STRAIGHT TALKING BUSINESS ADVICE FROM
ENSORS CHARTERED ACCOUNTANTS

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BUSINESS E+
SPECIAL EDITION

A time of change

David Scrivener
Managing Partner

Welcome to our 'special edition' Business E+. The first publication we have produced since the outbreak of the Coronavirus pandemic.

To say we live in a time of change is an understatement. Most of us have never seen anything on this scale before.

The impact of COVID-19 has been truly global affecting billions of people. It touches not just our personal and business lives, but the very fabric of society itself.

We fully appreciate how very difficult these last four months have been. When we came back from the Christmas break into 2020 who would have thought we would be where we are now?

A number of things strike me when I think back to the period around lockdown. Firstly, was the pace of change and how quickly we all had to react. Secondly, was what we were reacting to. This wasn't a problem caused by an economic issue like the 2008 financial crisis; this was a global pandemic with tragic health consequences. And finally, it was the uncertainty of what we were dealing with. There was no precedent.

However, underlying all this has been businesses' desire to continue. Partly born out of a resilience that is not always recognised or appreciated, and partly the ability to adapt and innovate to meet the challenges head on. Clearly, the move forwards will take time and there are lots of references to what is euphemistically called the 'new normal'. It will be interesting to see where that ends up.

But for now, I think it will be important to take stock of how we have all adapted to the crisis. Let's take the good things with us and perhaps ditch some of those 'old habits' that hindered our ability to deal with the pandemic.

This special edition E+ has been designed to help you with this drive forwards.

Tax Director **Matt Herd** has summarised a few tax opportunities that might be of use in managing your finances both personally and for your business. **Lucy Moore**, Business Services Manager, reminds us of the tools available to manage cashflow and **Simon Martin**, Corporate Finance Director, provides some structure to support the drive into 2021.

As always, we are here to help so please don't hesitate to contact us. Even if it's just for a chat and a 'virtual' coffee. We would, as ever, be delighted to hear from you.

ENSORS

Making you more than just a number

TOP TAX TIPS

for you and your business

Matt Herd
Tax Director

Since the outbreak of the COVID-19 pandemic we have seen unprecedented levels of financial support from the Government and HMRC for businesses and individuals alike, the details of which have been widely publicised and are summarised on our website https://www.ensors.co.uk/coronavirus-support-for-business/

There are, however, other opportunities that business owners and individuals may wish to consider taking in order to maintain the health of their business and their finances.

Business opportunities

EMPLOYEE SHARE OPTIONS

At a time when salaries are suppressed and bonuses are likely to be postponed, companies may wish to consider alternative ways of rewarding and incentivising their staff. This could be through the issuing of shares or share options. There are a variety of tax-advantaged schemes including Save As You Earn (SAYE) schemes, Company Share Option Plans (CSOPs), Enterprise Management Incentive (EMI) schemes and Share Incentive Plans (SIPs).

HOMEWORKING ALLOWANCE

With many employees now working from home, businesses may consider taking advantage of the tax-free allowances available. Employers can pay their employees a tax-free allowance to cover the additional costs incurred when working from home. The flat rate was raised from £4 to £6 per week from 6 April 2020 (from £18 to £26 per month).

BUSINESS PROPERTY RELIEF / ENTREPRENEURS RELIEF

To strengthen any future claim to Business Property Relief (BPR) for Inheritance Tax purposes or Entrepreneurs' Relief (ER) for Capital Gains Tax purposes, companies who have seen their trading activities reduce should look to maintain records of the reduction in these activities and the reasons for that reduction.

Opportunities for individuals

PENSION CONTRIBUTIONS

High earners who might otherwise have anticipated a restriction to their annual allowance for pension contribution purposes may wish to consider the affect that a reduction in their earnings will have on the allowance. Lower earnings could see an increase in the level of pension contributions that can be made without attracting an additional tax charge.

TAX CODES

Current PAYE Tax Codes should be reviewed to ensure that they correctly take account of any changes in circumstance, in particular a reduction in the level of income.

HOMEWORKING COSTS

From 6 April 2020, an employee who is required to work from home but is not receiving the homeworking allowance from their employer can claim a deduction of £6 per week for the additional costs they incur without having to justify that figure. The claim can be made either through Self-Assessment or via form P87.

CHILD BENEFIT PAYMENTS

Individuals or couples who have elected not to receive Child Benefit, in the anticipation that the higher earner's income will ultimately see them repaying the benefit to HMRC, may consider requesting that the payments be reinstated where they are experiencing a reduction in the level of their income.

GIFTING OF INVESTMENTS

Individuals may wish to consider making gifts to family members or trusts as the associated Capital Gains Tax (CGT) liabilities will be reduced, and potentially removed, where the value of the underlying assets are depressed at the time of making the gift. Transferring assets at a time when their value is low can also achieve Inheritance Tax (IHT) savings.

