STRAIGHT TALKING BUSINESS ADVICE FROM
ENSORS CHARTERED ACCOUNTANTS

SPRING/SUMMER 2022

BUSINESS E+

Weathering the storm

Malcolm McGready
Partner
malcolm.mcgready@ensors.co.uk

I joined Ensors in January 2009 and it's interesting to look back at the narrative concerning the economy at that time and how it would affect businesses.

Continued overleaf

Ensors

Making you more than just a number

Weathering the storm *continued*

With everything that has happened in more recent years, it sometimes feels like ancient history. But what we went through, was the deepest recession since WW2. The difference with other recessions of more recent memory, was that the recovery was not so swift and we operated in a low interest, low inflation and lower growth economy for many years afterwards.

I recall some of the rhetoric around business owners not having the experience to deal with operating in a recessionary environment. Well, there has been ample time and opportunity to address this and the resilience of local businesses to weather the storm is a testament to the leadership of those businesses.

And with more recent issues: Brexit; the COVID-19 pandemic; and Russia's invasion of Ukraine, we are seeing a plethora of issues, some sector specific and some across the board, that are posing new challenges to businesses.

Be it rising interest rates, inflation, supply chain issues or skills shortages, there can't be many businesses not feeling a degree of stress in one way or another.

The recent gloomy Bank of England forecast and quarter 1 contraction in GDP, coupled with talk of a looming recession are hardly a surprise against this backdrop.

Businesses will continue to do what businesses do best: deal with uncertainty and given the experience since 2008 those comments about not having the experience to deal with operating in a recessionary environment, seem somewhat naïve on reflection.

We can all see there are challenges ahead, albeit the nature of those challenges has changed since 2008. However, the underlying resilience of local businesses and the way they have adapted in the face of significant change, gives some solace. That doesn't escape the fact though that for the next couple of years we are in for a bumpy ride.

We have moved!

The return to offices saw a big change for our Cambridge and Ipswich staff members.

Both teams have moved into new premises that boast an open plan layout, modern features, and relaxing outdoor space for a bit of downtime.

CAMBRIDGE

After 10 years at St John's Innovation Park, the Cambridge office has moved to Vision Park in Histon and the Ipswich office has migrated from Cardinal House to Connexions, in the enterprise zone, after 35 years.

Both moves offer a more modern working environment and provide larger space to accommodate the teams' expansion.

IPSWICH

Senior partner Malcolm McGready said of the relocations "Our new Cambridge and Ipswich office spaces have state of the art meeting room facilities, and an open plan environment for improved client and staff experience. We look forward to welcoming our clients to these new spaces over the coming months".

SPRING STATEMENT

Matt Herd
Tax Director
matt.herd@ensors.co.uk

Since the end of the transitional period on 1 January 2021 some businesses have not been dealing with VAT on the import and export of goods correctly. We have summarised some of the more common issues below.

The Chancellor grouped the announcements made in his Spring Statement on 23rd March under three headings.

1 Helping families with the cost of living

The biggest announcement that will affect taxpayers in the short term was an increase in the annual National Insurance Primary Threshold and Lower Profits Limit from £9,880 to £12,570, aligning it with the income tax personal allowance from July 2022 (delayed until July to allow all payroll software developers and employers to update systems). The broad effect is that an employee earning up to about £35,000 in 2022/23 will be better off, even taking account of the Health and Social Care levy.

The self-employed pay National Insurance on an annual basis and so the Class 4 National Insurance threshold for 2022/23 will be £11,908.

The Chancellor confirmed that the thresholds will remain aligned.

The alignment of the starting point for paying class 1 employee and class 4 self-employed National Insurance contributions, with the starting point for paying income tax, has been proposed by numerous bodies over many years and is a welcome development which represents a simplification for lower earners.

The NI changes are dealt with in more detail elsewhere in this issue.

Set against a backdrop of rising costs on the forecourt, the Chancellor announced an immediate 5p per litre cut in fuel duty for 12 months. A cut which will be worth approximately £100 for the average car driver.

The Chancellor also announced an increase in the Employment Allowance to £5,000 from April 2022 and a cut to VAT on the installation of energy saving materials.

