

## Have a break... and give your business one too

**M**any years ago, when I worked for a highly successful business, I sometimes used to walk past the Managing Director's office. After a few months, I noticed that on Friday afternoons he'd always have his feet up on the table and his hands behind his head, as though lost in deep thought.

One day my curiosity got the better of me, and I asked him why he did this. "It's my thinking time," he replied. "I always make sure it's in my diary so I have time to think about where the business is going, and how to improve it."

These days, the pressures on our time are heavier than ever, but it's always a good idea to take the occasional break and take stock of your business. And that's what this issue of Clarity is here to encourage you to do – we'd like you to brew up a cup of tea or coffee, reach for a KitKat (we have included one with this newsletter with our compliments), and have a think about how well protected your business is.

It's a wise idea. According to research undertaken by Scottish Providence, 33% of small businesses have no share protection in place, 75% rely on one key person and 56% believed that the death of one key person would have a severe impact on their business. Similarly, a Legal & General study in conjunction with the British Chamber of Commerce found that 58% of businesses had no formal agreement in the event of the death or critical illness of a business owner. If any of these issues affect you, it's time to plan ahead – and our article on business protection on page 6 will show you how.

Another issue that can cause major problems for your business is when the taxman comes knocking and demands to investigate

your tax, VAT or PAYE affairs.

An investigation of this kind can happen at almost any time, with your business chosen completely at random. Even if your books are in tip-top order, the Revenue can spend a significant amount of time going through them, costing you a major amount of time or money. Fortunately, THP can offer you Professional Fee Protection (PFP) for a low cost, meaning that when HMRC decide it's your turn to be investigated, all your extra accountancy fees and costs are completely covered. If you don't already have PFP in place, learn how to get it on page 3 or go to the new section on our website at [www.thp/pfp](http://www.thp/pfp) where you can find full details of the service and how to sign up.

One business that benefited from our PFP cover was The Committee of Taste, a husband-and-wife run café and restaurant firm that owns two very successful branches in London. When an HMRC tax investigator announced she wanted to examine their accounts, they simply referred her to THP – and we sent her away happy and the business didn't have to pay an extra penny for our service. As a result, The Committee of Taste is thriving today – and we're sure you'll enjoy the page 4 feature on its work.

Finally, if you've been meaning to do something about Auto Enrolment, but you're not sure how to get started, turn to page 8 to discover more about our free AE information service. If you have a very small business and have received a "notification of staging date" letter from the Pensions Regulator, we may still be able to obtain exemption from Auto Enrolment on your behalf. This service is available for a small fixed fee which will be refunded in full if the exemption is not granted. Please tell us immediately if you think this may apply to you.

So, pop the kettle on, remove the wrapper from your KitKat, and treat yourself to a break right now. It's thinking time that could help steer your business away from trouble and unnecessary expense. Cheers!

Jon Pryse-Jones



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# News Round-Up

## ACCOUNTANCY AND FINANCIAL NEWS AND UPDATES FOR THP CLIENTS

### SMES FACE 'SIGNIFICANT BUSINESS RISKS' FROM UNPROTECTED SUPPLIERS

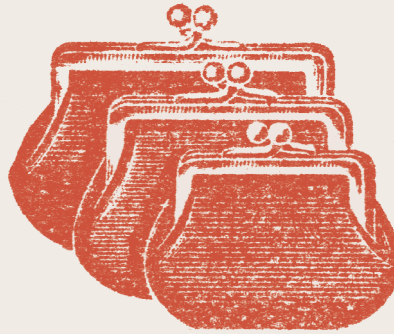
75%

of small and medium sized businesses fail to consider whether their most vital suppliers have protection insurance covering the death or illness of a key employee, according to new research from insurer Zurich. The survey also found that only 58% of SMEs had a business continuity plan. Zurich's Chris Atkinson said it was crucial that firms "take concrete steps to be able to cope with such unforeseen events, for example by adopting Key Person Insurance themselves and by asking their suppliers to do the same".

### HMRC COLLECTS RECORD LEVEL OF TAX

The taxman pocketed a cool £517.7bn in tax during the 2014/15 financial year, up £12bn on the previous twelve months.

