policy at the IFA. She is also an independent consultant specialising in financial ethics and the governance of not-for-profit organisations. Previously, she worked at the ICAEW as integrity and ethics manager and as head of charities and the voluntary sector. Anne trained with Coopers & Lybrand and has held financial and management roles with the National Provincial Building Society (now part of Santander), Whitbread and General Motors Asset Management. She is also a treasurer for the charity Carers' Trust Cambridgeshire.
Anne can be contacted by email: AnneD@ifa.org.uk

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TEN SECOND SUMMARY

1 **Minor accounting changes are proposed.**
2 **Increased scope of the charities SORP.**
3 **Cash flow statements only for larger charities.**

Changes to UK and Irish accounting practice from 2016 mean that the charities SORPs (statements of recommended practice) will need to be updated. The SORPs must comply with the expected changes to accounting standards by the Financial Reporting Council (FRC). The expected changes to GAAP mean that:

- the charities SORP (FRSSE) will not apply for reporting periods (financial years) beginning on or after 1 January 2016; and
- changes are needed to the charities SORP (FRS 102) effective for reporting periods (financial years) beginning on or after 1 January 2016.

As a result, the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator, who together are the SORP-making body, have launched two three-month consultations.

Draft bulletin consultation

The first consultation is *Draft Update Bulletin 1*, which proposes minor accounting amendments to the charities SORP (FRS102). These are required as a result of changes in accounting and company law due to the implementation of the EU Accounting Directive. Areas covered in the consultation include:

- amending the measurement basis of the carrying value for inventories held for distribution at no or nominal consideration to require their measurement at the lower of cost (adjusted when applicable for any loss of service potential) and replacement cost;
- revising the maximum period over which goodwill and other intangible assets may be amortised from five to 10 years in those exceptional cases where an entity is unable to make a reliable estimate of the asset's useful economic life;
- prohibiting the reversal of impairment losses for goodwill;
- prohibiting merger accounting for charities that are companies and which enter into a business combination with a third party; and
- amending the definition of larger charities to those with a gross income of £500,000 (UK) or 500,000 euros (Republic of Ireland) in the reporting period.

Charities SORP (FRSSE)

The second measure is the proposal to withdraw the charities SORP (FRSSE) and increase the scope of the charities SORP (FRS 102) from 1 January 2016. As detailed in the invitation to comment, various options were considered for the expected withdrawal of the FRSSE, the underlying standard on which the charities SORP (FRSSE) is based.

Key factors for considering the various options were the adoption of a common recognition and measurement approach, the need for charity reports and accounts to give a "true and fair view" and the fulfilment of stewardship requirements of charities to their stakeholders. It was concluded that if the treatment of an item depends upon its character and not the size of the reporting charity then, unless it is immaterial, the item should be reported in the accounts. If it is reported in the accounts, for the accounts to give a true and fair view in accordance with FRS 102 the disclosures are the same whether the charity meets the criteria of a small entity or not.

Into the future

As well as moving to one SORP, it is proposed that the statement of cash flows should be mandatory only for larger charities – those with gross income exceeding £500,000 or 500,000 euros. Other charities may prepare a statement if they wish and, of those charities that must by law prepare accruals accounts, 67% would therefore not need to prepare one.

If implemented, these changes will be effective for reporting periods beginning on or after 1 January 2016. The SORP-making body anticipates that the update bulletin would be published in late February or early March 2016.

Looking to the future, the joint SORP-making body in partnership with the charities SORP committee will seek views on topical issues. Such comments and ideas will inform future changes to the trustees' annual reports and the disclosure of items in the notes to the accounts. This discussion will open in September and will seek to identify topics for further review in 2016.