

NEWSLETTER

WELCOME

Welcome back to the Spring 2003 edition of Raffingers' "The Biz" newsletter. For those of you who were kind enough to send us feedback on our first issue, a very big thank you – we've tried to take on board as many of your thoughts and ideas when putting together this latest edition.

For anyone who is reading The Biz for the first time, hopefully you'll find it useful and interesting. Please feel free to share your thoughts with me on how we might be able to improve it.

Some of you will recall that we had been nominated as finalists for the prestigious Accountancy Age Small Firm of the Year Award for 2002. Well I'm proud to tell you that we were one of three runners-up in this national award so once again a huge thank you to everyone at the firm for helping us to this outstanding achievement.

I'm also delighted to tell you that we have recently been awarded the East London and Essex Business Award for Customer Care at a gala dinner attended by more than 600 people at the London Arena. More about this in the Practice News section later on.

So without further ado, I'll let my colleagues fill the space more usefully. It just remains for me to wish everyone a belated happy new year. If you do want to contact me with your feedback, my e-mail address is barry.soraff@raffingers.co.uk.

TAXING THE BUY TO LET MARKET

In these days of falling stock markets, low interest rates and runaway property prices, the temptation to delve into the buy to let property market has proved too much for many people.

As for the rights and wrongs of this investment strategy, we'll leave that to the experts. But since we are now a nation of landlords, it might be helpful to explain some of the tax issues arising on a decision to invest in property.

These issues can largely be divided into two areas:

- Taxing the income
- Taxing the profit on disposal

We will ignore the estate planning and inheritance tax issues that cannot be considered by focussing on a single asset or section of the estate – a much more holistic approach is required.

For the purposes of this article, we'll also assume that the property has already been purchased by an individual (or group of individuals) rather than by a company. That's not to say that for some people, it would not make tax sense to invest in property via a company – just that the issues are a bit involved for a short article. The best thing I can say is that if you are considering investing in property, please discuss your individual circumstances with us before proceeding to help decide if you should use a company for the purpose.

We've also ignored the tax on the purchase – stamp duty – suffice to say that this now goes as high as 4% at the top end of the market.

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Income tax

Income tax is payable on the “profit” in each tax year. This is calculated by deducting allowable expenses from the rental income. Many types of expenditure are allowable as a deduction but it is worth noting that only the interest element of mortgage repayments can be deducted.

In fact, in these days of sky-high prices where properties are purchased for their capital growth (and income barely covers the mortgage repayments), one of the pitfalls occurs where buyers assume that since they aren’t making any money once they’ve paid the mortgage, they won’t accrue a tax liability. If the mortgage includes capital repayments, this may not be the case!

Once the profit has been calculated, it gets entered onto the individual’s tax return and taxed at their marginal rate – in other words, if you are a higher rate taxpayer, at 40%.

Properties owned jointly are usually taxed by splitting the income in the proportion of their ownership interest. One very useful tax avoidance strategy can be implemented where a husband and wife wish to purchase a property jointly but one of them pays tax at a higher rate than the other (often where one of them doesn’t go out to work). Without sacrificing the joint right of ownership, the parties can elect to have the income treated as paid to the lower rate taxpayer.

Capital gains tax

This is payable on any “gain” made when the property is sold. Costs of sale and purchase e.g. legal fees are allowable as a deduction.

Special rules apply where the property was acquired before 31 March 1982 and an allowance for inflation is given for any periods of ownership from that date until 5 April 1998.

A “taper relief” reduction in the gain is available depending on the length of ownership from this later date although this is far less generous than the well-known business asset taper relief available on some assets (though not normally on investments).

This gain is pooled with any other capital gains or losses in the same tax year and after deduction of an annual exemption for capital gains (currently £7,900), is taxed again at the marginal rate.

It is worth remembering that I have only been able to scratch the surface of the issues here. If you are considering buying to let for the first time, please contact myself or one of the partners to discuss it as soon as possible.

