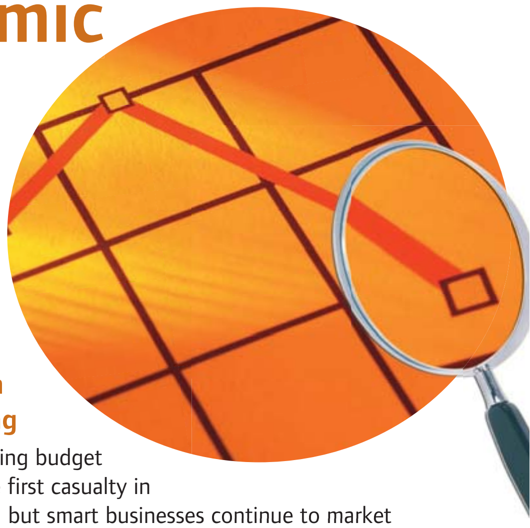
Tel: 01622 790035/36
Fax: 01622 790037
E-mail: info@mcleanreid.co.uk
Web: www.mcleanreid.co.uk

Chartered McLean Reid Accountants

1 Forstal Road
Aylesford
Kent
ME20 7AU

Newsletter

Planning in an economic downturn



As concerns over the UK economy continue to grow, it is essential that all businesses, particularly small and medium-sized enterprises, are properly prepared for financially-testing times. Sound business and financial planning is always important, but especially so in an economic downturn.

The following steps can help you and your firm weather the 'credit-crunch' storm; but remember, there is no substitute for one-to-one professional advice, so contact us today to give your business the best possible chance of success.

Debt management

This is essential in an economic slowdown – you will soon encounter difficulties if you allow outstanding debts to accumulate, a problem which is all the more likely in lean times. Make sure you have a clear policy for collecting debts and that customers are aware of it. Above all, ensure you enforce it. Pursue outstanding debts with letters and telephone calls and ensure that your terms of business allow for adding interest on overdue accounts.

Maintain customer loyalty

In difficult times it becomes harder to attract new customers. Therefore, it is more important than ever to maintain loyalty amongst your existing ones. Consider ways of developing and rewarding customer loyalty, such as selected discounts (especially for early payment), regular mailings or loyalty cards.

Beware of cutting prices

If receipts begin to taper off, it can be tempting to cut prices. But this can be a mistake. In a recession your costs will inflate and as a result you may be forced to raise prices to cover this expenditure. Cutting prices can also have the negative long-term effect of devaluing your image in the marketplace. Remember that suppliers might raise their prices as well, so try to negotiate a long-term discount with them.

Don't skimp on marketing

The marketing budget is often the first casualty in a recession, but smart businesses continue to market through a downturn and position themselves to take full advantage of the upturn as soon as it starts. In tough times the marketplace becomes more competitive – you may need to market more vigorously, not less. If you do not have a strategic marketing plan, now is the time to draw one up.

Look after your employees

While job cuts may be necessary in some circumstances, you should always try to retain your key employees: their strengths will help you through an economic downturn, and you will need them when business picks up. You should use any dips in the market as an opportunity for key staff to develop new skills and coach newer members.

Planning ahead

Planning is vital for the success of your business. You need to plan the changes that can strengthen your enterprise against tough times, and how those changes will be put into action.

However, planning is not just about 'worse case scenarios' – we can work with you to plan for your business future, offering advice on business management and tax planning and personal financial planning.

Contact us today and we will help you, your business and your family be financially successful, whatever the economic future holds.

Inside this Issue...

The tax band turnaround: how will the changes affect you?

In an emergency 'mini Budget' on 13 May 2008, Alistair Darling raised the personal income tax allowance to compensate those who lost out as a result of the withdrawal of the 10% tax band. The Chancellor may have hoped this headline-grabbing concession would silence his critics, but what do the changes really mean?

The basic rate 'tax cut'

The personal allowance for the current tax year (6 April 2008 to 5 April 2009) is now £6,035. This is £600 higher than the allowance announced in March 2008, and amounts to a £120 'tax cut' for basic rate taxpayers. When the new allowance is included in pay packets there should be a tax repayment of around £60 for basic rate taxpayers and a £10 reduction in tax for each of the months between October and March. However, self employed individuals will not benefit from the revised allowance until 31 January and 31 July 2009, when tax payments due for this tax year begin.

