Thompson Jenner LLP
Chartered Accountants

BUSINESS SUPPORT KIT

Where you are more than just a number

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Welcome

I am pleased to share with you Thompson Jenner's Business Support Pack which I hope you find extremely valuable. It has always been our ethos to provide proactive and timely advice and all the staff at Thompson Jenner pride themselves on offering exceptional levels of client service. This continues to be the case throughout Covid-19 when we have ensured that staff remained available to assist clients despite having to adapt to remote working solutions.

The recent launch of our Virtual Office has been well received and continues to allow the access for clients to communicate effectively with the firm and to enable the secure exchange and electronic signature of documents which has meant that all statutory filing commitments have continued to be met.

As a leading firm of Chartered Accountants in the South West with over 60 years of reputation, we understand how businesses operate and the in depth guidance and support required.

We understand that the current situation will create economic pressures for all businesses whilst also providing opportunities for many to thrive as a result of changes to strategic plans and ensuring close monitoring of business performance. I am therefore pleased that we have collated the enclosed resource to assist businesses to prepare and navigate through these challenges and the staff and Partners remain committed and available to offer support to you.

Neil

Neil Curtis
Managing Partner

Business plans: the foundation for success

Any business, whether it is just starting out or is considering the next stage in its development, will need a business plan.

A business plan serves several important purposes. Perhaps the most obvious is to help raise funding. A business plan is the document that banks or investors will use to judge whether an idea or a business is viable and whether to lend money to or invest in an enterprise.

However, a well thought out business plan has advantages besides persuading others to give their support. It can, for example, identify and anticipate possible business problems; it can introduce a realistic perspective to a project; it can provide an enterprise with a coherent financial structure; it can add definition to a strategy; and it can be used to gauge the progress that a business is making.

Although it should be as strong on detail as space will allow, a good business plan should also be flexible. That is, it should be open to amendments and shifts in emphasis as circumstances change, and the plan reshaped to accommodate them.

A business plan, therefore, is less a blueprint than a map by which a business charts its successes or setbacks.

Attracting capital

When reading a business plan, different audiences will be looking for different things.

A bank, for example, will wish to be reassured that any borrowings made by the business can be repaid. This reassurance is most likely to come from a plan that shows steady growth and a reliable, regular cashflow capable of maintaining the loan repayments.

An investor, on the other hand, will be looking for signs of strong, fast growth. This is because the return on an equity investment will depend on the value and profitability of the company rather than on the repayment of a sum of money.

Content

Most business plans follow a common structure, not least because there is a set, minimum amount of information that readers will require.

The overall narrative of a business plan should demonstrate how the enterprise is to develop, how its goals are to be achieved, how it is going to be managed and how its financial structures are to work.

While a plan should sound bullish about the enterprise's prospects, it must also be realistic, cogent and unambiguous. No one is going to be convinced by over ambition or generalities. What's more, in committing to an honest and detailed plan, the business will also be giving itself a sharp, focused picture of just how successful the enterprise is going to be.

A business plan should include an executive summary, and a number of sections that between them cover the nature of the business, the marketing strategy, the people involved in the business, the way the business is to be managed, and the finances.

Executive summary

The executive summary, which should preface the document, provides, as its name suggests, an overview of the business and a synopsis of the whole plan.
Since it heads up the plan, the summary will be the first section to be read, although it should be the last section to be written. A good, succinct, compelling summary will cover the main points to be found in the document but not duplicate them in detail.

At the end of the summary, the reader should have a clear idea of the nature and aims of the business and the opportunities it offers. They should also feel interested enough in the proposition to want to know more details.

For that reason, the summary must be involving, clear and persuasive, and no longer than two pages. On the other hand, it should not be an extended list of contents, or just a description of the business, or a series of over claims.

The business

The job of this section is to communicate precisely what the business is, what the business does, the nature of the product or service, and how viable the enterprise is. The people involved in the business should also be introduced here.

It should begin with a brief outline of the structure of the business - is it a partnership, for example, or a limited company - and who owns it. If the business is already trading, a brief history of its progress to date can be included.

