

RISE

NEWSLETTER



A new dawn

How to thrive during the economic recovery

COMPULSORY PENSIONS INTRODUCED



CHANGES TO CHILD CARE VOUCHERS SCHEME



PREPARING FOR THE VAT CHANGE



A GOOD TIME TO SELL A BUSINESS?



Partner viewpoint

WELCOME to the winter edition of the Rise newsletter, which brings an end to a historic 125th anniversary year at Mitchell Charlesworth.

A fantastic night was had by all at the Noble House restaurant and bar in Liverpool in October as we welcomed over 250 people to a night of celebration.

Our 126th year kicks off with a change in VAT as the standard rate rises to 20 per cent with Colin Corder taking a more in-depth look at what impact it has on businesses later in the issue.

Another big change is also occurring in the pension sector, this time in 2012, when

compulsory pensions need to be introduced by all UK firms, regardless of size. This was originally penned by the previous government but the coalition Government has pressed ahead with the plans.

Talking of the coalition Government, one of the biggest talking points of the past few months has been Chancellor George Osborne's comprehensive spending review.

Tackling the budget deficit was unavoidable and some tough decisions had to be made. The public sector took the brunt of the cuts, which were the biggest since the Second World War.

That said, there was also little in the announcement to relieve private sector

businesses and individuals of the current uncertainties in the economy but it is clear that the private sector is more important than ever to stimulate growth.

If 2010 has been the year of stabilisation, businesses need to be positive in 2011 to make steps forward.

We hope you enjoy this edition of Rise.

Paul Booth - partner



PAUL BOOTH

Private pensions to become compulsory

THE Government is pressing ahead plans to enforce all UK firms, regardless of size, to automatically enrol its staff into a pension scheme from 2012.

Businesses will need to pay in a minimum of one per cent of every worker's salary into a pension, rising to three per cent by 2017. Workers will have to pay in a portion of their salary, phased in over five years, starting at one per cent of pay and rising to four per cent by 2017.

Large businesses will be obliged to enrol staff in a pension scheme automatically by October, 2012, medium firms (50 to 1,249 employees) by July, 2014 and small firms (fewer than 50 employees) by February, 2016. Firms that are formed after 2012 will not have to comply until September, 2016.

Every employer, large and small, will have to participate, although not the self-employed. It will mean that hundreds of thousands of small firms that currently do not offer or pay into a pension scheme will have to begin making payments. Many are expected to opt to use a new government-run pension scheme, called 'NEST' (National Employment Savings Trust), which promises low costs and charges.

NEST has been set up specifically to make the system straightforward for smaller employers.

It offers support to comply with the regulations, online tools and guidance, and ensures there is no continuing administration for them after the employee leaves. It also aims to fill the gap of available pension products for firms with only a few employees.

It is expected that NEST will grow to become one of the biggest pension funds in the country. NEST officials project that it will grow to between £50bn-£100bn in size within 30 years.

Workers will not have to pay in from their first day of employment. Instead there will be a three month waiting period before an employee is automatically enrolled, unless they ask to join earlier.

Employers who fail to make payments on behalf of their workers will face sanctions from the Pensions Regulator, which will have the power to fine reluctant companies.

Employees will still have the right to opt out of the pension arrangements, but officials believe



that auto-enrolment will mean that many more will start saving than at present.

From our detailed knowledge of client's affairs we can guide businesses through the pensions maze so please don't hesitate to contact us for further advice.

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Insurance premium tax rise

IN June's 'Emergency Budget' the Government announced increases to Insurance Premium Tax (IPT) from January 4, 2011. The standard rate of IPT will increase from 5 per cent to 6 per cent and the higher rate, which applies to travel insurance, some insurance for vehicles and electrical and domestic appliances, will increase from 17.5 per cent to 20 per cent. So, unless you are buying reinsurance, insurance for commercial ships and aircraft or insurance for commercial goods in international transit located outside the U.K, which are exempt, you will see this increase reflected in the amount you pay to renew your insurance after January 4, 2011.

IPT was introduced in 1994 at a flat rate of 2.5 per cent. It was increased on general insurance products to 4 per cent in 1997 and 5 per cent two years later. In 1997 a second higher band of 17.5 per cent was added to cover travel, motor and electronic policies.

IPT is a transaction tax on insurance contracts and the cost of the tax is passed onto policyholders, usually as a separately identified amount.

The UK still has one of the lowest insurance premium tax rates in the EU and this increase is the first rise in the UK for 11 years. This in itself may create a problem for insurers who may have a lack of experience in dealing with the technicalities of the change.

