PM+M

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ISSUE 9

INVESTORS IN PEOPLE | Gold

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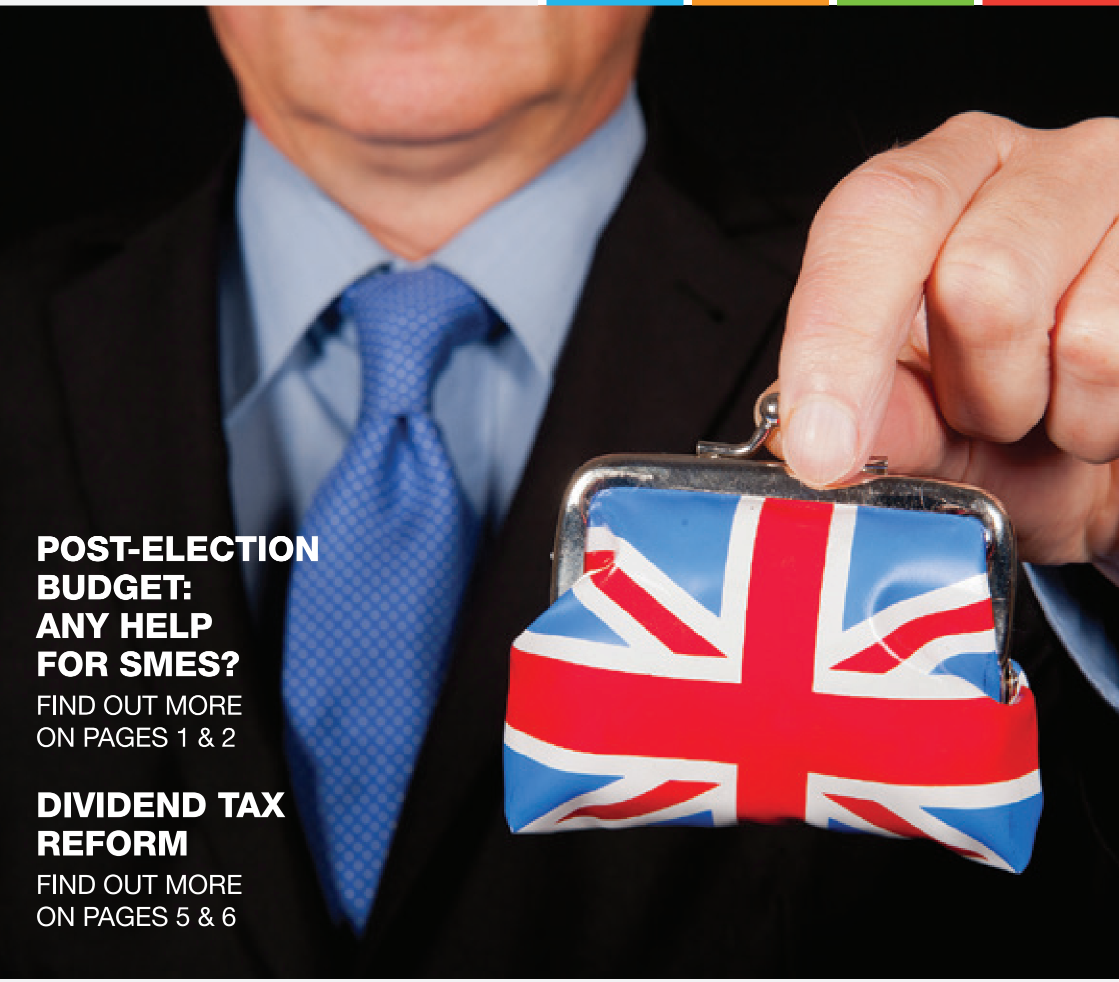

