

InTouch...

Issue 26

July 2009

Flexible working rights extended...

Get prepared for the upturn
2009 Budget round up and more...

DSH

Your Partners in Business

Be informed with the latest issue of InTouch!

Welcome news...

Welcome to InTouch, the magazine that aims to keep you updated with the latest news from DSH and across the industry.



Although the recession is still at the top of the agenda, it is never too early to start preparing for the upturn. Bosses should be taking steps to cut costs, ensuring that their businesses are running as efficiently as possible. Company audits can feel like an onerous task for small businesses but they can be beneficial. On page 4 we look at what is involved and the merits of taking a voluntary audit.

We also have a special feature on VAT, beginning on page 6, which looks at a number of new initiatives that have been introduced this year and some forthcoming changes that could affect your business.

As usual, we bring you the latest news from our Maidstone and Rickmansworth offices on page 11, including a fond farewell to Partner Nancy Caldwell who spent 28 years with DSH.

Don't forget, if there are any topics that you would like to see covered in future issues of InTouch, please e-mail me on kirsty.wood@dsh.co.uk

Kirsty Wood

Kirsty Wood
Editor

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Day, Smith & Hunter is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

A quick snapshot of issues that may be affecting you and your business in coming months and a few pearls of wisdom!

News in brief

Offshore Disclosure

The Chancellor has announced a New Disclosure Opportunity (NDO) for UK residents with unpaid tax connected to an offshore account. The NDO will run from Autumn 2009 for a limited period to give the offshore account holders one final opportunity to disclose, and put their affairs in order. Those taking up this opportunity will be expected to pay the duties they owe, interest and a penalty. The level of penalty will be publicised before the scheme opens and for those eligible to take part it is likely to be lower than the level they can expect to pay under normal rules.

Audit reports to change

A new Companies Act now applies to all audit reports on companies' accounts signed for financial statements for periods that began on or after 6 April 2008, regardless of when they end. While the 2006 Act does not impact directly on the detailed work we undertake in carrying out an audit, you will notice some changes to the wording. The most visible change is that, in future, our reports will be signed in the personal name of the partner responsible for your audit, as "senior statutory auditor" on behalf of DSH. You may recognise the signatories, even if you cannot read them!

Do late filing penalties apply to other documents?

Where a company amends its Articles of Association, a copy of the amended articles must be sent to Companies House within 15 days. Failure to comply is a criminal offence and a new civil penalty of £200 will apply from 1st October 2009, under the Companies Act 2006. The penalty will only trigger if a company receives notice from the Registrar requiring it to deliver a copy of its amended articles and it does not comply within 28 days.

Providing childcare vouchers during maternity leave

The legislative changes to maternity rights in October 2008 has prompted HMRC to issue new guidance on the provision of childcare vouchers during maternity leave. HMRC are advising that women who belong to a childcare voucher scheme before their maternity leave should be entitled to continue receiving childcare vouchers throughout Ordinary and Additional Maternity Leave. Where women on maternity leave have insufficient pay to fund their vouchers through salary sacrifice, HMRC believes their childcare vouchers should be provided at their employer's expense. Employers are not obliged to follow HMRC's guidance, but should seek independent legal advice if you offer the scheme – if HMRC is correct, employers who do not comply may be at risk from a sex discrimination claim.



Company audits – more than just a...

Necessary evil!

Audits are often regarded by companies, particularly smaller ones, as an onerous task that has them feeling that they are being 'checked up on'. Whilst many small companies are able to take advantage of the audit exemption limits, which recently increased, the audit process can still be beneficial for your business.

For those businesses with financial periods starting on or after 6 April 2008, the audit exemption limits have been increased. If you exceed the new limits, a statutory audit will be required:

| | New | Old |
|---|--------|-------|
| Turnover | £6.5m | £5.6m |
| Assets (the total of fixed and current assets not simply net assets) | £3.26m | £2.8m |

For some years now "small" companies that fall below certain limits for turnover and assets have been exempt from the general legal requirements to have an audit. Some companies, particularly those within a group (UK or foreign), public limited companies and those regulated by the Financial Services Authority, also have to satisfy other detailed rules before they are able to take advantage of the audit exemptions.

Whilst the new increased limits are welcome news amongst some small firms, it should also be remembered that your business can benefit greatly from a 'voluntary' audit.

