

NEWSLETTER

WELCOME

Welcome to the Autumn 2003 edition of the Biz newsletter. Plenty has happened recently and we'll be doing our best in the short space available to update you.

We're constantly reviewing the format and content of the newsletter so that we can find ways to make it more relevant and interesting to you. Suggestions and/or contributions are welcome.

If there is a theme running through this edition then it is "hot topics" – things that affect many of our lives and businesses and are getting lots of press coverage at the moment.

So in our normal tax feature we look at two current issues. Inheritance tax – a tax that used to be known as the "rich man's tax" that more and more is something which affects us all. We also take a brief look at the new Stamp Duty Land Tax that takes effect on 1 December 2003.

Elsewhere we've included an article dealing with the impending extension of money laundering laws and regulations – just about any business could be forced to introduce procedures that have stretched even the resources of the major High Street banks to the limit.

As usual we've also tried to lighten the mood a little and to that end I'd particularly draw your attention to some of the stories we've uncovered from recent employment law cases – to employers though, they are only partially funny! Thanks to the team at Beprofessional.com for supplying us with these.

One last thing – the details are in the practice news section but I'd just like to highlight that we have organised a charity quiz evening for 4th December. If you're interested in entering a team, contact Lee on the usual number or e-mail lee.manning@raffingers.co.uk.

Wishing everyone an early seasons greetings.

BARRY SORAFF



Have you seen this man?

Recent sightings reported in California and Cyprus.

Please telephone any information you might have to the Missing Accountants Hotline on 020 8551 7200

Raffingers

Chartered Certified Accountants

GETTING PAID...ON TIME, ALL THE TIME

It is a common misconception that only unprofitable businesses fail. In fact, in some instances, the businesses that do fail are very profitable indeed.

So the question remains – what factor is the single most common cause of business failures in the UK? Put plainly, most businesses that do not survive have quite simply run out of cash.

There are a number of possible causes of this but in my experience, the reason is very often just poor cash flow management. And the most common way in which this manifests itself is in a failure to implement good credit control practices and disciplines. Survey after survey has shown that this is almost always a common thread running through every business failure.

There have been various attempts in recent years to legislate around this problem. The authorities have tried the carrot (publishing annual league tables of the companies with the best payment records) and the stick (forcing large companies to declare their payment practices in their accounts and introducing legislation allowing companies the automatic right to charge interest on late payments) with only moderate success.

Frankly, these attempts, for all their good intentions, are no substitute for good management practices. Techniques such as periodic reviews of aged debtor lists, following up on overdue amounts, obtaining credit references on new customers, setting and enforcing credit limits and agreeing credit terms in advance with customers are just some of the things that we could all implement relatively easily that would undoubtedly make a difference over time.

Over the years however, we've come across a number of unusual credit control techniques and we've collated some of the best ones here for you to share:

■ **Prize draw** – One business in the North East holds a monthly prize draw. Every customer who has paid their account on time goes into the hat each month to win dinner for two at a top local restaurant. The scheme costs less than £100 per month to run and has massively improved cash flow.

■ **Big prompt payment discounts** – Most prompt payment discounts don't work because the 1%-5% discount traditionally offered is not enough to galvanise customers into action. At least one business we've come across offers a 33% discount for 7-day payment in the full knowledge that the real price is the lower amount. All but a handful of customers take the discount (and those that don't pay the inflated price).

■ **Increase your prices** – Another business we know wrote to all its customers telling them that it was increasing its prices but in the same letter explaining that customers paying within 14 days would be able to continue to pay the existing price. Nobody complained and most of its customers now pay within 14 days.

■ **Prompt payment benefits** – Discounts are not the only way you can motivate and reward customers for paying you promptly. You could give them additional benefits such as priority bookings, free product or service upgrades, free delivery, lower minimum order quantities, extra technical support, a free helpline, special offers on upgrades, discounts on their next purchase, access to a special section of your website, extended warranty terms, membership of a user group, advance notice of new products or whatever else is most relevant in your case. The key is to make these benefits exclusive to customers who pay on time, because that way many more of your customers will pay on time.

■ **Prompt payment club** – Taking the last idea one step further, why not bundle all those exclusive benefits as part of a prompt payment club – which customers are automatically members of if they pay on time.

■ **Payment upfront** – Another powerful approach is to insist on payment upfront. A good script helps to sell this idea but always remember that if the customer is discussing credit terms, there is a fair chance that they have already decided that yours is the best product or service.

