BLICK ROTHENBERG
Chartered Accountants

Business Review

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Blick Rothenberg business, tax and investment news

IN THIS EDITION

Welcome to our new look Business Review newsletter, which reports on challenging times in the economy and important developments at York Gate.

As Steven Bruck covers in our lead article on the challenges ahead, there is considerable opportunity to mitigate the potential difficulties. Most importantly though, please do not hesitate to contact me or any of the team if you would like to talk something through. We are here to help.

Here at Blick Rothenberg and BRAL we are continuing to develop. We have seen the addition of a number of new partners and other senior appointments across the practice, which has further increased the breadth of expertise we can provide. As well as strengthening our team, we have recently undertaken some major projects, including implementing an electronic client document management system and enhancing our corporate and social responsibility policy.

We have also refreshed our websites and the branding for Blick Rothenberg and BRAL to represent our evolving businesses. We felt strongly that any change must retain the values, culture and history that are central to our ethos, whilst also reflecting our dynamic businesses and our distinctive service offering, both in the UK and internationally. I feel we have achieved this.

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STORM CLOUDS OVERHEAD OR ALREADY RAINING?

As the news media focus on the negative, describing with relish every sign of a downturn, every business failure, every echo of the 1930s, we may be forgiven for believing that the end is nigh.

Food and raw material prices rising, businesses and banks failing, house prices and high street demand falling, mortgage loan offers and credit facilities evaporating, the pound declining – every statistic is treated as evidence that disaster, for all of us, lurks just around the next corner. Indeed for some it has already arrived. As an accountant in practice, I find that suddenly my views are sought over the dinner party table.

Well, the bad news is that we are in uncharted territory and don't really know all the answers. It is a brave person who can predict the future. As for the present, yes, some clients are hurting. The banks have suffered much publicised difficulties and are undoubtedly becoming more selective. Transactions are often taking longer to complete, (if indeed they complete at all). The falling pound presents considerable challenges to importers and empty shops provide stark evidence that life in the high street is getting tougher. Rising commodity and fuel prices are a recurring theme, and there is no question that, at the very least, storm clouds are gathering, whether or not the rains have started or indeed the earthquake has struck! Yet still there are winners as well as losers.

Against the trend, some clients are still doing very well; indeed for some the current economic circumstances seem to present opportunities rather than threats. But, as someone weathered by experiences of past recessions, what pearls of wisdom can I offer you, just in case the worst does happen…or has happened?

A few simple suggestions are:

1. Keep your eyes on your debtors. Watch out for tell-tale signs of lengthening payment terms. Don't take undue risks, stick to credit limits, and consider credit insurance. The past is not necessarily a good guide as to the future and the pain of bad debts can quickly creep up on you unexpectedly – and in extreme circumstances, can be overwhelming.
2. As banks become increasingly nervous, try not to frighten them with nasty surprises. Better to prepare them for painful deterioration and then surprise them with better than expected results – rather than shocking them with unexpected surprises coming out of the blue. Also, asset based finance – for example invoice discounting – may avoid some of the uncertainties of an overdraft with a frightening annual review.
3. Keep a steady hand on the tiller and ensure that your accounting/information systems are delivering timely and reliable information. This is not a time to be sailing blind.
4. If you are exposed to foreign currency exchange rate fluctuations, take appropriate advice to minimise your risk.
5. If you have difficulties in settling your tax liabilities as they fall due, call on us for advice. Doing nothing is not an option.
6. If the worst happens and redundancies are reluctantly considered, take appropriate legal advice. Try and avoid the mistakes of the 1990s by keeping your staff involved and avoiding the image of ruthless selfishness which soured relations in many businesses for years.
7. If you can, avoid "short termism". Easier said than done, I know, but sometimes precipitate action put forward as firm governance at the time, is regretted later.

Those of us used to the British weather know that storm clouds overhead can sometimes pass surprisingly quickly, with unexpectedly fast transformation to a blazing summer's day, so let us hope that the cloudy or indeed rainy mood of the country becomes somewhat more optimistic in the near future. In any event, we are here to help – don't hesitate to call.

For further information on any of the issues raised in this article, please speak to your usual Blick Rothenberg contact, or Steven Bruck: +44 (0)20 7544 8970, steven.bruck@blickrothenberg.com

NEW BLICK ROTHENBERG PARTNERS

Trevor Roberts and Milan Pandya have both joined Blick Rothenberg as partners within the business group.

Trevor, who joined in November, qualified with a predecessor firm of Baker Tilly and later worked for Grant Thornton as a senior manager in charge of client services support. In 1999 he joined Wingrave Yeats as a partner in the firm's business advisory department. Trevor has many years' experience in advising clients on auditing, accounting and financial reporting issues. His clients include owner managed businesses as well as listed companies.