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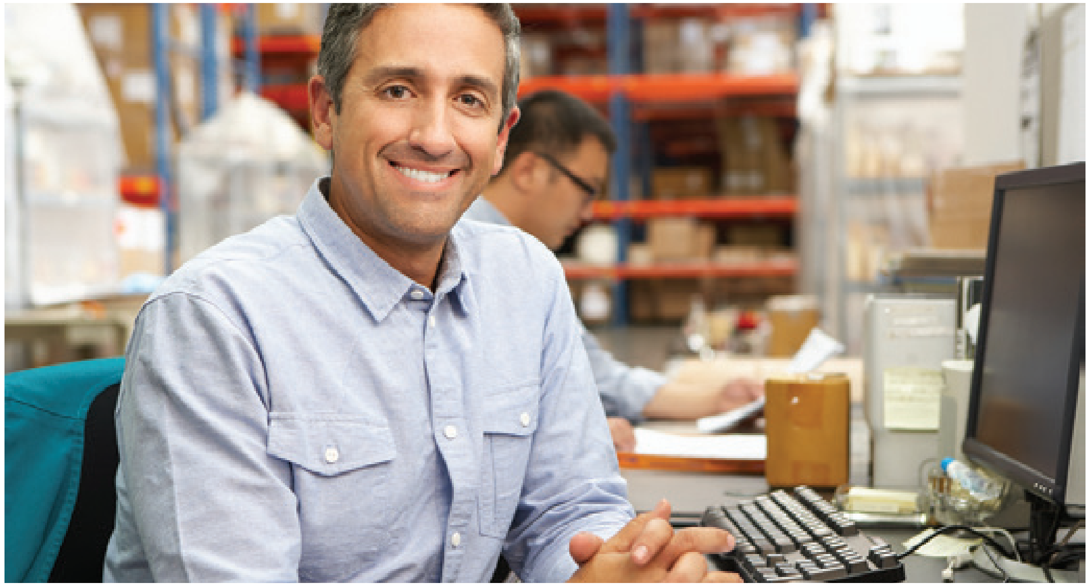
POST-ELECTION BUDGET: ANY HELP FOR SMEs?



This year we have seen two budgets being held due to a General Election taking place. The election result led to a single controlling party in government, leading to a Post-Election budget that included solely Conservative measures.

There have been many articles written and commentaries delivered on how it will impact on individuals and businesses. However, here we take a brief look at some of the key changes this budget will have on SMEs and their owners.

For limited companies the corporation tax rates will reduce from 20% down to 19% and then 18% over the next five years. Although this is not a major reduction, retaining more profit within the company is clearly a positive step. The first thought for many business owners will be to increase the level of dividends paid by the company. However, a change to the basis of how dividends are to be taxed means that an element of planning should be undertaken.

The Dividend Tax Credit will be abolished from April 2016. A new Dividend Tax Allowance of £5,000 will be introduced from this date. The new rates of tax on dividend income will mean that the overall tax rates will be higher than current rates, but for many taking dividends as a part of their income, this will still remain more tax efficient than salaries and / or bonuses. For a more detailed overview of the dividend tax reform see page 5.

As of April 2016, there will be a new minimum wage of £7.20 per hour compared to the current rate of £6.50 per hour for over-21s. The aim is to increase this to £9 per hour by 2020 for employees over 25. The office for Budget Responsibility believe that this increase will only have a fractional impact on employment. However, many SMEs, particularly those with a high level of employees being paid the minimum wage, will have to carefully consider the full impact of these increases.

With an economy that continues to recover and strengthen, extracting additional income from your business may not be the best plan. Investing in the business could enable greater future benefits to be obtained. The Annual Investment Allowance (AIA) will become permanent at £200,000 for qualifying investment in plant and machinery purchased on or after 1 January 2016. This is at a time when the availability of finance for businesses is increasing. In addition the indication by The Governor of The Bank of England is that the base rate may rise in early 2016 leading to a rise in the cost of finance. Bringing forward future investment plans to early 2016 may allow businesses to benefit from both the increasing AIA and lower borrowing rates.

Other amendments including an increase in the Employment Allowance from £2,000 to £3,000 from April 2016 are helpful but will not have a dramatic impact on most businesses.

What the budget has done is to provide a set of parameters allowing business owners to be confident that certain measures are not going to change after just 12 months. This allows long term planning to be undertaken which is essential if the current economic recovery is going to continue.

SMEs have been a major contributor to the recovery and this will continue, but they must ensure that any potential short term gains are not at the expense of future opportunities.

OUR NEW BURNLEY OFFICE

Last year, we talked about our vision of what PM+M would look like in 4-5 years' time and those ambitions have not changed.

We are delighted to announce that our Burnley office will shortly be expanding and moving to larger premises. The move will take place in October and exact details will be announced shortly. In the meantime, we can confirm that our office will be located in King Edward House on Finsley Gate.

Jane Parry, Managing Partner, commented: "Burnley is a great place to do business and we are committed to retaining and growing our presence there, working with local businesses and their owners. The new office, which will be led by Helen Binns, is an exciting development. We look forward to welcoming clients and contacts to visit our new offices once we have moved in."

POTENTIAL PITFALLS WHEN SELLING YOUR BUSINESS

For many business owners, selling something they have put so much hard work into nurturing and growing can be emotionally difficult. Unless you have sold a business before, you are unlikely to know what to expect or where to start.

