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# BUSINESS UPDATE

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## UK200Group autumn news

Business has never been more complex, complicated and competitive. Many business owners recognise the value of recruiting the right team with the right skills to help them meet their objectives and people management has become an increasingly important part of a business's development.

The UK200Group holds regular HR Forums to keep us up to date with current issues and best practice. Member firms also have the opportunity to cross-fertilise good ideas, share common problems and practical solutions. This helps us to support our clients in all aspects of building and maintaining a successful business.

To cover the significant changes being introduced in October this year, our recent meeting included an Employment Law Update. Amongst other things, this covered the rise in the National Minimum Wage, the changes relating to Disability Discrimination and the Dispute Resolution Regulations which the government is introducing to reduce the cost of tribunals, currently running at £220 million a year.

'Recruiting and Retaining Good People' is a problem all businesses have to deal with and advice was on hand on how to cope with a skills shortage as well as good retention and recruitment practices. This UK200Group Forum proved to be an invaluable day not only in relation to how we can support your business but how we can manage our own business to continue to deliver excellent service and sound business advice.



Recent surveys indicate that business confidence among small and medium-sized companies (SMEs) is growing. Many businesses believe that the economy is on an upward curve and are confident that profitability can be improved over the next 12 months.

Customer service is seen as a key factor in increasing profitability with the focus on achieving this through better use of the existing workforce rather than by increasing staff numbers. Indeed in certain industries such as engineering there are serious skills shortages so that growing the workforce would be difficult anyway.

For many companies an increased market share is key to growth. However it seems that the fierce competition between SMEs will continue. Businesses that are not fully fit and ready to

cope with this may fall by the wayside.

Inevitably there are negative factors that inhibit the ability to grow. Many businesses cite government red tape and increasing legislation and regulation as the prime issues. There is also a widespread belief that the burden of taxation is getting worse and government incentives such as research and development tax credits are not having the desired effect. Businesses want government to cut red tape and reduce their administrative burden. There is little evidence of any attempts to do this but we live in hope. Notwithstanding the negatives, SMEs are confident about the future and their ability to grow.

As ever we cover a wide variety of topics in our newsletter and would be delighted to talk to you about any of the issues we raise.

## In this issue

- Staying green
- Childcare costs
- New government website
- Company news
- Ban on spam
- The law changes on cold calling
- Opposing trade marks
- VAT round up

# Staying green

Environmental regulators have warned businesses that they must comply with environmental legislation or face large fines. One newsagent was recently fined almost £4,000 for 'failing to take reasonable measures to prevent the illegal dumping of waste'. He paid £20 to have someone remove his rubbish which was then fly-tipped.

The Environment Agency has launched a new website 'Netregs' ([www.environment-agency.gov.uk/netregs](http://www.environment-agency.gov.uk/netregs)) to help businesses, particularly small businesses, stay on the right side of 'green' laws. The website includes guidance on the environmental regulations governing more than 100 industry sectors. In addition there is information on forthcoming legislation and good practice advice that can help businesses to save money.

The Agency estimates that around 60% of commercial waste is produced by small businesses yet, in a recent survey, less than one in five small businesses questioned could name any environmental legislation. Furthermore less than a third of businesses were aware of the Duty of Care Regulations which control the 'storage, handling and disposal of waste' and apply to all businesses.

Falling foul of environmental laws may mean not only financial costs in the form of fines. You may also miss out on new business as prospective customers scrutinise your 'green' credentials.



## Childcare costs

Since 1990 employees provided with childcare through a workplace (or employer run) nursery have not had to pay any tax or national insurance (NI) on the benefit. However the exemption only helps a limited number of people since the vast majority do not have the luxury of a workplace nursery and must make alternative provision for childcare.

If an employee receives the provision of employer-contracted childcare or childcare vouchers as part of their remuneration package, other than through a workplace nursery, the benefit is currently taxable although specifically exempt from NI.

From next April the rules will change. Whilst the existing exemption for workplace nurseries will continue, a new tax exemption will apply to employer-contracted childcare and childcare vouchers. The exemption will be limited to £50 per week and the NI exemption will be aligned with this.

**Please contact us if you would like further information on any aspect of the childcare rules.**

### The good news

- Extending the exemption beyond workplace nurseries is to be welcomed. Nurseries, out-of-school clubs and childminders will qualify.
- Aligning the tax and NI treatment should make the rules easier for employers to administer.
- More than one person (most commonly mother and father) may be entitled to the exemption in respect of the same child.

### The bad news

- The exemption is limited to £50 per week per employee which is unlikely to cover the full costs of childcare.
- The exemption is still £50 per week even where there are several children.
- The exemption only covers 'qualifying childcare' so that a nanny working in the child's home will not qualify unless formally registered. Furthermore childcare provided by the employee's partner or other close relative in the child's home will not qualify either.
- There maybe a knock-on effect to the childcare element of working tax credit.

