SOWERBY

CHARTERED ACCOUNTANTS

AUTUMN NEWSLETTER

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"The events of the last 18 months have highlighted that our clients welcome regular updates regarding topical business and tax issues in an easy to digest format. Following the success of our news blasts throughout the pandemic we have now developed our Sowerby Newsletter. Brought to you quarterly, the articles will cover technical updates, legislation changes, tax advice and analysis. We appreciate that not all the articles will be relevant to everyone, but we hope that the wide-ranging items covered over the coming months will relate to the items that you as businesspeople face and how we, as your trusted advisor, can help".

- Richard Skewis

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COMMENT

INTERNAL OPPORTUNITIES - THE HIDDEN BENEFITS OF LOCKDOWN

Over the last 18 months you will have become increasingly familiar with terminology such as 'furlough', 'CBILS', and 'discretionary grants' and how such sources of funding have in many cases been a life preserver for businesses struggling to trade through the Covid-19 pandemic. However, with furlough drawing to an end and loans now requiring repayment, some of the fire-fighting methods that may have been enough to see businesses through lock-down must be replaced by strategic planning for the future. With a long route back to normality, simply 'surviving' does not appear to be enough.

In a world of constant change, it is often inviting to look for the big opportunities and alterations that can enhance your business moving forward. However, sometimes a back-to-basics approach can help us understand how the small details that are often taken for granted can be the key to business growth.

Here at Sowerby, as businesses begin to regain some semblance of normality, we are encouraging our clients to consider what they learnt during lockdown, both the positives and negatives and how this can be applied looking forward.

For instance, many businesses have managed to run on a reduced staff rota for the preceding months. Yet there is a risk that these short-term efficiencies may not yield long term positives. Whilst fewer staff are currently managing the workload normally done by more staff members, management need to consider whether this is likely to continue going forwards without risk of staff burning out or morale plummeting.

The majority of people have faced Covid-19 with an acceptance that they will be required to complete actions not normally expected of them, and in the main have done so without complaint. It is not likely this will continue forever. That being said, it is possible that lockdown brought to light much information regarding staff members skills, attitudes, and also systems and processes that had been hidden in the background before.

We need to be careful not to base everything on a pandemic situation that will hopefully never be repeated, but the information gleaned should not be ignored. For many businesses who were forced to close their doors or greatly reduce operations, this is an unheard-of opportunity to start again with a blank slate and ignore the cliché of 'if it's not broken don't fix it'.

Maybe you have a staff member who has shown themselves to be resilient and quick thinking and would be suited to a higher-level role you would never have considered before. Or, maybe you have found a department whose low output has been hidden by full scale operations. This is the time to consider these elements further and push back the impulse to return to the old normal as soon as possible.

The country being in lockdown has changed the mindset of many people in a way that may maintain, and as an organisation you need to consider whether, going forwards, customers will continue to come to you in the same way. Do you need to upgrade your website, or your telephone service to cope with more virtual enquiries? Have you been relying on a footfall that may not return even after people are more comfortable? People as a whole don't tend to like change, but over the past months we have all had to get used to adapting to it. Now is the time therefore to push changes through, they don't have to be covid related but if for instance, you see an opportunity to change your route to market to secure future growth. Look at implementing these changes now, when they are less likely to alarm people.

This leads us nicely to consider the final point of this article - Corporate Social Responsibility. People are becoming more aware.

Engagement with press and publicity has never been higher and gone are the days where people don't focus on the social responsibility of businesses. A high bar has been set for businesses to not only consider basic morals and ethics, but to consider the full supply chain and to work hard to improve the environment and community around them.

This may sound like something that pales to insignificance when businesses are struggling to keep trading, but it has created a positive trend. For years, small businesses have been pushing people to try and shop local and to support community businesses. Lockdown seems to have finally made this an emerging reality, with customers showing a strong loyalty to those small businesses that are pushing to support their community.

