

Clarity



THP'S BUSINESS AND PERSONAL VIEW

April 2012

"I SAY, THIS ISN'T THP NEWS!"

Do you remember that old TV ad for Worthington Bitter — the one with vintage movie footage of Russian soldiers drinking a toast?

As they hold their glasses aloft, a dubbed voice says in mock revulsion:

"I say, this isn't Worthington bitter!"

And right on cue, every man dashes his glass to pieces at his feet.



Launching this publication brought that commercial to mind, because I know many of you enjoyed and looked forward to our original newsletter, THP News.

But before you shout "This isn't THP News!" I thought you'd like to know why we created something new.

The driving force has come from our newest generation of directors who, in recent years, have led a sea change in the way we communicate with our clients.

Part of that has been about using technology to communicate in new ways, but we're equally keen to make sure we always talk clearly, engagingly and without resorting to ugly accountancy jargon.

That's why we've called this newsletter Clarity.

It's intended to be a practical publication as well as an informative one.

STOP PRESS!

Old rivalries were rekindled in March as colleagues from Cheam and Chelmsford backed opposing teams in a Sutton United vs Chelmsford City match. Sutton won the day with an impressive 3-2 home victory. We're sure our match day sponsorship brought them luck!

We hope you enjoy it.

But before you read on, I'd like to end with a big, warm 'thank you' to Nessa Hart, who has worked so hard at editing THP News for more than a decade. I'm sure you will agree that she has given our marketing department an incredibly difficult act to follow.

I hope we have risen to the challenge.

Jon Pryse-Jones

NEWS IN BRIEF

The Office of Tax Simplification has advised the Treasury to scrap income tax on state pensions. If adopted the move could provide tax savings of up to £1,000 per year for almost 5.6 million pensioners.

A YouGov poll finds half of sole traders feel that old-fashioned accountants damage their business. 51% of those polled wanted their accountant to be more proactive and provide up-to-date information on tax liabilities, profit and cash flow — all offered as standard by THP.

All smartphones given to employees are now exempt from tax and national insurance contributions. Beforehand, they were only exempt if used solely for business purposes.

From 17 February, HMRC introduced new penalties of up to £1,600 for late filing of self-assessment returns. The new rates can be applied even if you owe nothing. For details, visit www.hmrc.gov.uk/sa/deadlines-penalties.htm

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ACCOUNTANCY AND FINANCIAL NEWS AND UPDATES FOR THP CLIENTS



HMRC ANNOUNCES 2012 CRACKDOWNS

Recent HMRC campaigns have been highly successful at encouraging people to put their tax affairs in order.



They allow targeted groups of people to come forward and declare unpaid tax before an agreed date, giving them the opportunity to avoid prosecution. The campaigns are then followed up by action, including criminal investigations, which are aimed at those who are breaking the rules and haven't come forward.

HMRC's first campaign, the **Plumbers Tax Safe Plan**, raised some £4 million in unpaid tax and saw a number of plumbers arrested.

Following this success, HMRC has announced its intended campaigns for 2012.

They are:

- **Electricians Tax Safe Plan** This campaign was launched on 14 February and gives electricians until 15 May 2012 to notify HMRC they will take part in the scheme. They then have until 14 August to make formal disclosures and pay any tax owed.

- **E-marketplaces campaign** This campaign was launched on 14th March and will interest traders who have not disclosed income from goods traded on online marketplaces. People who only sell a few items on places such as eBay will not be targeted as they are unlikely to be liable for tax.

- **Direct selling** This will concern people who regularly sell goods directly to others or benefit from commission on these sales.

- **Home improvements trades campaign** This will target trades-people in industries such as roofing, window fitting, bricklaying, joinery and carpentry.

- **Missing returns** This campaign will focus on people who are liable to pay higher rate tax but who don't complete a return.

If you are concerned that any of these campaigns may apply to you, please call us for advice or visit www.hmrc.gov.uk/campaigns/ for information.



ADVISORS BACK GENERAL TAX AMNESTY A poll of 97 accountancy firms has revealed that 80% of tax advisors favour a general disclosure facility that will allow people to disclose unpaid tax from the past.