JEFF SORAFF – TAX MANAGER

PRACTICE NEWS

Lots of things have been going on within the firm over the past couple of months. Here’s a brief summary:

■ Firstly, a huge thanks to everyone who has sent their best wishes to Allen Soraff during his recent period of recuperation. The good news is that he is feeling much better and has returned to work after taking a short holiday (surprise surprise!).

■ We have huge pleasure in announcing that, with immediate effect, Albie Turner and Adam Moody have been promoted to partners in the firm. Many of you will already know both Albie and Adam as they are pretty much part of the furniture - if you don’t, hopefully that will change in the coming years.

■ Following on from our successes in the 2002 Docklands Business Club Business Excellence Award and the Accountancy Age Small Firm of the Year, we recently attended the gala dinner at the London Arena for the East London and Essex Business Awards which are sponsored by Nat West Bank and Recorder Newspapers. We’re delighted to say that we were winners in the Customer Care category and highly commended as runners up in the Training and Development Category. We are incredibly proud of these achievements and thank everyone at the firm without whom none of it would have been possible.

■ For those of you still struggling under the burden of red tape and regulation caused by the vast and bemusing range of different employment laws (which from the number of calls we receive on the subject would suggest is a large number of you) will be pleased to hear that we have recently launched a brand new product designed to remove this burden. The product is designed and managed by beprofessional.com, a joint venture including Berwin Leighton Paisner, the leading London-based international law firm.

Our initial interest came from our desire to purchase the product for ourselves and we're delighted to announce that we have arranged a special group deal for any of our clients and associates to purchase the service.

If you'd like to view the product and see how it will save you an incredible amount of time and money, simply speak to anyone at the firm who will be happy to arrange a free, no-obligations demonstration.

■ We are now approved re-sellers of the two best-selling bookkeeping packages in the UK – Sage and Quickbooks – and are able to supply all packages in both company's ranges at substantial discounts. We can also supply training to use these packages with unlimited telephone support thereafter.

■ Those of you who are affected by the Inland Revenue's CIS scheme for the construction industry will be only too aware of the vast red-tape burden that this places on everyone involved, particularly those who make payments to subcontractors. Over recent years we have heard about and seen first-hand the many and varied problems that the scheme causes.

We have also been asked many times by clients in the construction industry about the availability of software packages which handle the scheme but we have only come across very few of these and they tend to be prohibitively expensive for small businesses.

Some time ago and with this in mind, we asked our IT division, Raffingers Technology, to look at the feasibility of writing a piece of software that would:

- (a) Deal with the CIS scheme and reduce the amount of work required by those operating it;
- (b) Be simple to understand and use; and
- (c) Be available at a price well within the budgets of any business, however small.

We are therefore delighted to announce that not only have they done precisely that but that the software has finally completed a period of exhaustive live tests within a client company heavily involved in CIS. The tests have resulted in a number of final improvements being made and an end product that is now generally available to any business caught up in the CIS minefield. For more information contact Elliott Kayser on 020 8551 7200 or e-mail elliott.kayser@raffingers.co.uk.

■ Our next Business Builder Forum (BBF) will be an extra special one. It will be sponsored by the Woodford Green Lexus dealership and will be held at their state of the art showroom at 7am on Monday 9 June. Places are FREE but are limited and since there will be some fantastic prizes given away on the day, book early to avoid disappointment. If you want to find out more or book your place, contact either Barry Soraff or Lee Manning on 020 8551 7200 or e-mail bbf@raffingers.co.uk

INTRODUCING OUR CORPORATE FINANCE DIVISION

Some of you will have already met Kevin Wall, our head of corporate finance, who has now been with us for more than ten months. During that time he has been developing new services designed to:

- Help clients plan for retirement by exploring the various exit routes that are available to them from their businesses.
- Assist growing businesses with a promising future, find investment capital.
- Help clients find a mix of finance options that is better suited to their needs and provides greater flexibility.