The owner should also set out their vision for the future development of the business.

Next, there should be a description of the product or service. This will need to cover not only the nature of the product or service, but also how it is different to the competition, how it will benefit customers, why customers will buy it, how it will make money and how it will develop and evolve.

Although it is understandable, nobody putting a business plan together should assume the reader knows as much about the product or service as they do. Concise, accessible explanation is, therefore, vital.

The market

Almost as important as the product or service is the marketplace in which it is competing. The plan will need to define the market, look at the competition and mark the position of the business. Readers will expect an intelligent, properly researched understanding of the current status of the marketplace and of any trends that are likely to influence its development in the future.

The plan should describe the size and history of the market, and should show why customers within it will want to buy the business's product or service. Rivals should be identified and assessed for their share of the market, as well as for their comparative strengths and weaknesses. It is also helpful to set out ways in which the market may change and how the business intends to handle or exploit those future developments.

Marketing

Many plans tend to treat marketing as peripheral, but they should not. No matter how good or how innovative the product or service, readers will want to be told exactly how the business intends reaching its customers.

This section, therefore, needs to demonstrate a well-considered strategy for promoting the product or service in a way that targets the greatest number of the right sort of customer.

Here it is necessary to indicate how the product or service is to be positioned in the market (that is, how it is to achieve a distinct identity).

A customer profile will help show who will be interested in buying the product or service and why. (This, in turn, will allow the business to produce an accurate, realistic pricing policy.)

The next step is to include the outline of a promotional campaign, and the methods of communication - direct marketing, above the line advertising, PR, telemarketing, emails - to be used. This needs to be complemented by a sales strategy that describes where and how the product or service will be sold (retail, online, etc).

The people

Obviously, the role and calibre of the managers and employees will have a significant bearing on the operation and the running of a business. As well as outlining the structure of the business team, the plan should also detail the talents, experience and strengths of the people who make up the team. If there are any weaknesses or gaps in the collective skill set of the business, there should be an indication of how this might be remedied.

A quick biography of the management team should include background information on qualifications and past experience and how these suit the person for their role in the enterprise. The broader the range of skills, from product development to financial expertise to marketing know-how, the better equipped to succeed the business will appear.

Any professional advisers that have been consulted should also be mentioned.

Proof of commitment can be just as persuasive to would-be funders as expertise or qualifications. So it is useful to make clear how much time various members of the management team will be devoting to the business.

If there are plans to recruit additional employees, then readers need to be told how many, the level of salaries and benefits that are to be offered, and, if possible, the intended productivity rates for each employee. Any staff training schemes also need to be outlined.

Business operation

This is the part of the plan that describes how the business is going to be run and managed. Depending on the nature of the enterprise, this may mean detailing the location of the business (and any advantages this may bring), the sort of premises that are to be used (are they owned or rented?) and the duration of any lease.

Any plant or equipment should be itemised and assessed for its capacity to cope with the production process.

Some businesses will have to offer reassurances about such ongoing measures as quality control and such daily practices as stock management. The ability of the enterprise to make effective use of the latest information technology should be mentioned here too.

Finance

The purpose of the financial section is to buttress the plans and strategies with hard economics. If the business has already been trading, then it will be necessary to provide information about existing sets of accounts and about any debts or assets.

The plan should make clear exactly how much funding the business is seeking and how it intends to repay any loans.

Financial forecasts should provide estimates for revenue and expenditure covering at least the next three and possibly the next five years. It will be expected that the first year will be the most detailed. The numbers should be accompanied with an explanation of the thinking behind them.

The forecasts need to include: a cashflow statement that charts the amount of money in the business on a month by month basis (a viable business requires enough working capital to meet regular costs such as wages); a profit and loss forecast that establishes the amount of profit the business expects to make, calculated on the balance between sales on one hand and costs on the other; and a sales forecast that shows the sort of income that sales are going to generate.