Any business with a number of staff, several departments or office locations, and technical systems are at risk from errors or irregularities in the business due to the owner being unable to control all elements all of the time. Recognised by a number of our clients, carrying out a regular 'voluntary' audit can be advantageous for:

- identifying any areas of abnormality and dealing with them before they adversely affect the business
- deterring the occurrence of fraud

- identifying weaknesses in your accounting systems and implementing improvements for greater efficiency
- reassuring directors and shareholders that the business is running properly and the accounts show a true and fair view of the business
- presenting a credible and reliable set of figures to prospective buyers if you are considering selling the business, particularly if that is likely to be in the next 3 years
- growing companies that are likely to exceed the turnover threshold in the near future, in order to avoid having to revisit the previous years' figures, once the threshold has been reached
- adding credibility to published information for employees, customers, suppliers, investors and tax authorities
- enabling us to provide you with more accurate forecasting for your business, such as how the business is running, what margins can be expected and how these can be achieved, and tailoring our advice accordingly.

It should also be remembered that whether or not accounts are audited, the directors still have the responsibility to ensure that the accounts:

- are prepared in accordance with standard accounting practice
- are prepared in the format, and with the disclosures, required by The Companies Act
- give a true and fair view

If you are interested in the merits of undertaking a 'voluntary' audit, or would like to discuss whether your company is eligible to take advantage of audit exemptions and if it would be beneficial for you to do so, please contact our Audit team on **01622 690666 (Maidstone)** or **01923 771010 (Rickmansworth)**.

Budget round-up 2009...

Chancellor Alistair Darling presented the 2009 Budget Report in April. He outlined a series of measures aimed at tackling the recession, as well as strategies to help counteract record levels of Government borrowing. Here we provide an overview of some of the key announcements.

Income tax reform

A new higher income tax rate of 50% will apply from 6 April 2010 for individuals who have a taxable income over £150,000, and for trusts of all income levels. Consequently changes will be made to the rate of income tax on dividends, with a top rate of 42.5%.

Less well publicised is the loss of the basic personal allowance for income tax if you have 'adjusted net incomes' above £100,000, meaning that your income between £100,000 and £112,950 will suffer a marginal rate of 60%.

Capital Allowances

A 40% first year allowance has been introduced for expenditure on qualifying plant and machinery that would normally be allocated to the main capital allowance pool. This will be available to businesses incurring such expenditure in the 12-month period which began on 1 April 2009 for corporation tax, and on 6 April 2009 for income tax.

Extension to stamp duty 'holiday'

Last year the Government raised the threshold at which Stamp Duty Land Tax becomes payable, to transactions in excess of £175,000. The so-called stamp duty 'holiday' was originally due to expire on 3 September 2009, but will now remain in place until the end of 2009.

Pension savings

From 6 April 2011 tax relief on pension savings will be restricted to the basic rate if you have taxable income of £180,000 or more. Relief will be tapered when your income reaches £150,000 up to the threshold of £180,000. Anti-forestalling measures will be introduced but will not affect you if you:

- have an income of less than £150,000 for the 2011/12 tax year and for the preceding two tax years; and
- had an income in 2009/10 and/or 2010/11 of £150,000 or more, and continue with your existing pattern of regular savings and do not make any additional pension savings.



If you do increase your pension savings, you will be affected only if your total pension savings in the year exceed £20,000. The change will not affect any normal, regular (monthly or quarterly, but not annual payments) ongoing pension savings that were in place before 22 April 2009, whatever their value.

Other measures

Other measures announced include:

- an increase in Child Tax Credit for the amount you receive per child from April 2010
- credits towards the basic state pension for grandparents of working age who care for their grandchildren
- a rise in the annual limit for ISAs to £10,200, which will initially apply to those aged over 50 before being extended to other savers from 2010/11.

If you have any queries on how the Budget announcements may affect you, please contact us for specific advice on **01622 690666 (Maidstone)** or **01923 771010 (Rickmansworth)**.



Your Partners in Business

Pace of change is Increasing...

“If you are experiencing temporary cashflow difficulties, you may be able to delay your VAT and tax payments”

VAT is a labyrinth of ever changing complex rules and this year has seen a number of new initiatives introduced. As VAT is a self-assessed tax, you are obliged to keep up to date with changes which affect your business – no easy task given the many other issues that bosses have to worry about. To help, Alan Buckett, our Head of VAT Services, provides brief details of recent and forthcoming changes which may affect you.