Meanwhile, the Revenue is investing £45m to improve its 'customer service', particularly improving its call handling performance. It also made £210m of cost efficiencies by cutting staff, IT and procurement costs, bringing sustainable cost savings over the last four years to £991m.



### AUTO ENROLMENT PANIC LOOMING

The Centre for Economics and Business Research (CEBR) has calculated that 1.3 million smaller businesses will hit their staging dates – the day on which employees must be enrolled in a pension scheme – between now and 2018. However, only 53% of accountants (including THP) plan to offer Auto Enrolment support.

The situation will be particularly difficult for businesses that Auto Enrol next year. While 43,000 reach their staging date this year, a massive 512,000 will do so the following year. If you haven't Auto Enrolled yet, it's a good idea to start the process early – ensuring you have the best choice of pension schemes and accountancy support. Our two Auto Enrolment experts Sam Rowe and Laurence Sanderson will be busy contacting all our affected business clients over the next few months to ensure that they have an effective Auto Enrolment strategy in place.

## Divided on Dividends

Will Summer Budget legislation see your dividend income rise – or fall?



When the day of the Summer Budget finally arrived, it brought along some long expected changes on dividend taxation.

As always, there's good news and bad.

The basic idea is that there is an annual tax free allowance on dividends of £5,000. Anything you receive above this is taxed at 7.5%, 32.5% or 38.1%, depending on your income level.

So far so simple. The only problem is that the draft proposals make the calculations more complicated because your dividend allowance is also dependent on your other personal allowances and on the higher rate tax band threshold.

What does this mean for you? Well, if you are a basic rate taxpayer or you have a small income made up principally of dividends, then your tax liabilities will likely go up. Perversely, if you are a higher rate or additional rate taxpayer who receives dividends of up to £25,400, you may well see a decrease in the amount of tax you pay.

So what can you do if your tax is likely to go up? Because the changes don't come into force until 6th April 2016, you have a window of opportunity to restructure your shareholdings into ISAs, use spousal exemption for asset transfer or change the nature of the assets that are producing your dividend income. SME owners or entrepreneurs will probably face different challenges because HMRC are likely to apply the legislation wherever they believe assets have been transferred primarily to avoid or reduce tax bills.

It's almost impossible for you to guess the impact of the changes without crunching your own numbers but if you have your own company it may well be worthwhile paying yourself extra dividends in this tax year and then falling back on income extraction for 2016/17. Of course, this may not suit everyone because of cashflow, mortgage lending criteria or solvency perspectives, so I'd strongly recommend talking to your THP Client Manager today to discuss the best options for you.

**Tim Housden,**  
Tax Director





# SERVICE OF THE QUARTER: PROFESSIONAL FEE PROTECTION ARE YOU PROTECTED WHEN THE TAXMAN COMES KNOCKING? WE CAN MAKE SURE AN UNEXPECTED BILL DOESN'T HIT YOU

If you've ever spent hours of your life trying to get information out of an HMRC call centre, you've probably wished the taxman would invest a bit of your hard-earned money in a better IT response system.

If so, then you may want to be careful what you wish for. Thanks to HMRC's increased computing capacity, it is getting ever more efficient at launching successful VAT, Corporation Tax and PAYE reviews into businesses of all sizes. These investigations make big money – HMRC raked in £24 billion from them in 2013-14 alone. Much of that money was handed over by smaller business who stumped up the extra tax rather than paying to cover the costs of defending a detailed investigation.

Your business might be selected via special 'risk profiling', or you may equally be selected entirely at random. But no matter how the taxman beats his way to your door, one thing's for certain – he's going to do his very best to find slips and errors in your accounts so he can present you with a bill.

Even if your bookkeeping and accounts are in pristine order and you have paid every penny you should have, tax investigations quickly become expensive and time consuming to defend. You will get asked questions that are very detailed and often difficult to answer. And the more transactions that pass through your books, the longer it will take to sift through them with the finest toothed comb the Revenue can supply.

When that happens, your life can not only become a misery, but it can also become much more expensive. Even if the taxman finds nothing, you'll need your accountant's help – and your normal accountancy fees don't cover the cost.

So how do you reduce the financial risk of a tax investigation?