Presenting the plan

One of the biggest mistakes is to include too much detail in a business plan. The most effective plans are those that are concise and relevant. If it is too long, it will run the risk of going unread; if it is too caught up in minutiae, it will run the risk of showing all the salient, persuasive facts and ideas under an avalanche of peripheral detail.

As well as manageable, the plan needs to be well written and logically ordered. It should have a correctly numbered contents page and an appendix where data or balance sheets can be referred to. Before it is bound, it should be exhaustively edited; read and checked by people who have not been involved in writing it (nothing works so well at spotting the vague, ambiguous or plain incomprehensible than a cold, objective eye); and scrutinised by any expert consultants such as an accountant or financial adviser.

Above all, however, the document must ring true to expectations and experience. Enthusiastic optimism, though admirable, is finally no substitute for hard-headed realism.

If a business plan receives knock backs, it always pays to find out why it was rejected. The cause may not necessarily be fundamental but remedial; a matter of a financial or marketing adjustment here, a tempering of ambition there.

Which raises the last important point about a business plan. It is organic, not written in stone. It should have the flexibility to adapt as business circumstances change. Indeed, re-visiting and updating a business plan is one of the more worthwhile exercises an enterprise can perform. Many hard-working business plans are never intended for an external audience at all, but are used by the owners to help them guide their business through its growth and development.

Do call us if you would like further help or advice on preparing your business plan.

Preparing your business plan

Planning is:

- Taking prudent, calculated risks rather than blindly reacting to events
- Making the best use of available resources
- Setting a path to achieve the lifestyle you want

All businesses plan to some extent, but the planning is often informal and ill defined. You should always set out your plans in writing, however roughly, because this forces you to define your ideas clearly.

Planning to plan

Consider:

- What information you need to assemble
- The initial decisions to be made
- The sales and marketing options open to you

Enlisting support

Assess the expertise and assistance you already have, and decide what additional help you will need to prepare your plan and harness your resources effectively. For example, you might need accountancy, information technology/ internet or marketing assistance.

Define your business

Examine your business ideas critically and check these against your initial perception of the marketplace. Identify the key features of your business.

- Analyse its strengths and weaknesses
- Consider opportunities open to you, and the challenges you face

Scanning the market

The marketplace is the key to the success of your business. You should review the market for your goods or services, and the competition you face.

- Use market segmentation to identify potential customers
- Use market survey methods to characterise your customers and their needs
-

Identify your niche

Only the largest businesses can afford to provide an overall service to all customers. Most companies have to choose between offering general services to a restricted range of customers, or offering a niche or specialist service. How can you best achieve profits?

You could, for example, restrict customers by geographical area, or by some other classification within a wider area.

- Identify the features of your key goods or services
- Identify the advantages you have over competitors
- Identify your 'USP' (your unique selling proposition)

People profile

Now you can review the skills and knowledge needed to run the business. Compare this list with the abilities of the people currently working for you.

If certain skills or knowledge are lacking, consider whether training would be appropriate. Remember, it is often better to buy in certain skills such as accountancy and marketing as and when they are needed. Other skills, such as selling and production, are needed constantly and so should be available in-house.

Prices and profits

Identify the relationship between prices and profits. Most businesses price low to maintain turnover, but the additional profits from higher margins can often outweigh any loss of turnover.

Decide on the impact of competitors' pricing policies.

Marketing strategy

Marketing is deciding how best to reach customers, maintain marketplace intelligence, secure additional customers, and generate further business.

- Determine how you will attract potential customers
- Design the message and the medium required to evoke a response
- Prepare staff to deliver outstanding customer service, through training if necessary
- Perhaps prepare a separate, more detailed, marketing plan

Capital expenditure and liquidity

Having defined the business you are aiming for, you now need to consider the financial resources you will require. It is easier to arrange borrowing in advance rather than approach your bank manager when you have exceeded your overdraft limit!

Review the capital expenditure needs of the business and alternative ways of meeting this expenditure while retaining adequate liquidity.

