Your business

News for growing companies

Welcome to the July 2018 edition of Your Business - our regular round-up of news, views and advice specifically for growing companies, their owners, directors and shareholders.

In this edition, we look at how to survive losing a customer, the latest award for our pioneering dispute resolution process and HMRC's forthcoming Making Tax Digital initiative.

How to survive losing a customer: part two – getting your business back on track

*In this second part of an article looking into how a business can cope with the sudden loss of a key customer, we examine how management can get their business back on track. You can read the **first part here**.*

We all know that is not good business practice to be over-reliant on one customer, but in reality, this is not always possible for many businesses. Once you have dealt with the immediate aftermath of the loss of the key customer, it is important to determine whether you can return to profit without that customer and any associated future sales with them.

This is not an easy exercise. You need to review your profit and loss forecasts and ascertain whether the income from your other customers is sufficient to cover the fixed costs of your business and generate a profit for you. If you need help with this, discuss with your accountant or contact a restructuring advisor who has expertise in forecasting.

Difficult decisions

If you cannot demonstrate profitability on your current fixed cost base, then you must review what fixed costs can be eliminated from the business. Whilst this may in itself cost money, you should seriously consider making the necessary cuts sooner rather than later. Unnecessary delays, in particular as a result of emotional attachment, can make the difference as to whether your business will survive or not. Cost cutting of this nature may mean initiating redundancies, cutting down on unnecessary expenses, taking a pay cut and possibly downsizing premises.

Once a plan has been drafted, you will need to look at whether you need additional finance to undertake the restructuring and bridge any working capital gaps in your current cash flow.

Whilst it is understandable that businesses at this critical time will be reluctant to take on more debt through traditional means (such as bank loans and increases in facility draw downs), there are other ways that may help alleviate short term cash flow pressures, such as:

- Time to pay arrangements with HMRC to help defer VAT and PAYE payments
- Discussions with key suppliers about extending payment terms
- Government loan assistance for necessary redundancy schemes
- Formal or informal Voluntary Arrangements.

It should be noted that following the collapse of Carillion, banks offered support to businesses affected by the insolvency and it is always worth discussing with your bank/financiers ways in which they may be able to assist in the short term. If you are unsure, get help from a suitable restructuring professional; engaging their services does not mean your business will fail.

Early warning signs

There are a number of steps that businesses can take that may provide early warning that a key client is heading for trouble.

Review all of your customers at some stage during the year by checking credit ratings, industry news and check your own records to see if there are any changes in their payment patterns.

If you are concerned that payment time is creeping or that a client is increasing its credit with you, you should contact them for a meeting at the earliest possible stage.

Finally, it is important to remember that all businesses change and evolve. If you are over-reliant on one customer, even if it makes you extremely profitable, consider how you can tap into new revenue streams that will broaden your customer portfolio.

A customer loss is rarely good news; however, if you plan properly it should not spell the end of your company. By being proactive, you will always be in control of your business rather than leaving its fate to others.

For more information, please contact **Stephen Goderski** on sgoderski@pkf-littlejohn.com or +44 (0)20 7516 2224.

Escalate: An award-winning process for unlocking cash from commercial disputes

Our Escalate dispute resolution process has recently been named 'Best Collaboration Initiative' at The Lawyer Awards and 'Innovation of the Year' at the British Accountancy Awards - the first time that a service has won awards in both the legal and accountancy sectors.

And the plaudits don't just come from senior figures in the accountancy and legal sectors - our clients are also benefitting from Escalate's unique approach, which removes all financial risk, gives transparency on pricing from the start, and ensures that the claimant remains the main beneficiary on settlement.

All businesses will at some point experience issues with suppliers, bad debts or stand-offs with other important stakeholders. Escalate is a proven process that can help unlock the cash that gets tied up in these inevitable bumps in the road.

Escalate can tackle commercial disputes of all sizes - from late payers owing a few thousand pounds to complex multi-million pound contractual disputes. We're already helping to unlock £20 million in cash for businesses involved in a wide range of disputes. If you have a dispute that is causing you a cashflow issue, please get in touch.

For more information, please contact **Chris Clay** on cclay@pkf-littlejohn.com or +44 (0)20 7516 2266, or visit our **website**.

Will you be ready for Making Tax Digital?

