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COULD YOUR BUSINESS SURVIVE WITHOUT YOU

Have you planned sufficiently for the future of your business

As accountants and business advisers we get to know our clients very well. From our position, it is all too clear to us that many clients are too focused on 'today' to give serious thought to the future, and in particular to a future in which they will not play a part.

While the immediate challenges facing you in your business and personal life are undoubtedly important, you should also set aside some time to consider what would happen to your family and to your business if you became seriously ill, or were killed or incapacitated in an accident.

It is possible to take out life assurance, and insurance against loss of earnings, but whatever event might trigger your removal from an active role in your business, whether permanent or temporary, you need to consider what steps you should take. As a business owner, you have responsibilities to staff and customers, too. Insurance can cover the immediate financial loss, but a succession plan can create a structure to pass the management and control of your business into one or more safe pairs of hands.

TAKING OVER THE REINS

If you are the sole owner of a business, you may wish to think about bringing family members into the management team if you want them to continue to be involved in running the business. If family members are not suitable, consider ways to ensure that key staff members can be retained and empowered to run the business, securing their own futures as well as those of your family. If the business cannot survive without you, there are steps you can take to maximise any value in the business, which can provide capital or an income in the future. If you are a co owner of a business, the same basic points arise, though you will have the advantage of the co-owners' interest in continuing a successful business in your absence.

An essential element in a business or personal 'disaster' plan is that the key people need to know in advance what will be expected of them, and be comfortable with it. Once you have a clear idea of how you see matters developing, talk it through with the family members, colleagues and advisers who will have a role. Some people may feel unable to take a formal role – others may show hidden strengths.

Our Services

- BUSINESS DEVELOPMENT SERVICE
- CORPORATE STRATEGY SERVICE
- OUTSOURCED MANAGEMENT ACCOUNTS
- TAXATION
- ACCOUNTING & AUDIT SERVICES
- PAYROLL
- SOFTWARE SUPPORT & TRAINING
- LITIGATION SUPPORT
- COMMERCIAL BROKING & ADVISORY SERVICE

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DO NEW STAMP DUTY TAXES MEAN BYE-BYE BUY TO LET

Surprise Autumn Statement announcement is set to wipe out landlord profits

Landlords are in shock after a second huge tax assault on buy to let by the Chancellor which will force investors to pay thousands more in Stamp Duty on new properties – on top of the loss of tax reliefs unveiled in July.

A new 3% additional Stamp Duty rate on any property bought as a buy to let or as a second home, will see the tax on a £175,000 purchase jump six fold from £1,000 to £6,250 (see table below). For someone buying in London, say a two bed flat for £400,000, the Stamp Duty rises from £10,000 to £22,000.

Not only will prospective landlords have to pay far more than conventional residential buyers, they also face much heavier taxes on their profits. The maximum tax relief will drop from 45% and 40% to just 20%, so that an investor with a £150,000 buy to let mortgage on a property worth £200,000 is likely to see his or her net annual profit collapse from £2,160 a year to just £960.

Once letting fees and "voids" (the short periods when the property isn't tenanted) are included, any profit is likely to disappear. If interest rates rise many landlords are likely to start making losses.

Purchasers who buy a property below £40,000 won't have to pay the additional 3%, for all purchases above that, the 3% extra tax applies on the entire price. Currently, the rate for Stamp Duty is 0% on properties up to £125,000, then 2% on any sums over and above £125,000 to £250,000. Properties sold at £250,000 to £925,000 pay 5%, then it is 10% above that. These rates remain the same for standard residential buyers – but 3% extra will be added if the property is to be used as a buy to let or second home.

Stamp Duty paid by landlords buying and renting in 2017 will be triple the amount today.

In addition, the Chancellor has introduced a new rule requiring landlords to pay Capital Gains Tax within 30 days of selling a property, although the CGT rates remain the same.

