Welcome to the November 2017 edition of Your Business - our regular round-up of news, views and advice specifically for growing companies, their owners, directors and shareholders. Please get in touch with any of our team members if you have any questions.

How to reward your staff – without paying the penalty

If approached incorrectly, awarding shares to your staff can be extremely expensive for both you and your employees.

The HMRC-approved Enterprise Management Incentive (EMI) scheme has been the preferred and most tax-efficient option in the majority of circumstances, and this remains the case today. However, we have seen many businesses fail to implement their EMI schemes properly – often resulting in unexpected tax bills for both the company and the employee. That is why care should be taken from the very first tentative step in awarding shares to ensure that you don't create problems for yourself later on.

Drawing on recent experience from a number of sectors, we have compiled a list of 'Do's and Don'ts' that you may wish to consider when awarding shares to staff.

DO obtain a reasonable and honest valuation of the shares that you plan to award to your staff before you make an award. Even if the employee is paying for their shares, any discount that they receive will be subject to Income Tax through the self-assessment process or potentially PAYE, with National Insurance consequences.	**DON'T** delay. Shares are taxed on the value at the time that they are issued, not promised. If you've employed someone to grow the value of your company and the plans work out, the shares will be worth more (and therefore liable to more tax) if they are not issued until some later date.
DO think about the long term. How is the employee going to realise the value of their shareholding? What will happen to the shares if the employee leaves?	**DON'T** assume that forfeiting a bonus or salary to receive shares will constitute the employee's payment for those shares. Those 'payments' haven't attracted payroll taxes, so HMRC will still consider them as a discount for the employee (and will levy Income Tax on this discount).
DO consider EMI share options, as opposed to outright share awards. Share options can offer considerable benefits and flexibility for the employer, if they are practical to adopt.	**DON'T** do anything without obtaining suitable professional advice at as early stage as possible.

If you would like more information about tax efficient staff incentive schemes, please contact **Chris Riley** on criley@pkf-littlejohn.com or +44 (0)20 7516 2427**.**

PKF Littlejohn wins at the British Accountancy Awards

Our Escalate dispute resolution process was named 'Innovation of the Year' at the 2017 British Accountancy Awards.

Escalate is revolutionising how businesses manage their disputes by removing all financial risk, giving transparency on process and pricing, and ensuring that the claimant remains the main beneficiary on settlement.

- **No financial risk –** you don't pay out unless we reach a successful settlement
- **No initial outlay –** we pay for all of the up-front costs, such as court fees
- **Rapid results –** we aim to get your money back in just three months; if we can't settle quickly, we have the financial backing to support you all the way to the High Court
- **A fixed fee –** providing complete transparency from the start.

Read our guide to the commercial dispute resolution process.

We are already helping to unlock over £10 million in cash for businesses involved in a wide range of disputes. If you have a dispute that is causing you a cash flow issue, please get in touch with **Chris Clay** on cclay@pkf-littlejohn.com or +44 (0)20 7516 2266.

Five tips to minimise fraud

Fraud is a serious problem for growing businesses. The latest estimates show that fraud costs the UK economy up to £193 billion each year and that businesses lose almost 6% of their annual expenditure due to fraud.

Protecting yourself against fraud and reacting effectively to fraud has never been more important. Fraud can lead to significant losses, reputational damage and, in the case of large frauds, potentially the loss of a business; effective fraud advice can help you significantly reduce costs and increase profitability.

Here are five tips for SMEs about how to tackle fraud:

1. *Prevention is better than cure* – Spending relatively limited amounts of time and money now could save you significant amounts of time and money in the future. Remember, the biggest threat to your business isn't always a financial one - the reputational damage caused by fraud, especially if it is shown that you made no attempt to minimise the risk, could be terminal. In particular, your cyber fraud prevention systems are key.
2. *Look for weaknesses* – There are many red flags that can give you an indication that all is not well. You're particularly vulnerable when cash payments are involved, so try and reduce these to an absolute minimum wherever possible. Internal fraud may be small in value but over time these small amounts could represent a significant loss. Always ask for evidence of expenses and periodically check a random sample in detail to make sure all is well.
3. *Strengthen your culture* – An anti-fraud culture needs senior management buy-in and has to be led from the top. It will take time to develop if it is to be successful. Consider introducing a fraud policy, a whistle-blowing policy and a fraud response plan. Place fraud as a repeat agenda item at your regular management meetings; this will focus your thinking on the constant threat to your organisation. Consider training your staff to look out for fraud indicators.
4. *Keep monitoring* – Tackling fraud is an ongoing challenge. Fraudsters operate in the same way as a virus, continually mutating once a solution has been found to stop them. Fraud monitoring should not be something which is reviewed once a year on a tick sheet; it needs constant review. If you want your organisation to become more fraud resilient, you need to continually work at reducing the threats.
5. *Don't bury your head in the sand* – Fraud exists in all organisations no matter how large or small. It's not good enough to say 'We don't have a fraud problem in our organisation'. The fact is that you probably haven't found it yet. Don't wait for it to hit you hard; think about what preventative measures you could introduce. If you spot something's amiss, get help sooner rather than later.

If you would like advice about how to properly protect your business against fraud, please contact **James Earp** on jearp@pkf-littlejohn.com or +44 (0)20 7516 2479 or **Martin Moore** on mmoore@pkf-littlejohn.com or +44 (0)20 7516 2320.

Does my business need help?

