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# Newsletter

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CHARTERED MANAGEMENT ACCOUNTANTS

April 2014

THE RIGHT ADVICE FOR YOUR BUSINESS

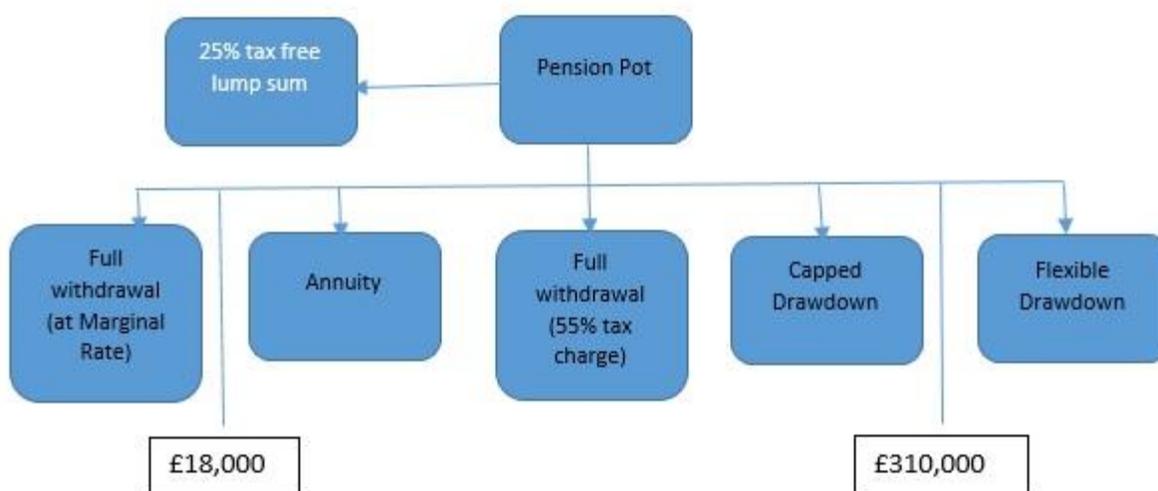
IN THIS ISSUE

## A Budget for ‘Doers, Makers and Savers’

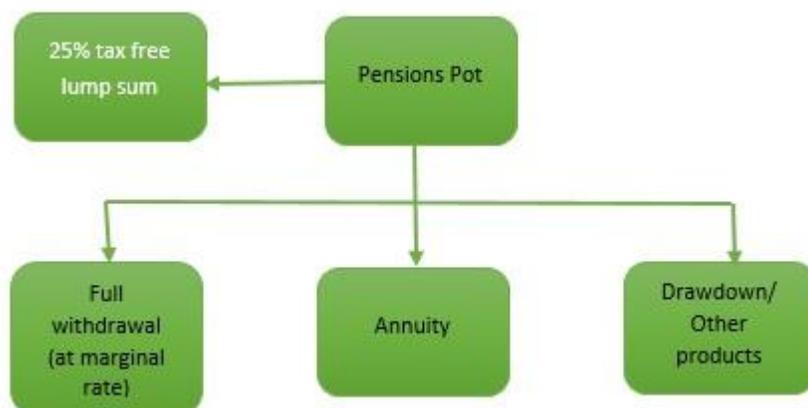
by Steve Bicknell

### Pensions

The biggest and arguably the best surprise in this years’ budget was the proposed change to Pensions. Under the current system three quarters of those retiring have to buy an annuity and only very small and very large pensions have any flexibility as shown below.



From April 2015 the system for accessing defined contribution pensions at retirement will be....



*Under the current tax system, people are charged 55% if they choose to withdraw all of their defined contribution pension savings at the point of retirement. This means the majority of people instead purchase an annuity and receive taxable income over the course of their retirement. Under the new system, an individual will be able to withdraw their savings at a time of their choosing subject to their marginal rate of income tax. The government anticipates that under these circumstances some people will choose to draw down their pension sooner in order to suit their personal situation. This will increase income tax revenue in the short to medium term.*

#### Employment Allowance £2,000

The Employment Allowance will start from the 6<sup>th</sup> April 2014 and will allow most employers to reduce their employer Class 1 NIC's by up to £2,000 each tax year.

You can claim the Employment Allowance if you are a business or charity (including Community Amateur Sports Clubs) that pays employer Class 1 NIC's on your employees' or directors' earnings.

#### Annual Investment Allowance

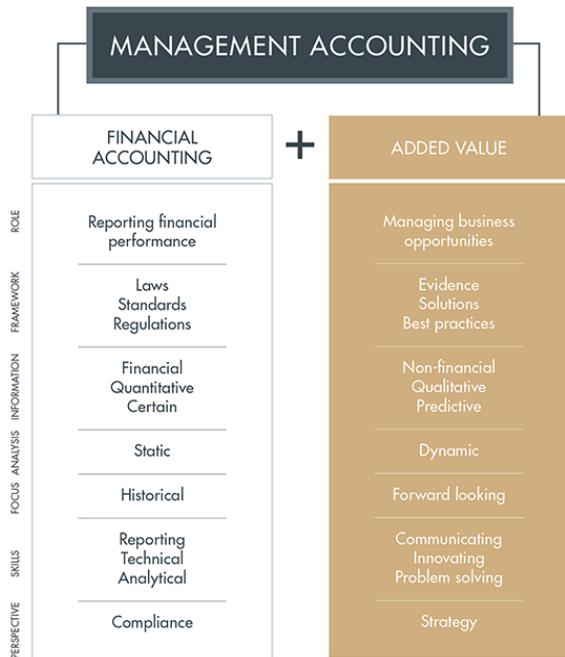
The Annual Investment Allowance (AIA) is available for most businesses and partnerships in the UK. Businesses can claim AIA for capital expenditure incurred on the majority of plant and machinery items. In order to encourage investment the AIA has been increased from £250,000 to £500,000 until December 2015.



