

## Make your business strategy planning effective



**S**trategic planning is essential for all businesses that want to improve their long-term financial performance, and a recent survey suggested that over 75% of SMEs have attempted planning in some form. It is vital to take time out from the day to day running of the business to focus on the future, and external help and constructive feedback can help you to avoid some of the potential pitfalls.

### Traps to avoid

There are some common traps that many businesses fall into when it comes to strategic planning. These include:

- being too concerned with general objectives, without addressing the practical questions of how they are to be achieved
- having an overly simplistic vision, which is not necessarily grounded in a tangible, competitive advantage and the real-life demands of the market
- being controlled exclusively by too small a number of individuals, with too little input from the business and staff as a whole
- basing goals upon inaccurate or wishful financial projections
- focusing too narrowly on particular areas, such as sales measures, rather than taking a holistic approach which factors in all of the elements that create profitability.

Contact us, and we will be delighted to discuss these issues with you.

### A new perspective

To avoid these traps, it is useful to take a fresh perspective on the business. You should look at the wider picture, including such things as the 'PEST' factors (political, economic, social and technical); the actions of your competitors; the efficiency of your systems and cost management; and the factors that drive growth in your business.

A good external adviser can often help in achieving this perspective. He or she can do this not just by coming up with imaginative ideas for growth and strategy, but also by facilitating discussions, helping you to evaluate options, and by asking you searching questions about your business to stimulate creative thinking and help you find your own solutions.

### Practical measures

Above all, strategic planning must result in practical measures which ultimately benefit your bottom line.

Strategies should be broken down into step-by-step processes, deadlines and responsibilities decided upon, and project management guidelines put in place so that ideas can be implemented. Measures that will enable you to track success should also be established.

As your accountants, we can help you with much more than just preparation of your financial statements. We can assist in many of the areas that will enable your business to achieve long-term financial success. These include such things as preparing cash-flow forecasts and business plans, minimising your tax burden and helping you to maximise the opportunities for raising finance.

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### OUR SERVICES

Here are some of the ways that we can help you with your personal and business finances. Why not call us now and we'll arrange a meeting to discuss:

- Strategies to help your business improve its efficiency and profitability
- Reducing the burden of taxes on your business
- The tax issues that affect you and your family
- Maximising your wealth
- Retirement planning strategies for you and other family members
- Business strategies: from start-up to exit planning

# The business benefits of salary sacrifice

It has been estimated that the average cost to a business of replacing an employee is as much as £4,000 – with the figure for managers at an average of £7,000. Businesses therefore need to consider how they can reduce this cost and improve business performance by ensuring that the workforce is content. And often contentment comes not from simple salary levels, but also from the ‘perks’ on offer.

Many employers now offer new employees a choice in their remuneration packages – effectively offering a ‘menu’ and a fixed limit, up to which the new employee can choose from salary, pension contributions, life assurance and medical insurance, a company car, free car fuel and so on.

But can the same ‘deal’ be offered to your current employees?

Can they give up, or ‘sacrifice’, a part of their salary in return for additional pension contributions or other benefits? And if so, what can your business expect to gain?

## Salary sacrifice for current employees

The basic rule is that this sort of ‘menu’ can be extended to existing employees, but only as long as:

- salary is sacrificed before it is treated for tax purposes as paid, and
- the employee’s contract is changed so that he or she becomes entitled to a lower level of salary plus the ‘benefit’ without any right to have the original rate of salary reinstated on demand.

The latter point is particularly important when we look at tax-advantaged benefits like childcare vouchers, because if the benefit can be given up and automatically replaced with salary at any time, the salary sacrifice is not effective for tax purposes.

If the sacrifice meets these essential criteria, your employee’s gross pay – on which tax and national insurance contributions will be calculated – will be reduced (although the usual rules apply for charging tax and employer NICs to the benefits). As a result of lower taxable benefits or specific exemptions and reliefs, this can mean lower net costs for you and/or your employee.

## Childcare vouchers

Specific exemptions apply to an employer’s pension contributions and certain childcare provisions. We mentioned childcare vouchers earlier, and this is the example we will take to illustrate how you and your employees might be better off as a result of offering salary sacrifice.

Employees are entitled to up to £50 per week in childcare vouchers and the provision of such vouchers is tax and NIC-free for the employee and NIC-free for the employer.