We already possessed a wealth of in-house knowledge in the areas of technical accounting, due diligence, specialist taxation advice and business valuations. Kevin has added his 33 years experience in the banking world, where he worked with an incredibly broad range of businesses. Together with our established professional connections with corporate lawyers, financiers and all kinds of financial advisers, this puts us in a strong position to provide a much needed basic service in the corporate finance arena that is within the budgetary constraints of the average small business.

Too often it's those same small businesses that put the longer term issues on the back burner while the more urgent problems of the day are given priority. Why not break out of the cycle and make yourself and your long-term future a priority?

So if you think you might be able to benefit from this service or would like to know more, simply call one of the partners or Kevin himself on the usual number to arrange a free, no-obligation consultation.

GUARANTEE YOUR WAY TO BIGGER SALES AND PROFITS

Ask yourself a simple question. When any product or service is purchased, who is taking the risk of making a bad decision?

In other words, is it the buyer or seller who is gambling that the benefit they are planning to derive from the transaction will actually materialise. Obviously, in the vast majority of circumstances, this risk is almost entirely assumed by the purchaser. "Let the buyer beware" is after all, a fundamental principle in law.

And wouldn't taking this risk away from the purchaser make it easier for our customers to say yes when faced with the buying decision? If the customer knew, absolutely *guaranteed*, that they would derive a significant benefit from the transaction, wouldn't it be easier for us to close that all important deal?

Now there are many techniques available to businesses to reduce this risk but in this article I'm going to focus on what is known as "risk reversal" or more precisely, a specific method of risk reversal - guarantees.

What is risk reversal? A good risk reversal guarantee will involve taking the risk away from the customer and assuming it ourselves.

How do we do that? Or more importantly, how do we do that better than our competitors? In essence, you need to ask yourself three questions:

1. What promises do your customers really want to hear?
2. What specific promises can you make in that area that no one else dares to?
3. What systems do you need to deliver that promise every single time?

Because if you could deliver on the promise every time, however outrageous, there would be absolutely no reason not to offer it would there?

There are so many issues and different options to discuss but for now I think we can best be served by looking briefly at an example of a real-life risk reversal guarantee that has been hugely successful in boosting a company's sales and profits.

The company is TGI Friday's who at one time, found it difficult to fill their restaurants during lunch times. They decided that the reason might be that customers could not commit to a proper sit down meal at lunch-time where very often they would be expected back at work within the hour.

So they launched their "10 minute lunch-time guarantee" which guaranteed that your lunch would be at your table within ten minutes of sitting down or you don't pay.

Pretty bold but with good systems, they can be absolutely certain that they will deliver on this promise every time so that whilst it enables them to entice more customers in for lunch, it doesn't actually cost them a penny.

So how do they know that they'll always be able to deliver? The first of two systems restricts the guarantee to a limited menu of 10-20 items which is backed up by system 2 that has all these items pre-cooked and lined up in the kitchens ready to pop into the microwave.

Now there is no way that I've done justice to what is a huge topic in such a short article but hopefully, this will have been enough to get you thinking. If you want to discuss this further or discover how you could possibly apply these ideas to your business, please feel free to contact me. My e-mail address is lee.manning@raffingers.co.uk.

LEE MANNING

TAX TIP

Companies can pay the mobile phone bills of their directors and employees (provided they aren't pay as you go) and claim tax relief without any benefit in kind arising on the individual concerned.

If you have your own company and it is not at the very least paying your mobile phone bills, then you are wasting money unnecessarily. If you're unsure about this, give us a call and we'll explain more.

FOCUS ON...THE MANAGEMENT OF A RESTAURANT

Actually the title to this article is a little misleading. Because although it is about a restaurant, the message has equal meaning for any business.

An article recently appeared in no less a publication than the Wall Street Journal which, more than anything I've ever read before, illustrated the importance of:

- Keeping in touch with your customers on a regular basis.
- Capturing customers that walk past your front door every day.
- Searching for creative and inexpensive ways to keep your name in front of your customers.