Milan joined Blick Rothenberg in October 2008, transferring from Baker Tilly. Prior to this, Milan spent nine years with KPMG in London. Milan has considerable experience in leading and delivering audit, advisory and transactions support services to both private and listed clients which operate on both a national and international platform. His sector specific experience ranges from agriculture and manufacturing to transport & logistics, retail and business services.

ENTREPRENEURS' RELIEF

Entrepreneurs' relief is a Capital Gains Tax ('CGT') claim for gains arising on the disposal of a business, providing an effective 10% CGT rate. An individual will be able to make claims for relief on more than one occasion, with up to a lifetime total of £1 million of gains qualifying for relief. The new flat CGT rate of 18% applies for gains in excess of £1 million from 6th April 2008.

Entrepreneurs' relief appears to have arisen in reaction to the storm of protest which greeted the abolition of business asset taper relief and was trumpeted at the time as being 'based broadly on the CGT retirement relief'.

However, whilst much of the old retirement relief legislation has been taken over, entrepreneurs' relief is specifically not related to retirement and is designed to encourage entrepreneurship by giving entrepreneurs the prospect of realising the value of their businesses at a lower rate of tax, regardless of when they do so. In that way its purpose is closer to that of taper relief on business assets which it partially replaces.

Although the exact mechanism by which they do so differs, both entrepreneurs' relief and taper relief work by reducing otherwise chargeable gains by a percentage, so it is hard to understand the decision to base the new relief on retirement relief rather than on business asset taper relief itself.

As ever, there are a number of conditions, advantages and disadvantages, which apply for business owners who wish to claim entrepreneurs' relief:

- A business disposal can apply to the whole business, or merely a part of it.
- Entrepreneurs' relief only applies to individual taxpayers.
- The relief is not retrospective, and does not include past disposals.
- Relief can apply to shares, providing the claimant owns at least 5% of the company (and has voting rights), and is an officer or employee of the company.
- Employee shareholders with less than 5% holdings will be worse off than under taper relief.
- Owners of assets used in a business where the rules for entrepreneurs' relief are more restrictive than those which applied for business asset taper relief will also be worse off than under taper relief – for example, disposals of let commercial property will not, by themselves, qualify for the relief - it is necessary for the disposal to be an 'associated disposal', i.e. it must have been used for the purposes of a business that has now ceased, and it must have been in use for those purposes both at the time of cessation and in the 12 months beforehand.
- For an associated disposal to attract relief, the individual must be withdrawing from involvement with the business.

The new relief is perhaps modest - it cannot be worth more than £80,000 in relation to each individual ((18% – 10%) x £1,000,000). Nonetheless, it is useful and its introduction is a welcome addition to the family of reliefs.

For further information on entrepreneurs' relief, please contact
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KEY PERSON INSURANCE

Although most companies understand the need to protect their premises, contents and vehicles, many do not stop to consider how heavily they depend on certain key people.

For most businesses, there will be a few individuals who make a major contribution to its profitability. As well as the proprietor, key people can include the managing director, sales and production managers, research and development staff or individuals with specialist skills.

Whether the key person provides expertise, contacts, or other assets, their loss could be very damaging:

- Loss of profits (especially if competitors are able to react quickly and exploit the situation).
- The need to recruit and/or train a successor.
- Problems in securing finance for new ventures, expansion, etc.
- Difficulties with meeting loan repayments (so when a key person takes out a loan protection should be considered).
- Having to repay a loan which the key person has made to the business.
- Loss of important personal and business connections.
- Loss of detailed knowledge/expertise necessary to run the business.
- Loss of existing contracts.
- Loss of goodwill.

Key person insurance is taken out to provide financial protection against problems like these. It is designed to give the company a cash injection if the key person dies or is diagnosed with a critical illness.

A business should still put in place appropriate systems, manuals and procedures to minimise the loss of a key person, but the insurance received will alleviate the difficulties the business will face.

Factors such as the annual salary and age of a key person, as well as the cost of replacing them and the business profits are taken into account when a policy is being drawn up. The insurance need not be too expensive; for example, basic life insurance cover of £500,000 on a key person in their mid-40s will cost less than £50 per month for 5 years. Another factor that can add to the affordability of the insurance is that, if certain conditions are met, the premiums paid can be allowable reductions because the expense is for the benefit of the business.

Key person insurance is not suitable for every organisation, but can offer invaluable peace of mind to all stakeholders. Please do not hesitate to contact us to find out more.

If you would like to find out more about key person insurance, please contact
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martin.reynard@blickrothenberg.com

From 1st July 2008, Ross Fabian and Toby Ryland were promoted to partners within the business group and corporate tax departments respectively.

Ross joined Blick Rothenberg in 1999 as a trainee and obtained the ACA qualification with the firm. He is responsible for audit, accountancy and taxation services as well as leading due diligence assignments and special investigations. Ross also plays a key role in IT and practice development within the firm.