The main features advisors would like to see in such an amnesty are:

- Guaranteed immunity from prosecution
- A low fixed-rate penalty
- A 'time to pay' procedure for clients in need of it.

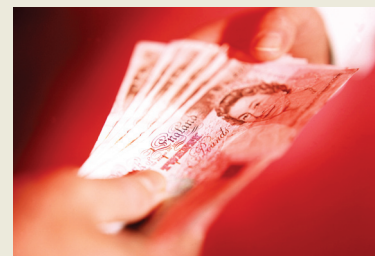


THP tax expert **Tim Housden** believes a general amnesty would benefit both individuals needing to put their tax affairs in order and HMRC itself. "Creating a simple amnesty system that allowed people to come forward without fear of prosecution would see HMRC's tax income rise and the cost of expensive legal action drop. In line with the research findings, we would like to see a helpline service to support a new general disclosure facility."

RETAILERS HOPE FOR EUROPEAN VAT WINDFALL

Thousands of UK retailers are in line for a VAT windfall if a European ruling goes their way.

The Court of Justice of the European Union (CJEU) is set to decide whether retailers who have overpaid VAT should receive their rebate with compound interest or simple interest.



If the Court rules that retailers should be paid with compound interest, many retailers could benefit from a major windfall. Littlewoods' parent company Shop Direct could be in line for a rebate worth £1 billion.

There are currently some 10,000 cases pending in the UK's first-tier tax tribunal, and about half of those concern businesses who are claiming compound interest on VAT repayments.

So if the CJEU rules in favour of applying simple interest to VAT rebates, most of those claims will collapse.

On the other hand, if it rules in favour of compound interest, HMRC is going to face a huge bill — so we could see aggressive VAT collection measures being used to make up the shortfall.



Helping Liberty win the profits game

When arcade and games room specialists Liberty Games came to THP, one of the areas we looked at was their margins. Now they're getting set to hit the jackpot.

Once the preserve of a few pioneering brands, the internet-only store is now one of the fastest growing phenomena in the retail sector.

It's easy to see the attraction. Web portals are much cheaper to operate than traditional bricks-and-mortar shops, and they allow you to offer many more products than you'd fit into the average High Street showroom.

It's a model that appealed to Stuart Kerr and Jamie Stanford who, in the early 2000s, worked together in a company that rented pool tables, arcade machines, jukeboxes and games room equipment to venues up and down the UK.

Their experience of this market had convinced them there was also a strong demand for these items from home users, but there was no major online retailer catering to the demand.

Stuart and Jamie seized the opportunity and in 2004 www.libertygames.co.uk was launched. It was an instant hit, appealing to home enthusiasts and professionals who wanted to buy games room equipment online, from pinball machines right through to flight simulators.

The website allowed Liberty Games to quickly establish itself as the go-to company in its field. Although it has offices in Epsom, it doesn't have the constraints of a traditional showroom — meaning the company can offer a good range of equipment and keep its overheads low by not having to keep every item in stock at the same time.

There was one hitch, though. In the early days of the venture, Jamie and Stuart were highly dependent on 'Pay Per Click' (PPC) online advertising — the ads that appear alongside Google's search results.

It wasn't a problem at first, as Stuart explains:

“It made sense to attract customers using PPC ads back then. But as the market got more competitive, it drove up the cost of each click and that started to cut into our margins.”

The going had become much tougher by 2009, a time when Liberty Games was on the lookout for a new firm of accountants to work with the business. The team had heard good things about THP, so they got in touch with the team at our Cheam office.

They liked what we could offer, and almost immediately they struck up a great relationship with account manager Feng Pan.

“Feng gave us lots of great advice from the outset,” Stuart remembers. “We liked having face-to-face contact with a keen and enthusiastic manager, and benefiting from advice that made a real difference to our business.”

So what advice did Feng offer at that stage? “From the outset he helped us identify where our major expenses lay and to focus on the products that made us the real money,” Stuart recalls. “He encouraged us to look closely at our margins, to consider importing products from cheaper overseas suppliers and to tackle the areas of the business where we were overspending.”