This problem will be exacerbated by the fact that while in 1999 the rate change was introduced with a transitional regime that made it easier for the industry to implement the change, the Government has not introduced similar transitional arrangements for next year's change.

The decision by the Government not to introduce a concessionary period has therefore caused both the practical difficulties and a

potential financial cost to the industry.

The industry will need to prepare for the rate change and ensure systems and processes can cope with the new rates and the correct tax points for all lines of business written and the different distribution methods of the policies.

Achieving tax compliance with the transition to the new rate will be important to insurers as HMRC can penalise errors on insurance premium tax reporting at up to 30 per cent of the amount of tax due.

If you require further advice on your business insurance arrangements please contact us.

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Changes to child care vouchers scheme

FROM April 6, 2011 there will be major changes to employer supported childcare schemes that will affect employers and some employees.

Currently these schemes operate by employees taking a salary sacrifice to the value of issued childcare vouchers. These vouchers are then used to pay for qualifying childcare. The value of the vouchers is exempt from tax and National Insurance provided qualifying conditions are met.

Childcare vouchers are currently tax and National Insurance exempt up to £243 a month for everyone. However the government has announced that from April 6, 2011 higher and additional rate taxpayers who join a scheme after April 6, 2011 will only receive

basic rate tax relief. This will be done by restricting the amount of vouchers that higher rate and additional rate tax payers will receive. Employees who are currently in a scheme or who join a scheme before April 6, 2011 will not be affected.

Where the new rules apply i.e. new starters to a scheme, the employer is required to estimate an employees 'basic employment earnings' to determine the amount of exempt income (in the form of childcare vouchers) that the employee can receive.

This estimate will need to be done when an employee starts a scheme and at the beginning of each tax year.

Childcare vouchers - Basic rate tax relief amounts from April 6 2011

	Basic rate*	Higher rate	Additional rate
Weekly	£55	£28	£22
Monthly	£243	£124	£97
Annually	£2915	£1484	£1166

*Employees who are existing scheme members or who join before April 6, 2011 whether they are higher or additional rate tax payers will continue to receive the full benefit.

Please contact us for further advice.

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Preparing for the VAT rate change

ON January 4 2011, the standard rate of VAT will be rising to 20 per cent and the increase will have a direct impact on each business sector.

Colin Corder, VAT manager at Mitchell Charlesworth explains: "It is imperative for businesses to plan early for the VAT rise. It will arguably have the biggest impact on retailers but will have an affect on every single business.

"It is important for businesses to carefully asses pre-and post-Christmas periods. There may be a rush of customers looking to buy before the increase, leading to an artificial spike. This could however present an opportunity to introduce early 'pre-VAT' rise promotions."

Knowing the correct 'time of supply' is important to implement the correct rate. Invoices issued on or after January 4 must use the 20 per cent rate however if the customer pays on or after that date for something they use before this date, the 17.5 per cent rate can be used. If the business starts work on a job before January 4 but finishes afterwards, the work up until that date can be charged at 17.5 per cent and the remaining work charged at the higher rate.

In the New Year businesses which cannot recover VAT need to ensure that they keep an eye on invoices received from their suppliers. Many will charge 20 per cent VAT when it relates to supplies made in 2010 which could be chargeable at 17.5 per cent.

Colin continues: "Businesses can either absorb the VAT rise or pass it on to the customer. Likewise, suppliers can do the same so it is important to plan the budget accordingly. It doesn't matter how significant the increase is to the business, it is important to make the customers aware as early as possible. If you need guidance on implementing the change, please contact us"

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New financial reporting standard in draft

A DRAFT of a new financial reporting standard for mid-sized entities has recently been issued for consultation by the UK Accounting Standards Board (ASB) after six years of development.

The consultation period is open until April 30, 2011 and if approved will become effective for accounting periods commencing on or after July 1, 2013.

The issue of the Financial Reporting Standard for Mid-Sized Entities (FRSME) will result in a three-tier financial reporting system in the UK and Republic of Ireland.

The FRSME is intended to apply to those entities that are not 'publicly accountable' i.e. do not have debt or equity traded in a public market, and do not qualify to prepare

accounts under the Financial Reporting Standard for Smaller Entities.

The standard which documents accounting rules and disclosures and which is based on the IASB's International Financial Reporting Standard for Small and Medium Entities (IFRS for SMEs), runs to approximately 400 pages, one fifth of the length of current UK accounting standards.

All current Financial Reporting Standards (FRSs), Urgent Issues Task Force Abstracts (UITFs) and Statements of Standard Accounting Practice (SSAPs) will be withdrawn from the effective date.

