

Construction News

January 2012

Working capital management

The construction industry and related services continue to face a bleak future. A high level of insolvencies in comparison to other sectors continue – the major causes being a general downturn in work, a lack of control and poor management.

However, it is possible for even the smallest business to manage its working capital in a positive, controlled manner. 'Cash remains King' and good cash management continues to be key to survival.

A good starting point is to have a system that provides reliable information regarding:

- unbilled work in progress and,
- debtors and creditors.

This information can then be used to raise invoices and control debts so that they don't remain unpaid past their agreed credit terms and you are fully aware of what liabilities need paying and when. Quite simply, by raising invoices and collecting debts owed to the business quicker will allow you to clear liabilities in a planned and structured manner that in turn will help cash flow.

A simple cash flow forecast will also prove useful as regular monitoring of the forecast will highlight problems before they occur so that appropriate actions can be taken. If payment

problems are identified at an early enough stage there is an opportunity to step up debt collection and/or contact creditors to arrange payment plans.

It sounds simple but a few sound housekeeping and cash management procedures could be the difference between survival and insolvency.

Beware – late filing penalties

If you complete your own tax return please be aware that this year it is even more important to get it completed on time. H M Revenue and Customs (HMRC) has decided to get tough. Around one million tax returns are filed late, so HMRC has decided to increase the penalties for late returns, and the size of the increase is really astonishing.

The penalty for a late tax return has always been £100, but the penalty did not exceed the amount of unpaid tax. So if you owed no tax, there was no penalty. The £100 penalty remains, but it will now be charged whatever the amount of your tax liability. And after three months, it will really start to hurt with an automatic penalty of £10 per day and a further penalty after six months. By that time, the total will have increased to £1,300, and this will be charged even if you don't owe any tax.

There is a surcharge of 5% on any tax that is paid more than one month late, which is doubled

if it is paid more than six months late, and increases again after one year. Interest will also be charged.

Returns can be filed online until midnight on 31 January but time is running out, so please do get in touch with us if you need some help.

VAT

Zero-rated annexes

The supply in the course of the construction of a building intended for use solely for a 'relevant residential' or 'relevant charitable' purpose can be zero-rated for VAT purposes. VAT law requires that for zero-rating to apply to additions to buildings used for 'relevant residential' or 'relevant charitable' purposes the building work must result in an annexe that is capable of functioning independently from the existing building.

Two recent cases, *Treetops Hospice Trust* and *TL Smith Properties Ltd* considered whether or not building works could be zero-rated as construction of annexes or whether they were standard-rated enlargements or extensions. In both of these cases the kitchens serving the new buildings were housed in the original building and the Tribunals found that the new parts of the building were not capable of functioning independently. In the *Treetops* case the chairman said that it is

not sufficient that the building can be separated, for example by locking connecting doors, the buildings should be capable of functioning separately 'all the time'.

Where customers request zero-rating on the grounds that a building is to be used as a 'relevant residential' or 'relevant charitable' annexe it is important to ensure that the new building meets the criteria.

Dealing with disputes

Trading in a tough economic climate undoubtedly puts pressure on relationships between owners of businesses.

The cause of the breakdown may be a disagreement over how to take a struggling business forward, one shareholder wishing to buy another out but being unable to obtain any funding from the banks, or even a family argument.

It is obviously best to try to avoid conflict but when it is unavoidable here's some useful advice:

- Consult the articles of association, shareholders' agreement or partnership agreement to establish what procedures are in place to deal with a dispute.
- Take legal advice and try to take a sensible / reasonable approach. Legal costs can be substantial so outright litigation should be a last resort.
 - Be open to suggestions from your legal advisors which may help to resolve the situation, such as mediation.
 - Avoid letting the dispute become personal.

- Don't become so distracted by the situation that you end up neglecting the business

One of the most frequent areas for dispute during an economic downturn is the business valuation. For example one shareholder / partner is looking to buy out another and they don't agree on how much the business is worth – and, quite often, neither party's view on the valuation is correct.

It is crucial to get professional advice and at Ensors we pride ourselves on taking a balanced view rather than simply telling clients what they wish to hear. Although this is not always popular, it is important that proper advice is given otherwise the situation can become a stalemate.

For further information on

dealing with disputes or business valuations please contact Neil Meekings on 01473 220022.

Contact

For further information regarding any of the matters discussed please contact your usual Ensors contact or Paul Williams – Partner and Head of the Construction specialist team on 01223 420721 or email paul.williams@ensors.co.uk

This information is given by way of general guidance only, and no action should be taken solely on the basis of the information contained herein. No liability is accepted by the firm for any actions taken without seeking appropriate professional advice.

If you do not wish to receive this newsletter in the future, please contact Tracy Blanchard on 01473 220022 or email tracy.blanchard@ensors.co.uk

Deadlines annual

31 Jan	- Submission of self assessment returns online at HMRC for the year ending 5 April of previous year
6 Jul	- Filing of P11D(b) form
19 Jul	- Class 1A national insurance contribution
19 May	- Online filing for P45s

Deadlines monthly

7 th	- VAT payments (electronic)
19 th	- PAYE month end payments including CIS - Pension contribution payment - Monthly CIS return
22 nd	- PAYE month end payments including CIS (electronic)