EXAMPLE

A property bought for £300,000 with a £240,000 mortgage which produces rent of £14,000 a year and where the mortgage interest is £9,000 a year:

- Buying in the current tax year would cost the landlord £5,000 stamp duty and £1,600 tax, or £6,600 in total. The £1,600 bill comes from paying 40% tax on the £5,000 profit he makes on the rent minus the mortgage interest.
- If the same landlord buys in 2017, the stamp duty will be £14,000 and the tax payable on the income will be £3,400, making a total of £17,400.

STAMP DUTY

PURCHASE PRICE	FIRST HOME	BUY TO LET / SECOND HOME
£100,000	£0	£3,000
£125,000	£0	£3,750
£150,000	£500	£5,000
£175,000	£1,000	£6,250
£200,000	£1,500	£7,500
£250,000	£2,500	£10,000
£300,000	£5,000	£14,000
£400,000	£10,000	£22,000
£500,000	£15,000	£30,000
£750,000	£27,500	£50,000
£1m	£43,750	£73,750

Figures for England and Wales only. Scotland has different Stamp Duty rates.

KEEPING AN EYE ON YOUR CASH FLOW

The importance of cash flow management

Cash is the lifeblood of a business, but with so much emphasis usually put on profitability, it can be easy to overlook this fact. Of course, the bottom line is important, but poor cash flow management can drive a growing and/or profitable company out of business.

The risk is especially great for expanding companies. For example, if billing is delayed at the same time as stock is accumulated to fulfil increased orders, you can find yourself short of the cash needed to pay suppliers and employees.

THE BENEFITS OF PROJECTION

Cash flow projections are critical, especially in times of need, but you don't have to wait for a crisis to benefit from good cash flow planning. A properly developed cash flow projection can help a business foresee and prepare for potential shortages. Cash flow management can also help you:

- Maintain adequate cash reserves to pay bills, expand the business and invest in facilities and product development
- Reduce interest costs through managed borrowing
- Increase interest income by transferring surplus funds into interest bearing accounts temporarily, if appropriate
- Receive discounts through bulk purchasing
- Improve relations with the bank manager

Businesses that prepare cash flow projections often learn something about their systems, the dynamics of their business, and the process often has other positive outcomes. For example, you might discover that you need to pay more attention to certain customers, or that you can defer payments to suppliers more beneficially.

CASH FLOW CHECKLIST

20 signs that your business could be facing cash flow problems

To help you focus on your cash flow and profitability we have prepared a Checklist (below). Simply circle *'Yes'* or *'No'* to indicate which statements are true for your business.

If you have more 'No' answers than you are comfortable with, you may be facing cash flow problems. **Call us to discuss an action plan.**

When we receive a job we know we can complete it and be paid on our terms	Yes	No
We send a bill as soon as we complete a job	Yes	No
Invoicing documents are accurate, complete and clear	Yes	No
Our credit procedures alert us to problem customers so that we can follow up on outstanding accounts	Yes	No
We monitor and enforce our credit terms and obtain deposits from "doubtful" payers	Yes	No
We finance capital expenditure in the most cost effective manner	Yes	No
Our pricing reflects time spent on jobs and covers associated risks	Yes	No
Employees understand the importance of the business's cash flow	Yes	No
We complete work efficiently	Yes	No
We catch mistakes before they reach customers	Yes	No
Mistakes cause us to improve processes	Yes	No
We keep a close eye on budgets throughout the year	Yes	No
We determine the viability of outsourcing work	Yes	No
Adequate controls are in place to control employee overtime	Yes	No
We are effective in negotiating materials and supplies contracts	Yes	No
We forecast cash flow monthly and base our financial arrangements on our projections	Yes	No
Our bank is our partner and understands our business and its financial needs	Yes	No
We always see that work is done by the least expensive, capable employee	Yes	No
We link staff pay to productivity and company profits	Yes	No
Our standard operating procedures are written down and everyone follows them	Yes	No

PENSION ALLOWANCE CHANGES

How the recent changes may affect you

TAPERING THE ANNUAL ALLOWANCE

The annual pension allowance is normally £40,000 (2015-16). However, from 6 April 2016 the Government will introduce a taper to the annual allowance for those with adjusted annual incomes in excess of £150,000. Under the changes, for every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000.

