

prime review

helping your business work for you

New Tax Director joins the Prime Group



Rebecca Blake joins Prime as Group Tax Director this month, and further strengthens our Tax Department.

Amongst other responsibilities she will oversee the teams in both offices and brings with her a wealth of experience of dealing with high net worth individuals, complicated tax planning opportunities, inheritance tax, capital gains tax, corporation tax and business restructuring. Her particular interest and expertise is in advising owner managed companies.

Rebecca has worked for the past 11 years for a well established LLP in Worcester specialising in business and tax advice, where she held several positions including Tax Manager, Tax & Production Director, Corporate Tax Director and most recently Managing Director.

Rebecca is a member of the Chartered Institute of Taxation, the Institute of Directors, and a Fellow of the Institute of Chartered Accountants. In her spare time, she enjoys boating, reading and eating out.

Investing in Customer Relationships

Whatever the economic climate the need to focus on providing exceptional customer service should always be high on your business agenda, even if your business is doing well.

Why is Customer Relationship Management (CRM) so important?

- Research suggests that it costs between three and ten times as much to replace lost customers than to keep them.
- The average business loses 10% of its customers each year.
- A 2% increase in customer retention has the same effect on profits as cutting costs by 10%. Research conducted in 2003 showed that a 5% improvement in customer retention can increase business profits by 25% – 125%.
- There is a 60 – 70% probability that existing customers will buy more products/services from you. This drops to 5 – 20% when attracting new customers.
- Profitability rates are likely to increase over the life of a retained customer.

Six steps to help improve your CRM

Keep in touch with your clients

If they have recently placed an order or you have provided a service, ask for feedback. Caring about satisfaction levels speaks volumes about your business. If you haven't heard from them for a while, check to see how you can help them.

Apply the 80:20 rule

Concentrate on your top 20% of customers, as they may account for up to 80% of your income. Regularly review the products/services that provide 80% of your income. Look through the eyes of your customers to consider how they can be improved and developed.

Prompt service

A prompt response to an order or enquiry shows your commitment to provide a high level of service. Even if the news isn't good (ie an out of stock item or delayed service) keep the customer informed. The delivery date may not be as important as the service they expect from a provider. They will often be willing to plan around you, as a trusted provider, rather than go elsewhere.

Pick up the phone

If most of your communication is by email, pick up the phone. Personal interaction is important in building relationships and through conversation you might find out how you can help them further.

Welcome complaints

If something is wrong you need to know. What if a number of your customers feel the same but instead of complaining simply take their business elsewhere? Look at how you can resolve issues and act promptly. Consider what action you need to take to stop a problem being repeated. This should result in improved service and customer retention. So make a bad situation a positive one.

Listen, listen and listen

Listen to your clients' needs. The more you get to know them, the more you will be able to provide them with. If you can't help them, can you recommend anyone? They will remember you and make you their first point of contact. Listen to what they say. If they mention they are going on holiday or have an important event in their diary, make a note to ask them about it next time.

We are committed to investing in customer relationships and, as a result, will be asking for your feedback on the service we provide and how we can further assist you in the near future.

Dispensations - a word of warning ...

Where HMRC are happy that there is no liability to income tax or national insurance for certain expenses paid or benefits given to employees, a notice of dispensation can be issued.

This means that an employer does not need to report any of the expenses and benefits included in the dispensation on forms P9D or P11D. It also means that employees do not need to put these items on their tax returns.

Historically, once a dispensation had been granted it would continue to apply until the qualifying conditions were no longer met. However, where a dispensation had been operated incorrectly, it could be revoked retrospectively. HMRC's practice was to only revoke retrospectively in exceptional circumstances.

HMRC have become concerned that a small number of employers have taken advantage of this and have gone on to abuse the terms of the dispensation, so HMRC have now changed their practice in this area.

HMRC will now consider revoking a dispensation retrospectively where there is any evidence of negligence or misrepresentation by an employer, such as where:

- an application for a dispensation did not provide all the relevant information; or
- there was a change in the way the expenses and benefits were made available to employees, meaning that the conditions were no longer met, and HMRC have not been informed of the change.

