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Business Matters

Raising finance for your business

Whether you are looking to start a new business or in need of capital to expand, obtaining the right type of finance is crucial.

With many firms still struggling to access traditional forms of finance, it is also important to consider the alternative options that may be available.

Loans and overdrafts

For the majority of businesses, the principal source of funding has traditionally been in the form of fixed term bank loans and overdrafts. With loans, you know how much you have to pay back and for how long. You may be able to negotiate repayment terms and interest rates, but the need to offer some form of security against the loan can result in even the most well-presented requests for finance being turned down.

Alternatively, you might be able to secure loans from personal sources such as friends and family, although you should ensure that any arrangements are formally agreed and legally binding.

Overdrafts, meanwhile, can provide a flexible means of covering short-term finance needs such as day-to-day business expenses. However, if you are overdrawn for long periods seek professional advice.

Tip: Ask for more than you need. If you underestimate how much money you require it can be difficult to go back to the lender for a second time.

Outside investors

Business angels typically invest £10,000 upwards in return for equity. They may also be able to share valuable expertise and advice. However, venture capitalists usually invest substantially more – often in excess of £2 million – in businesses where they believe they will receive a high return on their investment by selling their investment at a certain time.

Tip: Investigate all of the sources of investment available and ensure that you present your company in a way that will attract each individual investor's interest.

Grants and Government support

For those that qualify, a Government grant can be a good source of cheap financing. There are numerous grants available for business owners looking to invest in areas such as research and development, regional investment, energy efficiency and the environment, training and logistics. In addition, the **Enterprise Finance Guarantee (EFG)** scheme helps eligible firms that are unable to obtain finance to secure loans of between £1,000 and £1 million.

Tip: Make a good impression by contacting the grants officer personally and prepare a robust business plan to accompany your application.

Other sources

Other options that you may want to consider include:

- **Debt factoring** – by releasing cash tied up in unpaid invoices you can generate additional working capital
- **Equity** – you may want to raise finance by selling shares in your company to workers, family, friends, the public or professional investors
- **Leasing or hire purchase** – you can fund the purchase of capital items such as machine tools by hiring or leasing the goods for a long, fixed period at a competitive rate.

Tip: Talk to us! As accountants we can provide advice on running a business.

These are just some of the options that may be available to you, and each has its own benefits and tax implications. For further information and advice please contact us.

Spring 2011

Inside this Issue...

Tax-free Junior ISAs

Following the closure of the Child Trust Fund (CTF) to new entrants earlier this year, the Government has announced that it will create a new tax-free children's saving account during 2011. The Junior Individual Savings Account (ISA) is being brought in to replace the CTF, although there are some important differences.

How will the new account work?

The new Junior ISA will have similar terms and conditions to the adult version. Investments will be available in cash or stocks and shares and all returns will be tax-free. Annual contributions will be capped, although at the time of going to print the annual investment maximum had not been announced. Funds placed in a Junior ISA will be owned by the child but investments will be locked in until the child reaches adulthood.

The Government has confirmed that Junior ISAs should be available by Autumn 2011. However, this means that there will be a period of several months when parents of newborn children will not be able to invest in either a CTF or a Junior ISA (the CTF closed to new entrants on 1 January 2011). Consequently, eligibility for the new ISA will be backdated to ensure that no child born after the end of CTF eligibility will miss out on the opportunity.

Mixed news for parents

Under the CTF regime, the Government made a series of payments into the account, although these contributions have now ceased. (Existing CTFs will continue until maturity on the child's 18th birthday, and friends and family can continue to make contributions into the funds up to a maximum of £1,200 a year).

However, unlike CTFs, the Government will not be making any direct contributions into the Junior ISA. On the plus side, parents will be able to invest money for their children without having to pay tax on it. Currently, anti-avoidance rules mean that parents who transfer their own money into their child's name have to pay the tax on interest where it exceeds £100 gross per year. The Junior ISA will give parents an exemption from this. Parents will be able to save tax by shifting investments to their children over the life of the Junior ISA.

We can help you plan for a prosperous future for you and your family. Please contact us to discuss how we can assist you.

2011/12 ISA subscriptions

As announced in the Labour Government's last Budget, increases in the annual investment allowance for cash and shares ISAs will be linked to the Retail Prices Index (RPI). Consequently, the annual subscription limit for 2011/12 will rise from £10,200 to £10,680, up to £5,340 of which can be invested in a cash-only ISA.

Corporate tax reform: controlled foreign companies

Alongside the Autumn Statement on 29 November 2010, the Chancellor published a five year plan to reform the corporate tax system. This included reiterating the Government's intention to give the UK the lowest main rate in the G7 as well as plans to introduce a new lower 10% rate of corporation tax on profits from patents. However, it is the reform of the Controlled Foreign Company (CFC) regime that will be taking priority.