The best chance of a successful disposal is where the business owners understand the importance of remaining focussed on the day to day operations. When planning to sell, the target is normally to maximise the value of the business. However, achieving this may require some planning and changes within the business. These will take time to implement and sometimes it is necessary to take the decision to delay a sale, allowing changes to take effect. However, even with adequate planning there are often issues to be overcome.

Here are some common errors owners make when putting their business on the market:

Going Solo > One of the biggest mistakes business owners make is trying to do everything themselves. Very few owners have the time or the experience to handle the work that goes into a successful transaction. Pulling together an experienced team of advisers should be the first thing you do when deciding to sell.

Misguided Expectations > Sellers often have unrealistic expectations. Many owners believe their company is worth more than its actual market value and they will find a buyer immediately. It's important to be realistic about value and timeframes so that you're not left disappointed.

To avoid potential disappointment it is essential that your company is valued by an experienced third party with an objective view of the business. Having an accurate valuation can really help when setting your expectations.

Getting the Timing Wrong > While a strengthening economy is helpful, it does not necessarily mean that every industry is seeing growth. Even if the market is looking good, the business may be in a stronger position for a sale at some point in the future.

Put yourself in the buyer's shoes and consider what elements of the business are of importance to them. These may include strong trading figures and a healthy order book, or accurate and robust management information systems. Time spent ensuring the key elements can be demonstrated and delivered is time well spent.

Not Spending Enough Time Preparing > Selling your business takes time and the preparation should never be rushed. At a minimum, you should begin your preparation six months to a year before you intend to market your business. Ideally the longer you spend preparing the better positioned the business should be.

You can never be sure that you will achieve all of your objectives when selling your company so having a sensible exit strategy that has been carefully planned will result in a much smoother disposal process.

If you are thinking about selling your business or wondering where to start, the PM+M Corporate Finance team can help you develop a clear strategy and provide expert advice on the way to achieving your goals. Contact Tim Mills on 01254 679131 or email tim.mills@pmm.co.uk.

EXPORTING FOR EXPANSION

Trading overseas is not an exclusive market. In the current economy there are potential opportunities for many businesses. Exporting your goods or services is an excellent way of expanding your business. However, trading overseas can be a daunting prospect, especially if it is your first experience of international trade.

Know your offering > Think about your products and services and how exporting will benefit you. You might have a strong British brand or a new or innovative product, but you must consider the international market you are entering. You may need to adapt your offering to be successful in a foreign market.

Seek support > There are many types of organisations that support businesses considering export, such as UKTI, UK Export Finance and The British Chambers of Commerce. Furthermore, there are other things you can be doing, for example:

- Discuss your plans with us, your bank and your solicitor. Having as much expert knowledge as possible to break down the barriers to entry can be the difference between success and failure.
- Attend seminars or request a visit to the country to gain as much knowledge as possible. Understanding foreign business etiquette and culture can be vital when securing any deals once your route to market has been identified.

Market selection and research > Market selection is very important. Select a market that has a clear demand for your product or service. Having identified your target market familiarise yourself with any foreign competitors as they may have the advantage of local presence.

It is important to differentiate your product or service for the foreign market you plan to enter.

Prepare your plan or strategy > Your strategy to begin exporting should run alongside your existing UK business plan. It should be realistic and you should not expect rapid growth in an oversea market in the short term. A number of factors could potentially hold your business back, including language barriers, terms of trade or even local customs. Do not attempt to enter multiple markets at once, focus on one. There can be many complications when entering a foreign market.

Determining your route to market can be one of the most important decisions you will make when setting up your business to export. You should consider all options and whilst setting up a branch, subsidiary or even a joint venture arrangement does require greater investment, it could be the best trading vehicle to enter a new market. Alternatively, low-cost routes such as the use of agents, distributors, or e-commerce could still be very successful if it is more suited to your business and a detailed strategy is followed.

Don't forget your business goals > Sometimes business owners are so excited at the prospect of international growth they forget the bigger picture. Areas such as managing currency risks, ensuring payments are made, understanding foreign legislation, tax implications and understanding all the documentation are often overlooked. Whilst this is a very exciting step for a business to take, having a clear strategy and sticking to it is important to success in a foreign market.

TAX REFORM

The Chancellor's Summer Budget contained many more tax changes than were expected. Two of the most significant are reform of the tax treatment of dividends and introduction of the £1m inheritance tax exemption for couples.

