

taking: account

The newsletter from CLB Coopers Chartered Accountants Issue 5 2011

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Mindset change required!

Keep reading the business press and you will continue to remain depressed.

Interestingly a recent survey of nearly 400 of our clients showed the majority have experienced growth over a two year period with the top quartile now averaging 56 % growth in turnover, so is it all doom and gloom?

Many companies are now seeing competitors failing. Over time this reduction in supply will lead to increased sales for the survivors, are you adequately placed to take up and indeed win this new business?

Have you sufficient working capital in place? Perhaps it is time to talk to your CLB Coopers relationship partner to ensure you have secured adequate working and investment capital.

Is your management team in the right frame of mind? Is your next generation of management in place and are they driving your business? It may be time for a change of focus. We are now hearing that the more junior members of management teams are bringing in significant new business for clients. Have you put some form of incentive scheme in place to encourage such activity



David J Travis
Managing Partner

in your business? These people could well be instrumental to your recovery, so make sure your own mindset is positive and you work with your whole team to motivate and encourage them to drive your success.

Finally, with the rising unemployment figures there are more opportunities to recruit excellent people who through no fault of their own find themselves out of work. Look at recruitment to supplement your team. The skills sets readily available in the labour market are a resource you should not ignore. Do not miss the opportunity to challenge your own structures and recruit as appropriate. Also consider promoting and enhancing talent in your business.

At CLB Coopers as many of you will know, we strongly believe in challenging your future plans with you to ensure you maximise your potential. Is it time for another discussion? And by the way, stop reading the press!

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Funding for SMEs – Leasing and Hire Purchase

In our previous issues this year we have explored different sources of funding for small and medium sized enterprises (SMEs). In this issue we examine two specific types of 'asset backed' funding namely Leasing and Hire Purchase (HP).

Access to money in the SME market is certainly more challenging nowadays as banks have tightened their lending criteria. As a result many SMEs struggle to access money to run and expand their businesses.

Leasing and Hire Purchase is still readily available in the SME sector. With Leasing and HP you can acquire most types of equipment, machinery, IT and vehicles. Attractions include:

- **Fixed repayments** – generally repayments are fixed and do not change even if interest rates rise. This provides more accurate budgeting.
- **Quick decisions** – facilities can normally be agreed within 48 hours giving you the ability to negotiate the best deal from your supplier and take delivery quickly.
- **Security** – normally the only security required is the asset being financed, leaving other security free for your bank or other cash flow funders.
- **Tax Efficient** – there are attractive tax incentives with these facilities which we discuss opposite:

The key differences between Leasing and HP contracts are:-

Leasing

Deposits – normally only a month's payment is required but larger deposits can be paid if preferred.

VAT – is paid on each payment as it falls due. All VAT payments can be claimed back subject to the client being registered for VAT. For cars only 50% of the VAT is recoverable.

Tax Treatment – all rentals paid during the repayment period will be deductible against taxable profits. Car Leasing tax treatment is more complex and our Tax department can provide more information.

End of Contract – be careful as some leases roll over into secondary periods and rentals may continue to be collected by the funder. Preferably ask for a Fixed Term agreement as this crystallises at the end of the contract. Ownership is not guaranteed with lease contracts so ensure you enquire what the procedure is to gain title and the costs involved. It's always best to arrange this at the start of the contract.

Hire Purchase

Deposits – deposits range between a month's payment to a percentage of the cost price (normally starting at 10%) depending on the HP company's assessment of your company's financial strength.

VAT – the full VAT is payable with the deposit. This can be claimed back in the quarter that the deposit is paid, for VAT registered companies.

Tax Treatment – Until April 2012 Hire Purchase contracts attract 100% capital allowances on an annual spend of up to £100,000. Purchases in excess of this amount are written off at 20%. From April 2012 this will be capped at £25,000 and purchases in excess of this amount will be written off at 18% per annum.

End of Contract – Hire Purchase has an option fee added to the last payment that automatically transfers title to the client.

Note

There is a facility known as Lease Purchase which is basically a hybrid model using a lease payment profile (e.g. 1 +35 months) but where the VAT is paid in full up front. Lease Purchase is in fact a Hire Purchase transaction.

Quite often brokers and suppliers of equipment refer to lease transactions as 'Lease Purchase' which is misleading and incorrect. This could have an adverse effect on your capital allowances and there is no guarantee of owning the asset at the end of the contract. As ever, always read the small print!

Making your decision

Leasing and Hire Purchase are useful products that can provide you with additional funding, however always make sure you know what you are signing.