Controlled Foreign Companies

The CFC rules protect against the artificial diversion of profits to lower-tax jurisdictions. Although there is an ongoing need for such rules, the current rules have been in place for 25 years and are ripe for modernisation. Such is the perceived urgency that interim measures are to be legislated for in the 2011 Finance Bill to provide more immediate improvements.

The main change is to exempt a CFC which carries on a range of foreign-to-foreign activities involving transactions wholly or partly with other group companies provided that there is little or no risk of erosion of the UK tax base. More specifically, the existing rules will be changed by legislation to be included within the 2011 Finance Bill to:

- introduce an exemption for certain intra-group trading transactions where there is little connection with the UK (so that it is unlikely that profits will have been diverted artificially);
- introduce an exemption for CFCs whose main business is the exploitation of intellectual property and where both the intellectual property and the CFC have minimal connection with the UK;
- introduce a statutory exemption that runs for three years for foreign subsidiaries, which as a consequence of a reorganisation or a change to UK ownership come within the scope of the CFC rules for the first time;
- amend the conditions for the current de-minimis exemption so as to increase the limit for large groups from profits of £50,000 to profits of £200,000 per annum and to replace the need to calculate chargeable profits with an accounts-based test; and
- extend the transitional rules for superior and non-local holding companies, which were due to expire in July 2011, until July 2012.

It is likely that the changes will take effect for accounting periods beginning on or after 1 April 2011, although this is to be subject to further consultation with business. Looking further ahead, the Government is planning a full reform of the CFC rules from 2012.

What you should do

With many significant changes planned to the corporate tax regime, it is important to ensure that you are prepared for the reforms. You should consider discussing with us:

- how to set up businesses overseas in a tax-efficient manner
- whether your distribution policies for a CFC are adequate
- how best to structure a business that exploits a patent.

We would be delighted to assist you.

Other changes to corporation tax

As previously announced, the main rate of corporation tax will fall from 28% to 27% for the financial year 2011. Further cuts will follow in each of the next three successive years. Small companies (profits up to £300,000) also benefit, with a reduction in the small profits rate from 21% to 20% from 1 April 2011.

Meanwhile, HMRC is changing the way in which corporation tax returns must be filed. From 1 April 2011, company tax returns and accounts for accounting periods ending after 31 March 2010 must be filed online using the inline Extensible Business Reporting Language (iXBRL) format.

We can help your company to file tax returns in iXBRL format – please contact us for details.

Looking ahead to the Budget

On 9 December, the Government published draft legislation for inclusion in the Finance Bill 2011, as part of its policy to publicise tax changes early. The contents of the Bill will be confirmed in the 2011 Budget on 23 March.

Much of the draft legislation published is in fact taken up with enacting changes already announced in the Emergency Budget in June. However, there were several new measures as well as updates on key issues such as pension annuities and furnished holiday lettings.

'Tainted' charitable donations

The Government has released draft legislation to deny tax relief on charitable donations where one of the main purposes of the donation is to receive an advantage for the donor or connected person directly or indirectly from the charity. The rules will affect charity donations made on or after 1 April 2011 and replace the existing 'substantial donor' rules.

Beer duty

The Finance Bill 2011 will introduce legislation for a new duty on beers exceeding 7.5% abv that are produced in or imported into the UK. The new duty is to be levied in addition to the existing general duty on beer. The legislation will also change the taxation of low strength beers by introducing a reduced rate of general beer duty at or below 2.8% abv.

VAT on business samples

Where businesses provide samples of their products free of charge to individuals for marketing purposes, the first sample is currently not liable to VAT. Legislation will be introduced in the Finance Bill 2011 to extend the relief so that none of the samples is liable.

Employer-supported childcare (ESC)

The current exemption for childcare vouchers and directly contracted childcare for employees in an ESC scheme, is £55 per week. This will be restricted in cases where employees join a scheme on or after 6 April 2011 and their earnings and taxable benefits are liable to tax at the higher or additional rates.

Pensions: requirement to buy an annuity

The pensions tax rules that make it obligatory for members of registered pension schemes to secure an income, usually by buying an annuity, by age 75 are to be removed. This will involve, amongst other things, changes to the rules applying to income drawdown arrangements.

With effect on or after 6 April 2011:

- individuals with defined contribution pension savings from which they have not yet taken a pension will be able to defer a decision to take benefits from their scheme indefinitely
- individuals with a lifetime pension income of at least £20,000 a year will be able to gain access to their drawdown pension funds without any cap on the withdrawals they may make
- the age 75 ceiling will be removed from most lump sums to which entitlement arises
- the tax rate on lump sum death benefits will be 55%
- there will be certain transitional arrangements.

Furnished Holiday Lettings (FHL)

Historically, income from FHL in the UK has broadly been treated as trading income, with certain specified tax advantages, although it remains chargeable as property income. The rules are to be changed, partly to encompass the requirement to extend relief to FHL in the European Economic Area (EEA).