2 Boosting productivity and growth by creating the conditions for the private sector to invest more, train more and innovate more – fostering a new culture of enterprise

A consultation with businesses in relation to business investment seeking 'the most effective way to cut taxes on investment while ensuring value for the taxpayer'. Plans to be confirmed in the Budget later this year.

Reforms aimed at encouraging businesses to offer more high-quality employee training and exploring whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training.

Improvements to Research and Development (R&D) tax reliefs, setting out support for data and cloud computing costs, refocusing relief on R&D undertaken in the UK, and allowing businesses to claim relief on R&D supported by pure maths. The Government intend to reform and improve the R&D tax reliefs in the next Budget.

3 Sharing the proceeds of growth fairly

The 'rabbit out of the hat' announcement came in the form of a cut in the basic rate of income tax from 20% to 19% from April 2024.

The Tax Plan also mentions that the Government will consider reforms to tax reliefs and allowances, aimed at making the tax system simpler, fairer and more efficient and will confirm plans for 2024.

At a time when inflation rates are at a 30 year high, the recent introduction of the 1.25% Health and Social Care Levy, and 1.25% increase to the dividend tax rates, closely followed by the upcoming increase in the starting point for paying National Insurance contributions, has left many taxpayers struggling to know whether they will ultimately be better or worse off as a result of these changes.

Changes to NATIONAL INSURANCE contributions

David Ewing
Tax Manager
david.ewing@ensors.co.uk

To understand the NIC changes contained in the Spring Statement for businesses and individuals, we should first look at what was previously announced.

An increase in NIC rates for employees and the self-employed of 1.25% was to take effect in 2022/23. This took the employee rate from 12% to 13.25% up to the upper earnings limit and from 2% to 3.25% thereafter; and the self-employed rate from 9% to 10.25% up to the upper profits limit and from 2% to 3.25% thereafter.

There was also to be an increase in NIC rates for employers from 13.8% to 15.05%.

This was to be combined with the usual uprating in the point at which NICs start to be paid from annual earnings/profits of £9,568 to £9,880 for employees and the self-employed, and from £8,840 to £9,100 for employers.

The intention was for the increased rates to apply for one year only, after which the additional 1.25% would be 'decoupled' to create a new, mainly earnings-based tax (although it additionally applies to dividends, so that shareholder directors who pay themselves mostly in dividends cannot avoid it). This new tax was to be called the Health and Social Care Levy, with NIC rates returning to previous levels.

The Spring Statement announcements amounted to a partial reversal of the increased costs for employees and the self-employed (targeted at lower earners), in an attempt to address the 'cost of living crisis', but there was little to ease the pain for employers. It remains to be seen to what extent this will be absorbed by employers, passed onto employees through lower pay increases, or passed onto consumers through price increases.

The partial reversal was achieved not by adjusting NIC rates, but by further increasing the point at which NIC starts to be paid by employees and the self-employed. There was no corresponding increase for employers. An adjustment is made for directors and the self-employed, to the annual equivalent of £11,908, as their liability is calculated on an annual basis.

From 6 July 2022, the NIC starting point increases from £9,880 to £12,570, in line with the personal allowance, and it was announced that this alignment will be maintained, as the personal allowance is frozen until April 2026. However, this does mean that over time, particularly with high inflation, the benefit of this change will be eroded, and some lower earners who for now have been taken out of the obligation to pay NIC will find themselves back in it.

For 2022/23, the overall effect of the changes is that employees earning up to around £35,000 will pay less NIC than they did in 2021/22, and self-employed people earning up to around £29,000 will also pay less. Above these amounts, they will pay more.

The government estimates 70% of workers will be 'winners' from this, so who are the losers?

Firstly, and most obviously, higher earners, particularly those already above £50,270, who will see their marginal NIC rate go up from 2% to 3.25%, a 62.5% increase! Those earning substantially more than £50,270, will see very large increases in their NIC bills.

Secondly, employers. The only mitigating factor for them is a modest increase in the Employment Allowance from £4,000 to £5,000. Moreover, this is withdrawn when total employer NIC exceeds £100,000, which will over time affect more employers due to inflation and higher NIC rates.

Thirdly, older workers. When the NIC increase transforms into the Health and Social Care Levy in 2023/24, employed and self-employed people over state pension age, who do not currently pay NIC, will be required to pay it.