To give your employee £50 cash to spend on childcare costs you more than £84, when you consider tax and the employee and employer NICs. The figure for an employee paying tax at 40% is more than £95. If, instead, you agreed a salary sacrifice with your employee, reducing his or her salary by £50 per week in exchange for a childcare voucher for £50 per week, your cost would reduce to £50 – saving you £6.40 a week and leaving the employee between £11 and £20 better off.

Employees need to take advice where a sacrifice might affect their entitlement to such things as current or future state benefits and tax credits. However, keeping your employees happy by giving them a choice of ‘benefits’ and help with childcare could lock experienced people into your business and save you money.

## A word of warning.

To be effective for current tax and NIC purposes the employee must not have the simple right to request cancellation of the ‘benefit’ and reinstatement of ‘full pay’ as HM Revenue and Customs will then be entitled to insist that the income tax and employee/employer NICs are all paid as if no sacrifice had been made – the ‘benefits’ are effectively exchangeable for cash, and consequently are included in ‘gross pay’ for tax and NIC calculations.

Talk to us about how salary sacrifice might benefit your employees and your business.

## Staff training: An investment not a cost

According to a recent survey, a third of UK employers claim that deficient skills among their staff result in higher operating costs, orders being lost and new product development being delayed.

Yet staff training and skills are currently high on the Government’s business agenda. Following the success of the Employer Training Pilot scheme, which has over 100,000 employees registered, last December’s Pre-Budget Report announced the launch of a National Employer Training Programme, along with the allocation of an extra £197 million to fund it.

So how could you take advantage of training: firstly to avoid hurting your bottom line, and ultimately to really benefit your business?

### Beyond the basics

Clearly, the minimum you need to offer staff is the training to make them competent to perform the job. For example, your admin team will need the essential computer skills, and your sales team will need a good understanding of your products and services. There are also certain mandatory requirements, such as health and safety training.

But beyond these basics, there are benefits to offering non-essential, or ‘added value’ training to your staff. An obvious advantage to offering ongoing training is that it can confer a competitive advantage. For instance, salespeople who are highly qualified with skills in telephone techniques, writing proposals and teamworking will be at an advantage over those who are only given product training and a script.

### Which training?

When deciding on the particular training to offer to staff, the key is to identify any ‘skills gaps’. Define what you want your business to achieve, identify the skills and knowledge required to do so, and then examine where existing staff fall short of the required expertise. You can do this in a management brainstorming session, or take a more comprehensive approach through the Investors in People programme ([www.iipuk.co.uk](http://www.iipuk.co.uk)).

But there is also an argument that investing in widespread training can be beneficial in and of itself, turning your business into a ‘learning organisation.’ Where staff are constantly learning new skills across a range of disciplines and applying these to the business, you should see greater dynamism, innovation and higher motivation, and avoid stagnation.

### Costs and funding

How much you spend will depend on the type of training you want to offer, but according to research by the Industrial Society, businesses with less than 100 staff spend an average of £372 per employee on training every year.

There are various forms of funding available to help you, and your local Training and Enterprise Council (TEC) will have more information.

But perhaps the best approach is not to view training as a cost, but an investment that will ultimately reward your business’s bottom line.

# Gifting strategies to save tax

It is becoming increasingly difficult to describe inheritance tax (IHT) as a 'voluntary tax'. Those who die owning even relatively modest homes will find the value of their estate exceeds the £275,000 threshold for paying IHT at 40%.

Since April 2005 there has been an additional income tax charge, known as Pre-Owned Asset Tax (POAT), imposed on anyone who gives away significant assets or cash, and continues to enjoy benefits from those gifts.

However, there are gifts you can make that are not caught by POAT or IHT, in the following circumstances:

## Charities

Any gifts you make to charities, whether during your lifetime or through your Will after death, are free of IHT as long as no conditions are attached. Gifts to health service bodies, various national museums and to political parties are also free of IHT without limit.

## Marriage

Gifts made to a bride or groom just before or after their marriage are exempt from IHT within certain limits depending on the family relationship. The parents of the happy couple can give up to £5,000 each. As soon as the couple are wed there are no limits on tax-free transfers unless a UK domiciled spouse is making a gift to his or her non-UK partner, when the long standing lifetime tax-free limit of £55,000 applies.