Dividend changes

For some time dividends have been the most tax efficient way to extract income from an owner managed company, resulting in a lower tax bill than an equivalent salary.

The Chancellor has long wanted to do something about this, but has been wary of upsetting the UK's attractiveness to investors and, in particular, smaller investors, who perhaps rely on modest levels of dividend income to supplement retirement income.

The changes he announced in his Budget on 8 July seem to be a clever way to steer a middle course between these objectives.

At present, dividends carry a notional 10% tax credit which results in effective personal tax rates on dividends of:

Basic rate tax payer	nil
Higher rate tax payer	25%
Additional rate tax payer	30.6%

With effect from 6 April 2016 that will all change. The tax credit will be abolished and replaced by a fixed £5,000 tax exemption for dividends. For individuals with a small to medium sized investment portfolio, that may well be good news as their dividends should now be tax free, regardless of other income levels.

For company owners who extract their income as dividends, the news isn't as good.

From April 2016, the effective rates of personal tax on dividends over and above the first £5,000 will be:

Basic rate tax payer	7.5%
Higher rate tax payer	32.5%
Additional rate tax payer	38.1%

The effect will be to increase tax bills for company owners, but in almost all cases, it will still be more beneficial to extract profits from companies in the form of dividends rather than salaries or bonuses.

Here are some examples comparing the current tax position on income extraction via small salary plus dividends with the new position after April 2016:

Impact of the new dividend tax rules

	Basic Rate		Higher Rate		Additional Rate	
	Current Position	New rules 6 Apr 16	Current Position	New rules 6 Apr 16	Current Position	New rules 6 Apr 16
	£	£	£	£	£	£
Salary	11,000	11,000	11,000	11,000	11,000	11,000
Dividend	28,800	28,800	80,100	80,100	170,100	170,100
Income	39,800	39,800	91,100	91,100	181,100	181,100
Tax Liability	nil	1,785	12,825	17,658	42,500	53,599

The key points to bear in mind are:

- Nothing will change in the 2015/16 tax year;
- Dividends will almost always be the most tax efficient option going forward;
- The cash flow effect of the additional tax payments needs to be budgeted for;
- In some cases it might be attractive to accelerate dividends and pay them before 6 April 2016 but individual calculations will be needed to ascertain the exact impact;
- The tax benefits from incorporation of a sole trader or partnership may no longer be as attractive.

Inheritance tax – the £1m allowance

This was the Chancellor's big election crowd pleaser.

The inheritance tax nil rate band has been frozen at £325,000 since 2009 and is set to stay at that level until 2021. This, combined with house price increases, has led to significant fiscal creep.

In 2010 only 2.6% of estates suffered inheritance tax. In 2014/15 the figure was 6.5%, which raised around £3.8bn of tax. Without these changes, the figures are set to rise to 11.6% by 2019, netting an estimated £6.4bn of tax.

So a £1m inheritance tax exemption for couples sounds a great idea. However, it's not quite that simple.

Firstly, it doesn't start to take effect until April 2017 and it will be phased in over 4 years from that point.

Each individual will retain their £325,000 nil rate band. In addition they will gain a new "main residence nil rate band". This will start at £100,000 each in 2017 and increase to £175,000 each by 2020.

Thus a couple could have a nil rate band of £325,000 each plus a main residence nil rate band of £175,000 each – adding up to £1m in total.

Not all of the details of the new exemption are available yet – some are still under consultation.

The key points so far are:

- It relates to a main residence;
- If you have more than one home, your personal representatives can elect which one it applies to, providing that property has been your capital gains principal private residence at some point;
- It only applies if you are passing the property to direct lineal descendants – i.e. children or grandchildren. Nephews, nieces or other relatives do not qualify;
- It applies to the net value after deducting mortgage liabilities, so equity release schemes may diminish in attractiveness;
- If your estate is worth more than £2m, the relief starts to taper away until it disappears altogether by the time your estate is valued at £2.35m or more;
- Unused allowances from the first death can transfer to the surviving spouse;
- Downsizing provisions will be introduced to cover the situation where the house has been sold but assets to that value still remain in the estate – exact details yet to be determined.

In summary, this could be good news for some families but others may miss out. Individual advice will be needed. We will be keeping a close eye on developments over the next few months.

For advice on how these and other Budget measures may affect you, contact the tax team at tax@pmm.co.uk or call 01254 679131.

WEALTH MANAGEMENT

THINK YOU DON'T NEED A PENSION?

Here are ten reasons why everyone should be building up a pension nest egg.