Toby joined the firm in April 2007 as a senior manager in the corporate tax department. He previously worked for six years at a Big 4 firm, having trained with two mid-tier firms. Since joining Blick Rothenberg, Toby has been actively involved in public relations, and as a result has had regular comment in the national press.

BRAL'S QUALITY MANAGEMENT SYSTEM

BRAL has put in place a Quality Management System ('QMS') to ensure complete client satisfaction, as well as addressing the work culture, work environment and ethics of the business. Our clients expect a combination of timeliness, accuracy, technical expertise and personal service from BRAL.

The QMS has been implemented to ensure systems and processes are maintained and continually improved to meet and exceed these expectations. Broadly, the systems employed fall into four main categories: management of people, IT controls, regular reviews and continual system improvements.

Our dedicated best practice team is responsible for ensuring that effective and efficient processes are in place. Benchmarking targets are set so that we can measure effectiveness and processes are continually reviewed and subjected to regular internal audit to ensure firm-wide adherence. Where relevant, we revise our processes and procedures in order to improve our services to clients.

In addition to our own internal audit processes, we also receive regular external checks on our processes from three independent audits; namely an ISO audit, a SAS 70 Type II audit and the audit of our accounts. The feedback we receive from these audits provides us with further assurance on the relevance and quality of our processes. Our ISO 9001:2000 and SAS 70 Type II accreditations are testament to the importance we place on quality control and our commitment to providing our clients with a premium outsourced accounting service.

The QMS gives structure to achieving the quality culture that is central to the ethos promoted within 12 York Gate.

For further information, please do not hesitate to contact Jim Brown, +44 (0)20 7544 8777, jb@bral.com

BKR INTERNATIONAL

Bob Rothenberg, Senior Partner of Blick Rothenberg, has from 1st July 2008 been appointed Chairman of BKR International, our International association, for a two year term.

BKR International ('BKR') is a leading global association of independent accounting and business advisory firms representing the expertise of more than 135 member firms with over 300 offices in over 70 countries around the world. They were ranked 19th in The IAB 2007 World Survey of Accounting Organizations and have aggregate annual revenues of more than $1 billion. Blick Rothenberg has been a member of BKR since 2003 when we, and a number of other firms, joined from BR International.

The importance to Blick Rothenberg of being members of an international group is the ability to speak to and work with fellow professionals in other territories who we know and in whom we have confidence. This enables us to help our clients by both introducing them to, and then working with these professionals on client affairs.

Other Blick Rothenberg partners also have an active involvement with BKR. Nilesh Shah currently sits on both the International and European Tax Committees, having chaired the International Tax Committee in the past. Steven Bruck sits on the EMEA board, and John Newman is part of the European Standards Committee.

Bob Rothenberg has been on the worldwide board since 2005 and became Vice Chairman in 2006 until his appointment as Chairman this year. The biggest challenges he sees for his term include continuing to develop BKR's membership, both beyond the current 70 member countries and within some of these countries, and to be confident that these firms are all of the highest quality in the ever increasing regulatory environment. This will ensure that clients of all member firms who need cross-border advice are looked after properly through BKR International. At the same time, he sees it as essential to maintain the unique characteristics and independence of each member firm.

Bob is particularly looking forward to "continuing to meet fellow professionals from around the world and getting to know them, their firms and their individualities so that as a group we can all work better together."

For further information about BKR International, contact Bob Rothenberg, +44 (0)20 7544 8888 bob.rothenberg@blickrothenberg.com

CORPORATE AND SOCIAL RESPONSIBILITY

Blick Rothenberg has recently introduced a corporate and social responsibility ('CSR') programme that aims at reducing the impact of our business on the environment and looks at ways of contributing to society and the local community through charitable activity.

As a firm we have a long and proud history of involvement with charitable and not-for-profit organisations, adopting a sympathetic approach that goes beyond simply fulfilling statutory obligations. Many of our partners act as trustees and directors of a wide range of charities.

Our new CSR programme will encourage involvement throughout the firm and has the following key aims:

- reducing volumes of dry waste and recycling as much as possible;
- reducing energy consumption, supporting renewable energy resources and carbon neutralising where possible; and
- investing time and monetary resources to support charitable organisations and the local community.

Initiatives to achieve these aims include:

- Dry recycling bins throughout the office to allow all non-confidential paper, plastic and aluminium cans to be separated and recycled.
- Electricity purchased from a renewable energy sources supplier.
- The firm calculates annually the estimated carbon footprint of business flights and makes an appropriate donation to an environmental charity.
- A Give As You Earn (GAYE) scheme to enable staff to make regular tax-free donations through the payroll.
- Partnering with specialist organisations to give staff the opportunity to provide professional assistance on a pro bono basis and also to participate in firm sponsored community activities.

We hope that these and many other CSR initiatives will continue to ensure that we act responsibly and contribute to the wider local community.

If you would like to know more about our corporate and social responsibility programme, please contact Paul Finnegan +44 (0)20 7544 8877, paul.finnegan@blickrothenberg.com

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