Marriage is still the great tax saving 'device' for IHT. Those that have never legally tied the knot unfortunately do not benefit from the tax exemption on gifts even if they have been living together for many years. Under the new Civil Partnership Act, same sex couples that have entered into a civil partnership should also be able to make unlimited tax-free gifts to each other. However we will have to examine the detail of the legislation to ensure that this Government promise is actually translated into law.

## Gifts out of income

This less well known exemption can be used to make regular gifts out of your annual income to whomever you choose. As long as you establish a pattern of gifts that can be shown to be satisfied from your income without diminishing your capital assets such as property, shares and investments, the gifts are completely free of IHT. To meet this test it is important that you are left with sufficient after-tax income to maintain your usual standard of living.

## Annual gifts

Gifts of up to £3,000 per year made in addition to the gifts in the above categories are also free of IHT. It doesn't matter if this amount reduces your standard of living or whether it is given to one person or many. If this annual exemption is not used in one tax year it can be covered in the next to make up to £6,000 of tax-free gifts in the second year.

Finally, you can also make small IHT exempt gifts of up to £250 per annum to any number of persons.

So why not take steps to ensure that you 'disinherit' the Government, and make sure that the people you want to benefit, do so. Contact us, and we can help you.

# The new rules for Pre-Owned Assets

The Government dropped a 'bombshell' in 2003 when it announced that there was to be a new income tax charge on the benefit people get by having free or low-cost enjoyment of assets they once owned (or provided the funds to purchase), after 17 March 1986, but which they no longer own.

The regulations broadly follow the model of the benefit-in-kind charge on employees and apply in or after the tax year 2005/06.

The charge is designed to block artificial structures set up to avoid the inheritance tax (IHT) rules about gifts made with reservation (GWR). There are exclusions covering circumstances where deliberate avoidance is not in point. There is also a de minimis threshold of £5,000 and benefits with total annual cash values below this level will be disregarded. The charge does not apply to a person who is not resident in the UK for income tax purposes for the year of assessment.

The charge applies to three types of property:

- **land** (includes houses and other buildings)
- **chattels** (such as paintings, furniture, vehicles, boats, jewellery, musical instruments, wines and spirits and collectible items)
- **intangible property** (anything not covered above, such as cash, shares, insurance policies) held in a trust

The benefit is based on open market values (rent for land and 5% of capital for chattels and intangibles). The value may be affected by contributions and disposals made by the taxpayer since 18 March 1986. Revaluations are required every five years.

There are broadly three ways to potentially avoid the new charge:

- dismantle the artificial structures, thereby reinstating the potential IHT charge originally being sought to be avoided. However, this may have other unforeseen effects and should not be undertaken without expert advice
- pay a market rent sufficient to trigger the de minimis exemption
- elect (by 31 January following the first year of assessment) to have the property in question treated as a GWR. There are provisions to deal with the potential double charge to IHT that this could create

Any of these courses of action can have immediate or ongoing tax consequences, so none should be entered into without proper advice and due consideration.

## Example

In June 1997 Keith transferred title to his property to a nominee who then granted Keith a 20-year lease of the property at a nominal 'peppercorn' rent. The encumbered freehold reversion was then gifted to his son. Keith continued to occupy the property.

Keith would be subject to the income tax charge with effect from 6 April 2005, based on the rental value attributable to the property actually disposed of.

Note that if the transfer had been effected after 8 March 1999, it would have been caught by the GWR rules and would not, therefore, be subject to the income tax charge.



## NEWS ROUND-UP

### Revenue and Customs combined

The former Inland Revenue and HM Customs and Excise have been combined into a single department: HM Revenue & Customs (HMRC). See [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

### Pensions 'A-Day' – 6 April 2006

From 6 April 2006 many of the regulations governing pension funds will change, and existing schemes will be simplified. The exact rules will become clearer nearer the time, but for now you should seek professional advice on your options.

### Couple lose Section 660A appeal

In April, Geoff and Diana Jones of 'Arctic Systems' lost their landmark appeal case against HM Revenue and Customs, over the tax treatment of businesses owned by a husband and wife, where one spouse is more active in the business than the other, and income is transferred between the two. The ruling could affect the tax planning of some, but not necessarily all, family-run businesses. **Contact us for more advice.**

# Your business & stamp duty

**T**he increase in the initial Stamp Duty Land tax threshold to £120,000 was one of the headlines of the Spring Budget for individuals, but how does it impact on businesses?

Since 1 December 2003, Stamp Duty Land Tax (SDLT) has applied at different rates for residential and commercial (non-residential) property.

