



Insider

September 2010

## Are you planning ahead for the VAT change?

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When the Chancellor announced the VAT increase back in June, the six months advance warning was welcome, especially by small businesses who are likely to feel the impact the most. Now with the summer vacations almost behind us and the busy Christmas period looming, it might be a good time for businesses to take stock and ensure they are making the most of the opportunity to prepare in advance for the change.

The increase in the VAT rate to 20% will be implemented on 4 January 2011 during what is traditionally a hectic period so businesses would be well advised to have everything in place beforehand. This time, HMRC is likely to take the view that you have had plenty of advanced warning and show little leniency if errors are made.

Interestingly, a recent YouGov survey found that almost a third of small businesses feel that the VAT increase will affect them adversely, and nearly a fifth are planning wage freezes or even cuts to compensate.

Businesses will remember the last time a change was made to the VAT rate. It is estimated that apart from the disruption caused by tying up key resources, implementing the change cost small businesses up to £1,500 in bureaucracy alone!

Many small businesses have not been able to raise their prices for some time now, but their suppliers have been raising theirs, and the VAT hike is not going to help the situation. Moreover, with some competitors likely to try to absorb the VAT increase to avoid having to pass it onto their customers, the pressure to remain competitive could increase considerably in the New Year.

This would be a good time, therefore, for all businesses, and especially for retailers, to review their costs and pricing strategies. A little competitive intelligence wouldn't go amiss either!

Some businesses might be tempted to avoid some of the impact by pre-invoicing at the lower 17.5% rate but care must be taken here not to contravene the anti-forestalling regulations and incur penalties.

There are also other potential pitfalls in areas such as recurring invoices and debit and credit notes that could incur penalties.

Businesses directly or indirectly involved in importing will need to review import VAT deferment levels, and might seek advice on whether a switch to Simplified Import VAT accounting is appropriate.

Also businesses on the flat rate scheme should note that revised higher rates will generally be introduced at the same time, which will have an impact on cashflow.

All in all it seems a little advanced planning and professional advice at this stage could potentially save time and avoid problems further down the road. If you would like help preparing for the VAT change, do contact us sooner rather than later.

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## Making the most of the entrepreneurs' relief changes

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As any business owner contemplating a future disposal will know, the market for mergers and acquisitions has been flat for some time now, but there is evidence to suggest that it has started to pick up since the changes to entrepreneurs' relief were announced in the recent emergency Budget.

With the first £5,000,000 of qualifying lifetime gains now being liable to capital gains tax (CGT) at a rate of 10%, the prospects for disposing of business assets are certainly looking up.

However the key word here is 'qualifying' and before a disposal is planned it is essential to review the status of any assets involved, including shares. Sometimes a few well-timed changes can make a considerable difference to CGT liability.

If you are considering a business disposal in the future we suggest you contact us as soon as possible so we can review your CGT position and recommend the most appropriate course of action.

## There's always more than one way to finance a business . . .

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Judging by the size of the profits recently posted by some of the UK's largest banks, they have weathered the economic downturn rather well. But they still seem reluctant to share their largess with smaller businesses, for whom bank financing is still relatively hard to come by, and often expensive.

As a consequence many smaller businesses are turning to alternative sources of funding, particularly invoice financing. More and more enterprises seeking to free up cash and working capital, or to raise funds for expansion are making use of this option.

The irony is, of course, that they can secure such financing only if they are generating healthy invoices, and so the increased use of this type of financing is an indication that the businesses concerned remain viable. Which makes the banks' reluctance to lend to them all the more perplexing!

In any event these developments show there is always more than one way to finance a business – and who knows, perhaps in the future we might look back and think that the banks did small businesses a favour at this time by forcing them to diversify their funding strategies!

If you would like advice on raising finance for your business in the present economic climate, we would be happy to help. Why not arrange a meeting with us?

## Mother of all logjams

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The shambles at HMRC just keeps getting worse. According to a recent report by the National Audit Office, more than 18 million unresolved tax records involving over 15 million people are stuck in the mother of all logjams at HMRC as a result of the merging of the PAYE and NI computer systems.

It is estimated that over £3 billion in overpayments is owed to British taxpayers, but it could take up to four years before they see their money returned! And there is another £1.4 billion still to be collected in underpaid bills.

So chaotic is the situation that at one point HMRC's phone lines were jammed by up to 18,000 callers a day seeking information.

It would be nice to think that HMRC would put its own house in order before investigating how others arrange theirs, but that's not likely to happen. It's a sure bet that their appetite for investigating the affairs of the long suffering British taxpayer remains as voracious as ever!

## A different knock on the door

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In the age of austerity, even HMRC is cutting back. Having shed around 25,000 staff in the last six years, they plan to close 200 offices by 2011. But their pursuit of unpaid taxes has not let up. HMRC has now signed contracts with a number of debt collection agencies, who will receive a healthy commission on monies they recover from both individuals and businesses. Be prepared for a different knock on the door!