Whilst HMRC state that this will not affect the great majority of employers, the second point is potentially very wide ranging.

If you rely on a dispensation, you may wish to ensure that it is up to date and covers all relevant benefits and expenses. If you have any concerns in this area, please contact Rebecca Blake on 0845 872 6484.

Three local businesses help little girl's dream come true



Prime has teamed up with clients Eyden Locksmiths and Joe Richard's greengrocers to help a little Coventry girl fulfil her dream of swimming with dolphins.

Emily, who is five was diagnosed earlier this year with having an aggressive high risk stage 3 Wilms tumour, is currently undergoing chemotherapy. Before she became ill, she always dreamt about swimming with dolphins, so

friends and family were determined to raise enough money to make her dream come true. A fundraising event sponsored by Prime, Eydens and Joe Richards was held on 14 November at which two acts from Britain's Got Talent appeared on stage, along with a Motown tribute band, breakdancers, Ne Yo Tribute and Celtic Feet Irish Dancers.



Scott from SDL Entertainments, the producer of the show said "I would like to thank all the sponsors for their support in making the night a great success. To date, over £10,000 has been raised which is fantastic news."

The end of the private company secretary?

You are by now likely to be aware that private companies are no longer required to have a company secretary. Previously, all private companies were required to have a minimum of two officers - a director and a company secretary, as a sole director could not also be the company secretary.

The change arises from the Companies Act 2006, which aims to make it easier to set up and run a company. The change took effect from 6 April 2008 and also means that it is now possible for a private company to be formally run by a single individual.

Existing companies that have a company secretary in place, whose details are registered at Companies House, are now able to decide whether or not they wish to continue with a formal appointment in this role.

Decision making considerations

The tasks to be undertaken

While the position of company secretary does not need to be filled, many of the tasks that a company secretary traditionally undertook remain. Directors will continue to be legally responsible for these, which include for example, filing documentation at Companies House and maintaining statutory registers. These tasks may be delegated to an individual or to a corporate entity specialising in this administrative function.

The size and complexity of the company

Doing away with this role is a realistic possibility for smaller owner-managed companies, where statutory tasks are often undertaken by the director-owner or company accountant. There

may be a more significant 'real' company secretarial role to play in larger companies.

Signing official documents

Documents can be signed by just one director, provided this is in the presence of a witness.

The company's Articles of Association

These may expressly require the company to have a company secretary, therefore these will need to be amended if the company no longer wish to have a company secretary.

Action

If you decide that your company no longer needs a formal company secretary, the secretary must resign or the directors must resolve to remove the secretary. Companies House must be notified of any resignation or removal.

For further advice, please contact the partner who normally handles your affairs.

Companies Act 2006 Update

The ongoing introduction of this important legislation continues, with three of the key implementation dates having now passed.

October 2007 saw changes in respect of formal company procedures, such as meetings and resolutions brought into force.

April 2008 saw changes in respect of company reports, accounts and audits introduced, although a number of these only take effect for accounting periods beginning on or after 6 April 2008. It will therefore be April 2009 year ends and beyond before we really begin to see the effects of these.

More recently, **1 October 2008** saw the following changes introduced:

- Every UK company is required to have at least one director who is a 'natural' person. In everyday language this means an individual. There are transitional rules in place until October 2010 to enable certain existing companies with only corporate directors to comply with this change.
- All directors must be at least 16 years of age.
- The general duties of directors to avoid conflicts of interests came into force.
- The restrictions under the Companies Act 1985 on financial assistance by a private company for the acquisition of its own shares were repealed.
- A new procedure was introduced for private companies wishing to reduce their share capital, which involves a director's solvency statement rather than court approval.
- A new annual return form 363a was introduced, with reduced information on company shareholders.

The final implementation date of **1 October 2009** will see the remaining sections of the new Act brought into force. A large number of provisions will then take effect, mainly dealing with company formation and administration.