Retirement > The basic State Pension is only £115.95 per week and unless you can live off this modest amount, you need to start saving now.

Extra on your pension premiums! > Every time you make a personal pension contribution so does the tax man. For example, if put £80 in your pot, the tax man also adds £20. If you are a higher rate tax payer you can claim a further £20.

Tax free cash > You can take up to 25% of your pension fund as a tax free lump sum when you retire.

Income > You no longer have to buy an annuity (income for life). The new pension freedoms mean you can choose how much or how little you want take out of your pension and when.

Recover your allowances > Making pension contributions reduces your income and can return part or all of your personal allowance or child benefit.

Expand your business using your pension fund > You can buy commercial property to rent back to your business, or lend money from your pension fund to your business.

Magic of compound growth! > Save £100 per month for thirty years and with an average growth of 6% you should have a fund of £234,526 at retirement.

Exchange your salary for pension premiums > Using the salary exchange you can save National Insurance as well as tax, which will further boost your pension premiums.

No Inheritance Tax > Any funds held in a pension fund do not form part of your estate for inheritance purposes and funds may be passed to your loved ones tax free.

Tax > Investments grow tax free within a pension wrapper*.

*A pension wrapper is a self-invested personal pension that holds investments until you retire and start to draw a retirement income. It is a type of personal pension and works in a similar way to a standard personal pension.

For further information on effective pension and retirement planning, please contact Antony Keen at antony.keen@pmm.co.uk or call 01254 679131.

PAYROLL

THE NEW TAX FREE CHILD CARE SCHEME LAUNCHES THIS AUTUMN 2015

Are you a working parent, earning over £50 per week and no more than £150,000 per year?

That's most of us then...

From autumn 2015 nearly 2 million households will be eligible for help with the cost of childcare. For every 80p you pay in, the government will give you an extra 20p. This is equivalent to the tax most people pay which is where the scheme derives the name - "Tax free".

The new scheme will replace the current employer supported childcare scheme from autumn 2015, although if you are already in this then there is no obligation to transfer to the new scheme. Once the new scheme is in place, parents will not be able to register for the employer supported scheme.

How the new scheme will work

Individuals will be required to open an online account via the government website. You can then pay into this account to cover the cost of childcare with a registered provider. The amount you pay in will then be topped up by the government (with 20%), up to a total cost of £10,000 which will give you the equivalent of £2,000 per child, per year.

HMRC anticipate a single log-in service where parents can view the accounts for all of their children at once.

The new scheme does not rely on employers offering the scheme and therefore is more flexible for the working family. This scheme will also be available for the self-employed.

An extra benefit of the new scheme is that it allows you to pay more in some months and less in others, offering you more flexibility and allowing you to build a balance up in the account to use at times when you may require more childcare than normal, i.e. over holiday periods.

Also, if grandparents, other family members or employers want to pay into the account then they can, again making this new scheme as flexible as possible.

If you decide you no longer need the account and choose to withdraw your funds then the government will also withdraw their corresponding contribution.

COFFEE AND CAKE WITH JANE, STEPHEN AND DAVID…

Following the recent announcement, Stephen Anderson (managing partner since 2005) has stepped down from the role of managing partner and is retiring in April 2016. He has been succeeded by Jane Parry. We sat down with Jane Parry (Managing Partner & Head of Tax), Stephen Anderson (Corporate Services Partner) and David Gorton (Senior Partner) to find out what's next for PM+M.

Jane – are you excited about your new role and how do you see PM+M moving forward?
"I'm very excited and also very proud to be managing partner. PM+M is a great firm. We have made tremendous steps forward in recent years in all aspects of the firm, whilst staying true to our culture and our clients. We've got big plans for the future and I'm really looking forward to bringing those to fruition. We have recruited some great people recently at all levels and I am really looking forward to seeing them develop their careers in the firm and growing with us."

Stephen - what made you decide the time was right for retirement?
"My entire working life has been spent at PM+M and it's been an incredible 31 years. However, I feel that now is the right time for me to move on and I know the firm is in great hands."

Jane - how do you feel about the way Stephen led the firm?
"Under his leadership, we have grown our services, increased our turnover and consistently delivered an outstanding level of service to our clients. His style of leadership has made a huge impact on the business and we will be building on this and taking forward."

Jane – what was it like working with Stephen?
"He has been an inspirational colleague and we are all

delighted that he will be part of the PM+M family until the end of April 2016 and that we should continue to see him frequently thereafter. Our aim is to ensure that there is a smooth transitional period for all of his clients and to continue with the growth plans that he has set in motion."

