

tlp - news

May 2014

The monthly newsletter of The Long Partnership and A A Mackenzie & Co.

www.thelongpartnership.co.uk

Get in touch!

We like to provide you with information and strategies on current business and tax issues.

However, in these few short paragraphs we can only give you a summary or outline - a brief guide.

Many of these are introductions to otherwise quite complex issues and, if you are in any doubt, you should contact us so that we can advise you on your own particular circumstances.

Quotes

"I think there's a great beauty to having problems. That's one of the ways we learn."

-- Herbie Hancock,
musician

"Losing is a learning experience. It teaches you humility. It teaches you to work harder."

-- Yogi Berra

"Nobody grows old by merely living a number of years. People grow old by deserting their ideals. You are as young as your faith, as old as your doubt; as young as your self-confidence, as old as your fear; as young as your hope, as old as your despair."

-- Douglas MacArthur,
General

"Wisdom doesn't automatically come with old age. Nothing does - except wrinkles. It's true some wines improve with age. But only if the grapes were good in the first place."

-- Abigail Van Buren,
Advice Columnist

Everything counts! It's the title of a book that arrived in my post recently.

We are constantly being told of the most important things you must do, whether it is in selling, marketing, or in fact achieving any of your goals. Well, the message in this book is different and I cannot help but feel it has a very "old fashioned" but nonetheless very valid point.

The point is that everything does count. Not just the big things, but all the small things as well. I remember hearing that you should always polish the backs of your shoes because, if you are walking up stairs in front of someone you want to influence, it is the back of your shoes that they will see.

So, there is no "one thing" that you must do. You must pay attention to everything and that is scary. It means that you need to be able to do this stuff almost instinctively because there is just so much that you need to do, you cannot trust it all to conscious thought. It has to be part of what you are, so that what you do is the best it can be.

So, it is not what you do that matters, it is what you are. Get that right and the rest will follow.

On a similar theme I came across some interesting statistics recently. It was interesting to me because I regularly make presentations and I do not think I am too bad at it. Others may disagree, they may be right! However, when you get up to speak, having been introduced by the Chairman, it can sometimes feel like a **Christian being thrown to the lions**.

Apparently, research has shown that the words you speak account for about 7 percent of what makes you believable. Just 7 percent! The other 93% comes from **Tonality and physiology**, the way you sound when you're communicating and what your body is doing while you're communicating. The percentages may be a bit off but on the whole I agree.

The instant you begin speaking, people listening to you begin to form very definite opinions and judgments about your intelligence, your personality, your sincerity, your authority, your abilities, your background, and more.

What is the first thing you notice? What about the accent? Does it fit? Does it affect your reaction to the message?

These opinions begin to form and solidify as soon as you start to speak and long before the actual words you are saying are heard and understood. Everything counts! Is your tie straight, is it the right length, where do you look when you speak, how clear and authoritative is your voice, are your shoes clean, are you clothes smart, clean and well presented? Only then will your audience fully engage with what you are actually saying.

Remember what your mother told you – you only get one chance to make a first impression. Once established, these opinions can be extremely difficult to change.

That's why even the most carefully worded, painstakingly practiced speech, presentation, or conversation can go completely awry if you have not mastered your own voice and body language.

Just think about the politicians you like or do not like. There is just something about some of them that does not resonate with you and often the spoken message is not the main reason. Is it the accent, the clothes, posture, or something else that you cannot quite put your finger on?

Remember that the voice you hear when you speak is not the same as others hear. They hear a completely different voice to the one in your head. How do you react to hearing a recording of your own voice? Can you change it?

People who speak for a living, part time or not, know that they need to be able to communicate clearly and precisely, remembering that only a small part of the message comes from the spoken words. Like me, you will probably recall speakers who droned on with huge amounts of facts, but failed to engage you and so failed to get across their message. Speak less, present well, entertain. People will listen, learn and appreciate your talk.

Crocodile Injured by Falling Accountant

From our Russian Correspondent.

The Moscow Times reports that a dangerous reptile sustained injuries after being squashed by a portly circus accountant on a road trip in northern Russia on Tuesday.