To discuss any of the issues raised in this article, please contact the partner who normally handles your affairs.

Extracting profits wisely

Where a business is trading through a limited company, the issue of tax efficient extraction of funds is always of practical interest and an area where decisions can change depending on changes to tax rules and rates.

Corporation tax (CT) rate changes have been the most recent factor to impact on the ever popular issue of whether it is more cost efficient to pay a bonus or a dividend, as this alters the true real cost of the bonus option...

Dividend or salary/bonus

This article considers the factors which impact upon the cost of providing a dividend or bonus by a company, to a shareholder/director, where the aim is to provide a set amount of post tax income in the most beneficial way.

Overview of the company position of providing a bonus

Firstly the company needs to ascertain the tax and National Insurance position of the director/shareholder to determine the pre tax cost of the bonus. This depends on:

- the tax position of the director – ie basic or higher rate taxpayer
- the rate of employee National Insurance (NIC) - 1% where the director already has remuneration with the employer which exceeds the upper limit for the main rate of NIC or 11% where that limit has not yet been reached.

The company then needs to allow for the additional employer NIC cost, currently charged at 12.8%.

All costs are then reduced depending on the CT rate of the company. This primarily depends on the level of company profits but other factors may affect the exact CT rate in a company's circumstances so advice is recommended.

To demonstrate how this might operate the illustration below assumes:

- the director is a higher rate tax payer
- the relevant rate of employee National Insurance is only 1%
- the aim is to provide a director with £10,000 **after the deductions** for the higher rate tax of 40% and the NIC cost of 1%
- employer NIC is 12.8%.

The £10,000 received by the director has to first be grossed up for the tax and NIC:
 $£10,000 \times 100/59 = £16,949$

Then the employer NIC of 12.8% is added to this to find the total pre tax cost:
 $£16,949 \times 112.8/100 = £19,118$

The true cost to the company is now determined by the (CT) rate saving. The following table uses the effective CT rates, at different profit levels, for a single company for the period 1 April 2008 to 31 March 2009.

Profits	≤ 300k	> 1.5 mill	300k-1.5mill
Rate of corporation tax	21%	28%	29.75%
Cost before CT saving	£ 19,118	£ 19,118	£ 19,118
Tax relief for company @ 21% / 28% / 29.75%	(£ 4,015)	(£ 5,353)	(£ 5,688)
Net overall cost	£ 15,103	£ 13,765	£ 13,430

Cost comparison - dividend route

The cost to the company is solely determined by the income tax position of the director/shareholder. The only direct outlay of the company is the dividend payment. There is no additional NIC cost for either the employee or employer on a dividend but there is no CT relief saving either.

Assuming again that the individual is a higher rate taxpayer then on receipt of a cash dividend, 25% effectively needs to be retained to pay the higher rate tax.

If a dividend of £13,333 is paid then, after settling the 25% tax £10,000 cash will be available. As can be seen from the table above, in the current financial year this is currently a cheaper cost alternative compared to a bonus whatever the rate of company tax.

There are a range of other considerations aside from the numerical comparisons which may need to be borne in mind. These include but are not limited to:

- the status and needs of other shareholders
- other profit extraction methods such as pension provision and rent
- preserving minimum NICs for the state retirement pension
- the possible impact on share valuation of regular dividend payments
- the impact of proposed income shifting legislation.

As this area is constantly subject to changes in rules and rates please contact Rebecca Blake on 0845 872 6484 to discuss what strategies would be suitable for you and your company.

Staff News

Sarah Nickols, whom many of you will have had contact with, if your tax affairs are handled from the Coventry office, has just commenced maternity leave following the birth of a little boy.

In her absence, the department will be managed by Jan Hornby. Jan is no stranger to Prime, having previously worked in our Solihull office as Tax Manager, before leaving to spend more time with her children.

Please contact Jan with any queries or, of course, Paislei or Jenni. Jan can be contacted either via email: jshornby@primeaccountants.co.uk or by telephone 024 7655 4310.

