

Does your customer or supplier receive a newsletter from their accountant?

If not - feel free to pass this onto them. We are always happy to speak to companies about the service that we offer. Contact **Roger Blaskey** or **Julian Beressi** on **0161 832 6221** if you have a contact who you believe may be interested in speaking to us.

Change of Government - Now What?

After a bit of a drama, we have a Government in place. However, as it's a coalition Government, we don't really know what effect this Government is going to have on us and our businesses.

With the new Coalition Government presenting an Emergency Budget on 22nd June we will learn more then, but in the meantime we have studied both parties manifestos, the recent Coalition Agreement and lots of other sources of information and conjecture to get a feel for what changes could possibly be announced. So with our best crystal ball on the table, we suggest that the following might appear in the Budget:

Capital Gains Tax (CGT)

We expect CGT for some assets to increase from the current rate of 18% to a rate more in line with income tax, possibly as high as 50%, although generous reliefs for entrepreneurial business activities were promised in the Coalition Agreement. Historically any changes to CGT rates have always taken effect from the start of the following tax year so we think it is most likely that the new rate will take effect from 6 April 2011, but these are unusual political circumstances and an increase taking effect from Budget Day, or even from 6 April 2010, cannot be ruled out. So if you already considering disposing of some assets – contact us now to discuss.

Corporation Tax

George Osborne has said that there will be an announcement regarding Corporation Tax. It is expected that the rate will be cut from 28% - to possibly 25%. The Conservatives have said that the system for claiming capital allowances needs reform – so this may be altered to pay for the cut in the rate.

Inheritance and Property Tax

The Conservatives originally proposed increase in Inheritance Tax nil rate band is unlikely to be implemented in this Parliament and similar can be said for the Liberal Democrat "mansion tax" on properties worth more than £2million.

Pension Contributions

Under the Liberal Democrat manifesto higher rate relief for pension contributions was being abolished. Although this wasn't mentioned in the Coalition Agreement, Liberal Democrat Steve Webb has been appointed to Minister of State for Pensions so it may be worth making further contributions before the Budget, if at all possible!

National Insurance

The Conservatives originally proposed to retain the 1% increase in the rate of NIC from April 2011 proposed by the previous Government, but to reduce its effect by increasing the lower and upper earnings limit so that the higher NIC rates would be applied to a lower amount of earnings.

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For employees the increase to the lower earnings limit is not now likely to take place, so lower paid employees may feel the full cost of the 1% NIC rise. It is not clear whether the increase to the upper earnings limit, which would benefit the higher paid, will be implemented.

For employers an increase in the lower earnings limit is likely (although maybe not at the level originally proposed), which will reduce the impact of the 1% NIC rise.

Income Tax

The Coalition Government have said that in their first Budget there will be a substantial increase in the personal allowance from April 2011. This will be the start of a process to move towards raising the personal threshold to £10,000.

VAT

The Coalition Agreement did not mention an increase in VAT, but we wouldn't discount it. It would be a quick way of tackling some of the budget deficit.

We will circulate a Budget briefing note on 23rd June. If you know someone else who would like to receive a copy of our briefing note, please email

sarah.townsley@kayjohnsongee.com

Blood is thicker than water

Family businesses are all around us! From neighbourhood stores to household names such as JCB, Clarks Shoes and Associated British Foods. In fact *Capital Economics* undertook a study in 2008 which found that family businesses made up 65% of private sector enterprises in the UK.

The *Capital Economics* study also found that there were good reasons for a family firm to be more profitable and stable than other firms. Their biggest advantage is that the interests of the owners and managers are aligned; and family firms also have a longer time horizon than other firms.

However, as family businesses expand from their entrepreneurial beginnings, they face unique performance and governance challenges. The generations that follow the founder, for example, may insist on running the company even though they may not be suited for the job. And as the number of family shareholders increases exponentially generation by generation, with fewer actually working in the business, the commitment to carry on as owners can't be taken for granted. Less than 30% of family businesses survive into the third generation of family ownership.

To be successful as both the company and the family grow, a family business must meet two challenges: achieve strong business performance and keep the family committed to and capable of carrying on as the owner. Family businesses can go under for many reasons, including conflicts over money, nepotism leading to poor management and infighting over the succession of power from one generation to the next. Here we advise on some of the issues facing family businesses.

Boundaries

Regulating the family's roles as shareholders, board members, and managers is essential to prevent any infighting between the family members and any non-family managers.