■ **Offer finance** – Some retailers offer to arrange finance for their customers. But most others don't. And that is all the more strange considering that finance allows the business owner to make more sales (because more people will be able to afford to buy), get paid quickly and perhaps even share in the profits made by the finance company.

■ **Using humour** – Humour is a great way to defuse difficult situations – including asking to be paid. Some businesses use funny cartoon postcards and faxes to chase debtors. Other use amusing letters. We have some examples of these available to anyone who would like to see.

LEE MANNING

PRACTICE NEWS

■ We have recently teamed up with Leasright, part of the UK's largest vehicle management company, to offer exclusive finance deals for our clients. Leasright can help you finance any make and model of car or light commercial vehicle and can acquire, often at sizeable discounts, both new and nearly new vehicles. They can also arrange short-term car hire at as little as 2 hours' notice with delivery to your door.

For an immediate quote, either call the Raffingers free phone number on 0800-9176603 or send an e-mail containing the make and model to leasing@raffingers.co.uk.

■ For the second year in succession, we will be exhibiting at the Business Start Up exhibition at the Excel centre in Docklands. This year's event takes place over the weekend of November 22-23. Details are available by visiting the website at www.bstartup.com.

■ We have organised a charity quiz evening on Thursday 4 December in aid of St Francis Hospice and the Parry Charitable Foundation. It will be held at the Ye Olde King's Head pub and restaurant in Chigwell starting at 7.30pm. Tickets are £20 per head but for a table of 8 the cost will be £140. Bookings can be made by contacting Lee Manning by phone or e-mail to lee.manning@raffingers.co.uk.

■ We are about to launch our exciting new product called SSTW (which stands for Simple Stuff That Works). SSTW gives you the opportunity to hear from dozens of business owners who have volunteered their secrets on how they've grown their business. And you can meet them in person, on-screen in SSTW.

SSTW will also help you to begin to put those same ideas and secrets into practice in your business. It is divided into a series of modules, each coming in CD format. The normal price of each module is £195 (although as you'll see they are potentially worth many times that) but as a special introductory offer we will be supplying the first module in the series for only £45 plus VAT, £20 of which we will donate on your behalf to charity. So you can not only grow your business using tried and tested ideas, you can help a worthy cause simultaneously.

SSTW will not be launched for a few weeks yet but we have pre-release versions exclusively available FREE to the first 2 readers of this newsletter to e-mail Barry Soraff on barry.soraff@raffingers.co.uk with the answer to the following question (the answer to which is elsewhere in this newsletter):

How much was £9,000 per year car saleswoman Angelica Graham awarded against her employer of one week for sexual discrimination?

MONEY LAUNDERING...THOSE LAWS DON'T APPLY TO ME

I can see why you might (want to) believe that. Most people don't even know exactly what money laundering is much less do they believe it could have any relevance to them.

Whenever I've asked clients in the past about this subject, the result is more often than not a glazed, somewhat bewildered look followed by a comment along the lines of "It's got something to do with terrorism."

Given that, for reasons dealt with further below, ignorance is most certainly not bliss in this instance, it is probably a good idea to begin this short article with a brief explanation of precisely what money laundering is.

Put briefly, money laundering is any offence relating to the Proceeds of Crime Act. More specifically, it is the process by which criminals attempt to disguise and hide the true origin and ownership of the proceeds of their criminal activity. Successfully carried out, it enables criminals to avoid conviction and confiscation whilst continuing to control what appears to be money from legitimate sources.

Which I think we can all agree is a "good" thing in principle.

Within this definition there are many different types of offence for which you can be prosecuted ranging from assisting in the laundering process to, for some businesses, failure to report a suspicion and not having proper procedures in place to identify potential laundering (even where no laundering is taking place). The penalties are extremely harsh and can be as much as 14 years in prison and an unlimited fine.

So why is this suddenly so topical and why are we telling it to you now. Well although the Proceeds of Crime Act has been effective since February, we are now faced with the implementation of the Draft Money Laundering Regulations 2003 (the effective date for which, at the time of writing, has been delayed again).

The regulations affect two types of businesses – those in a "regulated sector" and those in a "relevant business". If you are in a regulated sector, it is unlikely that you aren't already aware of these changes.