If you take a salary that just covers your personal allowance, you should be aware of moving your pay up to the new threshold of £6,035 (£503 per month), as the national insurance (NI) threshold has not changed. This remains at £453 per month, so any pay above that level will attract employees' class 1 NIC at 11%, (or a reduced rate if you are contracted out), and employers' NIC at 12.8%. This effectively leaves lower paid workers who earn between £5,435 and £6,035 per year in a 'NIC trap,' as they will pay NICs in 2008/09 but no tax.

Higher rate tax payers

Higher rate taxpayers are helping to pay for the increased allowance as the level at which they start to pay 40% tax is reduced from £36,000 to £34,800. This reduced threshold, coupled with the increased personal allowance, brings £600 of dividend income into the higher tax band to be taxed at 32.5% rather than 10%.

If your strategy is to keep your total income just below the higher rate tax threshold you should consider:

- paying £480 (net) of pension contributions, to increase the basic rate band by £600 (gross); or
- reducing the dividends you take from your company in 2008/09 so your total taxable income after the deduction of allowances does not exceed £34,800.

If your income is quite modest and largely comprises interest or dividends, you may now qualify to receive all of your interest without a tax deduction. We can help you calculate this - please contact us for more information.

Meanwhile, the higher personal allowances for those aged over 65 have not changed. However, if your age allowances were reduced due to the total level of your income, the minimum allowance you will receive for 2008/09 is now £6,035.

If you would like to know more about how the new rates could affect you, please contact us.

Employed or self employed?

Should you treat the people who work for you as employed or self employed? This seems deceptively simple, but it is important to get it right as a mistake can lead to serious consequences. In an attempt to clarify the situation, HM Revenue and Customs (HMRC) has released new guidance to help people calculate their employment status for tax and national insurance (NI) purposes.

The new guidance

Factsheet ES/FS1 – *Employed or self employed for tax and national insurance contributions* – provides updated advice for employees in view of the new construction industry scheme as well as managed service companies.

HMRC's latest guidance makes it clear that 'employment status is not a matter of choice,' as it is based on the terms and conditions of the agreement you have with who you work for. The new pamphlet also reiterates that the responsibility for making sure it is correct remains firmly with the employee. While it replaces part of the IR56 publication *(Employed or self employed?)*, employers have been advised to refer to the original IR56 until further information is released.

How do you decide?

Although there is no clear-cut answer to this question, generally workers are employed if they work for someone and do not have the risk of running a business. Workers are self employed if they are in business for themselves and are responsible for the success or failure of that business.

Factsheet ES/FS1 includes a series of questions to test the particular circumstances of any working relationship and thus help determine an individual's employment status. These cover areas such as:

- being allowed to get someone else to do the work
- working under detailed instructions
- working for other people
- correction of unsatisfactory work
- payment by the hour or overall contract price
- provision of materials and equipment
- integration with the employer's business.

These are matters of general employment law and not specific tax legislation.

When things get complicated

The questions in HMRC's new employment status leaflet should cover most situations, although exceptions will inevitably arise. If you encounter difficulties, you may find the online Employment Status Indicator (ESI) tool very useful. Visit **www.hmrc.gov.uk/employment-status/index.htm** to access the free online resource.

What if you are wrong?

If you treat workers as self employed and they are subsequently ruled to be employees, you could find that all the payments you have made will be treated as net payments, and you will have to pay the corresponding tax and employees' NI, as well as the employer's NI. You have no right in law to recover such items from your employees after the event.

You may also have to pay interest and penalties for incorrect returns.

It is important to act now to avoid incurring such penalties, so please contact us to discuss this subject in more detail.

Exit interviews: a worthwhile exercise?

Exit interviews play an important part in managing employee turnover, yet many firms fail to capitalise on the potential benefits. However, taking the time to conduct an interview with a departing employee can pay dividends; often strengthening the business and improving the working atmosphere.

From the employer's perspective, the primary aim of an exit interview is to learn the reasons for the person's departure, on the basis that criticism is a helpful driver for organisational improvement. For the employee concerned, the interview can bring closure, granting them the opportunity to speak openly about their opinions and concerns.

Moreover, exit interviews provide the ideal medium through which to yield employee feedback on a range of issues, from the organisation's policies and procedures, to the staff restaurant and car park. They may also bring underlying issues to light, such as flaws in management systems, excessive workload or problems with peers or seniors.