The two-meter-long crocodile was peacefully snoozing on the floor when the tour bus hit a bump in the road, triggering an unfortunate chain of events that caused a 120-kilogram female accountant to be thrown into the crocodile and said crocodile to vomit for several hours afterward, RIA Novosti reported.

Both reportedly sustained shock and minor injuries. But the crocodile, named Fedya, apparently fared worse than the accountant. He vomited for three hours after the accidental full body slam, though a medical examination found he was clear of any internal injuries, Komso-molskaya Pravda reported.

Fedya had to skip a performance that had been scheduled for later in the evening, however.

The accountant, whose name was withheld, was issued a formal reprimand for neglecting to wear a seat belt.

Big Red Cloud Floats

Irish cloud accounting software firm Big Red Cloud is preparing a joint float on London Stock Exchange's Aim and Ireland's ESM market to fund its expansion into the UK market.

The firm, which developed the desktop package Big Red Book in 1993 before progressing to the cloud, is looking to raise at least £4.1m from the float on 30 May.

The software package has over 30,000 small to medium sized business and accountant users and was originally devised by an Irish accounting firm.

The chief executive is Marc O'Dwyer who owns 90% of the company. Finance director Paraic Nolan owns the other 10%. O'Dwyer has been in the accounting software industry for 25 years. He came on board with Big Red Book in 2001.

What's new with alternative finance?

From an article by Mike Smith published on Accountingweb.

Has the alternative finance market stepped in to fill the gap left by banks? Costs can be very variable as some providers in the market capitalise on the withdrawal of banks from risky lending. However, others have taken a more sustainable approach and are not trying to squeeze the last pound of profit from the situation.

Either way, they fulfil a much needed role at the moment, whether you want simple banking facilities or to raise funds from invoices.

Funding Circle is one of the largest alternative lenders and most of us have received one or more mailshots from them. Research suggests that 73% of the clients of Funding Circle would not go back to using a bank even when offered the same facilities.

Invoice finance

Market Invoice has more than £168bn in invoices traded to date. It provides a platform for business owners to register their invoices, where they can set terms for potential investors to bid on a particular invoice. The debtor never knows who has provided finance on their debt. There are no personal guarantees or securities taken on the company assets. Charges are explicit; no contracts are required to be signed and cash is paid within 24 hours of the auction closing. The absence of security or guarantees means that there is more emphasis placed on the quality of the debtor.

Platform Black has a similar service with some subtle differences. Platform Black assesses each case on its merits. Unlike Market Invoice it will permit sole traders and when appropriate, seek guarantees or securities.

Both companies prefer well established larger firms with good Experian ratings to minimise risks within the B2B sector.

Crowd funding (Peer to peer lending)

This market has expanded rapidly, having grown from lending £492m in 2012 to £1.4bn in the last twelve months. This is on top of the government committing a further 3.4bn to alternative lenders in the next year. Social media such as Facebook, Twitter, LinkedIn and YouTube are playing a part in the growth of this market. FCA has now started to regulate the market and issued guidelines to peer to peer lenders in March 2014.

The market leaders in this sector are **Funding Circle** (business specific finance), **Zopa** (business and personal finance) and **Ratesetter** (business and personal finance).

Zopa is the largest of the alternative platform lenders with lending of £520m, but this is not business specific. Funding Circle has government backing and has loaned over £268m to 28,750 UK businesses. **Funding Tree** may be more useful if you are looking for start-up finance.

Business owners generally benefit from lower rates because lenders have to bid to invest. The loan is usually agreed quickly and less supporting information is normally required. Expect to provide at least 2 years accounts and you should have a good credit rating. There is an online application where the proposal will be assessed for risk and rated. Remember your details may be visible to competitors.

Other finance options

Crowdcube enables investors to invest in early stage and growing businesses in exchange for equity. It has grown 600% in the last year. 99% of their businesses are EIS and SEIS compliant, which is a great tax incentive to encourage investment.

Syscap has tailored finance solutions for IT and helps businesses acquire the assets and resources they need, without traditional budgetary constraints.

Premium Credit provides consumer and business policyholders with the ability to pay insurance premiums by periodic monthly instalments.