One of those areas was PPC advertising. The cost of Liberty Games' paid Google adverts had escalated, driving up the cost of recruiting new customers to an almost unsustainable level.

Feng encouraged the team to cut that expenditure and invest some of the savings in other forms of marketing. As a result, the team has developed strong

in-house search engine optimisation (SEO) skills, allowing them to attract more business through non-paid Google searches and reduce the cost of winning each new customer.

Thanks in part to Feng's advice and lots of hard work by everyone at Liberty Games, the company is now thriving. THP continues to support the company and not only offers continuing strategic advice but also completes its statutory accounts and tax returns, as well as operating its payroll.



And because the firm now has up-to-date management accounts available it's easy to keep close tabs on margins, — and as a result the business is achieving better profits and a growing reputation.

That's great news for the whole team, although that's not the only reason they enjoy working at Liberty Games. “Not everyone's lucky enough to work in an office that's like an amusement arcade,” he smiles.

It's hard not to envy them.



Retail is Detail

In these troubled times, even big-name retailers are running into trouble on the High Street. Avoid their problems by setting clear goals, budgeting

We're in tough times for the High Street, and even the most well known retailers are feeling the squeeze.

Even Tesco isn't immune. Back in January, the retail giant issued its first profit warning for 20 years and saw £5bn knocked off its share price. Its market share had dropped below 30% for the first time in seven years.

And Tesco hasn't been alone in its troubles. In the previous quarter, the number of profit warnings issued by UK companies rose a staggering 70% — and retail and support services were the hardest hit sectors of them all.

Recently, we've witnessed the loss of yet more household names. Since the beginning of 2012, High Street brands like Peacocks, Pumpkin Patch and Past Times have all gone into administration.

But tough as times are, there are many positive stories out there. At THP we've helped retail clients open thriving new branches, launch new product lines and diversify into new retail markets — and we've cheered them on as they've moved from success to success.



10 WAYS TO GROW YOUR MARGINS

When you protect your margins, you protect your business. These are our top 10 tips for preserving them and making them grow.

WHAT'S IN YOUR BASKET?

Did you know that the Twilight novels about a teenage girl, a vampire and a werewolf are now included in the basket of goods used to calculate the cost of living in the UK? Other items included for the first time this year are cans of stout, takeaway chicken and chips, baby wipes, pineapples and bundled telephone, broadband and TV services.

1. Increase margins by small amounts, often - not large amounts less frequently
2. Renegotiate prices with suppliers whenever possible
3. Stop using uncompetitive suppliers
4. Pay suppliers early to enjoy early settlement discounts
5. Negotiate sale or return offers on goods
6. Measure your markdowns for sales increases
7. Compare margins on different products and lines - can you focus on or increase sales of the better performers?
8. Control your stock and clear out old items promptly
9. Don't overbuy - use your accounts to predict sales more accurately
10. Benchmark your margins against competitors

Retail is Detail - continued

carefully and using your management accounts to guide a clear path, says account manager **ANDY GREEN**.



As we've done so, we're reminded about the characteristics successful retail businesses have in common. These are just five of them.



1. HAVING A CLEAR STRATEGY

There's a famous Yale University study that found the 3% of MBA students who had clear, written goals ended up earning ten times as much as the other 97% put together.

Despite being quoted in hundreds of books, this study turned out to be apocryphal. But it did inspire similar research at Dominican University of California, which found that people who wrote down their goals and shared them with a friend achieved 76% of those goals — compared with a success rate of only 43% for people who simply thought about their goals over the coming month.

It's the same in retail. If you plan and write down where you want your business to be in 1, 3 and 5 years' time, you are much more likely to succeed than if you simply keep your goals in mind — so share your plans with business partners, fellow directors and your accountant.



2. CREATING A FLEXIBLE BUDGET

If you want to succeed, it's crucial to have a budget that allows you to react to changing circumstances.

According to PricewaterhouseCoopers figures from February 2012, retail chains are closing an average of 14 stores daily. Many of them are doing so because they took out long leases on stores at prices that are no longer sustainable.