## New government website will help firms save time and money

This is the view of the Department of Trade and Industry (DTI) in launching the new 'one-stop Business Link website'. In the words of the DTI News Release the site will provide 'free and easy access to the government information, advice, funding and training that can deliver small business success. The site will also help reduce the time that small and medium-sized businesses (SMEs) spend on rules and regulations, freeing them to concentrate on what they do best'.

The DTI says that the site is the first to provide SMEs with a single point of access to government information and services. It brings together a database of over 2,500 government funded business support products ranging from grants and loans to consultancy support to help SMEs build their businesses. There is also a training directory with over 500,000 courses, events and seminars.

The new website is at [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

# Company news

## Small companies

In recent years many businesses have chosen to incorporate and operate through the medium of a company. There are a number of reasons for this but changes in the tax system have played a large part.

Last December the government announced that it planned to introduce measures in its spring 2004 Budget to 'ensure that the right amount of tax is paid by owner managers of small incorporated businesses on the profits extracted from their company'. It seemed that the 'incorporation bubble' may be about to burst. The measures introduced turned out to be a minimum rate of corporation tax of 19% on profits paid out as a dividend rather than retained in the company. The changes only affect companies with taxable profits below £50,000. The figures suggest that the new regime will not serve to make incorporation unattractive except perhaps for very small

businesses with profit levels of up to £10,000.

Despite this there has been an 18% drop in the number of new companies registering at Companies House. It may be that this is explained by the hype before the Budget and a misunderstanding as to the impact of the new regime. However there are fears that the reduction in the number of businesses incorporating may restrict the ability of new businesses to expand by limiting access to finance and increasing financial risks.

There are also concerns that the new tax rules may be extended to larger corporations in this year's Pre-Budget Report. This may be pure speculation or scare mongering but there is no doubt that the legislation already in place could be easily extended to larger companies. The Chancellor has certainly left his options open!

Please talk to us if you have any concerns over

the best structure for your business or the impact of the new dividends tax regime.

## New companies

This year's Finance Act includes provisions that require a company to notify the Inland Revenue of its existence. The provisions apply both to companies coming within the charge to corporation tax for the first time as well as those coming back into the charge after a period of dormancy.

The information to be provided includes details of the company and its directors. The time limit for submission is three months from the beginning of the first accounting period. Penalties apply for failure to comply although they don't apply to unincorporated associations on the grounds that the obligation would be disproportionate in the case of clubs and other similar bodies with small amounts of income.



**Increasing use of the internet has seen a rise in the use of email which in turn has seen increasing use of spam. Spam is the term used for junk email which is unsolicited and often unwelcome.**

There are two types of spam:

**Marketing spam** - these are email mailshots from organisations trying to sell you something.

These should be reducing as the impact of new regulations (see below) comes into force.

**Malicious spam** - these are email mailshots sent out almost at random and are the most pernicious form of spam.

2003 saw the introduction of criminal penalties for those sending unsolicited email spam. The Office of the Information Commissioner is responsible for enforcing the rules and further information can be found at [www.informationcommissioner.gov.uk](http://www.informationcommissioner.gov.uk)

But what can you do to try to reduce the number of spam emails you receive? It is estimated that businesses worldwide receive seven billion spam messages every day. The European Commission is working to ban spam but much of it comes from outside the EU.

Action you can take to effect your own 'ban on spam' is summarised in the following checklist.

- Think about who you give your email address to. When you buy over the internet don't ask for information on other products. Always use a secure website when divulging personal details and credit card numbers. (A secure website will display a yellow padlock at the bottom of your screen.)
- Do not use 'Unsubscribe' as this merely confirms your email address used on malicious spam. This option should only be used when you receive marketing spam from a reliable source.
- Do not open emails and/or attachments from unlikely sources.
- Use antivirus software to act as a primary barrier and update this regularly. See [www.sophos.com](http://www.sophos.com) or [www.mcafee.com](http://www.mcafee.com) for antivirus software.
- Use filtering software to restrict spam and update this regularly. See [www.contactplus.com](http://www.contactplus.com) or [www.spamkiller.com](http://www.spamkiller.com) for filtering software.
- Have an internal policy on internet and email use.

Ask your internet service provider what their policy on spam is and if you are not happy with this then consider switching to a new provider.

# The law changes on cold calling

Individuals have been able for some time to register their telephone numbers with the Telephone Preference Service (TPS) to prevent unsolicited direct marketing calls being made to them.

Regulations have recently been introduced to allow companies to register their numbers in the same way. Once registered it will then be an offence to make an unsolicited call to that number.

Businesses using cold calling as part of their marketing initiative will now need to check before calling that the business in question has not registered with the TPS. The new rules potentially affect all businesses and a recent survey has revealed that over 70% of small businesses are unaware of the new rules.

Guidance on the new rules can be found at [www.informationcommissioner.gov.uk](http://www.informationcommissioner.gov.uk)

# Opposing trade marks

Changes have recently been made to the way in which the Trade Marks Registry handles opposition cases. The changes may make it easier for small businesses to dispute trade marks similar to their own. A 12-month cooling-off period has been introduced as well as the Registry giving a preliminary indication of the likely outcome of the grounds for opposition.