Financial forecasting

We will be pleased to put together financial forecasts from your business plan. These will cover:

Sales Revenue

- Taking into account current turnover and any potential increase
- Making full use of marketing survey data
- Converting forecasts into targets

Expenditure

To estimate the expenditure that will be incurred in running the business, we will:

- Identify and estimate fixed costs item by item
- Calculate variable costs on the basis of projected revenues

Profits

We will forecast the level of anticipated profits from the assumptions made to date about the business. Because nothing is certain in business, it is vital to apply a sensitivity analysis to the assumptions to identify which ones are critical to success. Then you can carefully plan your reactions to possible scenarios, such as:

- How will you respond if a competitor starts a price war?
- Could your production facilities cope with a large order? What would be the effect on your cashflow?

Funding Review

We will review funding provisions for the business in the light of the capital and cashflow requirements. The review will include:

- Identifying assets and liabilities, including money owed to you and stocks held
- Drawing up balance sheets based on the forecasts
- Identifying how much of the cash needed can be financed from profits or trade creditors. The remainder needs to be provided either by the proprietors or by borrowing(s)

Once the plan has been prepared

Management Information

To achieve the best results, you will need to monitor your performance against the plan. This will give you early warning for when you should reconsider your actions in response to market developments.

Consider the key information you need to manage the business, and hence the systems that will provide this:

- Plan to monitor revenues and costs
- Plan to manage cashflow
- Plan to manage people
- Updating the plan

You will need to decide when the plan should be updated and how this should be done:

- Short term problems may require immediate revisions
- The year end review of results will help in amending the plan
- Do not neglect to review the marketplace from time to time

This is a never ending process.

Businesses evolve and so should your plan. Plans should be designed to enable you to forecast the future, to help you stay ahead of the game and to assist you in realising your full potential.

Do call us if you would like further help or advice on this subject.

Attracting new business: where to start

Marketing to attract 'new' business can often feel like a daunting task, where is the best place to start? How can I measure my success? How do I stand out from competitors?

It is always easier to get repeat business from existing client relationships, however, if you want your business to grow you will need to ensure a proportion of your marketing efforts are focussed on attracting new clients and building new relationships.

Key elements to consider when trying to 'win' new business;

Target Market

Who are your ideal clients or customers? Where do they live? What do they do, what are their challenges?

Your business/product USP

What sets you apart from your competitors? What can you offer that no one else can?

Value

What will you offer your clients/customers? Think about telling them how you or your product will make their life better or easier.

Engage

In order to attract someone to use your service or buy your product you need to engage with them and gain their attention. You cannot do this by sitting back and quietly hoping the business will sell itself.

Networking

The world of networking has evolved, and even more so since the Covid-19 crisis. Networking events are being held online all over the country. They are key to building relationships and growing a business. You may not win a direct client, but if you are able to build a relationship with someone who will recommend or suggest you to someone else, they are worth half an hour of your time.

Don't assume your clients know your industry

You may understand your business inside out, but that doesn't mean that your target market does. In some industries, they of course will, however, don't assume.

Don't do too much

In order for marketing to be successful it needs to be undertaken in steps. So, choose one or two marketing ideas and start by getting those right. It may be ensuring your website is working well; is it attracting business, have you got the SEO right (are you appearing in an online search) or perhaps it is ensuring your branding is giving the right message; is it recognisable, will people know what you are selling from looking at your branding?

Whatever the size of your business, rest assured the companies you admire have utilised at least some of these tactics. They can certainly help you as well.

Raising finance for your business

Finding a method of finance that works for you and your business is crucial to its success. However, raising funds remains a significant challenge for many businesses.

Whether you are looking to start a new business or need capital to expand, there are various options to consider.

Overdrafts

Overdrafts are credit facilities that have a set amount of money, agreed between you and your bank. They can provide a flexible means for covering short-term outgoings and unforeseen business expenses. Overdraft limits need to be agreed in advance and interest is ordinarily charged on any money you receive from an overdraft facility. Other charges may also be payable such as arrangement or renewal fees.

Overdrafts should not be used as a long term source of finance, and continued use may lead your bank to question whether you are in financial difficulty. If you find yourself overdrawn for long periods of time, contact us for advice.