The article was about a small Chicago restaurant which had closed after eight years in business due to the intense competition in the area. The restaurant was opposite a fitness club that had approximately 15,000 members.

Most of the fitness club members did not even know the restaurant was there. Why? The owner of the restaurant said he couldn't afford to spend money on advertising and it never occurred to him to tap the potential customer base that was walking into the health club across the street. After all, he was a restaurateur and not a marketing guru! But maybe he could have put up a huge sign or banner in the window inviting the fitness club members to have dinner with him. That wouldn't have taken a creative genius or a huge advertising budget.

The owner knew most of his customers by name but never asked for their business cards or other details. He never added them to a mailing list. The owner was in the business of cooking great food and forgot that his real job was to get people into his restaurant – after all, what point is great food if no one is eating it!

He didn't think it was worth regularly writing to his customers, perhaps inviting them to come in to enjoy a special offer or a bottle of wine if they brought a friend with them. Maybe even sending them a personal hand-written birthday card with a voucher inside inviting them to share their birthdays with him at their favourite restaurant. Would that not have improved his chances of success?

The message I think we can all take from this – there is little point doing great things unless our customers and potential customers know that we are doing them. What are you doing to make sure that the great things you are doing aren't being wasted?

FUNNY MONEY!

The column that proves conclusively that accountants aren't boring!

Anyone who is begrudgingly paying the £5 congestion charge will have enjoyed reading many of the Anti-Ken Livingstone websites that have sprung up recently.

As a public service, we have been researching these for you and have come up with a list of some of the best (hopefully) tongue in cheek suggestions for avoiding and sabotaging the charge:

■ “Fill a balloon with helium and attach a couple of metres of twine. When walking past a camera post, loosely loop it around and let the balloon make its merry way up to the camera. This will block the lens. I'm pretty sure as no criminal damage has taken place that this action is not illegal. If we did them all everyday it would create havoc.”

■ This one should cause havoc at Ken's offices:
“The Data Protection Act grants additional rights to access data held about you including photographs. As the new congestion charge cameras take a picture, all drivers will be entitled to a copy of the photo on request for a standard fee (around £15). Everyone who drives in should send a cheque and a request to Transport for London giving the rough route taken and approximate times. Those holding the data are required to comply to all requests within a reasonable time.”

■ “Buy a car from North Korea. Let's see Ken get his hands on the registered keeper details from Pyongyang's version of the DVLA!”

And finally a question: Who said this to the Sunday Times on 21 November 1999?

“I hate cars. If I ever get any powers again I'd ban the lot.”

You won't be surprised by the answer – our very own Red Ken Livingstone!

GENERAL NEWS

■ The tax return filing deadline has now long since passed. Anyone who still hasn't paid their tax liabilities will find that interest is now being added to the unpaid amount. Worse still, an additional 5% surcharge will be added to any amount relating to the 2001/02 tax year that was unpaid on 28 February.

■ All employers will be delighted to hear that the Employment Bill has become the Employment Act 2002. The burden of red-tape and pitfalls for employers continues to grow at an alarming rate. The good news is that we may just have found a way to help you through this. More information in the Practice News section.

■ The UK is about to adopt the latest EU directive on money laundering into law. This will affect EVERY business that accepts cash payments in excess of 15,000 Euros (approximately £10,000) in any single transaction or series of transactions. There are very severe penalties for non-compliance with this law and anyone who thinks they may be affected should ask us for more information.

USEFUL LINKS

In each issue we'll supply you with a list of useful websites to visit.

Raffingers – www.raffingers.co.uk - Clearly the best site anywhere on the web with useful links and lots of free resources.

UK Online – www.ukonline.gov.uk - The government's central web portal with access to every central and local government department and lots of useful help and information.

Truth or Fiction – www.truthorfiction.com - Website which collates information on e-mails that are circulating and provides background on how true they are. Updated daily and most useful in identifying bogus virus warnings.

Bcentral – www.bcentral.co.uk - Business advice website run by Microsoft. Provides useful tools and information to help the small business owner.



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