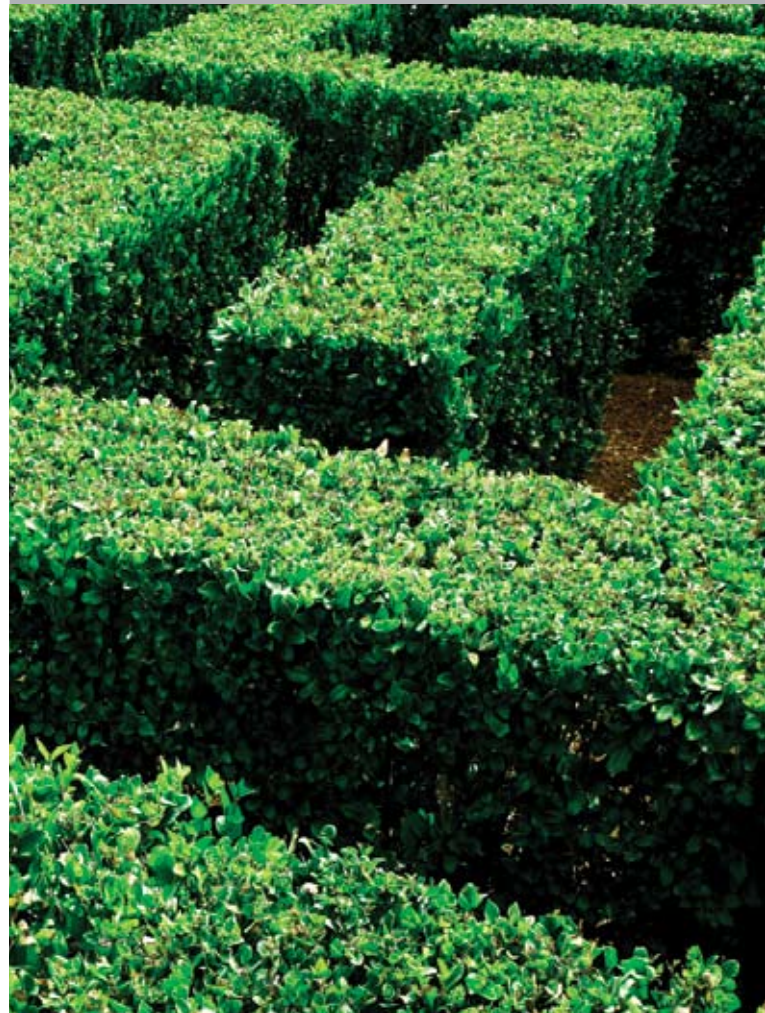
Partial exemption

If you make both taxable and exempt supplies you may have to restrict the amount of VAT you can reclaim on expenditure. If you currently operate the standard partial exemption method, HM Revenue and Customs (HMRC) has introduced three optional changes to help businesses:

- you may now use a provisional recovery rate (e.g. based on last year's rate) in your current year calculations and adjust it at the year end;
- you may include your annual adjustment on the last VAT return of the VAT year instead of waiting until the next return;
- new partly exempt businesses may reclaim VAT based on a 'use' test, which should enable such businesses to reclaim a fairer proportion of VAT on costs during the start-up period (e.g. based on anticipated taxable and exempt supplies over the next three years).

Trouble paying your VAT?

If you are experiencing temporary cashflow difficulties, you may be able to delay your VAT and tax payments. By calling HMRC's Business Payment Support Line on 0845 302 1435, with details of the tax you will have trouble paying, basic details of your business income and expenditure, and your VAT registration number or tax reference number, HMRC can usually give you an immediate decision on whether you qualify. In many cases, HMRC has agreed to reschedule tax debts by up to three months at a time. For larger or more complicated payment debts, the decision may involve more detailed discussion and could take longer.



Rural Diversification

Following on from HMRC's previous interest in Game Shoots, it has now turned its attention to the tax affairs of farming businesses that have recently diversified into other business activities, such as light industrial units, livery and stabling, holiday and bed & breakfast accommodation, leisure activities and open farm admissions. Whilst most are probably doing things correctly, some may not always be aware of the numerous associated tax implications in VAT and direct tax, and HMRC wants to check that the correct procedures are being applied.