Early estimates are that businesses will have to bear an estimated cost of £80 million including software, training and professional

advice, although subsidiaries of listed companies are expected to benefit from significantly reduced disclosure requirements.

Whilst the document has only been issued in draft at this stage, planning for the change will be critical in ensuring compliance and if you require any guidance please do not hesitate in contacting us.

Contact:

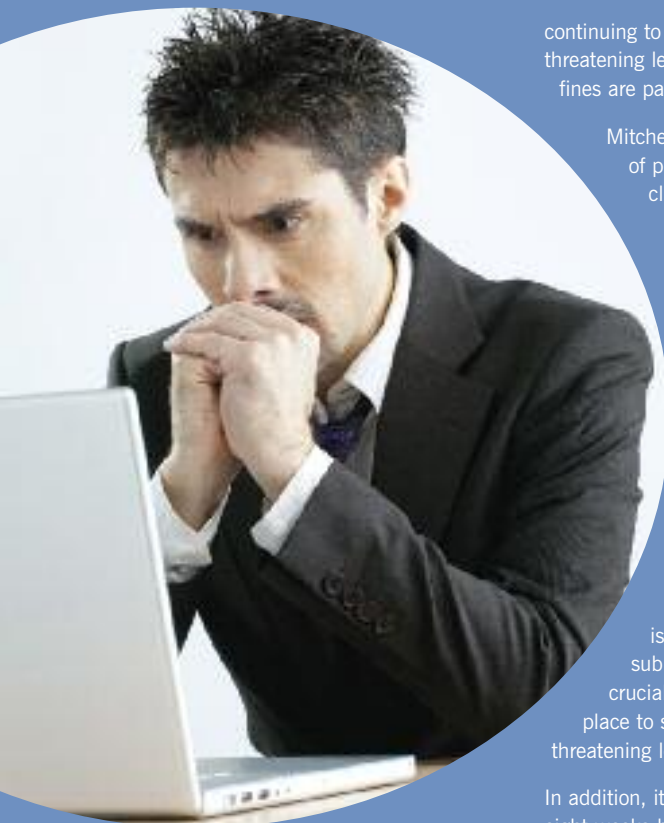
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**Or any one of our offices today.
See back page for details.**

HMRC computer error could cost businesses thousands



continuing to contact these employers threatening legal proceedings unless the unfair fines are paid.

Mitchell Charlesworth has seen a flood of penalty notifications sent to its clients with regard to non-submission of P35 Employee Annual Return forms. However, these same clients have already logged NIL returns with the HMRC website.

Even though HMRC is recognising receipt of the submissions with confirmation emails, it is clear that the NIL return submissions are not being recorded.

HMRC has acknowledged there is a problem with the NIL returns submission link on the website but crucially has not put a procedure in place to stop contacting businesses and threatening legal action.

In addition, it is also understood that HMRC is eight weeks behind in processing mail, resulting in appeals against the penalties not receiving prompt attention.

Joanne Nieman, payroll manager at Mitchell Charlesworth, commented: "We are seeing a substantial increase in businesses contacting us that have received unfair penalty notifications.

"HMRC is demanding the businesses pay unfair fines, even threatening legal action if the fines remain unpaid. In these tough economic times, when businesses are struggling, they could be unfairly punished because of errors from HMRC. Mitchell Charlesworth is in regular communication with HMRC on this matter and can work to eradicate any inconsistencies between the two parties'."

Almost all employers are legally required to complete and return the Employee Annual Return forms online with the deadline for the 2009-10 tax year finishing on 19, May 2010. It is only now, over six months later, that HMRC is contacting businesses advising of non-submission and demanding payment of penalties.

Businesses must complete an Employer Annual Return if it has maintained a Deductions Working Sheet for any employee during the tax year. This applies even if the employer didn't have to make any deductions of PAYE tax or National Insurance Contributions for any employees during that year.

If you have been contacted by HMRC or feel this affects you, please get in touch and we can assist.

HM Revenue & Customs is contacting businesses incorrectly demanding thousands of pounds in penalty notifications because of an error in its computer recording system.

The non-ministerial Government department, responsible for the collection of taxes, is

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Thriving Payroll department expands

MITCHELL CHARLESWORTH has moved its payroll services department to Widnes after seeing an increase in local businesses requiring payroll advice.

The company has been providing a complete computerised payroll bureau for over 30 years, and its team of nine are now based at the firm's new office at Glebe Business Park.

The payroll team was previously split between the former Albert Road site and Mitchell Charlesworth's Liverpool office, but due to the increase of payroll advice required by local

businesses, the decision was made to group the team and strengthen the existing service. The team is managed by Joanne Nieman who has worked for Mitchell Charlesworth for 19 years.