The simplest way is to take out Professional Fee Protection (PFP) via THP. By doing this, when the taxman barges in to start an investigation, you can hand all the red tape and paperwork over to us. We'll defend you against any tax investigation, and refuse to accept extra tax demands unless they are proven to be fair and necessary. All of our professional costs are covered, and you can concentrate on your business while we protect it from the Revenue.

Many THP clients have saved small fortunes and a lot of stress and worry by taking out Professional Fee Protection. When you read the feature in this issue about café and restaurant business The Committee of Taste, you'll learn how owner Graham was investigated at random by HMRC – and how THP "took all the stress and cost out of the investigation when it finally came along"

So, if you haven't had a tax investigation recently, make sure you're covered when it does happen – and it is almost certain to one day. Either visit the new section on our website by clicking here [www.thp.co.uk/pfp](http://www.thp.co.uk/pfp) or talk to your account manager today to get your PFP cover in place before that investigation letter lands in your in-tray!

# Creating The Committee of Taste “Because life’s too short for bad coffee”

**A**t the northern end of Gladstone Park in London’s Dollis Hill, tucked away in a cobbled courtyard lies a beautiful old stables building. Alas the horses are long gone, and instead you will find a delightful café with a warm welcome, lovely coffee and great food.

The Stables Café, (part of Committee of Taste), is owned and run by Graham and Yvonne Rae. Ever since they moved to the area many years ago, they’d always bemoaned the lack of a café in such a beautiful place – so they decided to create one, and finally offer good coffee.

After all, life’s too short for bad coffee!

They started their business venture by talking to Ken Livingstone, then their local MP. An art gallery occupied the only suitable building in the park, and Ken encouraged them to approach the tenants. As a result, Graham and Yvonne were able to open their first café in a small room in the gallery. Serving good coffee thanks to a partnership with Illy, customers were quick to make it a favourite destination.

It soon became apparent that the café would need more space. Graham and Yvonne were offered an old gardener’s hut and moved their business there for a few years, serving top-notch food and drink and building up a loyal group of customers.

In fact, the café was so good that Graham and Yvonne were invited to pitch to run a new one at the Orleans House Gallery, by the Thames at Twickenham. They underwent the application process and were successful. They took on the lease and have now been there for nine years, doing brisk business with a loyal customer base.

Soon afterwards, by a strange quirk of fate, the café’s original home – the art gallery in Gladstone Park – was put out to tender. The Raes won a long lease on the whole property and spent eight months refurbishing it from top to toe. “It’s a delightful spot,” says Graham. “We love it but it’s very, very hard work”.

From the outset, there were many sound reasons behind the Rae’s decision to form their business. Firstly, they spotted a gap in the market. “There were very few good cafés or restaurants nearby,” explains Graham.

Secondly, the demographic around Dollis Hill and Willesden Green has changed considerably. “There are lots of professional people here now, and the demand on local facilities, and certainly restaurants and cafés has increased. People appreciate good food.”

Thirdly, in Graham’s words, “It’s all about quality. We use fresh seasonal produce. And because both of our locations are in such beautiful and tranquil settings there is a more relaxed atmosphere, I’m not sure

we would enjoy operating on the High Street. We don’t have wi-fi either – you come here to escape all that stuff!”

THP has been with Graham and Yvonne – and now their daughter Megan – for most of their journey. “They were recommended by a photographer, Mike Molloy,” Graham says. “I had been moaning about my accountant and Mike said I should go and see THP. They were so fantastic I haven’t looked back.







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They're very attentive, you can speak to the right people straight away when you call and I genuinely look forward to seeing Kirsty and Tom."

THP provides a wide range of services for the Rae's, as Graham explains. "They take care of our accounts and payroll and they're currently helping us get prepared for Auto Enrolment. It's reassuring that they're simply sorting it all out so we don't have to worry. I also find Kirsty and Tom's advice about our business very useful – we get a lot out of our meetings."

Graham gives an example of the advice he's been given. "Kirsty advised us to take out Personal Fee Protection, so we were covered in case of a tax investigation. Shortly after, we did indeed receive a letter from HMRC

saying they wanted to examine our tax, and all I had to do was ring up Tom. He took care of everything and the tax investigator even went to THP's offices to examine all our accounts and paperwork. She walked away happy, we didn't have to worry about a thing and the fee was completely covered under the PFP service. That advice took all the stress and cost out of the investigation when it finally came along."