A common area of misunderstanding is where a rural business or farm lets out land or buildings and charges VAT on the rent. To make the charging of VAT legal, you must 'opt to tax' and formally notify HMRC on a building by building or site by site basis, otherwise you may find that you are partly exempt and the recovery of your VAT on expenditure could be affected.

“To help you avoid penalties and keep on the right side of HMRC, we can provide a VAT health check of your business”

VAT Flat Rate Scheme

Many smaller businesses benefit from the simplified VAT Flat Rate Scheme, allowing them to pay VAT as a flat percentage of turnover, with rates set according to the business sector. From 1 April 2009 the joining tests have been simplified. A business need only check that its taxable turnover is less than £150,000; if it exceeds £225,000 it must leave the scheme. The law has now been clarified to allow a business to use the method it operates (cash received or invoice basis) to check whether this limit has been exceeded. Remember that if you join the flat rate scheme when first registering for VAT you enjoy a 1% discount off the normal rate for your sector for one year.

Providing international services

Over the next few years a package of changes will alter many of the VAT rules on international services.

From 1 January 2010, the main rules for determining the country in which a transaction is taxed for VAT will be where the customer is located for the supply of B2B ('business to business') services and where the supplier is located for B2C ('business to consumer') services. Certain exceptions will apply, such as for services related to land (subject to where the land is located).

As a result, UK businesses that provide services to businesses in other EU member states will be required to complete European Sales Listings (ESLs), which may be an onerous new burden.

Also from this date, the EU VAT refund scheme (whereby a business can reclaim VAT it incurs in another EU member state) is to be streamlined. Claims will be made electronically to the tax authorities of the claimant, who will transmit it to the relevant member state for refund. Interest will be payable if refunds are unreasonably delayed.

New penalty regime

HMRC has widely publicised the new penalty rules, but we are concerned that some may not appreciate that the new penalties depend to a large extent on taxpayer behaviour. Our featured articles on page 9 of this issue and page 8 of Issue 25, explain more about your responsibility to take 'reasonable care' to avoid penalties, keeping adequate records and the penalty system. A particular area for potential misunderstanding is the facility for correcting VAT errors on your next VAT return. Provided you have taken reasonable care, you are able to correct an error of less than £10,000 (or less than 1% of your box 6 figure), without first disclosing it to HMRC and thus avoiding paying interest on the error. However, if you have not taken reasonable care, you must disclose the error to HMRC, even if it is below these limits, to avoid a penalty, but will be charged interest on the error.

Give your business a health check

We understand that VAT is a complex area. To help you avoid penalties and keep on the right side of HMRC, we can provide a VAT health check of your business. Areas are often discovered where the rules have changed or you are operating incorrect VAT procedures – we frequently save more than the cost of the health check – and can advise on areas which you may have overlooked and which require attention.



If you think that you are likely to be affected by any of the changes mentioned above, or would like to know more about the implications for your business, please do contact us. We will also provide appropriate advice and support should you be challenged by HMRC.

Alan Buckett can be contacted on **01622 690666** or email alan.buckett@dsh.co.uk.



Your Partners in Business



Flexible working rights extended...

In April 2009, the right to request flexible working was extended to parents of children up to the age of 16, meaning that an extra 4.5 million parents will potentially gain the right to apply for flexible working. Although some small business representatives expressed concerns over the changes, the good news is that managing requests should be relatively straightforward.

The term 'flexible working' encompasses a wide range of working patterns including, amongst others, part-time working, flexi-time, time off in lieu, job-sharing, staggered hours, home working and term-time working.

Who can apply?

Employers are required by law to consider applications from any employees covered by the 'right to request' legislation, which states those wishing to apply must:

- Be an employee
- Have continuously worked for the business for at least 26 weeks on the date they make their request
- Not have made another statutory request in the past 12 months

For those that are eligible, the legislation allows employees to submit an application to care for either:

- A child under 16 years of age
- A disabled individual under 18 years
- An adult who requires care (as defined by the Department for Business, Innovation and Skills)

The application process

Initially an employee must submit a written request, in the form

of a letter, email or application form. It must outline the nature of the request and should mention the benefits of flexible working to the organisation as perceived by the employee.

Evaluating an employee's request

You need to establish whether the employee's desired work pattern can be accommodated within the needs of the business.

Can a request be refused?