So ask yourself whether your budget would allow you to continue trading if profits fell or overheads increased. If it wouldn't, be sure to revise your plans.



3. MEASURING YOUR PERFORMANCE

Always compare your monthly figures with the previous month's, with your budget and with the same period the previous year.

Drill down into the figures to find out what's profitable and what's creating a drain on your budget. Look at ways of protecting good margins and increasing poor ones — the tips inset on the previous page should help you.



4. FORMALISE THE PROCESS

Insist that your fellow directors or business partners spend scheduled time reviewing your management accounts every month. There's always a temptation to put this vital task off and get on with the day-to-day work of the business — but if you take your eye off the figures, they've a nasty habit of slipping out of control.



5. UNDERSTANDING YOUR ACCOUNTS

It may seem obvious, but business owners who really understand what their accounts mean have a much stronger grip on their organisations.

If you need help understanding Profit and Loss accounts, Balance Sheets, Fixed Assets, Accruals and Prepayments, then talk to us — we'll walk you through the process of understanding what the figures in your management accounts mean, and how you can use them to guide your retail business from success to success.

For more information about our management accounts service, call us on 0800 6520 025.

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Do you really want my business?

JON PRYSE-JONES finds out how some firms handle new enquiries — and discovers how good customer care can stop them losing business.

If you're a fan of Sherlock Holmes, you'll remember the scene at the opening of *The Crooked Man* when the detective drops in to pay Dr Watson a visit.

"Sorry to see you've had the British workman in the house," remarks Holmes as he hangs up his hat. "Not the drains, I hope?"

"No, the gas," replies Watson.

"Ah!" exclaims Holmes. "He has left two nail-marks from his boot upon your linoleum just where the light strikes it."

Whenever I read that passage, it always reminds me that the good old (or rather 'bad old') British attitude to customer service has been around for a very long time.

But recently I've faced a slightly different problem — trying to give firms my business. I've found it almost impossible.

Can I put some business your way?

The other week, I decided my main bathroom was looking a bit tired and in need of a redesign. Because I prefer to give my business to local firms, I did a bit of web research and I found a business I liked the look of.

Whenever I approach a company online, I always make a point of filling in the contact form on its website (that's if I can find it!). I think it's a really good test of a firm's customer service and it allows me to discover:

1. How long they take to respond — how organised, proactive and responsive they are
2. Whether I get an automated email acknowledgement — this is a nice touch, costs nothing and reassures me that my enquiry has not been lost in the ether!
3. Whether they call me or email me — if I supply a telephone number I would expect to be called or at least asked how I want to be contacted.

So I filled in the contact form on the website of my chosen supplier and waited to see whether they'd be interested in the £10,000+ of work I was offering to put their way.

I didn't hear a thing.

And if they didn't want the job enough to contact me, I certainly wasn't going to chase them.

So I got back on the web and found another firm. I filled in the contact form and waited.

This time, I got a call a day later. It was a step up from being ignored completely, so we agreed a time for the company owner to visit.

He was late. But when he did arrive he was very helpful, thorough and left promising to email me a quote "within the next week or so".

Guess what? He didn't.

So I rang up his firm. "He's on the other line," the receptionist told me. "I'll get him to call you right back."

No call back. Nothing.

The next day I called again and got the same response and the same promise — that he'd call me back.

Again, he didn't. So I decided to do him a favour by driving 30 minutes down the road to pay him a visit.

The receptionist was very surprised to see me and disappeared upstairs to fetch her boss. After the sort of delay that's just long enough to prepare a quote in, he appeared saying: "Don't worry, I've done your quote..."

Too little, too late. I simply explained why I now don't want to hire his company.

This is a job where a lot more can go wrong than a few nail marks in the linoleum — and I won't hire people if I don't feel confident they'll take my calls if things need sorting out.

Fair enough, don't you think? So why did I get the distinct impression he thought my expectations were unreasonable?

How do YOU handle new business enquiries?

I know that businesses are stretched these days, especially as they try to keep down costs.