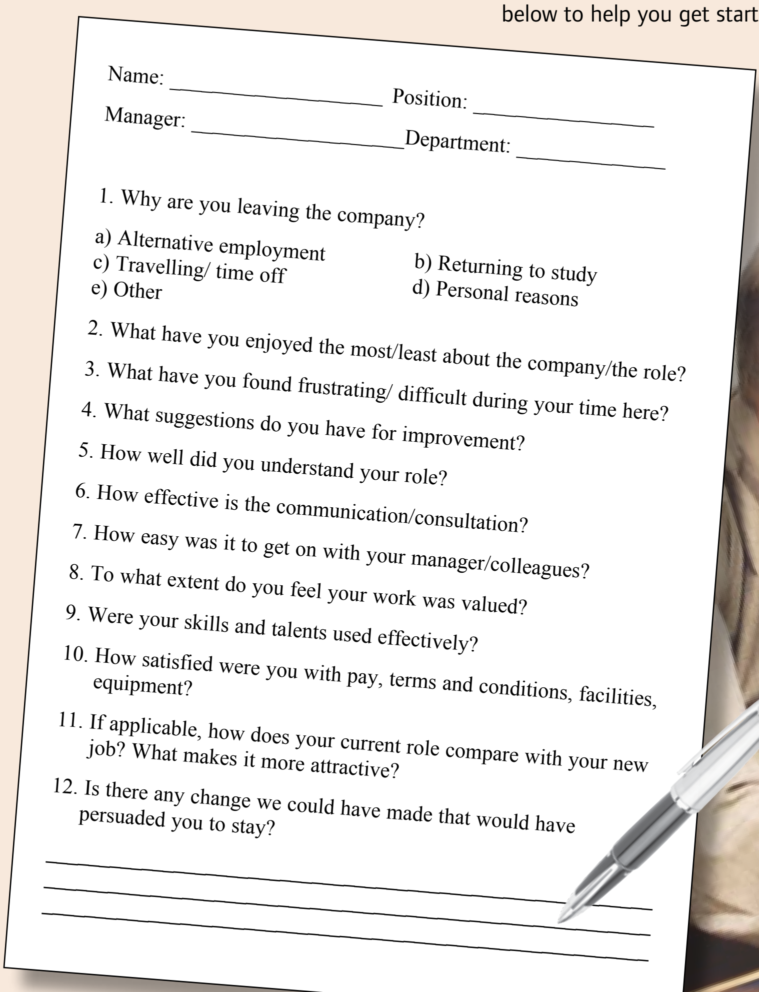
Information gleaned should form the basis for making improvements and, where appropriate, remedial action should be taken. Even the simplest of changes may help to attract and retain talent.

Where do I start?

So what is the secret to a valuable exit interview? As with any interview format, the key to success lies in the preparation. Liaise with the employee's manager prior to the exit interview to gain an insight into the employee's performance. Compile a list of questions and areas for discussion and add to it any general points you want to raise about their perceptions of the organisation.

Employ similar skills and techniques as you would during any interview. Listen rather than talk and make sure that you give the employee time and space to answer. Use open-ended questions to invite more insightful and descriptive responses, whilst remaining objective throughout. And finally, remember to record feedback by taking notes or using a prepared questionnaire to enable subsequent analysis.

If you would like further assistance in this matter, why not use the template below to help you get started?



Name: ____________________ Position: ____________________

Manager: ____________________ Department: ____________________

1. Why are you leaving the company?

a) Alternative employment
b) Returning to study
c) Travelling/ time off
d) Personal reasons
e) Other

2. What have you enjoyed the most/least about the company/the role?
3. What have you found frustrating/ difficult during your time here?
4. What suggestions do you have for improvement?
5. How well did you understand your role?
6. How effective is the communication/consultation?
7. How easy was it to get on with your manager/colleagues?
8. To what extent do you feel your work was valued?
9. Were your skills and talents used effectively?
10. How satisfied were you with pay, terms and conditions, facilities, equipment?
11. If applicable, how does your current role compare with your new job? What makes it more attractive?
12. Is there any change we could have made that would have persuaded you to stay?