The law will be changed by the Finance Bill 2011 so that:

- FHL in both the UK and EEA will be eligible as qualifying FHL within the (revised) special tax rules. This is the current situation but is not within the legislation
- the minimum period over which a qualifying property must be available for letting to the public in the relevant period is increased from 140 days to 210 days in a year with effect from April 2012
- the minimum period over which a qualifying property is actually let to the public in the relevant period is increased from 70 days to 105 days in a year with effect from April 2012
- losses made in a qualifying UK or EEA FHL business may only be set against income from the same UK or EEA FHL business (existing rules allow set-off against general income); and
- a 'period of grace' will be introduced to allow businesses that do not continue to meet the 'actually let' requirement for one or two years to elect to continue to qualify throughout that period.

Please contact us to discuss how the Budget announcements may affect you.

Business Round-Up

Changes to HMRC's helpline service

HMRC has scaled back its helpline service, following a 'realignment' of its contact centre opening hours. HMRC's tax helpline is no longer available on Sundays, as weekend staff have been redeployed to peak periods during the rest of the week.

HMRC insists the changes will enable it to provide a more effective service during busier weekdays and will result in shorter waiting times.

The telephone provision on Saturdays has also been reduced, with the opening hours now 8am to 4pm (previously 8am to 8pm). However, the usual Monday to Friday opening hours (8am to 8pm) are unchanged.

HMRC has also announced that there will only be one telephone number for employees to call for help with their tax enquiries – **0845 300 0627**. Employers can use this number too, for example if they need to confirm an employee's tax code. However, the Employer Helpline should still be used for payroll related enquiries.

Employers have been advised to update any relevant correspondence with the new telephone number.

Gender pay disclosure plans are relaxed

Businesses will not be obliged to disclose how much they pay men and women after the Coalition Government relaxed plans to impose gender pay audits.

The previous Labour Government had announced legislation as part of the Equality Act 2010 that would have forced companies with more than 250 employees to publish gender pay audits from 2013.

However, the Home Office has now confirmed that it will not enact the plans and companies will instead only have to publish details of pay on a voluntary basis.

Latest advisory fuel rates

HMRC has published new advisory fuel rates, which apply to all relevant journeys made on or after 1 December 2010.

The rates are usually revised twice a year, although HMRC said it will also consider making changes if fuel prices fluctuate by 5% from the published rates.

The advisory fuel rates are accepted either for employers reimbursing employees for the cost of fuel for business mileage, or for employees reimbursing employers for the cost of fuel for private mileage. The new rates are:

Engine size	Petrol	Diesel	LPG
1400cc or less	13p	12p	9p
1401cc to 2000cc	15p	12p	10p
Over 2000cc	21p	15p	15p

If you have any questions about business motoring, please do not hesitate to contact us.

Web Watch

Essential sites for business owners

www.bbaa.org.uk

Website of the British Business Angels Association.

www.exhibitions.co.uk

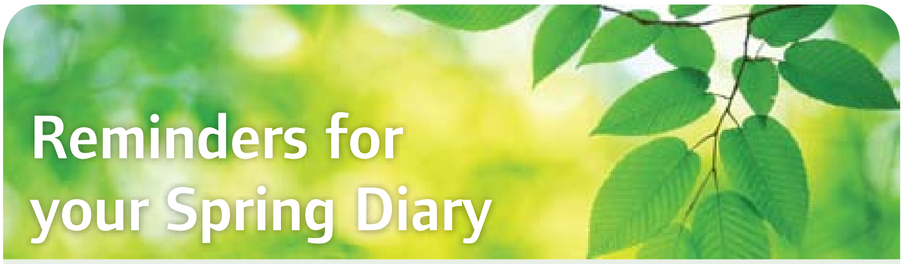
Listings for consumer, public, industrial and trade exhibitions.

www.bexa.co.uk

The website of the British Exporters Association, which represents the interests of the export community.

www.emarketer.com

Research and trend analysis on digital marketing and media.



Reminders for your Spring Diary

March 2011

31 End of Corporation Tax financial year.

End of CT61 quarterly period.

Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2010.

April 2011

5 Last day of 2010/11 tax year.

Deadline for 2010/11 ISA investments.

Last day to make disposals using the 2010/11 CGT exemption.

Last date for contracting back into the State Second Pension for 2010/11.

14 Due date for income tax for the CT61 period to 31 March 2011.

19/22 Quarter 4 2010/11 PAYE remittance due.

20 Interest will begin to accrue on unpaid PAYE/NI for 2010/11.

30 Normal annual adjustment for VAT partial exemption calculations (monthly returns).

May 2011

3 Submission date of P46 (Car) for quarter to 5 April.

19 Last day for filing forms P14, P35, P38, and P38A – 2010/11 PAYE returns – without incurring penalties.

31 Last day to issue 2010/11 P60s to employees.