Loans

Principally, loans have been the conventional source of funding for most businesses. Bank loans are taken out for a fixed term, with interest rates agreed in advance, so they are straightforward when it comes to incorporating monthly repayments into your financial plan. Repayment terms and interest rates can sometimes be negotiable, although banks are increasingly asking for collateral as an additional form of security.

Alternatively, borrowing money from friends or family may be an option if they are willing. If this is the case, it is important to draw up legally binding arrangements and to make sure every aspect is formally agreed in advance to avoid any potential upset.

Every loan application will show up on your credit file and banks are more cautious about lending in today's economic climate, so make sure your business plan is solid and your reasons for borrowing are legitimate, before you apply. If you are a perceived high risk to the bank, you may be refused the loan.

For advice on how much money to request or for a financial assessment of your business before you apply, please contact us.

Grants and government support

You may be able to make use of a grant or other type of support. Grants are usually provided by local councils, the government and charities, and can be an inexpensive form of financing. Grants and similar subsidies are typically non-repayable, but tend to be highly sought-after, resulting in fierce competition for this type of funding.

However, government grants are usually only offered to businesses operating in specific sectors and for specific projects. You may be required to cover part of the cost of your project, or to match the funds granted to you.
Other sources of government funding may prove to be beneficial: the government-owned British Business Bank, for instance. The Bank works with a variety of partners, including other banks, venture capital funds, web-based platforms and leasing companies.

To search for available schemes and grants in your sector visit www.gov.uk/business-finance-support-finder.

Investment

This option involves selling part of your stake in the business to an interested investor. The investor could be a wealthy individual, a private equity company or a larger company operating in the same sector. As only limited companies can sell shares, sole traders and partnerships are not able to use investment finance as a source of funding.

If you sell part of your business to an investor, any profit (or loss) the business makes will be shared with the investor. Advantages for this type of finance mean you are not charged interest and there are no monthly repayments. Often, new investors also bring varied skills to the table, which could potentially improve your business. However, this type of finance means relinquishing some control and investors often expect to be consulted before any management decisions are made.

Debt factoring and invoice discounting

Factoring involves selling any unpaid invoices to a third party and paying interest and/or a fee on them. The third party will then collect the debt themselves.

Invoice discounting provides a means of borrowing money against any unpaid invoices owed to your company (again,

for a fee). As your invoices are paid, the amount you owe the lender decreases.

These forms of finance can often be a good way of releasing cash tied up in unpaid invoices back into your business.

Asset finance

Leasing equipment means you can avoid spending a large amount of money in one lump sum. This is often beneficial from a cash flow perspective, although it should be noted that in some cases the monthly leasing instalments can be more expensive than buying the asset outright. Leasing will also give you access to a high standard of equipment, and assets can be upgraded easily when contracts end.

Hire purchase agreements are another option for those who want to acquire business assets without having to pay for the whole item up-front, and contracts usually include an option to purchase at the end of an initial period.

And don't forget, the cost of qualifying business equipment is usually tax deductible – talk to us for further details.

We can advise on the most suitable type of finance to suit your needs – please contact us for further information.

Keeping an eye on your cashflow

Cash is the lifeblood of a business, but with so much emphasis usually put on profitability, it can be easy to overlook this fact. Of course, the bottom line is important, but poor cash flow management can drive a growing and/or profitable company out of business.

The risk is especially great for expanding companies. For example, if billing is delayed at the same time as stock is accumulated to fulfil increased orders, you can find yourself short of the cash needed to pay suppliers and employees.

The benefits of projection

Cash flow projections are critical, especially in times of need, but you don't have to wait for a crisis to benefit from good cash flow planning. A properly developed cash flow projection can help a business foresee and prepare for potential shortages. Cash flow management can also help you:

- Maintain adequate cash reserves to pay bills, expand the business and invest in facilities and product development
- Reduce interest costs through managed borrowing
- Receive discounts through bulk purchasing
- Improve relations with the bank manager

Businesses that prepare cash flow projections often learn something about their systems, the dynamics of their business, and the process often has other positive outcomes. For example, you might discover that you need to pay more attention to certain customers, or that you can defer payments to suppliers more beneficially.