David – What does your new role encompass?
"The new role is an addition to my current ones of Head of Corporate Services and head of Corporate Finance so it's a long way from being a full time job! There are a number of separate tasks and responsibilities attached to the title and I suspect that more of these will keep coming as time passes. As senior partner I have a capacity to challenge across the business, so I can support Jane in making sure that every department is working together – it's really important that we don't develop conflict between different parts of the team."

Stephen – How will you be spending your time after PM+M?
"Julia and I have a growing list of the things that we want to do. They range from big stuff like visits to Australia through to smaller stuff like visiting the Edinburgh Fringe or working on developing our vegetable garden."

David - What does the future hold for PM+M?
"At PM+M, we are convinced of the value in being a part of the proud local communities in the North West. There are fantastic businesses and business owners based here who appreciate having advisers who share their pride and commitment. We are building a team providing exceptional services to those people. We are not obsessed with size - we need to be big enough to have the skills to attract and hold our clients, whilst

being small enough to maintain the integrated service, strong culture and coherent team to sustain those skills for the long term. We are doing really well at this now and have a great platform for our team to deliver brilliantly."

"In geographic terms, we will expand our offering in Burnley shortly and open an office in Greater Manchester over the next couple of years. Keeping our team working together over multiple offices will need attention to technology as well as people and culture."

Jane – How has your role changed in the tax department?
"I am still head of tax as well as managing partner, which can be a little hectic at times. I'm lucky to have a strong team of tax managers who run the majority of our tax service provision, leaving me free to focus on tax advisory projects and keeping an overview of the team and its strategy for the future.

We've got a team of 12 dedicated tax people now, including some really bright young trainees – we must be one of the strongest tax teams in the region outside of the big cities. We plan to build on that by continuing to provide a range of quality tax services to clients and continuing to grow and develop our talent for the future."

Stephen – What will you miss the most?
"That's a really difficult question to answer but it's probably those moments when the team achieves something great like a client win or a successful outcome to a client project. It is wonderful to be part of those moments when everyone is on a high, feeling really rewarded and is hugely motivated for the next opportunity or challenge."

Stephen – What's the one thing you're looking forward to?
"The flexibility to make last minute decisions about what I'm going to do each day!"

INTRODUCING OUR NEW PARTNERS

We are very pleased to announce the recent appointments of Helen Clayton (Corporate Services Partner) and Andrew Cowking (Run My Business Partner).

Helen has specialised in audit and advisory work since qualifying in 1997 and has joined us from Deloitte's Entrepreneurial Business team where she has worked since 2005: being promoted to Director in 2012. Helen has notably advised several top 100 law firms on their audit and regulatory compliance, transactions and restructuring.

Helen's focus will be on growing our legal and corporate client base as well as helping to expand our profile across North Manchester and the wider North West region.

Andrew has spent many years advising a large portfolio of SMEs and family owned business predominantly in the North West and has joined us from Baker Tilly where he was a Director. Andrew has worked with a wide range of companies in a variety of industries including manufacturing, software development and consulting.

Andrew's focus will be on growing our Run My Business team and improving our capacity to deal with the increasing demand for our Run My Business services.

PM+M

PM+M **PERSONNEL**

PROMOTIONS

We are pleased to announce the following promotions in the PM+M team.

Chris Johnson has become a Director in the Corporate Services team. Chris joined PM+M over 15 years ago from school and has progressed steadily through the firm.

Helen Binns has become Director of the Run My Business team. Her promotion will see her head up the Burnley office.

Finally, Claire Furnival has been promoted to Assistant Manager from Audit Senior in the Corporate Services team. Claire joined the firm in 2008.

NEW FACES AT PM+M

Over the last few months we have strengthened our team across the board, welcoming 6 new members to the PM+M team since February.

Our Wealth Management team has expanded with the appointment of Katherine Sime (Paraplanner). We also welcome Samantha Palmer as Wealth Management Administrator.

In the Run My Business team, we have welcomed Carly Edwards (Administrator) and Mark Sharples (Semi-Senior).

Our Corporate Services team has welcomed Ceri Dixon (Corporate Services Senior). Ceri will add great value to our team, increasing our capacity to service new clients. We've also welcomed Josh Tuplin (Corporate Services Trainee). Josh has joined us from Runshaw College and will start studying towards his Accountancy Technician qualification. Andrew Kirkaldy (Tax Trainee) joined our team in July and is studying towards becoming a Chartered Accountant.

PM+M

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