To ensure this operates as the Government intends they will be ensuring that pension input periods are aligned with the fiscal tax year.

ALIGNMENT OF PENSION INPUT PERIODS

The alignment of pension periods commenced on 8 July 2015 and will run until 5 April 2016. All subsequent pension input periods will be concurrent with the fiscal tax year (2016-17 onwards).

Changes to 'pension input' periods were announced in the Summer Budget 2015 and came into force with immediate effect. For the sake of fairness during the alignment process, savers may be able to receive an additional annual allowance entitlement.

Consequently, savers may be able to receive tax relief on pension contributions of up to £80,000 for 2015-16 with a maximum of £40,000 being available for the period 9 July 2015 to 5 April 2016. In addition an individual may have unused relief for earlier years (see case study below).

CASE STUDY

Andy is a self employed electrician. In the three years prior to 2015-16 Andy has made contributions of £25,000, £25,000 and £30,000 to his pension scheme. As he has not used all of the £40,000 (2013-14 and prior years £50,000) annual allowance in earlier years, he has £60,000 (2012-13 £25,000, 2013-14 £25,000, 2014-15 £10,000) unused annual allowance that he can carry forward to 2015-16.

Together with his current year annual allowance of up to £80,000 (dependent upon the transitional rules), this means that Andy may be able to make a contribution of up to £140,000 in 2015-16 without incurring an extra tax charge.

CARRYING FORWARD UNUSED ALLOWANCES

Where pension savings in any of the last three years' pension input periods were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year. Therefore in 2015-16, unused allowance may be brought forward from 2012-13, 2013-14 and 2014-15. The annual allowance was set at £50,000 in both 2012-13 and 2013-14, and was reduced to £40,000 for 2014-15 onwards.

Please contact us if you require any further explanation or advice. Phone 01323 842 119 or email on mail@watsons.co.uk.

SIX STEPS TO AN EFFECTIVE BUSINESS PLAN

Don’t confuse business planning with crisis management - the former should prevent the latter

If your business is running perfectly, wastes no money, is making maximum profit and dominates its market, then you can pat yourself on the back and get back to work. But if you think your business performance can improve and, amidst the meetings, phone calls, emails and office challenges, you find it difficult to know how to begin, then you will benefit from reviewing your business planning.

Making time for planning now can reduce the time you spend fighting fires later. Here are six key steps that can lead to an effective plan for your business:

Step 1

ESTABLISH YOUR MISSION

In essence, your mission statement explains why your business exists. When you encounter a problem or a key decision, the answer will be informed by your mission. Think about why you started the business, what needs of the marketplace you aim to satisfy, and imagine where you want it to be in the future. These elements will provide your mission statement.

Step 2

ANALYSE YOUR SWOT

With your mission in mind, analyse your business’s strengths, weaknesses, opportunities and threats. List each category in full and be honest. Done correctly, this ‘SWOT’ analysis will help you to take an objective, critical, unemotional look at your business in its entirety.

Step 3

DEVELOP A PLAN

Try this exercise: from each SWOT category, choose three to five important items. Then set goals to maximise your strengths, correct your weaknesses, make the most of your opportunities and nullify your threats. For example, you could decide to focus more strongly on a particularly successful product or service (a strength), and abandon a side project which is costing time and money for little return (a weakness). Remember that you can’t do everything yourself. Think about how you will delegate tasks and involve all the staff. Avoid dwelling on the negatives – set yourself realistic strategies for improving the business.

Step 4

CREATE A BUDGET

All missions and strategies need adequate financial resources to succeed. A smart budget will help you to regularly review your expenses and make financially beneficial decisions. You may need to take a wide variety of factors into account when setting your budget.

