



SOWERBY

CHARTERED ACCOUNTANTS

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NEWSLETTER

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"Happy New Year!"

'Out with the old and in with the new' as the saying goes, and with that some positive news that the economy grew by 0.1% in November. Whilst there are still significant headwinds to overcome, now is the time for all business owners to review their business plans and ensure they will deliver what they require for the future.

Our newsletter will give you some ideas of the issues facing businesses, and we are ready and waiting to help you and your business through 2023 and beyond."

- Richard Skewis



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COMMENT TRUSTS – THE BASICS

WHAT IS A TRUST?

Our Autumn newsletter advised on the importance of Estate Planning, the consideration of Inheritance Tax and the importance of a well written Will. However, a Trust can also be an incredibly useful estate planning tool. In its most basic form, a Trust is a legal arrangement for managing assets, for example cash, land, property, or shares and unlike a Will, which comes into effect when you die, your assets can be transferred to certain types of Trusts when you are still alive, and the Trusts can continue to hold everything after your death.

TRUST TERMINOLOGY

The individual who places the assets into a Trust is known as the “Settlor” and it’s usual for the Settlor to specify how the assets are to be used and these instructions form a document called the “Trust Deed.”

Every Trust is managed by its “Trustees”. The Trustees maintain the assets in the Trust according to the Settlor’s wishes, as set out in the Trust Deed, and become the legally appointed owners of the assets held within the Trust. There must be at least one Trustee per Trust but in normal working practice it’s usual to have at least two. It’s also common practice for one Trustee to be a professional like an Accountant or Solicitor.


The “Beneficiaries” are defined in the Trust Deed as being those who will benefit from the assets held in the Trust. This may be an individual, family or just a specified group of people. The benefits passed on through the Trust define the type of Trust. Some Beneficiaries may receive income from the Trust, for example the income from a share portfolio, or the rent from property. Some may receive the capital (physical assets) in the Trust, for example a family home when they reach a certain age. Finally, some Trusts specify that both income and the capital can be distributed to the Beneficiaries.

WHY SHOULD YOU HAVE A TRUST?

Too often Trusts are thought of as a planning tool only available to significantly high wealth individuals, leaving them often under utilised by those who have a reasonable asset holding. However, there are several different types of Trust that can be employed depending on the amount and type of assets in the Trust and how it will be used in the future, significant stock holdings, for example, are not a requirement.

In its most basic form, a Trust enables the control and protection of the assets placed within it and can offer your loved ones financial stability for their future. This may be required because the proposed beneficiary of these assets is too young to handle the responsibility at the time, are incapacitated, or are simply not in a position to deal with the assets they are being provided. Trusts often mean that although you may be placing money/property somewhere you have no right to access it, you can still retain control over how the assets are used.

Trusts allow much more tailoring than details contained within a Will and can be used to protect against potential divorce or bankruptcy, plan for care home fees and split benefits. For instance, you can specify who benefits from your assets in a very in-depth level - one Beneficiary of the Trust may be able to live in a property but if sold the money can go to a different Beneficiary.



A Trust offers you this control, even if you're no longer alive to make decisions yourself. When you set up a Trust, you decide how it's managed. For example, you might state that your Beneficiaries will only gain access to your estate once they reach the age of 25, and the Trustees can continue to take into account your wishes even after death when deciding how and when to pay out funds to Beneficiaries.

This Trustee support is also a benefit for Beneficiaries who you worry may be easily influenced into using money unwisely. Certain Trusts allows Trustees to decide when and if to give money to the Beneficiary so that they can't just fritter the money away or allow others to take advantage of them.

You may also be concerned about your own health in the future and may want to ensure that your resources are preserved, managed and spent in line with your wishes today and not a concern for the future, for instance a Will may have no legal effect if you are incapacitated.

It is clear therefore, that Trustees hold a place of key importance and you must therefore be very careful in appointing people to this position.