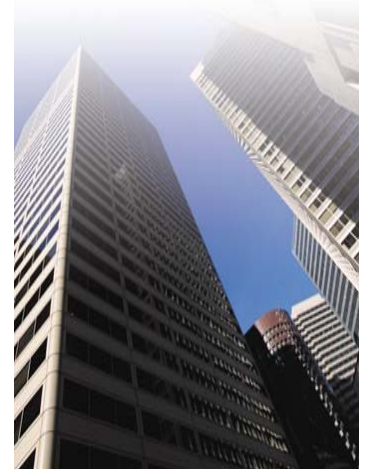
Purchasers of freehold commercial property only pay SDLT once the value of the land and buildings exceeds £150,000. Where the commercial property was situated in one of 1,997 designated disadvantaged areas in the UK, no SDLT was paid at all, until Budget Day. This exemption for disadvantaged areas was withdrawn with immediate effect from 17 March 2005. Residential property located in a disadvantaged area is still exempt from SDLT up to £150,000. But remember, SDLT is not a graduated tax: if the purchase price is just £1 over the initial threshold (£120,000 or £150,000) SDLT is due on the whole property value, at applicable rates of between 1% and 4%.

The method of calculating SDLT for leased property does not use this system, so a more proportionate amount of duty is paid on the acquisition or alteration of a lease.

### Business Premises Renovation Allowance (BPRA)

As a partial 'sweetener' for businesses who find the SDLT exemption withdrawn, the Government introduced BPRA, a new tax relief for renovating or converting business property in designated disadvantaged areas.

The building can be owned or leased but must have been vacant for at least 12 months. The



owner or leaseholder will be able to claim 100% of the capital costs incurred in bringing the property back into business use, as a first year capital allowance. BPRA will apply to all types of business property: offices, shops, hotels, factories and even to agricultural buildings. However, the start date for this new tax exemption has not been announced, as the scheme must first be granted clearance by the EU that it is not illegal state aid.

## BUSINESS LINKS: USEFUL SITES FOR BUSINESSES

**Pensions at Work** [www.pensionsatwork.gov.uk](http://www.pensionsatwork.gov.uk)

Information for employers on workplace pension provision, including good practice advice.

**Payroll Giving Grants** [www.payrollgivinggrants.org](http://www.payrollgivinggrants.org)

Includes information on the Payroll Giving Grants scheme plus a registration facility.

**Executive Planet** [www.executiveplanet.com](http://www.executiveplanet.com)

Business culture and etiquette website.

**First Aid at Work** [www.hse.gov.uk/firstaid](http://www.hse.gov.uk/firstaid)

Advice on all aspects of First Aid in the workplace.

## 2004 key dates and deadlines

### June

- 30** End of CT61 quarterly period  
Last day for UK businesses to reclaim EC VAT chargeable in 2004  
Annual adjustment for VAT partial exemption calculations (March VAT year end)

### July

- 6** Last day to file Taxed Award Scheme Returns, file P11Ds, P11DBs and P9Ds. Issue copies of P11Ds or P9Ds to employees  
Deadline for relevant third parties to give non-employees information on benefits or expenses they have provided to them in 2004/05
- 14** Due date for income tax for the CT61 period to 30 June 2005

### July

- 19/22\*** Quarter 1 2005/06 PAYE remittance due  
Final date for payment of 2004/05 Class 1A NICs
- 31** Second self assessment payment on account for 2004/05  
Annual adjustment for VAT partial exemption calculations (April VAT year end)  
Liability to 2nd £100 penalty arises for 2004 Tax Return still not filed  
5% surcharge on any tax unpaid for 2003/04

### August

- 2** Last day for notifying car changes in quarter to 5 July – P46 (Car)
- 31** Last day for notifying car changes in quarter to 5 July – P46 (Car)

### September

- 30** Deadline for submission of the 2005 Tax Return if you wish the Inland Revenue to calculate the tax or, if you are an employee, you wish to have a 2004/05 balancing payment of less than £2,000 collected through your 2006/07 PAYE code  
End of CT61 quarterly period

\* All employers with more than 250 employees must make their payments of PAYE Tax and NICs electronically, by either BACS or CHAPS. Payments previously due by the 19th must now be clear by the 22nd.

**Business and personal planning need not be left until the end of the tax year - talk to us now about tax and financial strategies for you and your business.**