Ken Davies, director of payroll said: "This relocation was a strategic move to ensure the firm can continue to meet the increased demand for our knowledge and expertise. We offer a wide-ranging and flexible service which clients can tailor to suit their needs to ensure HMRC always has the information it

needs and that employees are paid correctly and on time."

In the majority of cases it is more cost effective for businesses to outsource payroll operations to Mitchell Charlesworth so for a free, no obligation quote, please contact us.

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Is it a good time to sell a business?

SO, it's Christmas, the season of goodwill to all men (and women). Well not if you want to sell your business it isn't, (and by that I mean if you expect to realise full and fair value). There are basically three key features of the present climate for the sale of businesses:

- 1 If you are trying to divest of a 'me too' business, i.e. it is little different to any other business operating in the same sector, (unless there are key features that would be attractive to specific buyers) then in the present climate it might be difficult to attract serious interest and certainly not at full value. (But of course there are always bargain hunters).
- 2 For the purchaser the availability of acquisition debt funding from the banks shows little sign of improving. Certainly Venture Capital (VC) is available for the profitable niche business with significant growth prospects; indeed they are actively seeking good opportunities. (Importantly VC funding often opens the door to bank debt). But as always many businesses are too small to attract VC funding.
- 3 The lack of funding often results in purchasers seeking to defer a considerable amount of the consideration. Say a

business is sold for £1.5m; this might be £1m on completion of the deal and £500k payable over the next two or three years. This is in effect an unsecured loan to the purchaser who is using future profits to pay the deferred consideration. It is an act of faith by the sellers. (If the business does not generate the expected profits then it will not have the cash to pay you).

So, what can we do? For the owners who can wait the answer is to try and make the business more attractive and therefore more valuable. This requires a complete review of all the activities and the available opportunities. In effect a 'grooming for sale' exercise, albeit this may still be some years away. For those owners who cannot or do not wish to wait then the answer is much more difficult. If you cannot attract interest at an acceptable price and deal structure then you still have a business to run. We do not pretend that is an easy option particularly if it is a business in an 'unwanted' sector, for example construction. But in reality the only option is to try and keep what you have got and above all 'manage the business for cash'.



The sale of any business needs long term planning. Ideally we need to have a discussion with business owners at least twelve months in advance of marketing a business for sale. Importantly this enables us to consider and present all alternative options. Often we need the time to 'groom a business for sale'. Furthermore (and contrary to common belief), the valuation of any business is not just a numbers game. Maximising the value comes from the key features that are attractive to potential buyers not just the numbers in the accounts.

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Changes to iXBRL requirements

FROM April 1, 2011, the electronic submission of company tax returns for accounting periods ending after March 31, 2010 becomes mandatory.

The submission consisting of the corporation tax return, computations and statutory accounts must be made in iXBRL (in-line eXtensible Business Reporting Language), a computer readable language designed in a standard format.

iXBRL uses tags (separate pieces of information) rather like bar codes that are taken from a set list published by HMRC. The aim is to improve communications and allows the data to be read, processed and analysed at improved speeds.

The software we use to prepare corporation tax computations and returns has already been updated to cope with the change. We are

working with the supplier of our accounts production software to ensure that this will be available and implemented before the effective date. Additionally we will be acquiring 'tagging' software that will enable accounts prepared using word processing or spreadsheet software to be manually tagged for submission.

HMRC has made it clear that it doesn't want to penalise those who have made a genuine effort to comply with the requirements, and has introduced a 'soft landing' of two years on penalties. It has also been announced that smaller charities will not have to comply with the requirements for the first two years.

We would recommend that where possible, accounts should be finalised and submitted before March 31, 2011 which will give a year's grace before needing to comply with the requirements.

Less well publicised is the need for the settlement of corporation tax liabilities electronically from this date. For those that do not have the ability to make electronic payments via the internet, payment can be made by Bank Giro by taking a cheque to your bank's local branch, or by making payment at the Post Office.

If you have any concerns you should contact me or the partner responsible for your affairs.

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Or any one of our offices today.
See back page for details.

Meeting the challenges in 2011

JEREMY Oddie, head of Corporate Recovery & Insolvency at Mitchell Charlesworth, outlines the main threats facing businesses in the year ahead and explains how to overcome them.

The recession may be officially over, but the going remains tough for businesses. Although the downturn has not resulted in the number of company failures we might have expected, there are still many challenges facing us as we move into 2011.