But if you only do one thing this week to safeguard your business's future, I'd urge you to take a critical look at the way you handle new enquiries.

When a customer comes to you, they want to find reasons to give you their business. A quick call or a speedily delivered quote takes little effort but can deliver big results.

And if you're too busy to take on a job, tell the customer — they'll appreciate your honesty and may well come back to you later.

But if you get it wrong, you're not only losing out on easy pickings and the chance to win repeat business, but you'll be damaging your reputation as well.

And in this climate, that's something none of us can afford to do.



Get the best out of your online advertising

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In our feature on Liberty Games on page 3, we saw how spiralling online advertising costs can eat into a company's margins. But it doesn't have to be that way, as online marketing expert LEE GILBERT explains.



Do you use Google AdWords to promote your business?

As you probably know, they're the paid adverts you see at the top and on the right of Google's search results pages, as well as in sponsored link boxes on a range of third party websites.

If you haven't used AdWords before, here are three great reasons to give them a try.

1. Great visitor-to-buyer conversions. By using AdWords, you may end up seeing about five times more traffic conversions (the number of visitors who become buyers) than you would from normal Google searches.

2. You can bid on any keywords. It doesn't matter if you don't appear in normal search results for your chosen keywords — you can bid for your advert to appear whenever someone types the keywords you choose into Google.

3. It's easy to get started. While it can take time to understand the AdWords system fully, it's intuitive enough to get an ad up and running in a matter of minutes.

Best of all, you can measure how well your AdWords are performing — right down to the last penny. If you use AdWords in conjunction with the Google Analytics tool, you will be able to track your clicks, impressions, and conversions and find out exactly how well your campaigns are doing.

MISTAKES TO AVOID

Assuming you want your online business to grow and prosper, you will be aiming to make a good volume of online sales conversions and increase them over the days, weeks, and months. That means you need visitors — and lots of them.

So how can you make sure you get enough visitors? The best way is to set up your campaigns properly and efficiently. This means choosing the right keywords and writing great ads. It also means avoiding mistakes that can cost you an arm and a leg without generating the returns you need.

Here are some common mistakes people have made in the past:

1. Using poorly targeted keywords. Whatever you do, don't guess which keywords to use — research them first. Google AdWords has a built in keyword tool that will help you find keywords in your sector that perform well and are cost-efficient.

2. No keywords in your ad. Believe it not, some people actually create ads without using their top producing keywords in the advert. Always include your keywords in your ad title or body text —

relevance encourages people to click through.

3. Directing people to your home page. Don't make your visitor work to find what they're looking for. They won't bother. Always use your ads to send people to a page about the specific product or service you're advertising.

4. Creating single ad groups. Create a group of ads for each product, and don't mix them up with others. This way you can monitor your campaign and know which ads and keywords are working and which are not.

5. Using broad match keywords only. Imagine you sell running shoes. If you use 'running shoes' as a 'broad match' keyword, your advert could appear when a user's search term used the words 'running' or 'shoes' anywhere in their search phrase. That could result in many costly clicks from visitors who have no interest in your product.

6. If you choose to use 'phrase match', the searcher has to include the whole phrase somewhere in their search, and if you use 'exact match', they will need to have typed the exact phrase 'running shoes' in order to find you. Using the right combination of all these different match types gives you the best return for your money.

7. Not tracking results. Measure your campaigns and check them at least once a week to find out which keywords are performing strongly, and which are failing. That way you can make sure your return on investment is continually

optimised. As the advertising legend David Ogilvy used to say, people who ignore research are as dangerous as Generals who ignore decoded enemy signals!

8. Not controlling your bids: Some people use automatic bidding when setting up their campaigns — giving Google control over how much they pay for their keywords. If you use manual bidding instead, you have full control — and you can often bid low on some keywords whilst still see them perform well.

Some of these tips might sound daunting, but with a little perseverance the chances are that your online marketing campaigns will give you a great return on your investment as well as a significant advantage over your competitors.