The definition of a "relevant business" however includes mainly specialist sectors such as accountancy, estate agents, casinos and legal advisors but also "the activity of dealing in goods of any description by way of business to the extent that the activity involves accepting payment in cash of 15,000 euro (approximately £10,000) or more (including, in the case of cash payments which are linked, where the total amount of the payments is 15,000 euro or more)".

In other words, potentially anyone! If you accept cash payments totalling £10,000 for any transaction or a series of linked transactions you will be required to meet obligations to formally implement the following:

- Systems and training to prevent money laundering;
- Identification procedures;
- Record keeping procedures; and
- Internal reporting procedures.

It is also expected that businesses dealing in these amounts of cash will be expected to register with Customs and Excise. You can choose not to be subject to these rules by deciding not to accept large payments in cash – you could for example insist on payment by credit card or cheque. But there can be no exceptions and for some businesses e.g. car dealers, that will not always be possible.

If you are worried about where you stand and what you may have to do (not to mention how you have to do it), please feel free to contact me either by phone or by e-mail at adam.moody@raffingers.co.uk.

ADAM MOODY

GENERAL NEWS

■ Pensions

The Government has published a consultative document on replacing the eight existing pension regimes with a single set of rules for saving into pensions and simple rules for converting pension savings into retirement benefits. There will undoubtedly be winners and losers and some useful planning opportunities.

The new rules are planned to begin in April 2005 and we'll be revisiting them as the reforms take shape. Anyone interested in finding out more immediately should contact Allen Soraff on the normal office number.

■ Employment law

Stamp Duty Land Tax (see tax section) is not the only law change to come into effect on 1 December. Yet another whole new raft of employment legislation is also effective from that date (with yet more already scheduled for October 2004 and some time in 2006) including the outlawing of discrimination on the grounds of sexual orientation. Employment law is increasingly becoming the most serious day to day concern of all for the average small business. We are planning to hold a free employment law seminar early in the new year although at the time of going to print, the date has not yet been finalised. If you'd like to register a provisional booking, simply call Susan Jarvis on 020-8551-7200 and she will ensure that you are informed once the date and location have been arranged.

Anyone who doubts just how serious this issue is becoming should turn immediately to the "Funny Money" section of this newsletter and then call Barry Soraff to see how we may be able to help you remove this worry once and for all.

■ National Minimum Wage

On a not unrelated subject, the minimum wage was increased on 1 October 2003 to £4.50 per hour for employees over the age of 22. The youth rate for employees aged between 18-21 has risen to £3.80 per hour.

FUNNY MONEY

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

Employment law is no laughing matter. Anything other than a totally serious attitude to this complex, time-consuming and potentially expensive subject can result in disaster.

Despite that, sometimes all you can do is laugh when faced with some of the extraordinary goings-on in the realm of employment law. So with apologies to the businesses concerned at laughing at their (vast) expense, here are one or two recent, completely true stories that would be funny if they weren't so serious....no, scrub that – they're funny anyway.

With special thanks to Beprofessional.com for supplying us with the stories we've used.

■ During a recent tour of the UK, the star tightrope walker of the Moscow State Circus was told by Brussels-based health and safety officials that he was not exempt from regulations requiring him to wear a hard-hat during his twice-daily performances as Europe's highest high-wire act. A spokesman for the circus said: "It is ridiculous. Common sense has clearly gone out of the window. The hats are more of a liability than anything else. They could slip over the eyes while the artists are performing or throw them off balance."

■ John Sprack is a full-time employment tribunal chairman. Some of his recent decisions include:

- Awarding 23-year old car saleswoman Angelica Graham £178,000 in damages for sex discrimination against a firm where she had worked for just ONE WEEK earning a salary of £9,000 a year. Ms Graham had complained to police that she had been groped and pawed by her boss Ralph Marriot though it was later decided that there was insufficient evidence for a prosecution.
- Awarding solicitor Harriet Davis-Taheri £31,500 for unfair dismissal after she was suspended for poor performance a month after she announced she was pregnant.
- Deciding that a private health company executive, sacked after she had boasted about being tied to a four-poster bed for sex during a staff training weekend, had been unfairly dismissed. She had charged the £200 hotel bill for the bondage session with her boyfriend to expenses. She was awarded £5,000 in damages.
- A waitress in a London lap-dancing club recently won £60,000 for sex discrimination after she claimed that her request to wear a less revealing outfit after she fell pregnant was refused.

■ A former policewoman won a payout of £258,000 after she was labelled a "trollop" by fellow officers.

