A.C.MOLE & SONS CHARTERED ACCOUNTANTS

proactive

WINTER 2006

Inside:
Are trusts still to be trusted?

Read more inside

What's inside
(and what's to come)

In this newsletter we begin a series of articles looking at ways to help ensure that businesses not only survive difficult times, but thrive.

On page two, Alex Tetley considers some of the dangers inherent in pursuing a growth strategy and suggests some questions that the owners of any growing business should ask. In future newsletters we will look at sources of start up finance for small to medium sized businesses, the way that tax incentives can assist new and growing businesses, sources of funds for larger businesses and effective exit strategies for those wishing to sell their businesses.

On page three we look at the way "pool" cars can be used to save tax and at the radical changes the 2006 Finance Act has made to the taxation of trusts.

On page four we ask whether you are tapping the full potential of your accounting software and feature our clients Spillers of Chard.

Last Call

We moved to our new Blackbrook Park offices two years ago and the postal redirect service has now been suspended - mail sent to the old Billetfield address will no longer be forwarded to us by the Post Office. Please check that you have the new address and telephone number.

LexisNexis UK TAX AWARDS
Best Tax Team in a Small Firm
Winners

David Lawrence and Mr Mole

The Artist Revealed

Many clients have asked us who designs the firm's Christmas cards and as this newsletter coincides with the Festive Season we have decided to reveal the secret.

David Lawrence - pictured above - designed the Mr Mole character at the time of our Centenary in 2002 and is the artist behind our Mr Mole Christmas cards.

David began his career as an Illustrator in advertising in London and moved to a village near Taunton in 1989. Soon after this, the arrival of the Apple 'Mac' computer, with its bright colours, processed images & typographic computer trickery made illustrators, in David's words, "as relevant as dinosaurs overnight".

"Luckily," says David, "I was able to develop a hobby into a business and I became a sculptor, making a range of Greenmen which still sell in cathedrals & historic sites up & down the country. I was then drawn into the extraordinary world of 'collectable' giftware in America - a speculative craze of the late 90's, fuelled by EBay, which swelled and burst like the South Sea Bubble. I returned fulltime to illustration only this year - surprised to find it's making a comeback and my portfolio once again is in London with my agent."

"And how do I feel about 'new technology' now? I wholeheartedly embrace it of course and spend as much time with a digital pen in my hand as a paint brush!"

You can see examples of David's illustrations, designs and sculptures at www.fromthegreenwood.com. Feel free to contact him if you have a project in mind...

Planning your growth before you press “GO”

Alex Tetley, who heads our corporate finance team, looks at some key issues for growing businesses

Growth: the goal of most if not all businesses. A business that is not growing and adapting is likely to be declining against its competitors, and so owners and managers are always looking for ways to grow market share and/or profitability. If growth is going to deliver an increase in shareholder value, however, it needs to be preceded by a period of planning and preparation.

The risks: “But surely growth must always be a good thing?” Well, yes, if properly managed, but there are risks to consider.

Overtrading: Your marketing drive is a great success, new business is flooding in. You are buying in a lot more goods and services to produce your output. But your new clients want 60 days credit, and your suppliers will only give you 30. Before you know it you have a huge debtor book but no cash to meet your immediate liabilities. A great many companies have failed through inaccurate cash flow forecasts.

Unplanned diversification: You expand your business into complementary markets, but have you done as much research as you should? What are the trading practices in the new market? Do your current employees have the right expertise? Lack of familiarity with new markets can result in wasted investment and wasted effort.

Unintended consequences: What are the full implications of becoming a bigger business? Will you lose the very attributes that have made you successful? Will you become over reliant on a few key customers? Will efforts in new markets result in you ignoring your core business?

Personnel and systems overload: Increased sales effort will inevitably put increased strain on your systems and personnel. Are they prepared and ready to go forward? Are they going with you, or being dragged?

What are you growing? It should go without saying that growth in turnover is rarely beneficial unless it filters down to the bottom line. Are you buying turnover?

Solutions: Strategic review

All of these problems can be avoided or at least mitigated by some prior planning! The overall message is get all the information and all the advice you can. An independent review of where your business is and where it is going can be invaluable. What are the opportunities and threats of the market? What are the strengths and weaknesses of the business?

Before you start climbing the ladder, make sure it is leaning against the right wall!

Financial modelling and targets: Detailed budgets and targets are essential if you are going to control your growth and stay in control of the business. Once targets have been set, keep them in mind and flex them as necessary. Use them regularly to reappraise your strategy. There will be enough surprises without your own financial situation catching you out.

Capital Structure: Will you need to raise money to fund growth? If so, at what stage, how much, and in what form? This is a very complex area and proper advice will be essential.

Forewarn your advisers: Your accountants, lawyers and bankers have been helping businesses manage growth for years, so use their experience. And while the problems are as old as the hills, the solutions are constantly evolving to become more flexible and user-friendly. Invoice discounting and outsourcing spring immediately to mind.

Help is available!

We can provide impartial commercial advice to help your growth strategy succeed. In particular we offer:

- Business strategy sessions
- Financial modelling
- Help with fundraising
- Systems and IT reviews.
- Outsourced accounts and/or payroll services.

By making use of the knowledge and experience of your advisers you can greatly increase your chance of generating profitable, sustainable growth.