Cashflow checklist

20 signs that your business could be facing cashflow problems

To help you focus on your cashflow and profitability we have prepared this checklist. Simply answer 'yes' or 'no' to say whether each statement is true for your business. If you have more 'no' answers than you are comfortable with, you may be facing cashflow problems. Call us to discuss an action plan.

	YES	NO
We send a bill as soon as we complete a job		
Invoicing documents are accurate, complete and clear		
Our credit procedures alert us to problem customers so that we can follow up on outstanding accounts		
We monitor and enforce our credit terms and obtain deposits from 'doubtful' payers		
We finance capital expenditure in the most cost-effective manner		
Our pricing reflects time spent on jobs and covers associated risks		
We catch mistakes before they reach customers		
Mistakes cause us to improve processes		
We keep a close eye on budgets throughout the year		
We determine the viability of outsourcing work		
We forecast cashflow monthly and base our financial arrangements on our projections		
Our bank is our partner and understands our business and its financial needs		
We always see that work is done by the least expensive, capable employee		
We link staff pay to productivity and company profits		
Our standard operating procedures are written down and everyone follows them		

Preventing late payments

Managing and reducing the risk of late payment is essential. Indeed, small and medium-sized enterprises are particularly vulnerable to the effects that late payment can have on cash flow, profitability, and ultimately the viability of a business.

If you want to avoid falling victim to the 'late payment culture', consider the following strategies.

Credit check your customers

Failure to research the credit history of both new and potential customers could leave your business at risk of late or even non-payment. Minimise this threat by conducting the necessary checks with the customer's bank, a credit reference agency and some of their suppliers. Further financial information may be obtained from Companies House, the Chartered Institute of Credit Management and local media.

It is also advisable to monitor your customers' payment trends on an ongoing basis, as this may allow you to spot potential problems before they develop into something more damaging.

What if your customer is a large business?

From 2017, large businesses and limited liability partnerships (LLPs) are required to publish details on how quickly they pay their suppliers. The measures require large firms to publicly report twice a year on both their payment practices and their performance, including the average time taken to pay supplier invoices.

A government-sponsored voluntary Prompt Payment Code also exists, requiring signatories not only to pay within 60 days – in line with legal requirements – but also to work towards payment within 30 days.

The government publishes data which you can search for any large company to find out their payment performance. See 'check when large businesses pay their suppliers'.

Publicise your terms and conditions

Clearly print your terms and conditions for payment on all relevant documentation that is sent to new and potential customers. Terms should clearly state the payment period for any invoice – settlement is often expected within 30 days, although this may vary depending on the type of business.

The Late Payments of Commercial Debts (Interest) Act 1998 and later Regulations means you can charge interest to businesses (but not consumers) as soon as their payment is late. A payment is considered to be 'late' after 30 days, unless you agreed something else with the customer. You're also entitled to add compensation to the interest charge. This compensation (called a 'debt recovery cost') varies depending on how much you're owed.

The Small Business Commissioner and the Chartered Institute of Credit Management provide an example of how this can be stated in your terms and conditions and on your invoices:

'We will exercise our statutory right to claim interest (at 8% over the Bank of England base rate) and compensation for debt recovery costs under the Late Payment legislation if we are not paid according to our agreed credit terms.'

Invoice on time

Distribute invoices in a timely manner to ensure the payment process remains as efficient as possible, and prevent unnecessary delays by addressing the invoice to the correct contact and department. If a client has not paid on time, it is essential to pursue payment.

Promote a positive payment culture

To encourage customers to pay on time, you could consider offering small discounts for the early settlement of bills. If a customer is having problems with their payment, you may want to negotiate a deal with them.
The Small Business Commissioner has useful advice on how to deal with an unpaid invoice:

- Check – there's nothing wrong with the invoice
- Chase – informally by calling or emailing
- Choose – if chasing hasn't worked, decide what further action is required.