There are also a number of possible consequences, including:

- An increased incentive to salary sacrifice into additional pension contributions.
- As self-employed people earning between £6,725 and £11,908 (2022/23) they will pay Class 2 NIC at 0% and qualify for NI credits, whereas those earning less than £6,725, would have to pay voluntary contributions to achieve the same result, an incentive to earn at least that amount.
- Possible future amalgamation of income tax and NIC...
- which could lead to a (lower) fixed rate of pension tax relief for higher earners.

And finally...

Although not compulsory, HMRC is 'encouraging' employers to explain the NIC rise on payslips and has even suggested the wording for doing so. Employers have long complained about being unpaid tax collectors for the government. How might they feel about being asked to justify their taxes too?

It has been a case of more croissants than ploughmans in recent months as **Ensors Corporate Finance team** have increasingly worked on deals with an international flavour.

Corporate finance review

Deal volumes have dropped slightly, however, the size of deals and the multiples paid have continued to climb.

It has always been true in general terms that bigger businesses attract bigger multiples than their smaller counterparts. This gulf has continued to grow, as large international firms and institutional buyers circle healthy businesses making good profits.

The impetus from the continent appears to be energised by differing reasons.

Many people's first thought is to attribute the increase in cross border activity to a weaker pound, meaning foreign firms pay a lower price in their native currency. However, at the time of writing, Sterling was in the region of a five year high against the Euro. It is true that Sterling was noticeably weaker towards the end of 2021, however, this was not out of keeping with the levels seen in recent times.

An evident factor driving these types of transactions appears to be the perceived value in the UK. As a sweeping generalisation, a multiple of 5x to 6x for a UK business making £1m, EBITDA would have looked reasonable in recent times. On the continent, the multiples have generally been above the UK levels, which has created an opportunity for value. As demand grows, so do the multiples, with multiples in the range of 7x to 9x, now not an uncommon sight for the right business.

Britain's exit from the European Union has caused some issues, but it is also clear that this is driving some cross border activity, as international businesses seek a foothold in Britain through acquisition.

At the lower end of the scale, it is becoming more difficult to sell small businesses which have low profit margins. In order to achieve a sale it is vitally important that smaller businesses develop a USP and conduct a targeted exercise when going to market.

A lack of second tier management is the single largest barrier to a sale which we encounter. Ultimately a purchaser's biggest fear is that the trade walks out of the door with the seller. The lack of continuity post-sale increases the risk to the buyer. The relationship between risk and price is similar to a see-saw, the lower the perceived risk, the higher the potential price.

For all business sales – small and large – early advice and preparing for a sale, can increase both the likelihood of a successful sale and the price received.

For further information please contact:
simon.martin@ensors.co.uk

Case study

Ensors led the sale of **Murfitts Group**, a nationwide tyre recycling firm, which has been acquired by European Tyre Enterprise Ltd (ETEL), the owners of the Kwik Fit retail chain.

Murifitts produce rubber granulated products from processing more than 20 million used consumer car tyres on an annual basis. The business is based in Suffolk and operates across the UK with processing sites in Manchester, Birmingham and Scotland. 100% of the business was sold to ETEL with Mark Murfitt, the Managing Director, staying on to continue leading the business.

ETEL are a large European corporate group and generates annual revenues of more than £1bn per year.

David Scrivener, who led the deal, commented that "Murfitts have been a client of Ensors for a number of years and it was a privilege to work with Mark and Jayne on this deal. Under Mark's continued leadership I am sure the business will continue to expand with ETEL's support"

BUSINESS RECOVERY update

With general inflation running at 7% and fuel, energy and food prices rising much higher than that, there is increasing financial pressure on businesses and households alike. Add into that mix rising interest rates, re-payment of Covid support loans, debt deferment, dealing with rent arrears, wage inflation and the uncertainty driven by the war in Ukraine, there are very few businesses that are not seeing a rise in overhead cost, production cost and supply cost and therefore, facing some form of financial distress.

The key in this scenario is to take early advice and ensure that all available options remain on the table, rather than taking advice at the last minute, when the only potential outcome at that point may be a cessation of trade and liquidation. Early advice is also essential to ensure that directors of businesses in financial distress, comply with their legal and fiduciary responsibilities and avoid the potential for personal liability.