Graham and Yvonne are now looking ahead to the future and are now busy planning to open for evening dining. "We're going to take it slowly, maintain our high standards and grow organically."

After all, small is beautiful. And that's something the Rae's have excelled at.



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# Isn't it time you protected your business?

**Top Independent Financial Adviser Laurence Sanderson talks us through the options**



Laurence Sanderson, an Independent Financial Adviser (IFA) with THP's partners Sterling & Law, has nearly 20 years' experience in the financial services industry. Now one of the UK's few specialists in Auto Enrolment, he's seen plenty of businesses fail over the years because they weren't adequately protected. We asked him what practical steps businesses could take to protect themselves from unforeseen problems.

## **LAURENCE, WHY DO BUSINESSES NEED PROTECTION?**

**LAURENCE:** It's an unfortunate fact, but about 90% of businesses don't have adequate financial protection in place. That's fine while there aren't problems but without proper cover you can suffer severely if you lose key personnel, risk your relationships with your suppliers and your bank, damage your reputation and lose key markets or sources of new customers.

The other thing that business owners need to do is to make sure their own financial future is protected by adequate retirement and Inheritance Tax planning. Without these protections you can find yourself working long after you hoped to retire.

## **CAN YOU TALK US THROUGH THE REASONS WHY BUSINESSES NEED PROTECTION?**

**LAURENCE:** Of course. If you run a business, you need to protect it against the loss of key people, loan defaults and the death or illness of directors. If a key employee dies or becomes ill, your company could stop trading, fall into debt or the key players could lose control. The way to protect your business

against financial loss is by taking out a combination of Keyman Insurance, Business Loan Protection Insurance and Share Purchase Protection.

## **CAN YOU SUMMARISE HOW EACH OF THOSE INSURANCES WORK?**

**LAURENCE:** They're quite straightforward really. Keyman Insurance helps ensure the financial stability of your business if an individual suddenly falls ill or departs. This is usually taken out to insure against the departure of Managing Directors or CEOs, Finance directors, exceptional salesmen and other vital employees.

Business Loan Protection covers the repayments on your business loans and prevents the guarantor's family from being forced to pay them in the event of their death or critical illness. It's a flexible form of insurance and can be taken out to cover a variety of company borrowings, including overdrafts, loans and mortgages on company property.

The third kind of insurance, Director Share Purchase, allows company directors to buy back the shares of any other director who dies or becomes incapacitated – keeping those shares within the company and preventing them from falling into the hands of family members or other third parties who might not have the skills to run the business, or have the company's best interests at heart. In order to protect each director's shares, a "cross option agreement" is created, stipulating that – if a major shareholder dies – the remaining shareholders will be able to purchase his or her shares in the business. Shareholder insurance is

then taken out on the lives of each director in order to cover the cost of the remaining shareholders acquiring the deceased's shares. Each insurance policy is then assigned to a trust, allowing each director to make the other directors beneficiaries of the policy in the event of a claim, easing the transition and ensuring their shares stay within the company.

## **THOSE STEPS SOUND VERY SENSIBLE. BUT WHAT ABOUT PROTECTING YOUR PERSONAL FINANCES?**

**LAURENCE:** Yes, that's just as important. There's little point protecting your business if you can't enjoy the benefits of it after retirement.

Your first step is to consider all the pensions and savings options open to you and talk them over with an IFA. There are many different products out there, ranging from occupational and stakeholder pensions to ISAs, property investment and stocks and shares. As a rule of thumb, stakeholder and personal pensions are good for people who don't want their pension attached to their job or be responsible for administering the pension themselves. Self-Invested Personal Pensions (SIPPS) are best for people who want control over how their pension is invested. Small Self Administered Schemes (SSASs) are usually a better option for business owners, directors and key members of staff – they give members greater flexibility and control over how the money is invested, and can be used to buy certain assets or secure loans.



**TAKE A BREAK** ...is not the advertising slogan of KitKats. That's "Have a break... have a KitKat", or "Break time, anytime" in the USA.