The above points are not ground-breaking in any way, but their effectiveness should not be ignored. In a time when everyone is looking forward to a future with less covid restrictions, don't forget to look back and review what lessons were learned that could offer some significant opportunities for your business going forward.

For more information on strategic planning and business systems, please contact your Relationship Partner or Elizabeth Blanchard.

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BUSINESS

DEBT REFINANCING CASE STUDY

Our business advisory team recently completed a complex debt refinancing for one of our long-standing clients. With group term debt coming up for renewal, Sowerby worked with the client to show them the opportunities associated with moving banks and how this could be achieved without incurring breakage costs.

INITIAL SUPPORT

The client operates across several different sectors which are combined under a group structure with security provided across the group. The existing facilities included long term debt, asset, and invoice financing across several financial institutions. We had noted that break clauses were available to the client in the current review, and therefore advised that now was a good time to review.

Our initial fact-finding meeting with the client allowed us to fully understand what the directors were looking for. Our knowledge of the business led the directors to the decision that they no longer wanted to maintain an Invoice Financing facility, as they found it added a significant amount of cost, due to charges and staff time allocated to the reporting elements.

WORK INVOLVED

We initially prepared 3-year cashflows for each of the businesses within the group, working with the directors on a detailed review of future trends and opportunities to ensure they gave a true reflection of the predicted future results. We also discussed the future aspirations for both the businesses, directors, and shareholders to ensure there were no other financial commitments that may be required and ensuring that the stakeholders had considered the future.

However, our business advisory support is not restricted to cashflow preparation. Our team organised and attended several meetings with high street and specialist banks during which we ensured that each lender had a clear understanding of the client's goals and aspirations, as well as their financial status, so they could appreciate in detail the figures being discussed.

Our detailed knowledge and approach ensured that all the financial institutions approached were able to offer terms to the group. Once these offers were received, we were able to provide our client with a summary and comparison, and advise the best option for them based on their goals and aspirations, after stress testing each offer to ensure some form of headroom should the unforeseen occur.

The decision on the best offer was based on:

- Cost
- Interest rate
- Covenants
- Flexibility of borrowing

"We have been a client of Sowerby LLP for over 40 years. The extensive knowledge Sowerby's have of our business and the communication and advice we received from them was invaluable to achieving a smooth refinancing process"

John Bird

THE RESULT

Our client managed to achieve their goal of restructuring their debt, whilst reducing the cost of servicing this debt significantly. Our knowledge of the client and extremely good working relationship with the financial institutions ensured a successful outcome for all concerned.

If you would be interested in hearing more about the financing options relevant to your business, contact your Relationship Partners or the manager of the Business Advisory team, Phil Silvester.

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ADVICE AND BEST PRACTICE

NATIONAL INSURANCE CONTRIBUTIONS

The Government recently announced that there will be an increase in National Insurance Contributions (NIC) from April 2022, but what is it and how will it impact you and your business?

WHAT ARE NATIONAL INSURANCE CONTRIBUTIONS?

The state benefit system is funded by the NICs currently made by UK workers. For example, state pension, unemployment benefits and the NHS. There are 4 types of contributions that can be made which depend on your salary and the type of employment you have.

This National Insurance increase is separate to the standard NI paid currently.

The increase in NIC will begin in the new tax year and then, in the following year will be separated out as the standalone Health and Social Care Levy, which will be shown separately on payslips.

This new contribution will be paid by all working adults, including workers over the state pension age – unlike other NICs.

WHY IS THE NEW CONTRIBUTION BEING BROUGHT IN?

There are huge NHS backlogs, which is no surprise due to the strain of the pandemic. These taxes are going to be legally reserved for clearing this and a reform within the care sector. Currently, anyone with assets worth more than £23,250 must fund their care home fees in full. Changes to this are to be brought in which the increase NICs is intended to help fund.

- The Government has confirmed that from October 2023, anyone in England with assets under £20,000 will have their care costs fully covered by the state.
- Those with between £20,000 and £100,000 will be expected to contribute towards their costs but will also receive state support.
- Anyone with more than £100,000 worth of assets, including property, won't receive state support.