#### Other Key Announcements

- New ISA (or NISA) from July 2014 the annual investment limit will be £15,000 and eligibility will be extended to Peer to Peer loans
- The Personal Allowance has been increased to £10,000 and up to 10% will be transferable between married couples and civil partners
- The main rate of Corporation Tax is now 21%
- The New Childcare Scheme due to start from Autumn 2015 will provide support of 20% on costs of up to £10,000
- There will be a new NS&I Pensioner Bond savings scheme from January 2015
- Free advice will be given to those who wish to purchase an annuity
- National Minimum Wage will increase to £6.50 in October 2014

# Not all accounting is the same



Management accounting combines accounting, finance and management with the leading edge techniques needed to drive successful businesses.

CIMA members in practice have strong accounting skills as well as strategic business and management skills:

- **Analysis** – understanding the story behind the numbers and using it to make business decisions
- **Strategy** – using the insight from analysis to help formulate business strategy to create wealth and shareholder value
- **Risk** – applying analytical skills to look at end-to-end business processes to identify and manage risk
- **Planning** – using accounting techniques to plan and budget
- **Communication** – knowing what information management needs and explaining the numbers to non-financial managers

*You can trust us to deliver these skills and help your business to become more successful.*

## FAST FACTS

52%

of SME's use their accountant as the main source of business advice

33%

Wished their accountant had better business knowledge

## FOR MORE INFORMATION

Contact

[info@stuartfergusonaccountants.co.uk](mailto:info@stuartfergusonaccountants.co.uk)

# Dealing with Banks

By Mike Tombs

It's surprising how many businesses complain when they've asked their bank for help. They'll trot out that old saying that a banker only lends an umbrella when the sun is shining. But the truth is that banks do lend money. In fact, they make their money by saying "Yes", not by saying "No". The secret is to put yourself in the banker's shoes and see your business proposition from his, or her, side of the counter.

As the person who will be managing "their" money while it's invested in your business, they'll want to know that you are honest; that you are committed to your plans and that you are going to show reasonable loyalty. Neither of you will want any nasty surprises, so information needs to be accurate and timely.

Be very clear about why you want to borrow the money, and how you are going to pay it back. Work through your forecasts to be sure your numbers add up.

## Get your ducks in a row

Is borrowing really the right thing to do in this case and is the amount you are looking for too much or too little? Either can weaken your case. Think carefully about the security you're going to offer the bank. Offer charges over the business's assets rather than guarantees. If the bank insists on personal guarantees, try not to agree to unlimited guarantees. Instead offer an upper limit equal to the amount of the loan less the other security available.

Also, don't just assume that a loan is the right thing to do. Consider factoring or leasing or even an overdraft. Make sure you have explored all the options and that you're happy with your choice. That's one of the first things a bank will do.

Now you need to find two or three bankers to approach. It's actually a good plan to get your accountants to do this bit for you; they will have a good working relationship with a number of banks and will know who the decision-makers are. If you do this yourself, avoid using your personal bank; you may find yourself having to sell your house to repay the loan if things don't work out.

## Plan for success

You'll need a detailed business plan to show that your business can generate enough cash and profits to repay the loan and service the interest. Your plan should demonstrate that your management team is capable, competent and committed to making the plan work. And ask for more than you



actually need, that will give you a margin for negotiation and error and may also mean that you won't have to go back to the bank in a few months' time asking for more. Ten to 20 per cent more money for a 25 per cent longer period is probably about right.



When the plan is complete, send it to the bankers with a beautifully written summary. This one or two-page document will be your opportunity to grab the interest of the bankers and get them thinking positively before they dive into the numbers, so work on it until it's perfect.

It's a good idea to make sure that your first meeting with each bank is on home turf – you're going to be more relaxed and the chances are they'll be more impressed.

These are important meetings, so prepare thoroughly. Think what they're likely to ask and make sure you have the answers. And hold fire on your negotiating skills until you have seen the colour of their money. A manager will probably only have half to one percent of room for negotiation over the interest rate.



## FOR MORE INFORMATION

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# Beware of big contracts

By Fiona Bevan

It may seem strange advice to beware of winning big contracts. After all most small businesses dream of catching that biggie which will set them up for the future. However, many a great small business has failed because they won a big contract with a large corporation.

The biggest problem is cash flow. Large companies will often demand slow payment terms, which means it can be several months between paying employees and suppliers your end and receiving payment for your services. It is important to remember that even if you have agreed 30 day payment terms the cash will usually come in quite a bit later than that. This is particularly problematic in the

current economic climate where banks are reluctant to lend money to tide you over the interim period. Secondly, if a large proportion of your business is geared to fulfilling one large contract you leave yourself exposed should the large company you are dealing with have financial problems themselves.

Also, if you have to neglect your traditional client base whilst you complete the large contract you may find you have no business left once the contract is finished. Now we are not suggesting you never bid for large contracts. What we are saying is go into the process with your eyes open. Put away your rose tinted

spectacles and examine fully what winning the contract will truly mean for your business. Are you prepared to accept the risks as well as the rewards?

Finally, there are professionals out there – such as your accountant – who can help you, so use them.



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