To be serious again for a moment. If you think this kind of thing can not happen to you then think again. Tribunals rarely take into account the ability of the business to pay the amount of any awards against them when deciding on damages. How many of us could survive an award of £178,000?

If you don't have the proper policies and procedures in place to deal with the innumerable potential situations that can arise, there's a better than even chance that the award against you at a tribunal will be punitive even where you have acted reasonably.

In 2002/03, there were 45,373 claims to employment tribunals for unfair dismissal alone – not to mention the additional 11,001 sex discrimination and 3,638 racial discrimination claims. So I can assure you, it can happen to you and you should act now to protect yourself.

If you'd like to find out how you might be able to do that very simply, e-mail me on barry.soraff@raffingers.co.uk.

BARRY SORAFF

TAX TIP

Ensure that income is split in the most tax efficient manner between spouses wherever possible. Examples of assets where this may be possible include interest earning bank balances and properties generating rents. For tax planning purposes, income should be earned by the spouse paying tax at the lower rate.

It is often possible to allocate the right to receive taxable income from assets without transferring beneficial ownership.

PLEASE DON'T POUR £102,000 DOWN THE DRAIN

Most people believe that tax planning involving several hundred thousand pounds is strictly for the super-wealthy and that it doesn't apply to them.

Unfortunately, in today's society, that is quite simply untrue. There is one tax that is affecting more and more "ordinary" people and yet for one reason or another, most people ignore it until it's too late to do much about it.

I am of course talking about inheritance tax (IHT) which, barring an unexpected change in the law, will almost certainly affect you in the future if, like most people, you own your home. Of course, if you also have other assets (including "hidden" ones like life insurance policies), the effect is potentially increased dramatically.

The most common reasons for ignoring IHT are the subconscious belief in our own immortality or more seriously, a failure to identify that there is a possible problem at all. Unlike income tax, we do not pay IHT once a year and so the tendency is not to think about it. Given the often vast sums involved (even for people who would consider themselves far from being wealthy), this ostrich head in the sand approach never fails to surprise me particularly since careful planning at an early stage can substantially reduce IHT liabilities.

I am also always surprised at the number of our clients who have never considered making a will. IHT planning begins with a careful definition and valuation of all of your assets including any potential inheritances from family members. As soon as the potential tax liability is known, it becomes obvious that something must be done to reduce this liability as far as possible.

It is important not to consider tax issues alone without the many other factors that have to be taken into account. I have therefore always advocated careful discussions with all family members who are likely to either inherit or be involved in the distribution of the assets of an estate. In this way, there are no nasty surprises awaiting the family after death.

The simplest form of planning is to ensure that the "nil rate band" (presently £255,000) is used to its maximum effect. If spouses leave all of the assets to each other (as is very common), there is no IHT to pay on the death of the first spouse but on the second death, all of the assets become taxable after deducting the amount of the "nil rate band". However, if sufficient of the right kind of assets are passed to family members on the first death to use the nil rate band of the first spouse to die (with the balance then being passed to the surviving spouse), the taxable value of the estate is reduced overall by £255,000. At a standard IHT rate of 40%, this simple strategy, if used properly, will save (at today's rates) £102,000.

If you think those figures can't apply to you, think about your home (ignoring your various other assets). Simultaneously, the value is rising very quickly and the mortgage will most likely be paid off by the time you die. Does anyone under the age of 50 and living in the south-east expect that their home will be worth less than £255,000 when they die?

Gifts of assets during your lifetime (rather than on death), if well-timed and carefully selected can also save substantial sums of tax. Anyone giving away assets will avoid IHT on those parts of their estate provided they survive seven years after the gift. In the event that death comes more quickly, substantial reductions in the tax burden can still be generated. Unfortunately, some assets can not be given away without creating a capital gains tax liability but there are many ways to either reduce or avoid these with good planning.

There are also some small but significant IHT exemptions which, with good planning, can be used to reduce liabilities.

Another common misconception is that IHT planning is a one-time exercise. This is a big mistake. Asset values change, laws change and people's tax and personal circumstances change any and all of which can make a difference to will and IHT planning. Regular reviews, at least every 5 years, are a crucial part of the process.

Anyone wishing to discuss this further should contact me on the usual phone number or by e-mail at allen.soraff@raffingers.co.uk.

ALLEN SORAFF

STAMP DUTY

You don't have to be very old to remember the days when no one really worried about stamp duty too much. The City of London, as it still does (with some justification), had its annual moan about the 0.5% transaction charge on share purchases but nobody else got too hot under the collar about it.