CLB Coopers advises a number of SMEs on funding arrangements including Leasing and Hire Purchase. We have a network of contacts who we can talk to on your behalf to arrange financing for your business with your success and growth at the forefront of any discussion.

For more information on the above or to discuss other funding options contact **Mark Worsley** on **01204 551100**.



Investing in growth

How recent changes to Capital Allowances could affect your plans

Continued investment in equipment is vital to the profitable growth of most businesses. Investment has often also been a way of reducing the taxable profits of a business, through claims to capital allowances.

There have been numerous changes in legislation over the last few years to the rates of capital allowances, and further changes will occur from April 2012. In this article we highlight some of the major changes and assess how these changes may influence your decision to either buy or lease assets in the future.

Rate Changes

In recent years significant changes have occurred in respect of capital allowances. With effect from April 2012 further changes are proposed which will have the effect of postponing the period in which the tax benefit occurs. This could have an adverse cashflow impact on your business.

Since April 2008, the writing down allowance (WDA) was reduced from 25% to 20%, but this was coupled with the introduction of the annual investment allowance (AIA), whereby businesses could obtain relief at 100% on an annual spend of £50,000.

Date	AIA Amount	WDA Rate	Integral Features
Pre 1 April 2008	n/a	25%	25%
Pre 1 April 2010	£50,000	20%	10%
Currently	£100,000	20%	10%
Post 1 April 2012	£25,000	18%	8%

April 2008 also saw the introduction of a new capital allowances pool for integral features (ie assets that are integral to a building such as lifts or central heating systems) with a new rate of 10% writing down allowance.

The table above summarises the different rates from 2008 to 2012:

Note – for sole traders and partnerships, the relevant dates are the 6th as opposed to 1st April.

As can be seen, from 1 April 2012, not only is the AIA reducing from £100,000 to £25,000, the annual rate of writing down allowances is reducing from 20% to 18% and from 10% to 8% for integral features. As a result of these changes, the Capital Allowances available on a particular item of plant will be spread over a much longer period.

Short Life Assets Election

It is possible to elect for an asset to be treated as a short life asset. From April 2011, the cut off period has been increased from 4 years to 8 years.

The rate of writing down allowance is no different to any other asset in the main pool. However, on a sale within the cut off period, a balancing allowance or charge will arise. The election can be made for any machine, and the benefit of making the election depends upon whether or not the machine will be sold during the eight year period. Note that the actual useful life of the machine is irrelevant.

So for example, if an asset is sold or scrapped for negligible proceeds after 3 years, and its tax



Ian Smethurst discusses the recent and forthcoming changes in capital allowances and how these could affect you. If you have any queries about the topics covered in this article, or would like to know how to maximise the tax benefit arising from your capital expenditure, please contact **Ian Smethurst** on **01204 551100** or you existing CLB Coopers tax advisor.

rowth?



written down value were to equate to, say 54% of its original cost, the whole of that 54% can then be set off against the taxable profits of that year.

If no election had been made, the asset would have remained in the general capital allowances pool, and the remaining 54% would have been written off over a period of approximately 22 years.

Care needs to be exercised when making the election to treat the asset as a short life asset as if the value of the asset on sale were to exceed the tax written down value, a balancing charge will arise. The excess will be fully taxable in that year, as opposed to being spread over a number of years as would have been the case if the election to treat the asset as a short life asset had not been made.

Cars

From April 2009, cars no longer qualify for a balancing allowance on disposal. For a car with CO₂ emissions in excess of 160gm/km, the remaining allowances on sale will instead be spread

over a period of over 30 years. For this reason, we are seeing an increasing number of clients starting to lease their cars, rather than purchase them outright.

Retrospective Claims

Currently, capital allowance claims can be made retrospectively and there is no time limit for submitting a claim. Therefore, it is possible to make a claim in the current year relating to acquisitions made in previous years, if the allowances have not been claimed. Integral features within properties are the most commonly overlooked items that qualify for capital allowances.

However, from April 2012, HMRC is proposing to introduce a time limit. From this date, capital allowances will have to be claimed within a short period after acquisition of the asset, otherwise the purchaser will lose the right to tax relief completely. The precise details are yet to be confirmed, but a time limit of two years after the expenditure has been incurred has been suggested. As a consequence, we strongly recommend that you consider what possible capital allowances may be available as soon as you contemplate making property related capital expenditure, in particular.

Rates of Capital Allowances on Cars

Less than 110 gm/km	100%	
Between 110 and 160 gm/km	20%	in the general capital allowances pool
More than 160gm/km	10%	in a special rate car pool

All I want for Christmas is...