Nobody likes to admit that their business is facing difficulties. However, recognising early on that a company may have problems can buy you the time you need to seek help, turn the business around, refinance or sell. This protects management, employees and the company's key shareholders.

It is crucial that business owners pay attention to the warning signs that an organisation may be heading for trouble. This step-by-step guide can help you identify potential issues while there's still time to resolve them:

1. *Do you owe more than you own?* Take a stock-check of all your assets and compare them with all your liabilities, including any payments that are due shortly. If your liabilities exceed your assets, you may be heading for insolvency.
2. *Can you pay your debts?* Cash flow is crucial to a business and can cause problems even for growing businesses, where new people and equipment may be needed before customers will pay you. You need to make sure you can pay suppliers, employees and, particularly, your VAT and PAYE.
3. *How is your relationship with your bank?* You may need to borrow in order to boost your finances, especially when cash flow is tight. If you find that no lender will help, a small problem could become a crisis.
4. *Are you being pushed for payment?* If your suppliers are tightening your credit terms, pressing for cash or even threatening enforcement, then insolvency is becoming a real risk. If these issues end up in a court, it may mean that your choices for being in control of a rescue process or your company's future become limited.
5. *How is your relationship with key customers?* Having stock and cash flow issues can lead to dissatisfaction for customers, who may take their business elsewhere, leading to further financial problems.
6. *Are you losing money regularly?* Many companies will not make a profit each month; however, if you're regularly losing money, without receiving further investment, you may need to think about whether your company has a future.
7. *Are you distracted from your core business?* Spending increasing amounts of time 'firefighting', getting caught up in disputes or dealing with personal issues can lead to your core business suffering. Too long away from concentrating on essential operating activity can affect your business's viability.

There are a number of options for a business in difficulty, from entering into a Company Voluntary Arrangement, where an insolvency practitioner may be able to negotiate with creditors whilst you are protected from legal action, to restructuring finances or selling the business. If your business is showing two or three of the warning signs above, you should consider contacting a restructuring professional and get help to protect your company's future.

If you would like to talk to someone about any of the issues raised in the above article please contact **James Sleight** on james.sleight@geoffreymartin.co.uk or 0113 244 5141.

Don't let the tax man spoil your Christmas celebrations

With Christmas season rapidly approaching, it's easy to overlook seemingly trivial staff benefits such as parties, gift vouchers and late-night taxis which can be liable for Income Tax and National Insurance Contributions.

Using a PAYE Settlement Agreement (PSA) – which you agree annually with HMRC – can simplify the reporting process and ensure that there are no nasty surprises for staff.

Under a PSA, specified benefits in kind and taxable expenses are reported separately from Form P11D. Employers then settle directly with HMRC all income tax and NIC liabilities that arise from these benefits.

To be effective for a particular tax year, a PSA must be agreed by HMRC by 6 July following the end of that tax year.

For more information on **PSA, see our brochure** or contact **Ian Gadie** on igadie@pkf-littlejohn.com or +44 (0)20 7516 2256, or **Catherine Heyes** on cheyes@pkf-littlejohn.com or +44 (0)20 7516 2237.

In the News: How much further will interest rates rise?

As the Bank of England raises interest rates for the first time in over a decade, and with considerable uncertainty about the outlook for the UK economy, we look at the arguments for and against further increases to the cost of borrowing.

NO FURTHER RISES	MORE RISES TO COME
Fitch, the ratings agency, does not expect any more interest rate rises in the next 12 months, highlighting the negative impact of "Brexit uncertainty on the outlook for investment". It argues that caution from the corporate sector will force the Bank of England to tighten policy slowly - although it notes that "shrinking output gaps and tighter labour markets" mean that the central bank cannot be too complacent about inflation.	Capital Economics, on the other hand, believes that the UK economy is "weathering the uncertainty over Brexit well". As has been pointed out by some of the more upbeat commentators, the economy has performed better than the Bank of England's forecasts in the aftermath of the EU referendum, with economic growth stronger and unemployment lower. As a result, Capital Economics forecasts that there will be three further 25 basis point increases between now and the end of 2018, taking the Bank Rate to 1.25%.

Ask the experts

In each newsletter, our panel of experts answers a reader's question about an issue affecting their growing business. In this edition, Alan MacRae from our Funding Solutions team highlights a new form of financing that may help businesses that take regular payments from credit and debit cards.

Q: *My business receives most of its income through credit and debit card payments from customers. Can I use these payments as security against a loan?*

A: If you take regular payments through a credit or debit card terminal, you may be eligible for what's called a 'merchant cash advance'. You receive a lump sum based on the monthly volume traded through your card terminal, and this is repaid each time you take a credit or debit card payment. The fact that your repayments are linked to your income means that merchant cash advances can be particularly useful for businesses that have seasonal revenues.

For more information on funding for your growing business, contact **Alan MacRae** on alan.macrae@geoffreymartin.co.uk or +44 (0)20 7516 2265.

Have a question for our experts? Email **Julia Krol** on jkrol@pkf-littlejohn.com

What do you think?

What would you like to see in the Budget on 22 November?

1. Further reduction in corporation tax rates
2. More help for first time buyers
3. Further anti avoidance measures to target those who avoid tax

Click here to take-part in our survey

We hope you've found this issue useful. If people within your business would like to receive future issues, please send their details to Julia Krol (jkrol@pkf-littlejohn.com).

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact one of our Growing Business specialists.

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