Changes to the National Minimum Wage

From 1 October 2008 the main adult rate of the National Minimum Wage (NMW) rises from £5.52 to £5.73 per hour.

In addition, the hourly development rate for those aged 18-21 increases from £4.60 to £4.77 and the rate for workers aged 16 and 17 climbs from £3.40 to £3.53 per hour. The new rates are based on the recommendations of the independent Low Pay Commission, which was asked to monitor and review the impact of the NMW.

Following a series of high profile breaches, the Government has also outlined proposed changes to how the NMW is enforced, including tougher penalties for employers that fail to comply with the obligatory wage.

The reforms, which form part of the Employment Bill, include granting greater inspection powers to NMW compliance officers and strengthening the penalty regime for offences committed under the new legislation. The Government is also consulting on plans to introduce a fairer method of calculating arrears for workers who have been underpaid.

Subject to parliamentary approval, the new enforcement provisions are expected to come into force on 6 April 2009.

Ruling on tips and the NMW

Meanwhile, a High Court has ruled in favour of HMRC and against Annabel's restaurant and nightclub by supporting current NMW legislation relating to waiting staff tips. HMRC argued that payment via a 'tronc' (an independent tips distribution scheme) does not count towards the minimum wage.

The judgement means that employers have to pay their staff at least the minimum rate regardless of any tips, gratuities, service or cover charges, so long as the tips are not paid directly through the employer's payroll.

Business Round-Up

Avoiding the VAT 'penalty trap'

Making a mistake in your VAT calculations can prove costly, particularly in view of the recent changes to the penalty regime. Of course, avoiding errors altogether is ideal, but what action should you take if you do make a mistake?

If you make an error in your VAT calculations you may include the under or overpayment in your next VAT return, providing the net errors for the period are within the specified limits.

New rules

For VAT periods ending before 30 June 2008 this error reporting limit was £2,000. However, for VAT periods beginning on and after 1 July 2008 this limit is increased to the greater of:

- £10,000 or
- 1% of the turnover for the period in which the error is found (box 6 on the VAT return), subject to a maximum error of £50,000.

Reporting the mistake

Where the net VAT errors - underpayments set against overpayments - exceed these limits, you should write to the VAT Voluntary Disclosure Office and divulge the details of your mistake. You can use VAT form 652 to do this, which can be downloaded from the HMRC website, or you may supply the following information on business headed paper:

- the VAT period when the error(s) was made
- how the error occurred and whether it relates to purchases or sales
- your calculation of the mistake and the total VAT payable or refundable.

The VAT office will normally reply with a demand for interest on the late paid VAT, if the error produces a net underpayment of VAT. Even if your net VAT error is within the error reporting limits, please discuss the situation with us before correcting the fault on your VAT return – it may be possible to minimise any penalty charged by writing to the VAT office instead.

Notification and details of the error should be mailed to the VAT Voluntary Disclosure office that deals with your postcode area. The correct address for your location can be found by contacting the VAT national advice line on 0845 010 9000.

Take note

The main VAT processing office is moving from Southend to Shipley in Yorkshire. VAT and other indirect tax returns are gradually being transferred to the new office for periods starting from 1 July 2008. Intrastat returns and EC sales list declarations will continue to be dealt with in Southend until at least December 2008.

We can help you with your VAT queries and concerns – please contact us for further advice.

Web Watch

Essential sites for business owners

www.e-skills.com
Provides advice, services and programmes to help develop and improve IT skills in the workplace

www.getsafeonline.org
Free and objective advice on internet safety for you and your business

www.envirowise.gov.uk
Practical tips to help increase profits, reduce waste and minimise your environmental impact

www.lowpay.gov.uk
Information on the National Minimum Wage, including past and current rates and consultations

Reminders for your Autumn Diary

September 2008

30 End of CT61 quarterly period.

October 2008

1 Due date for payment of Corporation Tax for period ended 31 December 2007.

5 Individuals/trustees must notify HMRC of new sources of income/chargeability in 2007/08 if a Tax Return has not been received.

14 Due date for income tax for the CT61 quarter to 30 September 2008.

19/22 Quarter 2 2008/09 PAYE remittance due.

31 Last day to file 2008 Tax Return – paper version.

November 2008

1 Please ensure you are retaining your documents for the 2009 Tax Return.

2 Last day for notifying car changes in quarter to 5 October- P46 (Car).