DIFFERENT TYPES OF TRUST

There are many types of Trust, but the most common forms are:

- **Bare Trust** - the most basic form of Trust with very little formal structure. These Trusts are commonly used to pass assets on to young people when they reach a certain age.
- **Interest in Possession Trust** - a Trust where the Beneficiaries are entitled to the income generated by the Trust but not the capital itself. These are often used to provide income to a surviving spouse with assets in the Trust being eventually passed onto children after the surviving spouse passes away. These ceased to be as common after 2006 when the HMRC changed certain tax treatments.
- **Discretionary Trust** - where the Settlor charges the Trustees with the powers to administer the Trust, normally as set out in the Trust Deed. There is no predetermined right of income for the Trust Beneficiaries. This type of Trust is typically used for future needs or for Beneficiaries who aren't able to deal with the management of any provision themselves, for any reason.
- **Trust for a Vulnerable Person** - Set up specifically to look after assets for a vulnerable person due to their lack of capacity.
- **Will Trust** - Is simply a Trust that has been defined by your Will and will come into force on your death.

IS A TRUST USED TO SAVE TAX?

Primarily no, a Trust's purpose is control. However, where a Trust is used to control an income bearing asset and the Beneficiaries of the Trust have no other form of income, for example children, the Beneficiaries unused personal tax allowance can be utilised, instead of being potentially wasted, which in turn will reduce tax. There are also some advantages for Inheritance Tax (IHT) or Capital Gains Tax on certain assets, which comes in the form of delaying the tax due, but this is only a deferment, not a tax saving.

All assets settled into a Trust are subject to IHT. For individuals who haven't already utilised their IHT lifetime allowance you can transfer up to £325,000 worth of assets into a Trust without a tax charge. However, for transfers over that amount, or where the allowance has already been utilised, there is a 20% IHT charge due on the value settled. There are also subsequent smaller rate IHT charges on every 10 year anniversary of the Trust, or at the point assets are transferred out of the Trust, or the Trust ends. It is also important to note that income from a Trust is taxed and declared yearly just like an individual through the HMRC Self-Assessment system.

HOW DO I START A TRUST?

If any of the above points sound like something you could benefit from then a Trust could be the right choice for you.

Setting up a Trust is a very precise process with the formal work normally being undertaken by a solicitor. This can be performed at any time or even written into your Will. However, before you get to this stage you may want to talk about your estate and your aims for the future with someone who understands the assets you hold and the overall impact any Estate Planning will create.

Therefore, if you think a trust may be of use for you or you have queries about the benefits of an existing Trust, please contact your Relationship Partner or Patrick Scargill to arrange a consultation.



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BUSINESS RENEWABLES

RENEWABLE ENERGY AND YOUR BUSINESS

Our previous newsletters have covered a number of topics surrounding green initiatives and the impact of energy costs, including a detailed commentary on domestic solar panels and a consideration of how businesses can become more energy efficient using their current resources.

However, the subject of sustainability is not one that is going to fade into the background, and we increasingly see our clients asking us for advice on how they can improve their 'green' rating, alongside what the benefits of renewable energy really are. Whilst various incentives initially provided by the government are no longer open to new applicants, such as Feed-in Tariffs (FIT) and the Renewable Heat Incentive Scheme, there are still numerous options for businesses to consider if they are keen to become more carbon friendly and boost efficiency along the way.

A renewables focused approach to sustainability can cover many options, not least:

- Solar Panels
- Wind Turbines
- Heat Pumps
- Biomass Boilers

SOLAR FOR BUSINESS

Solar panels are perhaps the most recognisable element of renewable energy and installing such visual items can often clearly boost your green credentials. If your business has adequate roof space, then installing solar panels can earn you a return on investment and offers a modicum of certainty in the current unstable energy market. However, despite falling costs of installation there is still a substantial outlay.

The approach you take to commercial solar panels will be dictated by the amount of space your business has available. A smaller roof space where you pay for the installation yourself will normally start receiving a profit after ten years with an average small system costing between £5,000 and £10,000. However, if you have a large piece of land you may look to rent the space out to an energy company or solar panel installer / investment company, removing the risks of investment and construction. Whilst less common, if you share ownership of a building with other businesses, there is always the option of collaborating to bring down the costs and provide a more sustainable investment and resulting energy profile.

WIND POWER

Less accessible to all than solar panels is the option of Wind Turbines. A large requirement of land in a non-urban area is the general requirement for Wind Turbines, though there are possibilities regarding building mounted turbines.