Large family businesses have written agreements that cover issues such as the composition and election of the Board, the key Board decisions that require a consensus, the appointment of the Chief Executive, the conditions in which family members can (and can't) work in the business, and some of

the boundaries for corporate and financial strategy.

Each family business has a different approach to bringing family members into the business - some businesses encourage the family members to work outside the business first and gain relevant experience.

Where's the money?

It is essential to consider how a family can maintain control or influence over the business whilst raising fresh capital for the business and satisfying the family's cash needs.

Some families decide to shut external investors out of the business entirely and to fuel growth by reinvesting most of the profits, which requires good profitability and relatively low dividends. Others decide to bring in private equity as a way to inject capital and introduce a more effective corporate governance culture. Others take the IPO route and float a portion of the shares. An IPO can also be a way to provide liquidity at a fair market price for family members wanting to exit as shareholders.

To keep control, many family businesses restrict the trading of shares. Very often family shareholders who want to sell must offer their siblings and then their cousins the right of first refusal.

Strong Boards

Large and durable family businesses tend to have strong governance. Members of these families participate actively in the work of company boards, where they monitor performance diligently and draw on deep industry knowledge gained through a long history.

Of course it's important to complement the family's knowledge with the fresh strategic perspectives of qualified outsiders. Even when a family holds all of the equity in a company, its Board will most likely include a significant proportion of outside directors.

Like all businesses, family businesses face the challenge of attracting and retaining world class talent to the Board and to key executive positions. In this respect, they have a handicap because non-family executives might fear that family members make important decisions informally and that a glass ceiling limits the career opportunities of outsiders. Still, family businesses are often more caring and loyal than their counterparts, which some talented people may see as values above and beyond what nonfamily businesses offer.

Long term portfolio view

Successful family companies usually seek steady long-term growth and performance to avoid risking the family's wealth and control of the business. This approach tends to shield them from the temptation, which has recently brought many corporations to their knees, of pursuing maximum short-term performance at the expense of long-term company health. Family businesses tend to have lower levels of financial leverage and a lower cost of debt.

The longer perspective may make family businesses less successful during booms but increases their chances of staying alive in periods of crisis and of achieving healthy returns over time.

Nonetheless too much prudence can be dangerous. Family owners, who usually have a significant part of their wealth associated with the business, face the challenge of preventing an excessive aversion to risk from influencing company decisions. Excessive risk aversion might, for example, unduly limit investments to maintain and build competitive advantage and to diversify the family's wealth.

For further information

contact **Julian Beressi**

on **0161 832 6221** or email

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Helping you build a better business

Pay your PAYE or pay more

For PAYE payments due from May 2010 onwards you must pay all your PAYE in full and on time.

If you cannot pay, let HMRC know and agree a Time to Pay arrangement. If you don't, you could be charged penalties, even if your payments are only a day late!

What you should do:

1. Set up systems to ensure that PAYE is paid on time
2. Plan your cashflow and prioritise payment of PAYE. If you have several months' worth of unpaid PAYE, ensure you allocate payments to your oldest debts first
3. Understand the system. HMRC may send you a warning letter, or they may not! So even if you haven't heard from them, assume that HMRC has spotted your late payments and will charge penalties
4. If you do receive a penalty, you may be able to get it cancelled if you have a reasonable excuse, such as death or serious illness.

For further information contact

Lesley Pangburn, our Tax Director or
Heather Winstanley, our Head of Payroll
Services on **0161 832 6221**.



When is a phone not a phone?

It is well known that an employee can be provided with a mobile phone tax free. Until a few years ago you could have any number of mobiles - now you can have only one.

However, the phone needs to be primarily a mobile phone. HMRC considers that PDAs (personal digital assistants) such as Blackberrys, and iPhones now have additional functions more typically

associated with a computer. Therefore they are not primarily mobile phones. PDAs should be taxed as a benefit in kind and declared on Form P11D, which is due to HMRC by 6th July.

For further information contact Lesley Pangburn on 0161 832 6221 or email lesley.pangburn@kayjohnsongee.com

Are you ready for the new fit note?

On 6 April 2010 the new “statement of fitness for work” (nicknamed the “fit note”) was introduced. The aim of the scheme is to cut the cost of employee absence (which the CBI estimated at £13 billion in 2007) by focusing at an early stage on what can be done to help the employee to return to work.

The statement requires a GP to certify an employee as either:

- a) not fit for work, or
- b) fit for work subject to certain conditions.

In the latter case, a GP should give further information about the employee’s health condition and suggest adjustments or adaptations that might be made to the workplace to assist the employee’s return to work.