Further information can be found at [www.patent.gov.uk](http://www.patent.gov.uk)

# VAT round up

## Annual accounting scheme

Changes have been made to the scheme so that businesses with annual taxable turnover of between £600,000 and £660,000 may also now join. Businesses already using the scheme can continue to use it until their annual taxable turnover reaches £825,000.

The scheme allows businesses to make one VAT return a year, instead of the usual four. It is normally a condition of the scheme that a business must have been VAT registered for 12 months. However businesses with a taxable turnover up to £150,000 may join the scheme immediately.

## Cash accounting scheme

The limits for eligibility to join the cash accounting scheme have been increased in line with those applying for the annual accounting scheme.

Measures have also been introduced to allow businesses to continue to apply the scheme to payments outstanding at the time of leaving for a further six months after leaving.

## Flat rate scheme

The VAT flat rate scheme is designed to simplify VAT accounting for small businesses. It is open to businesses with a taxable turnover (excluding VAT) of up to £150,000. Instead of calculating the VAT as normal it is calculated as a percentage of total turnover, the percentage being determined according to business sector.

The government was concerned that the rate of take-up for eligible businesses had not been high and therefore some changes were made:

- lower rates for all sectors, with an average reduction of around 1%
- a further reduction of 1% off the normal flat rates for businesses in their first year of VAT registration
- telephone and email applications to make joining the scheme easier
- a revised table of flat rate sectors.

The new rates range from 2% to 13.5% (1% to 12.5% for new businesses) compared to previous rates of 5% to 14.5%.

## VAT and cars

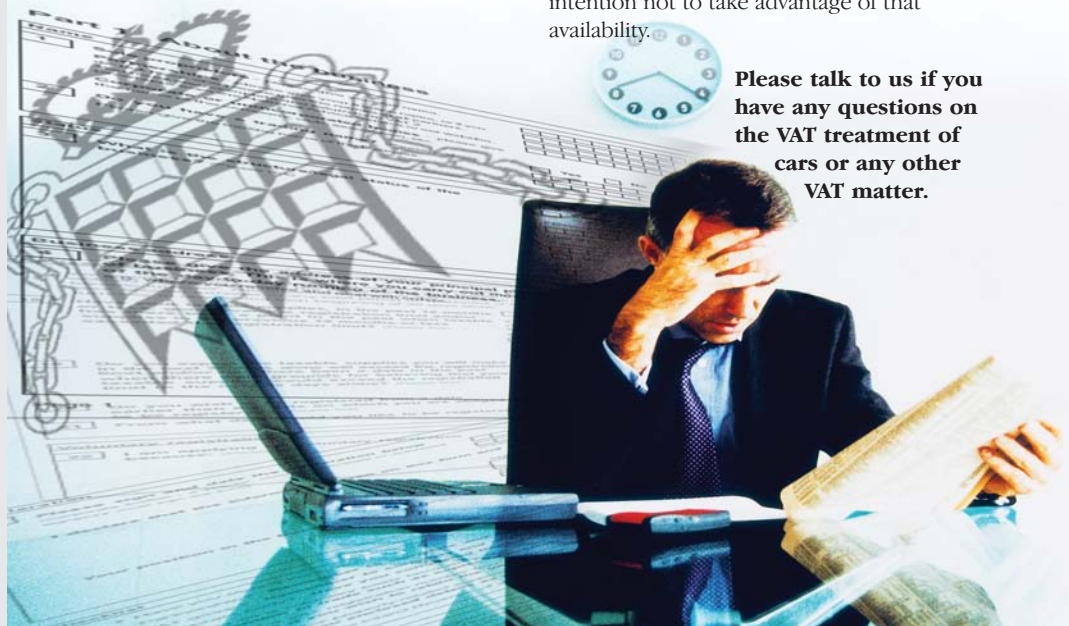
The VAT treatment of cars purchased by a business can be difficult. The basic rule is straightforward - VAT can be recovered if the car is not intended or available for private use. This usually means that no VAT is recovered because cars are generally available for private use. A recent case demonstrates the problem.

A hotelier had purchased a Toyota Previa for his business intending to use it only for carrying supplies back to the hotel and for transporting elderly guests to the local town. He insured it for business use but found that cars cannot be insured for business purposes only so that the policy included private use. He kept the car at the hotel overnight which was where he lived. He attempted to recover the VAT incurred on purchase on the grounds that he had only ever intended to use the vehicle for business purposes.

The Tribunal found in his favour but the High Court and Court of Appeal denied the recovery. They made the point that where no physical or legal restriction is placed on the availability for private use by a sole trader then, very simply, the car is available for private use irrespective of any stated intention not to take advantage of that availability.



**Please talk to us if you have any questions on the VAT treatment of cars or any other VAT matter.**



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