There is also a cap of £86,000 to be brought in on the amount anyone in England will need to spend on their personal care over their lifetime.

HOW MUCH IS THE NEW CONTRIBUTION?

Certain NIC rates will increase by 1.25 percentage points from April 2022.

This remains the same percentage for standard rate taxpayers through to the higher rate taxpayers.

This increase will apply to Class 1 NICs paid by employees and Class 4 NICs paid by self-employed workers. It will be collected in the same way current contributions are, either through PAYE or Self-Assessment.

Employers will also be expected to increase the amount they contribute from 13.8% to 15.05% of employees gross wages.

Class 2 self-employed NICs and Class 3 NICs, which are voluntary payments made to top-up state pension gaps, are not impacted by the levy.

The levy will also not be taken from pension income.

DIVIDENDS

Dividend tax is a tax on money distributed to you by a company you hold shares in, usually when the company has made a profit.

The Government will also increase the rates of dividend tax, which are payable on dividend earnings of above £2,000/yr.

Depending on your other earnings and the size of the dividends you receive, there are 3 different tax rates, all of which will increase by 1.25 percentage points.

- Ordinary rate is currently 7.5%. This will be increasing to 8.75%
- Upper rate is currently 32.5%. This will be increasing to 33.75%
- Additional rate is currently 38.1%. This will be increasing to 39.35%

An additional point to mention is that the tax paid on overdrawn directors' loan accounts is directly linked to the dividend rate so it is also likely to increase by 1.25%.

Taxable dividend income excludes dividends earned from investments held in ISAs.

With the new rates becoming effective in the next tax year, it is important to plan as soon as possible. We are on hand to assist with cash flows and projections should you require them.

For any enquiries on the above or further tax compliance issues please contact your Relationship Partner or our Tax Manager James May.

JAMES MAY - TAX MANAGER

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Two weeks ago, Sowerby attended the Yorkshire Accountancy Awards in Leeds. Shortlisted for four awards, the night was a culmination of the hard work and effort all the Sowerby team have put forward over the previous months.

During the pandemic we have also had three staff members gain fully qualified status, a true feat with final exams being moved to remote locations and teaching being done online.

Our payroll team have submitted over £5.3m in furlough claims and offered an expanded service since day one of the pandemic, in supporting our clients in understanding the often technical and ever-changing rules of the job support grants.

With staff showing such commitment to Sowerby and our clients, the partners have launched a new initiative this quarter to allow all staff birthdays to be taken as an extra day of holiday. We're also looking forward to our yearly staff conference which entails a night away in Harrogate and a chance to celebrate a successful year.

It is our belief that client engagement for Sowerby has never been higher. As the first lockdown was announced, Sowerby took the decision to offer a full support service to all clients, being available whenever required to answer queries, produce documentation and generate sometimes daily information articles, explaining the government support that was coming in.

We produced seminars with local solicitors and the Humber Growth Hub as we fulfilled our aim in providing whatever support we could to local businesses.

Since the spring of 2020, Sowerby has also been very active in assisting our clients in crystallising their wealth, working on the sale of three multimillion pound businesses. We have not only assisted our clients in achieving their goals of a sale, our collaborative approach has also ensured that existing business owners have recommended us to the new buyers, meaning that Sowerby can still continue to help the business grow.

Our team sees no reason to falter in this support now. In fact, we would also like to help those that may have been impacted by the pandemic and the restrictions it created on a more personal level. As such, we have decided to undertake the challenge of walking the Yorkshire Three Peaks for Macmillan Cancer Support in October. This challenge consists of a 38km trek at night to summit the three peaks - Ingleborough, Whernside and Pen-y-ghent. We will start as the sun sets, and aim to reach the final peak as the sun begins to rise.

The walkers are currently training hard, and we look forward to updating you on their progress.

We would like to take this opportunity to thank everyone who has donated.

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