In a recent survey by R3, the insolvency trade body, insolvency practitioners predicted that the three biggest threats to business in the year ahead would be

- 🔥 tougher attitude by the Revenue on late tax payments
- 🔥 public sector spending cuts
- 🔥 rising interest rates

So far the Revenue has taken a 'softly softly' stance on late payment. In the North West alone over 40,000 struggling businesses have been allowed to defer tax bills totaling over £600 million under the 'time to pay' scheme. However this concession has to come to an end at some point and the indications are the Revenue is already "tightening up".

Public sector cuts are another major challenge. Previous R3 research found that 35 per cent of small businesses in the North are reliant on public sector contracts so the cuts are likely to have a significant impact.

Businesses reliant on public sector work should attempt to diversify.

A rise in interest rates was considered the third biggest threat. Historically low interest rates have created more favourable conditions for business but when rates do begin to rise, the cost of servicing debt will grow. Meanwhile, the forthcoming rise in VAT will only add to the pain.

So what can firms do to help meet these challenges? Here are ten key ways to help ensure business survival in the year ahead:

Do not "max out" the business overdraft each month; make sure you have sufficient capital reserves to take advantage of opportunities.

Do produce a business plan with forecasts ensuring that actual performance is monitored against these.

Do pay accounts on time (not on receipt of writs) and benefit from discounts. Late payment of bills sends out clear signs to suppliers who will eventually grow weary and may refuse to supply. If you are not able to pay, seek an extension.

Do impose strict credit control and debt collection procedures – guard against the 'domino effect'. Insolvency practitioners estimate that 27 per cent of corporate insolvencies are triggered by another company's failure.

Do stay up to date with all Crown payments. If you have cash flow problems ask for a 'Time to Pay' arrangement from the Revenue, however this must only be viewed as a short-term fix.

Do not hold a large amount of stock - see if you can arrange 'just in time' supplies with your key suppliers.

Do ensure your accounting system is fit for purpose and produces information you need on a timely basis.

Do not put off seeking professional help – the sooner a business in difficulty seeks professional advice the greater their long-term chance of survival.

Do not put personal assets at risk.

Do review your business for underutilised assets and unnecessary costs – assets should be made to sweat and surplus assets should be sold to generate cash. Cost savings will enhance cash flow.

Jeremy Oddie, is also a regional chairman for the insolvency trade body R3.
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Accountants celebrate 125 years in business

MITCHELL Charlesworth hosted an evening of celebration as it commemorated its 125th year anniversary.

The Noble House restaurant and bar in Liverpool was the location on October 20 where Mitchell Charlesworth welcomed over 250 people to the celebratory event.

Merseyside artist Keith Francis Smith donated a striking painting of Albert Dock which raised

funds for Zoë's Place Baby Hospice.

Clive Plummer, chairman at Mitchell Charlesworth, commented: "We are delighted to celebrate this landmark anniversary as we continue to provide thorough and structured financial, taxation and business advice to both individuals and companies across the North West and the rest of the UK."

Congratulations!

MITCHELL Charlesworth has made a number of key employee promotions within the company as the following people take up their new roles in the business:

Mike Buxton, audit manager - Liverpool
Adam McGowan, audit manager – Liverpool
Paul Palmer, associate – Manchester
Nick Ince, audit manager - Warrington
Ken Davies, director of payroll - Widnes

Clive Plummer, chairman at Mitchell Charlesworth, said: "I would like to congratulate the team on behalf of the partnership.

"While we still face challenging economic conditions, we have taken the opportunity to recognise and promote individuals, which is an important part of career progression at Mitchell Charlesworth."

Mitchell Charlesworth expert appointed chairman of R3

JEREMY Oddie, head of Corporate Recovery and Insolvency has been appointed as regional chairman of the insolvency trade body R3. R3 is the Association of Business Recovery Professionals and is the leading professional association for insolvency, business recovery and turnaround specialists in the UK.

R3 promotes best practice for professionals working with financially troubled individuals and businesses. The association has representation around the UK and provides a forum for debate on key issues facing the profession.

As chairman, Jeremy will lead initiatives to raise awareness regionally of the benefits of taking advice from suitably qualified and experienced experts at the first sign of financial trouble.



Specialists tackle challenges facing housing sector at Liverpool seminar

THE region's leading social housing experts tackled the wide-ranging challenges currently facing housing associations at a conference staged in Liverpool.

More than 100 delegates from local authorities and housing associations from across the region attended the conference, 'Changing Times', held at the BT Convention Centre, Liverpool on Friday, 5 November.

The conference was hosted by Mitchell Charlesworth together with leading North West law firm, Brabners Chaffe Street LLP. Proceeds from the event were donated to the charity Homeless International.

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