Yes. Employers can reject a flexible working request, although only for the following reasons:

- Planned structural changes
- The burden of additional costs
- A detrimental impact on quality or on performance
- The inability to recruit additional staff or reorganise work among existing staff
- A detrimental effect on the firm's ability to meet customer demand
- Lack of work during the period the employee proposes to work

If a request is refused on business grounds you should notify the applicant in writing. Wherever possible, you should endeavour to put forward an alternative proposal.

The benefits for business

- Greater cost-effectiveness and efficiency, such as savings on overheads when employees work from home
- An employer that is sympathetic to the needs of individuals may encourage employee commitment and loyalty
- Considering applications for flexible working may enable you to retain valued employees
- Flexible workers can enable you to respond to changes in workload and demands within the business, particularly during holiday periods

For further advice please contact

01622 690666 (Maidstone) or 01923 771010 (Rickmansworth).

Taking reasonable care is key

InFocus...

Since 1 April 2009, HM Revenue & Customs (HMRC) has had new powers and is now able to impose greater penalties. In the last edition of InTouch (issue 25), we took an in-depth look at what this could mean for the taxpayer and highlighted the concept of 'reasonable care'.

HMRC recognises that mistakes do happen; most of us are only human after all. But now with the onus resting firmly on the taxpayer to ensure that their own books and records are accurate and correct, we are concentrating on what you can do to protect yourself from incurring penalties.

The key to reducing the penalty risk is to ensure that you take 'reasonable care', which includes:

- Keeping accurate records to make sure that your Tax Return forms are correct
- Checking what the correct position is when you don't understand something
- Telling HMRC promptly about any error that you discover after filing your Tax Return

What records do I need to keep?

This will depend on your individual circumstances, but it is essential that all records that you are required to keep are kept up to date.

For the self-employed, partnerships, companies and landlords, HMRC has laid down the bookkeeping requirements, which include:

- The regular maintenance of an analysed cash book, recording the receipts and expenditure of the business;
- Maintaining purchase and sales ledgers, and a nominal ledger, dependant on the size and complexity of the business;
- Keeping supporting documents including bank records, business account statements, deeds, contracts, vouchers and receipts. Also, if relevant, valuations, calculations and evidence of any private use adjustments and goods taken for own use, work-in-progress and bad debts;
- Complying with the specific bookkeeping requirements as set down by company law.

If you keep computerised records of accounts, then appropriate provision must be made to ensure the safety of those records and you must have a secure backup procedure in place.

The largest businesses are also required to nominate a director to be responsible for the company's records and for ensuring all tax liabilities can be correctly calculated.

Everyone should keep all records that are required to make a correct and complete tax return. These records include:

- Dividend vouchers and any written statements that you may receive in connection with any qualifying distributions that you receive from a company;
- All documents which show that income tax has been deducted from any payments that may have been received such as payslips, P60s, P45s, receipts of bank interests etc

For help and advice on the types of books and records that you should keep to reduce your liability to penalties, please contact us on **01622 690666** (Maidstone) or **01923 771010** (Rickmansworth).



Your Partners in Business



Get prepared for the upturn.

Start a business?

During a recession, there will inevitably be redundancies but for some people, this can present an opportunity. Those wishing to take the chance to set up their own business should consider how it will be structured, so that it will benefit both the owner and the growth of the business.

Each situation is slightly different and in this article, we highlight a few of the main points to consider when structuring a new venture. Some businesses may be better run as a limited company from the outset and others could benefit by starting as an unincorporated entity, with the potential of converting to a limited company at a later date.

Today, it is very easy and relatively cheap to set up a limited company. Most small companies do not have to be audited and, in many respects, there is little difference in the day-to-day administration between a limited company and an unincorporated business. However, there are differences relating to the potential liability of the proprietor(s) for business debts if things go wrong, in year-end accounting and tax requirements, and in tax liabilities generally.

It is important to take proper advice from the outset, but there are some key points to consider:

- Whilst it may be easier to obtain funding for one type of structure over another, depending on who is providing the funds, there may be regulatory or other commercial restrictions on how a business is operated, which may determine the legal entity type.
- Provided the business has been administered correctly, the owners of a limited company may bear no personal responsibility for the debts of the business.