## THOSE PROVIDE YOU WITH A RETIREMENT INCOME. BUT WHAT ABOUT PROTECTING YOUR MONEY FROM THE TAXMAN?

**LAURENCE:** That's where Inheritance Tax planning comes in. If you were to die in the current financial year, everything you own above the value of £325,000 becomes liable for Inheritance Tax at 40%. However, you can get round this in a number of ways.

Firstly, you can transfer your assets to your spouse or civil partner. By doing this before your death, your partner can benefit from your 'nil rate' allowance – effectively doubling their own allowance when they die.

Secondly, you can place your wealth in a trust until a specific time or event in the future – and this can be after you have died. A trust allows you to control how your money is invested and how often (and to whom) profits are paid out.

Alternatively, you can gift your property to your heirs and, assuming you die over seven years later, there will be no tax due. However, if you die within seven years then the value of the gift is added back to your estate and Inheritance Tax becomes due on it.

A fourth option is to take out whole-of-life-insurance to pay your IHT bill. However, you have keep paying the premiums, regardless of how long you live.

Finally, business retirement relief allows you to pass on more of your business without paying Inheritance Tax. This relief can be between 50% and 100% depending on what you pass on to your heirs.

## WITH SO MANY OPTIONS OPEN TO PEOPLE, WHAT'S THE BEST WAY TO MAKE SURE THEY'VE GOT THE RIGHT BUSINESS AND PERSONAL WEALTH PROTECTION IN PLACE?

**LAURENCE:** Anyone who is concerned should contact THP, who will arrange an appointment with me. As an Independent Financial Adviser, I'd be happy to advise any THP client who is worried that they may not have the right cover in place.

**Would you like a no-obligation chat with Laurence on personal or business protection? Call THP free on 0800 6520 025 today.**

## We'll sort out the GAAP in your accounts... Businesses face the biggest change in UK accounting standards for a generation.

**M**any businesses take a similar approach to their accounts as drivers do to their cars. They know how to use them, but they've got only a vague idea about what's really going on underneath the bonnet.

That's why, if you ask the average business owner what the acronym **GAAP** means to them, you're likely to be met by a blank stare.

And little wonder. GAAP, the acronym for **Generally Accepted Accounting Principles**, refers to the regulation that determines how company accounts must be prepared in Great Britain. And if that wasn't exciting enough, these principles are now changing!

The path to these changes leads back to 2013, when the Financial Reporting Council issued a document called FRS 102 (FRS means Financial Reporting Standards). This 300-page manual replaced almost 3,000 pages of GAAP guidance and the purpose was to align UK accounting rules with International Standards.

Larger companies had to adopt the new standards in January of this year, while small companies will need to begin using them from January 2016. (A Small Company is defined as a business that does not exceed two of these three criteria: a £10.2million turnover; a £5.1million balance sheet; 50 employees).

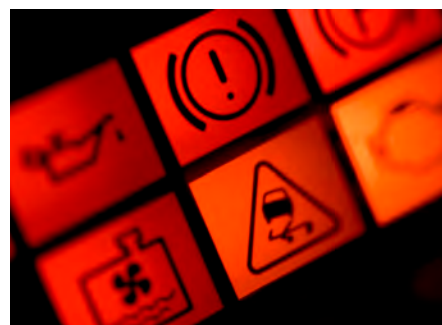
But what do the changes mean for you? Essentially the implications will be different for each business, but some of the standout differences relate to the way the following items are calculated:-

- **Goodwill** (maximum life potentially reduced from 20 years to 5 years)
- **Investment properties** (deferred tax is now recognised on revaluation gains)
- **Holiday pay accrual** (companies will need to accrue for untaken holiday pay)
- **Directors' and Intercompany Loans** (interest may need to be charged)
- **Lease Incentives** (recognised over the period of the lease).

FRS 102 may also provide an opportunity to benefit from a range of unexpected tax planning options. And that's the real point of this article – no matter how complex the changes to FRS 102 may be, we'll take care of it for you.

So, as we move into 2016, we will be converting over to FRS102 and if it applies to you, your THP manager will be contacting you to discuss the specific changes to your accounts and what impact this will have in your particular circumstances.