That's got to be worth a try, hasn't it?

www.google.com/adwords

Lee Gilbert is a successful Internet Marketing Consultant, Speaker and Expert with over 12 years of commercially focused internet marketing experience. Known as 'the serious players' webmaster', he works with and advises SMEs and larger ecommerce operations through his web marketing agency. Visit www.leegilbert.co.uk to learn more.

Payroll Focus

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IF YOU RUN A PAYROLL, YOU NEED TO KEEP ABREAST OF THE LATEST RULES AND LEGISLATION. IN THIS REGULAR COLUMN, OPERATIONS MANAGER SAM ROWE TELLS YOU WHAT YOU NEED TO KNOW.



HOW TO AVOID MINIMUM WAGE RATE PROBLEMS

Every year on 1 October, the Government sets new rates for the National Minimum Wage.

While it's easy to update your payroll to reflect the new rates, you also need to keep an up-to-date schedule of your employee's ages. If you don't, you won't know when they move from one age band to the next — and you could fall foul of the law.

So, why not review your payroll data just in case? Here's a quick reminder of the current minimum wage rates to help you:

- Workers aged 21 and over:**
£6.08 per hour
- 18-20 year olds:**
£4.98 per hour
- 16-17 year olds:**
£3.68 per hour
- Apprentices aged under 19 or in the first year of their apprenticeship:**
£2.60 per hour

If you'd like a payroll information sheet with further details, please call us on 01799 527478 or email payroll@thp.co.uk — we'll send you one right away.

REMINDER! HAVE YOU REMEMBERED TO DO YOUR P11D RETURNS?

Don't forget, once you've submitted your P35 to HMRC at the end of the tax year, you need to take a look at your P11D returns too.

The P11D is a statement of benefits-in-kind that an employee might have received from their employer in each tax year to 5 April. It could include taxable benefits such as private medical cover, company cars, mobile phones, professional subscriptions and mileage claims.

The forms need to be completed and sent to HMRC by 6 July and any Class 1A National Insurance due must be paid by 19 July.

It's a good idea to get your P11Ds done early because they can affect your employees' payroll codings for allowances. The earlier these are applied, the better.

If you need any help with preparing P11Ds for your team, speak to your THP client manager. They may also be able to help you obtain dispensation from having to declare certain benefits like subscriptions and mileage, depending on your circumstances.

THE TAX DOCTOR

S tore vouchers, coupons and discount schemes can be a great way for retail businesses to get customers through the door. But what are the tax implications of these schemes? Our Tax Doctor, **Tim Housden**, answers your questions.

I WANT TO SELL STORE VOUCHERS TO MY CUSTOMERS FOR £10, £20 AND £50. DO I HAVE TO CHARGE VAT ON THEM?

No, unless you charge more than the face value for them. If you do that, you will need to pay VAT on the extra amount. However, you WILL have to pay VAT on any greetings card you sell with the voucher.

When face value vouchers are redeemed for goods or services, they are treated as "payment" and their value for VAT purposes is usually the full face value.

IF I GIVE THE VOUCHERS AWAY FREE, HOW DO I HAVE TO ACCOUNT FOR VAT?

If you give away face value vouchers and your customer redeems them without making a further payment, you will need to account for VAT. If they are redeemed against goods, you account for VAT on the cost value of the goods — unless the cost to you is £50 or under and the same customer doesn't redeem a succession of vouchers over a short period of time.

If the vouchers are redeemed against services, you are essentially providing a free service and no output tax is due. However, if your customer pays you money along with the voucher, you should account for VAT on the total amount you receive.

WHAT ABOUT MONEY-OFF DISCOUNT COUPONS?

If you issue these for free, then no VAT is due. Similarly, if you give them away when customers buy certain goods, no VAT is due as long as the goods themselves are sold at their normal price.

I'M ALSO CONSIDERING A 'WE'LL PAY YOUR VAT' OFFER IF RATES GO UP AGAIN. CAN I DO THIS?

Yes, but you are effectively providing your customers with a discount. VAT at the normal rate is still due on the discounted/net amount you charge.

For more information on discounts, vouchers, special offers and VAT, please visit www.hmrc.gov.uk/vat/managing/charging/discounts-etc.htm