Where do we go from here?

Will banks change their approach to focus more on the B2C relationships and leave small business lending to the alternative sector or will they buy up the bigger players in this market and start to operate in the market?

The New “Sexy” in Tax

Intellectual property tax is fast becoming “sexy” in the tax world. Many businesses could benefit from it, but think that R&D tax relief was **just for men in white coats**.

New CIOT president Anne Fairpo recently said “I’ve been doing this for 20 years, but suddenly intellectual property tax suddenly became fashionable three years ago.”

The fad is being driven by the various tax incentives that have been launched in the past few years, including the R&D expenditure credit introduced last year and the patent box.

Just to show you how important this can be, a small or medium-sized company that has yet to make a profit may be able to claim a tax credit for research and development (R&D), and get cash back even though it has not actually paid any tax yet. A company that is already making a profit can claim the more generous relief as a deduction from its corporation tax bill.

Conditions

In terms of making a claim, the first condition to be met is that you must be a company paying corporation tax, not a sole trader or partnership.

Second, the company must be a going concern and the latest accounts must not indicate anything that could call into question its ability to continue in business.

Third, a claim may only be claimed for revenue expenditure, such as for premises costs and wages. Any capital expenditure may not be included, though there is a separate capital allowance for R&D.

What is included

R&D revenue expenditure includes:

- cost of employing staff directly
- paying an agency or other staff provider for workers or subcontractors directly engaged in R&D activity.
- consumable and transformable materials used directly in R&D work
- power, water, fuel and computer software used in carrying out R&D

A basic definition of R&D is “work to resolve scientific or technological uncertainty aimed at achieving an advance in science or technology”. This can include new or improved products, services or processes.

Calculation

There no minimum but the maximum that may be claimed is €7.5m for any one project. This maximum may be further restricted if your company has received any other form of state subsidy or grant.

R&D tax credits are paid as a cash sum by HMRC. The amount of tax credit is calculated as a percentage of enhanced R&D spending. From 1 April 2012, the enhancement is 125% of expenditure, provided the company has made sufficient trading losses. This means that for actual R&D spending of £10,000, the enhanced spending is up to £22,500. It has been enhanced by £12,500. The rate of tax credit is (from 1 April 2012) 11% of this figure. In this example, the figure is £2,475. This is 24.75% of the total spending.

How to claim

A claim must be made within two years of the end of the accounting period in which the expenditure was incurred.

The claim is made through the company’s Corporation Tax Return. There are a few entries to be made and boxes to tick.

It is not strictly a legal requirement, but HMRC suggests that companies send a covering letter saying why the company considers its research and development is eligible for tax relief, and how the figures in the return have been calculated.

HMRC has various specialists to determine whether work qualifies as R&D.

The Sales Prevention Department

This is where we share stories with you either of poor service or, sometimes, where an organisation’s message is undermined by their actions.

I have long held the view that there are no bad staff, only poor managers. If a member of staff is not suited to serving or dealing with the public, the question has to be asked - “Who selected them for that role?”. No-one should be put in a position of serving customers who does not believe that what they are doing is a valuable contribution to the business and their community. If they can only see as far as their next pay day, they do not have what it takes to be an ambassador for your business.

How often have you gone to a shop, supermarket or garage and been made to feel that you were interrupting the staff, busy socialising amongst themselves.

It does not matter whether it is a delivery driver, shop assistant, receptionist or office worker. If they have contact with customers, they must have the right attitude or your business will suffer. At the point of contact with your customer, they are you!

Last week, I went into a garage to buy fuel. It is a garage I know well. It is not known for its good customer service but this day was worse than usual.

As I walked in to the shop to pay for my fuel there were two people behind the counter. As I approached the counter, the girl on the till moved backwards and turned to the other member of staff and while laughing proceeded to say that she could not help herself because of what she was seeing. Am I really that funny? I felt really uncomfortable. I was pretty sure they were not talking about me but, they were talking as if I was not in the room. I think the “other” person was her supervisor. So, which owner or manager appointed a supervisor who could not supervise and was the girl on the till really up to the job.

Question: Where should I buy my fuel next time given I fill that car up every week at that service station?