See: www.smallbusinesscommissioner.gov.uk/deal-with-an-unpaid-invoice/

VAT - Cash accounting

Advantages & Disadvantages of the Scheme

Cash accounting enables a business to account for and pay VAT on the basis of cash received and paid rather than on the basis of invoices issued and received.

The advantages of the scheme are as follows:

- Output tax is not due until the business receives payment of its sales invoices. If customers pay promptly, the advantage will be limited. Even so, the gain may be material.
- There is automatic bad debt relief because, if no payment is received, no output tax is due.
- Most businesses find it easier to think in terms of cash flows in and out of their business than invoiced amounts.

The potential disadvantages are as follows:

- There is no input tax recovery until payment of suppliers' invoices.
- The scheme will not be beneficial for net repayment businesses - for example, a business just starting up, which has substantial initial expenditure on equipment, stocks, etc, so that input tax exceeds the output tax, should delay starting to use the scheme. That way, it recovers the initial input tax on the basis of input invoices as opposed to payments.

Key Rules

A business can join the scheme if it has reasonable grounds for believing that taxable turnover in the next 12 months will not exceed £1,350,000 provided that it:

- is up to date with VAT returns
- has paid over all VAT due or agreed a basis for settling any outstanding amount in instalments
- has not in the previous year been convicted of any VAT offences.

All standard and zero-rated supplies count towards the £1,350,000 except anticipated sales of capital assets previously used within the business. Exempt supplies are excluded.

When a business joins the scheme, it must be careful not to account again for VAT on any amounts already dealt with previously on the basis of invoices issued and received.

A business can start using the scheme without informing HMRC. It does not cover:

- goods bought or sold under lease or hire-purchase agreements
- goods bought or sold under credit sale or conditional sale agreements
- supplies invoiced where full payment is not due within six months
- supplies invoiced in advance of delivering the goods or performing the services.

Once annual turnover reaches £1,600,000 the business must leave the scheme immediately.

On leaving the scheme, VAT is due on all supplies on which it has not already been accounted for. However outstanding VAT can be accounted for on a cash basis for a further six months after leaving the scheme.

Accounting for VAT

Output tax must be accounted for when payment is received.

Cheque

Treated as received on the date the cheque is received or if later the date on the cheque. If the cheque is not honoured an adjustment can be made.

Credit/debit card

Treated as received/paid on the date of the sales voucher.

Standing order/direct debits

Treated as received/paid on the day the bank account is credited.

Part payments

VAT must be accounted for on all receipts/payments even where they are part payments. Part payments are allocated to invoices in date order (earliest first) and any part payment of an invoice allocated to VAT by making a fair and reasonable apportionment.

Records

Under the cash accounting scheme the prime record will be a cash book summarising all payments made and received with a separate column for VAT. The payments need to be clearly cross-referenced to the appropriate purchase/sales invoice.

In addition the normal requirements regarding copies of VAT invoices and evidence of input tax apply.

How we can help

We can advise on whether the cash accounting scheme would be suitable for your business.

VAT - Bad debt relief

It is quite possible within the VAT system for a business to be in the position of having to pay over VAT to HMRC while not having received payment from their customer.

Bad debt relief allows businesses, that have made supplies on which they have accounted for and paid VAT but for which they have not received payment, to claim a refund of the VAT by reference to the outstanding amount.

The Conditions for Relief

In order to make a claim a business must satisfy the following conditions:

- goods and services have been supplied and the VAT in question has been accounted for and paid
- six months has elapsed since the later of the date of supply and the due date for consideration, whichever is the later
- all or part of the outstanding amount must have been written off in the accounting records as a bad debt (in the 'refunds for bad debts account').

Making the Claim

A claim is made by entering the appropriate amount in Box 4 of the VAT return for the period in which entitlement to the claim arises (or any permissible later period).