Generally, Wind Turbines have a greater initial cost than solar, an average life of 25 years and will incur maintenance costs. And whilst planning permission is rarely an issue with solar panels, planning permission is much more likely to be needed for a Wind Turbine.



Turbines bring many of the same benefits as solar panels, however if your business owns a large area of rural land and is considering renting this out for renewables construction it is important to note that despite the large area needed for the installation of turbines, unlike solar panels a very small percentage of the land is actually taken up by the turbines.

For both these options, with the removal of FIT incentives for new entrants, the major initial benefit is the fact that you are effectively forward buying your electricity at a set cost, this makes it much easier to consider financial forecasts and provides a level of protection against fluctuating energy costs. The Smart Export Guarantee (SEG) also took effect in January 2020, and businesses can potentially experience financial gain from exporting excess energy back to the national grid, there are also options regarding battery storage, which allows your business to store its unused energy for later 'rainy days'.

HEAT PUMPS

Heat pumps can be a long-term cost-effective solution to heating a busy office. The most common heat pumps are Air or Ground based, though they all work in relatively the same way to draw valuable heat energy from the air, land and water around us and use a small amount of electricity to transfer this into properties.

Heat pumps, once installed, shouldn't need regular maintenance and could last between 10 and 25 years. They are shown to improve air quality, emit minimal noise and can also be used for air conditioning.

They can cost in the region of solar panels for initial investment, but they are significantly more efficient than electric heating alone. Heat Pumps can also fall under the Boiler Upgrade Scheme provided by the government, meaning your business could get a grant to cover part of the cost of replacing fossil fuel heating systems with a heat pump or biomass boiler.

It is important to note however, that whilst heat pumps are being used more and more in new commercial buildings, older properties tend to have too many cavities and drafts to make the return worth the investment

BIOMASS BOILERS

Biomass is a renewable energy source, generated from burning wood, plants and other organic matter, such as manure or household waste. It releases carbon dioxide when burned, but considerably less than fossil fuels.

As with all the items considered here, it does have a significant outlay, though depending on your business it can also help with the disposal of waste wood material, creating a system that is self-sustaining.

Biomass boilers do fall under the Boiler Upgrade Scheme but will require maintenance and repairs throughout their life

OVERALL CONSIDERATIONS

It would be impossible to outline all the pros and cons of renewable options in one article. However, the above should make it clear that there are a few fundamentals that should be considered before your business moves into a detailed consideration stage:

- How much physical space does your business have to utilise?
- How much will a prominent, public facing projection of your green values benefit your business?
- How much are variable energy prices currently affecting your business?

All of the options above have a significant outlay (excluding land rental) and in terms of return on investment it is likely to be a number of years before this is seen. However, all possibilities also have supportable useful lives, so it is relatively simple to draw up forecasts showing the on-going impacts of any installations and the grant and support opportunities for initial funding are currently strong.

You can also claim capital allowances when you buy energy efficient, or low or zero-carbon technology for your business. This reduces the amount of tax you pay.

Therefore, whilst the above options may not currently be a necessity for many businesses, for those looking at future proofing, utilising unused land, or boosting sustainability, there are numerous benefits available, not least a more sustainable outlook for future generations.

Should you be interested in discussing how renewable energy can form part of the next steps for your business please do not hesitate to contact your Relationship Partner or Elizabeth Blanchard.



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ADVICE AND BEST PRACTICE

PITFALLS ON INCORPORATION

With the frequent announcements, and reversals, from the government in the last year regarding tax rates, and the specter of Covid-19 impacts on businesses that are still being felt by many, one question we get asked a lot at Sowerby is, "should I incorporate my business?".

This is a question that does not have a one size fits all answer and it is a decision that should only be made after seeking advice from your accountant, who should have a true understanding of your business and your aims and aspirations.

However, there are some key elements that everyone asking themselves the above question should consider.

MINIMISING PERSONAL LIABILITY

One of the clearest differences between a non-incorporated entity and an incorporated entity that exists, no matter the industry, is the fact that becoming incorporated offers a legal separation between the company and its directors.

For instance, if you're a sole trader, the business and the owner are the same entity. Therefore, if the business is taken to court, the owner is taken to court. The owner is personally liable.