- If the venture is not successful and the company cannot meet its debts, or if the company is sued for damages arising from its actions, then provided it can be demonstrated that they have acted properly, the directors do not have to pay the debts for the company. If the business is run as a conventional partnership or merely in the name of the proprietor, that protection is not available.
- At the end of its accounting year, every company must produce accounts for filing at Companies House. These accounts are available for the public to inspect. In addition, information about the directors and shareholders of the company are held on record and, again, this information is generally available for inspection.
- The accounts have to follow prescribed formats and preparing the accounts will be more expensive than for an unincorporated business. An unincorporated business may have to report no more than a profit figure in a tax return and there is no public access to the information.
- The potential tax liabilities may be a large consideration. If taxable profits are less than £25,000 in 2009/10 or £30,000 in 2010/11, incorporating a business is unlikely to be beneficial. At these levels of profit, the saving in tax is approximately £1,300 to £1,500, before taking into account the additional administration costs.

Remember, there are a number of factors to consider and as none should not be looked at in isolation, professional advice should always be sought before a business begins to trade.

So if you are considering a new venture, or know someone who might like to become their own boss, contact us for more information on **01622 690666** (Maidstone) or **01923 771010** (Rickmansworth).

Read all about it!

News flash...

DSH says goodbye to Nancy

DSH has bid a fond farewell to Nancy Caldwell, a partner at our Maidstone office, who has retired after almost 28 years with the firm.



Nancy joined us as a graduate in July 1981. After flying through her accountancy exams, she qualified three years later, was made a partner in 1997 and was part of the Audit and Business Services team for DSH.

"I graduated in zoology from Durham, which I know is an unlikely choice for an accountant," she said, "but I have been able to use my family's farming background over the years as many of my clients have been in farming."

"I entered the profession at a time when women were in a minority, but that has changed over the years." She added: "I will miss the people I work with the most, and filling in timesheets the least."

Nancy's retirement plans include spending more time with her extended family, enjoying playing golf and travelling.

Philip Wilson, Chairman at DSH said: "Nancy has been an invaluable part of our team at DSH over the past 28 years. She will be missed and we all wish her well for a happy and fulfilling retirement."

Moving up the Accountancy Ladder

DSH are pleased to announce the following changes in the Maidstone office:

Hayley Kingsnorth has been promoted to Business Services Manager. Hayley, who is ACA qualified, has been at DSH for almost four years. Her new role will allow her to get more involved with clients and make recommendations based on her knowledge of their businesses. She will also be responsible for organising and monitoring the performance of the Business Services Team.

Jon Manley, who has been with us for 31 years, has taken on the role of Group Accountant, having previously been the Business Services Manager. He takes over from Trevor Partridge, who has retired after 22 years with DSH.

Sarah Jennings will be taking on the role of Account Manager. She will work closely with the Partners to maintain strong relationships with clients, providing a constant point of contact and ensuring the firm's high standards of service are adhered to.

We would like to congratulate them all and wish them well in their new roles.

DSH working for charities

In the last issue of InTouch, we announced that the Maidstone office would be supporting the Heart of Kent Hospice (HOKH) as its chosen charity for 2009. Since then, a number of fundraising activities have taken place in aid of the charity and to date, more than £1,000 has been raised!

"We held a successful dress down day and two raffles to celebrate Valentines Day and Easter, which generated more than £240," commented Ben Knowlden, one of the charity co-ordinators at Maidstone. "And in April we sponsored the Kent Messenger Charity Abseil, where the proceeds we raised benefited the HOKH."

Steve Carpenter and Wendy Honeysett (pictured) and ex-employee Kate Blandford took part in the event, which saw them abseil the 100ft wall of the Fremlin Walk Shopping Centre in Maidstone, raising £800 in sponsorship from colleagues, family and friends.



The Rickmansworth office has announced its charity of the year, which for 2009 will be split between two deserving local charities;

The Paul Strickland Scanner Appeal, which provides vital CT and MRI services to the NHS and private health sector, and The Richard Thomas Leukaemia Fund, which funds research into the disease and provides equipment for the Northwick Park Hospital.

Charity co-ordinator at Rickmansworth, Jolene Upshall said: "We are pleased to be supporting these charities, and intend to undertake a series of fundraising activities including dress down days, cake sales and auctions."

For Comic Relief, staff at both offices held a dress down day and cake sale, sold scratch cards, as well as sponsored a member of staff to dye their hair red, raising a total of almost £450.



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