Step 5

PUT IT IN WRITING

Make sure you write down your finished plan. Include the mission statement, SWOT analysis, goals and plans, budget and forecasts, and make it clear who is responsible for doing what. Share it with your key staff and shareholders, and encourage their input.

Step 6

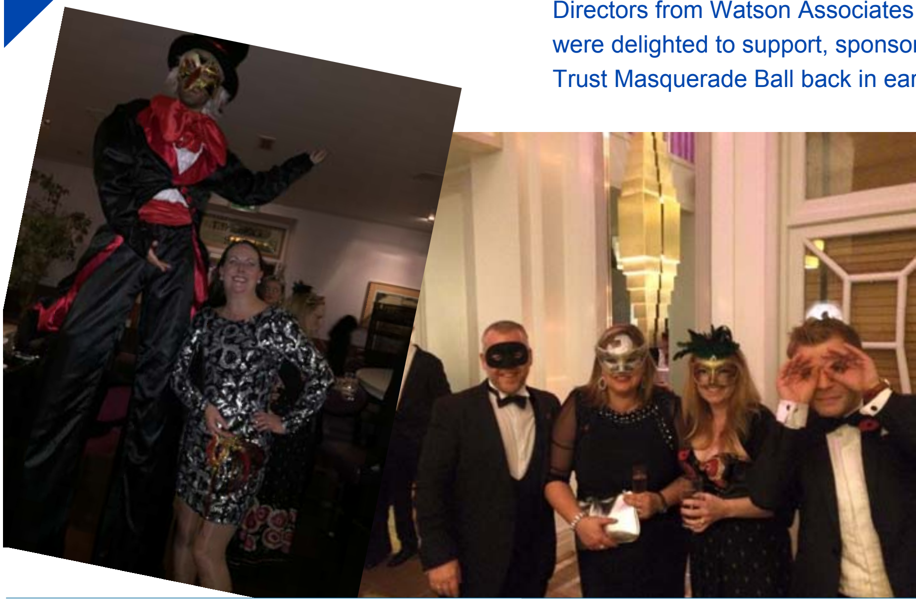
MAKE IT A LIVING DOCUMENT

This is vital! Make your business plan a living document that you and your staff can frequently update and improve. Consider reviewing it monthly to track your progress and readjust your strategy as necessary. Hold yourself and your staff accountable for meeting the plan's goals, and think about introducing an incentive programme to keep everyone motivated.

STAFF ROOM

MASQUERADE BALL

In aid of the Children's Respite Trust



Directors from Watson Associates together with their wives and husbands were delighted to support, sponsor and take a table at the Children's Respite Trust Masquerade Ball back in early November.

Held at the Cavendish Hotel the aim of the evening was to raise as much money as possible for the Trust which provides respite for disabled children and their families throughout Sussex, Surrey and Kent, some of whom have complex medical needs. Just a break from the enormous pressures makes a tremendous difference.

Gavin Fisher, Chief Executive of the Trust was delighted to share with us that the event raised a phenomenal £18,000.

CLIENT CORNER

MERRY CHRISTMAS AND A HAPPY NEW YEAR FROM ALL AT WATSONS!

Finally, as 2015 draws to a close, we would like to thank all of our clients and contacts for your continued business

Dates for your Diary

1 January 2016	Due date for payment of Corporation Tax for the period ended 31-3-2015
31 January 2016	First Self Assessment payment on account for 2015/2016
	Capital Gains Tax payment for 2014/2015
	Balancing payment for 2014/2015 Income Tax/Class 4 NICs due
	Last day to file 2015 Tax Return online
2 March 2016	Last day to pay balance of 2014/2015 tax and Class 4 NICs to avoid automatic 5% penalty
March 2016	Budget speech by Chancellor of the Exchequer
31 March 2016	End of Corporation Tax financial year