The peedie bits ...

Changes in Private Pensions– in 2028

The government proposes to increase the age at which an individual can take their private pension savings at the same rate as the increase in the State Pension age so that the age is always 10 years below the state pension age.

In 2028 the State Pension age will rise to 67 and the changes to private pensions are expected to be implemented at that time. From that date people will not be able to draw their private pension benefits without a tax penalty until age 57, whether or not this is the point at which they stop work. From then on, the minimum pension age in the tax rules will rise in line with the State Pension age so that the age is always ten years below the state pension age.

New Access to Pension Funds

An Example:

Mr A is 66 and has an income of £7,500 per annum from his State Pension. He has a defined contribution pot of £100,000.

He decides to take £55,000 from his pension pot, which includes his 25% tax-free lump sum (£25,000), to pay off his mortgage. Of the £30,000 above the lump sum, £2,500 will be taxed at 0% it falls within his £10,000 personal allowance. The remaining £27,500 would then be taxed at 20%.

In year 2, Mr A takes the full £45,000 left in his pension pot. On current figures, the first £2,500 and his State Pension will be taxed at 0%, the next £31,865 will be taxed at 20% and the final £10,635 will be taxed at the higher rate of 40%.

Lap Dancers and VAT

Secrets was a club where customers could pay dancers for table company, where the dancer would sit and chat, or for private dances. The customers could pay in cash or use Secrets money vouchers prepaid through the club.

The cost to the customer included a 20% commission and it was agreed by everyone that this was a taxable supply for VAT purposes.

A further 20% was deducted by the club before paying the balance of the voucher's value to the dancer. This was a consideration for a supply by the company to the dancer. The argument was about the nature of the supply and whether it was vat-able or not.

The club claimed they were making an exempt supply of handling money. HMRC said the club was providing the dancer with performance facilities which constituted a taxable supply.

Decision:

The First-tier Tribunal concluded that the dancers were retailers in that they supplied services to the club's customers. The club provided a single supply of taxable services to the dancers, for which the dancers paid an entry fee for each evening they danced and the value of the 20% commission paid in relation to the vouchers.

So, the club lost ... but presumably the customers were quite happy.

Do you Provide e – services?

Changes Coming from 1 Jan 2015.

This affects intra-EU “business to consumer” (B2C) supplies of :

- telecommunications services
- broadcasting services
- e-services

These services are currently taxed in the country in which the business is established. From 1 January 2015 these services will be taxed in the Member State of consumption.

Example:

ABC Limited is based in the UK and sells music downloads to a range of (non-business) customers in different EU countries.

Until 31 December 2014, the place of supply is the UK for these services, and subject to 20% VAT.

From 1 January 2015, the supply will be subject to VAT based on where the customer is located and receiving the supply – so a customer in France will be charged 20% French VAT by A Ltd, and this tax will need to be declared to the French tax authorities. The income will be outside the scope of UK VAT as the place of supply is France.

MOSS:

To save the need for businesses affected by these changes having to register for VAT in other Member States, a Mini One Stop Shop (MOSS) will also be introduced from 1 January 2015. This is an IT system that will give businesses the option of registering in just the UK and accounting for VAT due in other EU countries using a single return.

De-registration:

Because some income will drop out of UK VAT, there could be some businesses that now find themselves below the UK VAT deregistration threshold and can therefore de-register for VAT.

Tax Relief for Money You Borrow to Lend Your Own Company

From time to time any of us may obtain a loan to lend to our own company. Don't miss out of the tax relief for the loan.

You can obtain income tax relief for interest on loans to buy ordinary shares in most small companies as well as where you a shareholder borrows funds and then lend the money to the company. A similar relief is available where the loan relates to an employee-controlled company.

What is IDA?

IDA stands for Identity Assurance. IDA is a new method that will allow agents, taxpayers and businesses to file returns and make other online submissions using government systems. Based on third party services, IDA will verify the identity of the user through a submission and verification process to reduce online fraud.

This will see the end of the Government Gateway by 2016-17. Identities will be provided by private sector organisations such as The Post Office, Verizon, MyDex, Digidentity and Experian.