10% band survives....

The issue of the abolition of the 10% starting rate for non-savings income became a highly emotive one which resulted in concessions from the Chancellor in the so-called 'Mini Budget' in May 2008. The primary effect of the climb-down was that changes were made to both the personal allowance and the basic rate band limit but not to tax rates. The personal allowance was increased to £6,035 and so any income up to that amount is tax free. The increase is aimed at individuals on low earned income, which is the main type of non-savings income, to ensure that they do not end up with a higher tax liability this tax year compared to the previous year.

However as an increase in the personal allowance applies to all taxpayers, all basic rate tax payers benefit. Higher rate taxpayers do not benefit overall but are in a neutral position. This is because the effect of the increase in the tax free personal allowance has been offset by reducing the upper limit at which you start paying higher rate tax from the planned £36,000 to £34,800.

So what about the 10% starting rate on savings?

The table below usefully summarises the revised tax band position for the current tax year. It also shows the tax rates for different types of income and the retained 10% starting rate on savings income.

Between	Non savings rate	Savings rate	Dividend rate
£	£	£	£
0 - 2,320	20%	10%	10%
2,321 - 34,800	20%	20%	10%
Over 34,800	40%	40%	32.5%

Tax law sets out a strict order in which sources of income are charged to income tax as follows:

- non-savings income (broadly earnings, pensions, taxable social security benefits, trading profits and property income)
- savings income, including bank and building society interest
- dividends.

Effectively, this means that savings and dividend income are treated as the 'top slice' of income. If taxable non savings income (after deducting the personal allowance) exceeds the starting rate band of £2,320, then this band will not be available for any savings income received.

However if the taxable non savings income is below the starting rate band, this band will be available in full or part for savings income up to the limit of £2,320.

Christina only works part time but following a recent inheritance has a significant sum on deposit at a bank and so has the following forecast income this tax year:

	Non savings £	Savings £
Part time wages	5,500	
Bank interest income		4,035
Less personal allowance	(5,500) *	(535)
Taxable income	Nil	3,500

* The personal allowance is always allocated against non-savings income before other sources of income.

As there is no taxable non savings income, the whole of the starting rate band is available on the savings income and the balance is then charged at the normal basic rate of tax of 20% as follows:

First £2,320 is @10%	£232
Next £1,180 is @ 20%	£236
Total tax due	£468

Don't forget to claim a refund

Christina will be able to claim a tax refund as 20% tax is automatically deducted at source on most savings income. Tax of £807 (£4,035 @20%) will have been deducted at source so she will be able to reclaim £339 (£807 - £468).

Please do get in touch if you need any help with this.

Focus on features

UK tax law has never been regarded as kind when it comes to tax relief on buildings expenditure. As a result many battles have been fought over the years in the courts as businesses have contested that certain expenditure is plant and machinery not premises. The war will never be over but the introduction of a new category of plant for capital allowances is a compromise akin to a truce.

This new category is integral features and includes:

- electrical systems (including lighting systems)
- cold water systems
- space or water heating systems
- powered systems of ventilation, air cooling or air purification, and any floor or ceiling comprised in such systems
- lifts, escalators and moving walkways
- external solar shading.

Some of these items were already treated as plant and machinery in the past but general electrical and cold water systems for buildings have only ever qualified as building expenditure. Unless the building then qualified as an industrial or agricultural building there were no allowances, meaning that many commercial premises did not attract any form of tax relief.

An Annual Investment Allowance of £50,000 is now available for a business to use against plant and machinery costs which can include this type of capital expenditure. In the case of certain energy saving expenditure such as lighting systems you may alternatively qualify for a 100% enhanced capital allowance irrespective of cost. Where immediate write off is not available using these alternatives, a lower 10% annual allowance can be claimed, ensuring that the business will get tax relief over time.

If you require further information or advice before making such expenditure commitments please contact us.

Meet our partners...



Morgan Davies



Kevin Johns



John McDonald



Laurence Moore



John Osborne



Jamie Skelding