The 1% stamp duty payable on property purchases over £60,000 was just one of those things – a relatively small amount to include in the other, often much larger costs of moving house or buying commercial properties.

And then since 1997, 3 things have happened. Firstly, the new Labour government, having tied its own hands with regards to income tax, targetted stamp duty as one of its first tax increases. This has been followed by booms in both property values and the number of buy-to-let landlords.

These 3 factors have meant that:

- The rate of stamp duty on property transactions has risen to as much as 4%.
- The property values to which the rates are applied have risen sharply.
- Property stamp duty affects more people than ever before.

To put some numbers to this – in the financial year ending in 1996, the Inland Revenue collected £2.018 billion in stamp duty. The provision figure for 2003 is £7.549 billion, an increase of 274%.

One of the side effects of these various changes has been the growth in stamp duty avoidance schemes. At the most basic level, individuals buying their homes allocating a sizeable part of the price to “fixtures and fittings” (that are not subject to stamp duty) through to large companies using contrived schemes involving complex financial instruments have become common-place.

That’s where we are today. However on 1 December, over 300 years of history are to be swept away when the voluntary (yes that’s right...don’t laugh!) charge to stamp duty on land is to be replaced by a new self-assessed compulsory tax on acquisitions for “value” of land and buildings in the UK: Stamp Duty Land Tax (“SDLT”).

SDLT is a classic case of a rush job and what has emerged, almost literally overnight, is a tough and complex new regime for “property transactions”. Almost all avoidance schemes currently in existence have been foreseen and prevented within the new legislation. Some areas have remained open for future review and will not be included in the initial legislation including many transactions involving complex corporate structures.

Most people won’t notice this new tax at all since in simple cases, the changes are simply a modernisation of administration going back to the wars against Louis XIV of France (the funding for which stamp duty was originally introduced as a temporary measure). For others, it can be ignored at peril.

BARRY SORAFF

USEFUL LINKS

Before we give you this issue’s recommended websites, we’d like to tell you about some really exciting things coming up at our own online home at www.raffingers.co.uk.

Very shortly, our website will have completed its planned overhaul. New features will include:

- The ability to run online credit checks and information searches of other businesses. This will include the ability to register five of your customers, suppliers or other contacts so that you are automatically informed of any changes to their credit file.
- A facility for you to register to be notified automatically of any upcoming statutory deadlines for you and your business.
- A monthly e-mail newsletter.
- Useful calculators including amongst others a company car tax calculator and pay-slip checker.
- Access to a national database of businesses for sale.
- A brand new interactive Raffingers Fantasy Football Manager game. Regular prizes will be given to the Manager of the Month with a special prize reserved for the overall winner.

They’ll be lots of other things too but to find out more, you need to click on www.raffingers.co.uk.

But enough about us. Here are this month’s recommended websites.

FaxYourMP.com

Award-winning website run by a handful of volunteers who don’t see why ordinary people should have to jump through hoops to contact their elected MP.

All you need is your postcode to start. Just go to the front page of the site, type it in and hit the “Go” button. Up will pop details of your local MP, along with a simple form in which you can start writing straight away.

FaxYourMP.com saves you the trouble of writing and sending your letter through the traditional routes. The service is completely free and works very securely, quickly and effectively. After you have confirmed by e-mail that you wish to send the letter that has been drafted in your name, your MP will be faxed immediately.

Two weeks after your fax has been sent, FaxYourMP will email you again asking if your MP has been in touch and they keep a record of the most and least responsive MPs with the intention of naming and shaming them at some time in the future.

Because most MPs are aware of the service (only a handful have refused to supply their fax numbers and they are named and shamed on the site), the response rates are impressive.

Directory Enquiries

Not really a website recommendation this one – more a reminder that in this era of multiple, complex and expensive directory enquiries services, most of the operators are offering access to directory enquiries services online completely free of charge. The following are free directory services:

BT Directory Enquiries – www.118500.com

Yellow Pages – www.yell.com

Thomson Local – www.thomsonlocal.com

There are others which are equally good. Just be aware before you pay the not inconsiderable charges of some operators.

Raffingers

19-20 Bourne Court • Southend Road • Woodford Green • Essex IG8 8HD

Tel: 020 8551 7200 • Fax: 020 8551 0912

Email: info@raffingers.co.uk

Web: www.raffingers.co.uk