Until then, it's business as usual.



# Payroll focus

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## IT'S TIME TO GET READY FOR AUTO ENROLMENT

Are you still dragging your feet on Auto Enrolment? Have you been meaning to research your AE options but just not had the time?

If so, and you don't feel you are quite ready to tackle your Auto Enrolment obligations, why not sign up for our free Auto Enrolment Guide and advice emails?



Simply go to [www.thp.co.uk/auto-enrol/](http://www.thp.co.uk/auto-enrol/) and enter your email address. You'll not only get access to the guide online but we'll also send you regular emails to remind you what you need to do to get ready for AE, and when. This email reminder service is completely free (all we need is your email address) and when you are ready to act you also have the option of

calling our Auto Enrolment experts Sam or Laurence (IFA) at any time. Both Sam and Laurence will be very happy to talk to you in more detail about any aspect of Auto Enrolment.

If your company is a very small one, there's even a chance you might be able to obtain exemption from Auto Enrolment, even if you have already received a staging date notification letter from The Pensions Regulator.

For a small fixed fee we'll take care of all the admin and make sure the correct exemption application is submitted to the Pensions Regulator on your behalf. And in the unlikely event that your exemption application should fail for any reason then we will refund your fee in full, no questions asked.



## STRANGE KITKAT FACTS

Launched in 1935 as Chocolate Crisp, KitKat was supposedly named after the Kit-Kat Club, an 18th century Whig literary club. As the building had very low ceilings, it could only accommodate paintings that were wide but not too high. In the art world, such paintings became known as "kit-kats". It is therefore conceivable that the KitKat derived its name from paintings, which had to be snapped off to fit into low ceilinged rooms.

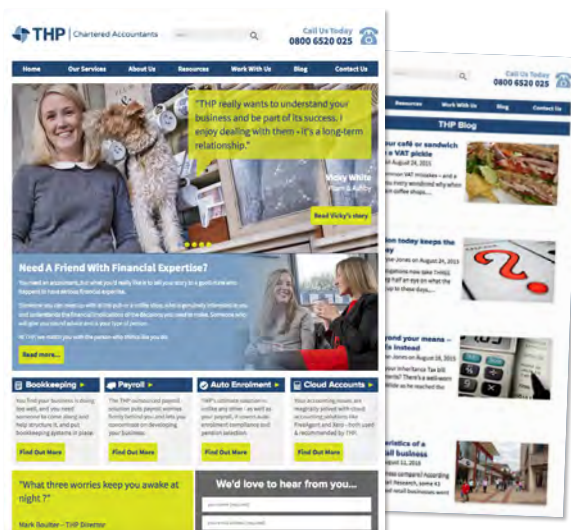


Every five minutes enough KitKats are manufactured to out stack the Eiffel Tower.

A year's production would stretch around the London Underground more than 350 times.

## THP LAUNCHES NEW WEBSITE

If you've visited [www.thp.co.uk](http://www.thp.co.uk) recently, you'll have noticed that our website has undergone a major facelift. The website not only looks more attractive and modern, but it's built to the highest technical standards and designed to make each user's journey through it clearer, simpler and more effective. It is now a "responsive" website which means it is fully optimised for tablets and mobile devices. This is important because search engines such as Google now penalise websites that are "non responsive" by moving them down the search listings.



We've also added a lot of new material detailing the new services that our clients now demand. For example, you can find out all about our Auto Enrolment service by downloading our detailed guide at [www.thp.co.uk/auto-enrol/](http://www.thp.co.uk/auto-enrol/), and our Professional Fee Protection service at [www.thp.co.uk/pfp](http://www.thp.co.uk/pfp).

You can even read a short history of the many accountancy firms we've merged with!

As well as making the website easier to use, we've added a new blog page which carries regular news items, analysis and updates that we hope will be of help to all. Recent posts give tax-saving tips for property owners and explain how the Summer Budget affects businesses and savers.

We're really proud of how the website has turned out and we hope you become a regular visitor. We'd also like to hear your views about it – please do drop us a line with your ideas for making it even better.

**Our Clarity publication is a summary for guidance only, please seek professional advice before acting on any of our articles.**

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