GIFTS OUT OF INCOME

At a time when younger generations may be struggling, older generations should ensure that they are taking advantage of the various lifetime IHT exemptions which may apply to any financial support that they provide, in particular the exemption for gifts out of excess income.

The importance of cashflow... ...and bookkeeping

Lucy Moore
Business Services Manager

Monitoring and managing cashflow has always been important to the successful trading of many business' however, during the recent pandemic, this has suddenly become vital for survival.

So, what do we mean when we talk about 'managing cashflow'? Well, I can tell you what it isn't. It isn't just about managing loans and the financing of big transactions. Equally, it isn't just about looking at what cash you have in the bank.

You should be monitoring your cashflow position every day and updating forecasts not just for the next few days but for one month, three months and even six months. Every business, big or small, should be able to do this easily. And it is imperative in order to ensure that your business stays liquid and doesn't run into cashflow problems.

Quite simply, get ahead so there are no nasty surprises down the track.

A FEW PRACTICAL TIPS THAT WILL HELP YOU KEEP YOUR CASHFLOW HEALTHY

- Before agreeing to provide more products or services to a customer, review their outstanding balance;
- Regularly review the credit terms you are offering. Customer by customer;
- Chase customers with overdue balances. You will be surprised how many customers will EXPECT you to chase;
- Be proactive by agreeing payment plans with longstanding debtors and creditors;
- Keep track of how much cash you must pay out this week, next week and the next 30 days;
- Ensure that each sale you are making is profitable – before you make it; and
- Be sure you know how much PAYE, VAT and Corporation Tax is due and when.

How does bookkeeping fit into this?

Quite simply, it provides the building blocks to enable you to forecast and plan effectively for the future. Without high quality bookkeeping, any reporting or forecasting you produce will be wrong from the outset. And this will only hinder your attempts at planning for the future. Gone are the days of doing your bookkeeping at the end of the month, quarter or even year!

A streamlined, timely and accurate bookkeeping system will provide data that you can reliably use to drive your business forwards and avoid the pitfalls that occur along the way. In addition, it should save you and your finance staff valuable time. The time saved can be spent elsewhere helping the business achieve your goals.

TOP TIPS FOR A TIP-TOP BOOKKEEPING FUNCTION

- Carry out your bookkeeping regularly – daily if possible;
- Work smarter not harder. Use software to take on the administration burden;
- Get a refresher course on what your accounts package can do. You could be missing out on some of the new features;
- Use bank feeds. This reduces typing, omissions and errors;
- Use Bank Rules to slim down the time it takes to process each item;
- Reduce paper processes. For example, use software to scan your purchase invoices into your accounts system;
- Carry out your bank reconciliations regularly;
- Keep records of customers credit terms & payment history; and
- Carry out balance sheet reconciliations.

Looking ahead

Given the complete uncertainty for many businesses in recent times, it could be tempting to use this as an excuse for not wanting to plan any further ahead than the next month. Thinking about cashflows over the next year will be a chore at the best of times, let alone when the trading environment has been tipped upside down.

Simon Martin
Corporate Finance Director

There will be businesses who are surviving on a monthly or even weekly basis. For whom predicting any further ahead will use precious time which could be better used to ensure immediate survival.

However, there will also be businesses who feel the storm has been weathered and whose cash reserves were not depleted as much as they expected. It is these businesses who should be looking to the future to ensure that they are prepared for any 'bumps in the road' that may lie ahead.

It is great that cash isn't as low as expected but consider the bigger picture and review why the strain hasn't been quite as bad as expected.

In addition, the next 12 months feature some key dates where businesses could feel the strain. It is likely that these dates will have some impact for even healthy businesses, albeit, indirectly.

- Mid-2020 – trading resumes
- Autumn 2020 – furlough scheme is scheduled to end
- Spring 2021 – Government loan repayments begin

Although it sounds strange to say, a return to business could actually aggravate cash problems initially for some businesses. This is because the unwinding of working capital over the quiet period in the last few months will, in some cases, have supported cash flow. Debtors will have been collected in and the working capital 'lock up' will be much lower. When a business begins to trade at full capacity again, this lock up increases as the level of debtors builds. This could cause cash issues, especially in companies where the average debtor days are higher than creditor days. The majority of companies will also have deferred some payments in recent months, whether these are VAT, PAYE or rent. As these arrears fall due the cash balance will continue to ebb away.

The interruption loans offered by the Government are truly a once in a lifetime offering and one which was fully needed to support trade and maintain the economy. A business does not necessarily need to be in a period of hardship at this exact moment to qualify. By preparing forecasts to look ahead for bumps in the road, a company will be able to judge the effects of getting back to business and assess whether working capital is likely to cause issues. A good forecast should also build in allowance for any capital costs which may be required to maintain the underlying profitability of the company.

By planning ahead now, businesses will ensure that they can focus on the most important thing when it matters – selling their product or service!