The festive period has traditionally been a time to take a step back, relax and take stock of your situation. As we enter into the final weeks of the year, it is a good time to reflect on what has been an eventful, challenging and sometimes frustrating period.

Is your business going in the right direction? Are you getting everything you want from your advisors?

Your Christmas list this year may look like this:

- **Increased profits**
- **Less stress**
- **More time**
- **Secured funding**
- **Confidence in your advisors**
- **Clear direction for the future**
- **Peace of mind**

If this list looks familiar now may be the right time to give us a call.

We frequently help clients explore and capitalise on new opportunities, in addition to ensuring that their statutory obligations are fulfilled in a timely and efficient manner. CLB Coopers aren't just accountants; we're advisors to businesses and individuals, providing practical and commercial advice.

New clients come to us because of the breadth of our experience and the range of services that we can offer. We look to provide a fully integrated service for all of our clients and we tailor our advice and work collaboratively so that we can deliver innovative solutions dedicated to maximising value for clients and their businesses.

If this year hasn't turned out quite as you had planned, if you would like more support from your advisors or if you simply want to find out what CLB Coopers could do for you or your business, please don't hesitate to contact us. Full contact details for our offices can be found on page 2.



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Exporting and the use of Letters of Credit

If you are thinking about, or have recently begun to export your goods, a key area to consider is how you will ensure that you get paid. Letters of Credit are frequently used to ensure payment.

A Letter of Credit (LC) is a guarantee by a bank to an exporter stating that they will get paid a specified amount within a certain timeframe, as long as certain conditions are met (evidenced by the bank receiving for example, shipping documentation).

The main advantage of using LCs is that they provide security for both the buyer and seller; the seller is guaranteed payment and the buyer is guaranteed that the seller will honour its obligation to deliver the goods. Inevitably there are downsides, such as bank arrangement fees, possible delays and bureaucracy.

In deciding whether to insist upon a LC from your customer, establish whether the country you are exporting to, or credit insurer you use, requires an LC to be used. Consider the costs relative to the value of the export order. If you cannot pass these costs onto your customer, assess the cost relative to your assessment of their credit worthiness and the value of the order.

Having decided to use an LC, the next decision is what type of LC is most appropriate. LCs often combine a number of the following different characteristics.

Irrevocable

An irrevocable LC cannot be changed or cancelled unless all parties involved agree. A revocable LC can be changed at any time by the issuing bank.

Confirmed

Your customer will normally arrange an LC with its own bank. It is advisable for you to ask your bank to review the LC issued to ensure that it is valid. Depending upon the issuing bank involved and for your additional comfort and security, you could ask

David Clift discusses the ways in which payment can be ensured through the use of Letters of Credit. If you would like to discuss this article in more detail, or find out more about other aspects of international trade, please contact **David Clift** on **0161 245 1000**.



your bank to 'confirm' (guarantee) the LC in the event of default by the issuing bank; extra security but an additional cost.

Transferable

Transferable LCs can be passed from one party to another and are often used when intermediaries are involved in the transaction.

Standby

This represents an assurance by the issuing bank that your customer is able to pay you. As such, the expectation is that the LC will not be drawn upon.

Revolving

One LC can cover several transactions between you and your customer.

Back-to-back LCs

Used when an intermediary is involved but when a transferable LC may be inappropriate.

Most LCs are drafted under the Uniform Customs and Practice For Documentary Credits ("UCP") rules issued by the International Chamber of Commerce. Terminology and procedures are standardised, which reduces the risk of misunderstandings. As the UCP standards are internationally recognised it is advisable to only accept LCs covered by the UCP rules.

Seminar notification

Throughout 2012 we will be running a number of seminars across our region including:

- How to pay less tax – business and personal tax planning
- Achieve the best outcome for your most valuable asset – preparing your business for exit
- Where could you save money and boost profits – a business health check

If you would be interested in any of the above seminars, or would like to know more, please email info@clbcoopers.co.uk with the seminar title in the subject field or call us.

Merry Christmas from CLB Coopers

We hope that you've enjoyed a successful year despite the uncertainty that has surrounded the economy.

Too often we can put so much time into our business lives, that we neglect our personal lives. So take some time to relax over Christmas and the New Year.

From all of us here at CLB Coopers, have a great Christmas and a fantastic New Year!



Feedback

We write this newsletter ourselves to help you and your business succeed and we value your feedback and input to ensure the content is useful, current and relevant to you. If you feel we could improve in any way please email **Marco Bettosi** at mbettosi@clbcoopers.co.uk

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