Records

Businesses making bad debt relief claims must keep records for four years from the date of the claim to show:

- the time and nature of supply, purchaser and consideration - normally a VAT invoice will show this
- the amount of VAT and the accounting period it was paid to HMRC
- any payment received for the supply
- details of entries in the 'refunds for bad debts account'.

Repayment of Input Tax by Purchaser

Where a customer has not paid a supplier within six months of the date of the supply or, if later, the date payment is due, VAT previously claimed as input tax, must be repaid. This puts a burden on all VAT registered traders to monitor their transactions to anticipate whether they need to reverse any input tax recovered on goods received from suppliers.

How we can help

We would be pleased to help with further advice in this area.

Tax, Allowances & Schemes - Explained

During these uncertain times, HMRC have introduced a range of support measures designed to help businesses navigate their way through this period. Below is a brief summary of the measures that have been introduced as well as a summary of existing reliefs/schemes that will be of use to businesses and investors.

Early Corporation Tax Repayment

If a company knows it will incur losses before an accounting period has ended (due to Covid 19), HMRC will consider repaying any corporation tax that may be due before the return has been filed. This may prove to be a significant injection of cash flow.

To make this claim, a company needs to demonstrate that the losses made are great enough to both adequately shelter any income of the current period and the taxable profits of the prior period relevant to the claim.

Capital Allowances – Annual Investment Allowance (AIA)

If a business incurs qualifying capital expenditure, it can claim 100% tax relief by claiming the AIA on this expenditure. The available AIA is currently £1m per 12 month accounting period.

However, it is planned that for accounting periods ending on or after 1 January 2021, the allowance will be reduced to £200,000 per annum.

A lot of businesses will have accounting periods that straddle this change. Very careful planning concerning the timing of this expenditure is required to ensure that a business obtains the full tax relief that is available. For instance a firm with a 12 month year end of 31 January 2021 will have an AIA of £933,333.

However, only £16,667 of AIA is available on expenditure incurred in January 2021, so timing of the expenditure within the accounting period is critical.

Research & Development (R&D) Tax Credit

This relief is available to companies that have undertaken work that leads to a 'scientific or technological' advance. For companies that meet the definition of a Small Medium Enterprise, HMRC offer 130% additional corporation tax relief on all R&D related expenditure.

If after accounting for this additional relief a taxable loss arises, HMRC will award a 14.5% tax credit. This credit is the lower of 1) The total R&D spend, plus the 130% enhancement 2) The overall taxable trading loss made.

Companies that do not meet the Small Medium Enterprise definition may still claim relief under the RDEC scheme.

Working From Home Allowance

HMRC have recognised more people are now working from home and incurring additional costs.

Therefore, HMRC allow an employer to pay up to £6 per week tax free to each employee that works from home. This payment is also deductible for tax for the employer.

Enterprise Investment Scheme (EIS) & Seed Enterprise Investment Scheme (SEISS) Relief

One way to attract investment into your business is to issue EIS or SEISS shares. The reason why this may be an option is that they offer considerable tax advantages to the investor.

An EIS investment can generate 30% income tax relief, whilst an SEIS investment can generate 50% income tax relief, plus there are also capital gains tax advantages for investors. There are a lot of conditions for both the investor and the issuing company that need to be met.

We advise that advice is sought before considering issuing such shares.

Approved Employee Share Schemes

In order to help retain key personnel an employer may offer employees shares through an approved share scheme such as the Enterprise Management Incentive (EMI) scheme.

The advantage of the EMI scheme is that the employee will not have to pay tax or NIC on the market value on the shares acquired. However, for this to happen the shares must first be bought for their market value at the grant option date.

Deferment of Tax

HMRC have pushed back the deadline for the 2019/20 second payment on account from 31 July 2020 to the 31 January 2021. This applies automatically and is for all in self-assessment.

You also have the option of deferring VAT that was due for payment between 20 March 2020 and 30 June 2020. The new payment date for VAT due in this period is 31 March 2021.

We hope the above provides a useful snapshot of the support measures HMRC have put in place. Should you wish to know more details regarding any of the above and how you may implement them please let us know.

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