If the signs of distress are identified early and advice is taken at that point, then there are a range and hierarchy of options available. It may be that some root and branch restructuring is required together with new finance or additional investment, but the earlier on the distress curve that is identified, the easier solutions will be to implement.

Although many businesses in this situation are likely to be highly geared, there could well be a range of re-finance options available although clearly the cost of this finance will correlate directly with the level of distress and the perceived risk. It also needs to be said that taking on increased debt at premium rates with the likelihood that personal guarantees will be required, may not be the best solution.

Other 'softer' insolvency options could be considered such as a Company Voluntary Arrangement, or the new Moratorium process which both give a business protection from creditors, whilst a longer-term repayment plan is put in place. In both cases the directors would retain control of the business whilst implementing the agreed plan.

Another fundamental ingredient of any solution in relation to distressed businesses is communication. Nothing has ever been gained by ignoring letters from HMRC or other creditors demanding payment. HMRC are generally willing to enter into payment plans currently and have openly said that they want businesses that are facing difficulty in dealing with debt, to communicate with them and at least make some sort of payment. They have equally said that any business that ignores requests for payment, or builds up arrears without any communication with HMRC, will be faced with recovery action and it will then be much more difficult to put a payment plan in place.

It is likely that very many businesses will encounter some degree of financial distress in the short to medium term currently. Whilst not all of these businesses are going to face the threat of insolvency, it is vital that management information and internal controls are available, to identify the signs of distress at the earliest stage possible and to then take advice as to how the distress can be managed without it becoming terminal.

Q&A with **Ivan Woolgrove**

Ivan joined Ensors Ipswich office in January 2022 as Director of the Corporate Tax team. He provides expert advice and guidance on all aspects of taxation and tax planning to small and medium-sized enterprises (SMEs), owner-managed businesses and limited companies.

Why did you choose to go into Accountancy?

I fell into it because I left school and needed a job, I had two interviews one with an architect and one with a small accountancy firm. At the time I played village cricket and so did the partner of the accountancy firm and the rest is history.

Why did you choose Ensors?

I was very impressed by all the people I met and thought they were exactly who I wanted to work with. Also, everyone I spoke to in the business community, spoke very highly of the firm and lastly, I feel the client base matches my skill set.

What do you really enjoy about your job?

This may seem odd but it's talking about tax, whether it is to clients, colleagues, or business referrers.

If you had to do something different and money and skill was no object, what would you do?

I would love to be a musician. A total lack of talent has always held me back, although I have been involved in music back in the 1980s managing a band and writing lyrics for a couple of songs.

What is the most unusual task you have been asked to carry out at work?

Asking a client who was an ex-boxer if he was an illegal money lender, or did he sell drugs, or was it much worse than those two options.

If you could invite any three people to dinner who would they be and why?

Ian Botham (a cricketing hero of mine since the 1981 Ashes), JFK (to listen to his thoughts on being President during such a volatile period of world relations), Colin Chapman (it would be interesting to talk to such an innovative car designer).

Who's your favourite band/singer?