The proposed adjustments will be selected from a pre-scripted list, effectively making the process a “tick-box” exercise. There are four options to choose from: phased return to work, amended duties, altered hours and workplace adaptations.

There is space for further comments from the GP. However the likelihood of this information being detailed and accurate is minimal.

There is no obligation on employers to follow the GP’s guidance. However, employers should consider the likelihood of the employee’s condition amounting to a disability under the Disability Discrimination Act. If an employee is or is likely to be disabled, there is an obligation to consider what reasonable adjustments could be made to bring the employee back to work.

Failure to comply with this obligation cannot be justified and will amount to disability discrimination. Therefore, employers should seriously consider the practicability of implementing the GP’s recommendations. If you can implement the recommendations, you should set out clearly to the employee whether they will be temporary or permanent.

If you cannot make the recommended changes the employee is considered “not fit for work” for sick pay purposes and you can continue to follow your existing sick pay and absence procedures.

Keep thorough records of all decisions made in response to GPs’ recommendations to ensure you are consistent in your treatment of employees and to assist in justifying any differences in treatment.

For further information contact Sally Bird on 0161 832 3434 or email sallybird@kuits.com



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Preventing late payment

We know a number of businesses who are struggling because their customers are sitting on their invoices. To try to ease this situation, you should ensure that your customers know and agree to your terms and conditions.

Terms and conditions - sometimes known as terms of trade - are the terms of the contract between you and your customers.

Some businesses have standard terms for all transactions. However, you can use different terms and conditions for different transactions.

In some cases the terms may be based on an informal, verbal arrangement. However, there is less chance of a dispute arising if the agreement is clearly set out in writing and agreed in advance with your customers.

Terms and conditions should cover:

- Costs.
- Delivery arrangements.
- Payment terms. Is it full or part payment in advance or payment in arrears? You could offer a **discount** for paying by the due date and/or for paying within, for example, seven days of the invoice date.
- Credit limits.
- Credit periods. If you don't agree a credit period with your customers, the law sets a default period of **30 days**.
- Right to charge interest on late payments and claim compensation for debt recovery costs.
- A commitment to quality.

Terms and conditions could also cover:

- **retention of title** - allows you to retain ownership of goods already supplied until they are paid for
- time limits for raising a dispute
- circumstances in which the **contract might be breached** or come to an end
- **contra and offset deals against payables** - where the buyer pays you in part or full with their products rather than in cash

You should make your customers aware of your terms and conditions from the start, eg when they first place an order or when you send them their first estimate or quotation. You could, for example, ask them to indicate their agreement to the terms and conditions by filling in and returning a written acknowledgment, or ticking a box on your website.

If the customer has read and understood the terms and conditions, it's more likely that misunderstandings will be avoided.

Terms and conditions should also be sent out with invoices.

For further information contact Roger Blaskey on 0161 832 6221 or email roger.blaskey@kayjohnsongee.com



HSBC's 'Business Thinking 2010'

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HSBC Commercial Banking's 'Business Thinking 2010' initiative aims to support and fund the country's most innovative and forward-thinking companies with turnovers less than £2m.

The bank is also offering a financial reward of £100,000 and an overseas 'thought exchange trip' for networking and business development for some companies.

The initiative has three 'phases' of rewards for successful entrants.

The first phase will see up to 54 companies across the country shortlisted and these will be given the chance to visit China, the Americas or Europe to network.

Phase two will see the regional finalists invited to refine their business case to win based on the insights gained on the overseas trip. Two companies per region will then receive up to £5m in lending each - meaning that £10m in total is available in the North West - plus a financial reward of up to £100,000 each.

Phase three will see one of the of the 18 regional winners crowned overall 'Business Thinking 2010 Winner' at a gala event in Hong Kong in front of an international audience and receive a further financial reward of up to £100,000.

HSBC has launched this initiative because they believe that for many businesses in the North West, trading internationally could help them drive their way out of the recovery to success, which is why they are

giving so many finalists the chance to meet like-minded companies in other countries to find out about doing business overseas.

The deadline for applications is 25th June.

To find out more contact

Iain Duncan on 07786 524916

or email iainduncan@hsbc.com



HSBC 



To see how we can improve your business call now on **0161 832 6221** or email **info@kayjohnsongee.com**

Kay Johnson Gee would like to thank the VAT People, Forever Manchester, the Carbon Consultancy Company, JMW and Barclays Corporate for their contributions to this edition. If you would like to place an article, please contact Sarah Townsley on 0161 832 6221.

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