Pool cars

Many businesses use "pool" cars to save tax.
Employees using pool cars pay no tax on the benefit.
The rules however are strict and to qualify the vehicle must:

- be available to, and actually used by, more than one employee,
- be available, in the case of each of those employees, by reasonof their employment,
- not ordinarily be used by one employee to the exclusion of the others,
- be such that any private use of it made by the employee is merely incidental to their other use of it, and
- not normally be kept overnight on or near any residential premises where any of the employees was residing, except while being kept overnight on premises occupied by the person making it available.

Although the guidance given by H M Revenue & Customs does not say that a log is needed, in practice this is likely to be the only way to prove that the conditions have been met. The log should record who used the vehicle, when and why.

You should consider including a prohibition on private use in contracts of employment and review insurance policies. And a Ferrari might well attract HMRC's attention more than a saloon car (though if it meets the five conditions, it can still qualify).

Some recent tribunal decisions have confirmed that VAT can be reclaimed on a pool car where there is no private use. In the most recent case the taxpayer won even though the vehicles were insured for private as well as business use and the prohibition on private use was only verbal.

If you think that pool cars could save you tax, we would be happy to explain the details. Waiting for the letter advising you of a PAYE or VAT audit could be leaving it too late.

Are trusts still to be trusted?

The 2006 Budget introduced sweeping changes to the inheritance tax (IHT) treatment of trusts. After representations by the tax profession some proposals were modified, but the rest are now law. Here is a very brief overview.

Three main types of trust are commonly used: discretionary trusts, life interest trusts and accumulation and maintenance (A&M) trusts. The tax treatment of discretionary trusts is broadly unchanged but life interest trusts and A&M trusts created after Budget Day (22 March 2006) and during the settlor's lifetime will now generally be subject to the discretionary trust regime. This means that the excess of any transfer to a trust - when added to other gifts in the previous seven years - over the settlor's £285,000 IHT allowance will attract a 20% tax charge. If the settlor dies within seven years of the transfer, an additional 20% tax charge applies. The value of the trust assets is also charged to tax every ten years at a rate of up to 6% and there is a charge if assets are taken out of the trust. The value of assets of a life interest trust created after Budget Day will, however, no longer be taxed in the estate of the beneficiary.

Life interest trusts which already existed on Budget Day will continue to be taxed under the old rules until the current life interest comes to an end. The old treatment can also continue if the current life interest is replaced by another on or before 5 April 2008 or if the life tenant dies after that date and their spouse or civil partner succeeds to the life interest.

Trustees of A&M trusts which existed on Budget Day need to consider whether they should take any action before 6 April 2008, when the new regime will apply unless the capital has been distributed to the beneficiaries or the terms of the trust have been changed so that the beneficiaries become entitled to the capital at age 18. Trustees can defer the capital entitlement to age 25 at a tax cost not exceeding 4.2%.

If you have an existing family trust, are considering setting one up or your will incorporates a trust you should review the position sooner rather than later.

Client Focus

Spillers of Chard

The family run business of Spillers was founded in Taunton by John Spiller in 1840. His son, Henry James Spiller, was twice Taunton's mayor, and his grandson, Reginald George, became the driving force that propelled the enterprise forward.

Reginald - or 'RG' as he was always known - was a man of vision and talent. He admired the drive and tenacity of Gustaf Dalen, the blind man who invented the Aga in Sweden and he was one of the select few entrepreneurs to become Aga dealers in 1932. Without a son and heir however, the Spillers name disappeared by marriage, leaving the Durie family - Andrew and Christine (pictured) and their sons Russell and Robin - to continue RG's business into the 21st century.

A restructuring in the 1980s saw the Aga Rayburn dealership transferred to a new company, Spillers of Chard and in the 1990s the business relocated to a new building - designed by Andrew - on the outskirts of Chard. Extended twice over the last 15 years the building contains over 12,000 square feet of interlinked showrooms in which products are displayed in typical kitchen settings. The range of products now extends beyond Aga and Rayburn to include a wide choice of top of the range kitchen appliances from cookers to American fridges. The company also designs and installs high quality bespoke kitchens for customers.

Andrew and Christine Durie in one of Spillers Kitchen Settings. there are more photographs on the company's website www.cookercentre.com

A C Mole & Sons involvement with the Spillers family business dates back to the 1930's when A C Mole himself advised RG. In recent years we have acted as auditors and advised on tax and strategic planning. We are currently assisting in the redesign of parts of the Sage accounting system to ensure that information management is as automated as possible and that timely and accurate information is presented in a format that is tailored to the specific needs of the business. In such a dynamic, rapidly expanding and multifaceted business the need for accurate and timely management information is paramount.

Getting IT right

Many businesses use computer software to maintain accounting records and to produce management information, but off the shelf software sometimes often only does part of the job and has to be tailored to meet specific needs. We have experience of a wide range of software including Sage, Access, QuickBooks and Quicken. We don't see accounting software as a magic wand, but simply a means of recording, analysing and presenting information. The important thing is to use it to store and present information in a way that actually assists in running the business, for example by showing the profitability of different departments or products or by using current information to predict future cash flows. If you currently have a manual accounting system and are looking to computerise, if you use software but feel that you would benefit from more training or if you want to produce reports tailored to your specific needs, we can help.

A.C.MOLE & SONS
CHARTERED ACCOUNTANTS
CHARTERED TAX ADVISERS

Taunton Office:
Stafford House, Blackbrook Park Ave, Taunton, Somerset TA1 2PX
T. 01823 624450 F. 01823 444533

Bridgwater Office:
Riverside House, Riverside, Business Park, Wylds Road, Bridgwater, Somerset TA6 4BH
T. 01278 446088 F. 01278 450027

E. info@acmole.co.uk www.acmole.co.uk