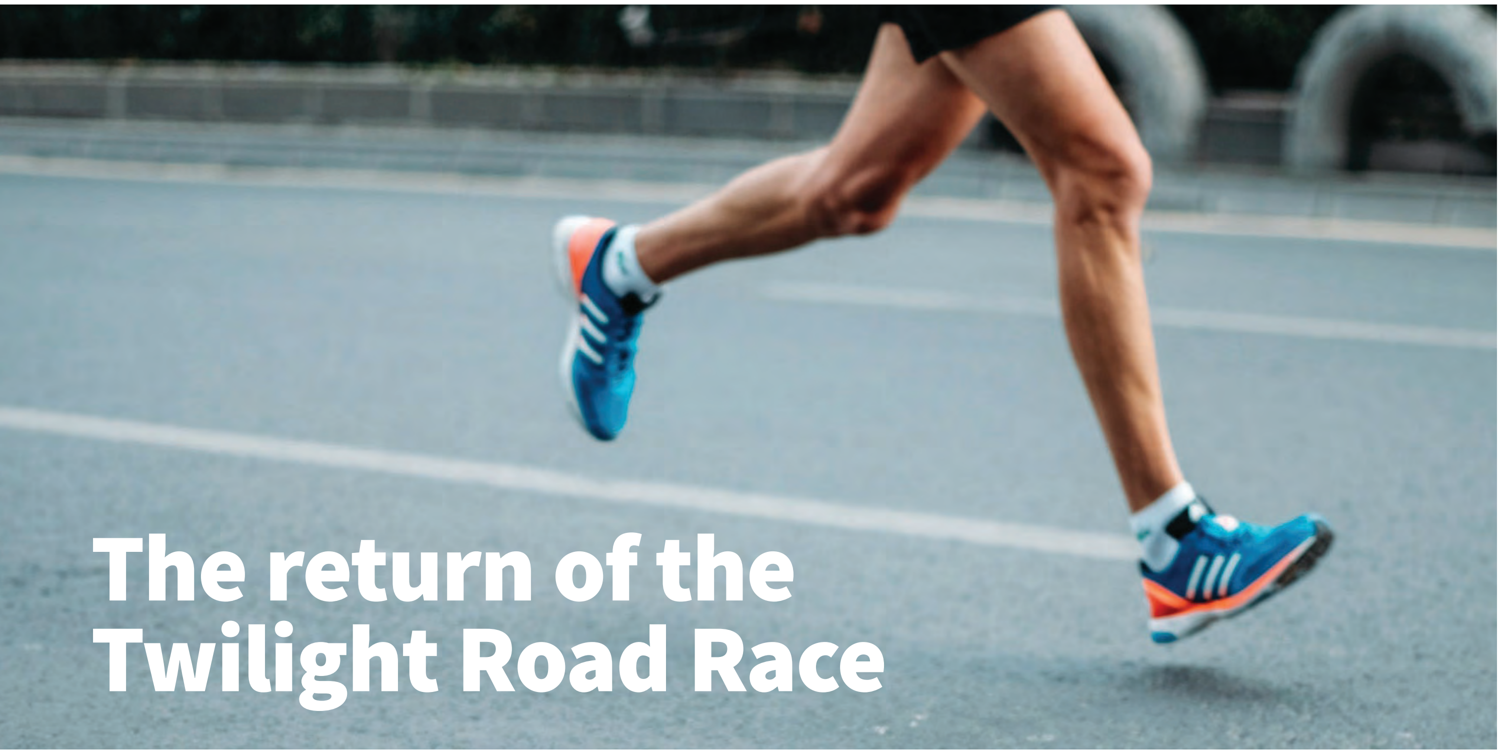
I couldn't choose just one as it all depends on mood, but the following are regularly listened to – Prince, Gregory Porter, Melissa Etheridge, INXS, ZZ Top and the Beastie Boys. Oh, and just about anything from the 80s.

What was your first day at work like?

I started my first job in September 1984, and I remember having the workings of a handwritten ETB explained to me. Funnily enough there was no IT induction.

What's your favourite TV programme?

Anything related to Motorsport.



The return of the Twilight Road Race

After a two-year hiatus due to the pandemic, we are pleased to return as the official t-shirt sponsor of the Twilight Road Races 2022. In a nod to the cancelled event of 2020, which was due to have ‘leaf’ green t-shirts, this year’s t-shirt will be ‘electric’ green.

IPSWICH TWILIGHT ROAD RACES 2022

Since its inception in 2015, Ensors have been proud t-shirt sponsors each year and has extended its support to our own staff members participating in the race. With our new Ipswich office overlooking the start and finish line, we’ll be cheering on the team from our decking, where we will be waiting for their triumphant return for some cold drinks and tasty treats!

David Scrivener, partner at Ensors Ipswich office, said “We are really proud to support the Twilight race on its return. It’s a staple in the running calendar and I’m looking forward to taking part with my fellow colleagues”.

The 10k race takes place on Friday 15 July with the aim of returning to Ipswich Town Football Club before sunset!

For a FREE consultation with any of the Ensors team contact Kristie Holiday on 01473 220090 or kristie.holiday@ensors.co.uk

For further information on any of the articles in this newsletter and contact details please visit **www.ensors.co.uk**

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