However, with a limited company, the risk stays with the company and to most extents the directors aren't liable. That is not to say that the directors can act without due care and attention. To avoid personal liability the directors must always be able to show they have acted with reasonable care, skill and diligence and in the best interest of the company.

Many business owners feel reassured if they have the protection of a limited company, especially if they are working within a high-risk sector.

CREDIBILITY


Even before the impact of Covid-19 and the current economic outlook, many people already placed more trust in limited companies, and this is a trend that does appear to be growing. Whilst this is not a comment on the reliability of sole trader businesses; there are many respected sole trader businesses in operation, it is more a reflection on how people are coming to rely upon readily available information.

A limited company is required to register with Companies House, obtain a registration number and file statutory accounts. All of these aspects make it easier for credit checks to be undertaken and for people to gain information about the status of the company, meaning both suppliers and customers may decide working with a limited company is preferred.

TAX

This is something that is unique to each individual situation. A company pays Corporation Tax on the profits made. Directors and shareholders then pay Income Tax (at a variety of rates) on money extracted from the company.

A sole trader's profits are charged directly to Income Tax.



There are benefits and disadvantages of each tax structure depending on personal circumstances. Tax efficiency is important and you should always check with your accountant before proceeding. Based on recent changes there may be little difference in tax impacts, and other considerations may therefore gain more importance.

RAISING CAPITAL

Your business may need investment to continue growing. Whilst this links to the credibility considerations, if debt finance was to be sought, it is also only a limited company that can sell shares to raise capital.

It is important to remember that selling shares for SMEs is not like share sales for listed companies however, and just because the opportunity for investment is available, it does not necessarily mean an interested investor can be found.

PUBLICITY AND COMPLIANCE

At odds with the positive connotations of credibility offered from incorporation comes the consideration that company records are made public. Therefore, all suppliers and customers can see how the business is performing, who is in control of the company and any charges for security against the company (to name a few).

For sole traders the profits or losses made are not divulged to the public, and whilst small companies currently have some filing exemptions at Companies House, this looks set to change, meaning that both suppliers and customers will have more information on which to base discussions on prices etc.

With the production of this public information for companies necessarily comes more cost as most companies seek the services of an accountant to ensure their statutory duties are completed. This, along with a greater requirement for internal bookkeeping to support the end result, does mean that the compliance cost is higher for a limited company than for a sole trader.

WHAT SHOULD I DO?

The above list is not exhaustive. There are many options to consider when thinking about incorporating your business and they cannot be considered in isolation. There are numerous advantages, but these must be weighed against the additional time and cost considerations. Your first step must be to speak to your accountant who can guide you towards the best route forward.

If you'd like to know more about your incorporation options please contact your Relationship Partner or Adrian Allen.



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SOWERBY

Well, another quarter has gone and as always we have had a lot going on.

We have another welcome addition to the Sowerby family. Cole has given birth to a beautiful baby girl. Mum and baby Mila are both doing well.



Kathy Griffin

Louise Smith

We would also like to welcome Kathy Griffin and Louise Smith to the team.

Kathy joined us in November as part of our front of house reception and administration team. After living in New Zealand for the past 25 years Kathy returned to the UK last year and started a new chapter of her life in Beverley.

Louise joined us in December as Audit trainee. Having already completed a year of her training at another practice Louise is now looking forward to continuing her apprenticeship journey with us.

East Riding Young Farmers Ball

To celebrate 101 years of Young Farmers a group of colleagues attended the East Riding Young Farmers County Ball at the Bonus Arena in December. Sowerby was one of two main sponsors and a great night was had by all.



(Photo credit: MyBibNumber)

Charity Challenge

And finally..... we can announce our next charity challenge.

As if the Yorkshire 3 Peaks at Night wasn't enough, on Saturday 1st July 2023 we will take on the Total Warrior Challenge.

Thanks to our colleague Gayle who brought this challenge to our attention after taking part in 2017 and 2018 (see photo evidence!), a group of us will be heading to Bramham Park in Leeds to undertake the 12k course which consists of 25 punishing obstacles, 10 tons of ice and 100 tons of mud, all for a free beer and of course as many charity donations as we can raise.

We will be announcing the chosen charity and how to donate in due course, all donations will be greatly appreciated.



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