The Making Tax Digital (MTD) initiative is part of HMRC's plan to become 'a world leading digital tax authority'. But what does it mean for companies? Nick McChesney examines the issues.

HMRC's aim is to make tax reporting more effective and to make it easier for taxpayers to get their tax right using digital technology.

The first real implementation deadline for MTD relates to VAT. HMRC hopes that by doing so it will reduce losses in VAT revenue due to errors in VAT accounting. For return periods starting on or after 1 April 2019, VAT registered businesses with a taxable turnover above the VAT threshold (£85,000) in a twelve-month period will have to comply with the MTD rules. VAT registered businesses with taxable turnover on or below the threshold can sign up to MTD for VAT if they wish but will not be compelled to do so.

What will MTD entail?

All affected businesses will have to:

- Keep their VAT records digitally
- Transmit their VAT return information to HMRC from their digital records using an Application Protocol Interface (API) software platform, and
- Receive information from HMRC via the API platform.

All VAT accounting records will need to be held on 'functional compatible software'. Sources of VAT return data will need to be digitally linked to the VAT return so that transactions can be traced from purchase/sales ledger to VAT return completion and uploaded to HMRC's system without manual transcription.

At present, only the content of the nine boxes shown on the VAT return is submitted to HMRC; there is currently no facility to provide HMRC with supporting data in a digital format. Under MTD, software will allow businesses to submit supplementary data to HMRC. Although this will be voluntary, businesses that submit this data may be exposed to less rigorous compliance checks and should consider this option.

Will my business be affected?

VAT registered businesses with taxable turnover above the VAT threshold (currently £85,000) will have to comply.
Many smaller businesses or those which make only exempt supplies are not required to be registered for VAT. As MTD only applies if taxable turnover exceeds the VAT threshold, they will not therefore need to comply with the new MTD rules although business which are voluntarily registered and below the threshold can adopt the MTD rules if they wish.

For these purposes, taxable turnover will include sales made at the standard or zero-rate. Businesses supplying services to customers outside the UK, which do not attract UK VAT have the facility to be voluntarily VAT registered. This enables them to recover VAT on costs. However, these services are not zero-rated and so are not part of taxable turnover.

Businesses that receive services from overseas may find that they need to navigate the MTD rules. The system of VAT accounting for UK in-bound supplies can render the recipient liable to VAT if the supplier is established overseas. This obligation to self-account for the VAT is known as the 'reverse charge' and the relevant amounts are taken into account in determining taxable turnover.

How do I prepare for MTD?

Companies affected by MTD will need to have their systems in place to enable the first returns to be submitted digitally after 1 April 2019. This does not give long for decisions to be made over the adequacy of existing software and record keeping, to test compatibility and to ensure that system users are aware of the new requirements. The first steps businesses need to take are to establish whether the changes will affect them, identify current gaps in compliance and what needs to be done to implement the required changes.

We plan to work with a number of our clients to trial the new systems once HMRC's existing limited pilot testing is extended to a wider group of users later this year.

For more information, please contact **Nick McChesney** on nmcchesney@pkf-littlejohn.com or +44 (0)20 7516 2262, or **download our guide**.

In the news: What impact will Artificial Intelligence (AI) have on employment?

Workplaces are changing as technology advances, with Artificial Intelligence (AI), in particular, predicted to have a transformational impact on the business community over the coming decade. But could the widespread adoption of AI lead to mass unemployment? Or will it free us up to focus our working time on the areas where we can add the most value?

Yes	No
An influential study by Oxford University in 2013 concluded that 35% of jobs in the UK could be at 'high risk' of being automated over the next two decades. The authors argue that machines will be able to do whatever an employee can do better, cheaper and faster. Jobs requiring lower-skills with routine tasks are at most risk.	There appears to be an emerging consensus that roles that involve building and maintaining complex relationships are at less risk from the emergence of AI. In fact, our recent study on the impact of **new technology in the insurance broking sector** concluded that AI could provide an opportunity to free employees from mundane, time-consuming tasks and enable them to focus on work where human input makes a real difference.

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, Ian Singer, IT Assurance partner, considers the long term implications of the General Data Protection Regulation (GDPR).

Q: Now that GDPR has come into force, has it made any impact?

A: The 25 May GDPR implementation date may have come and gone without any major incidents – but don't think that the Information Commissioner, other industry regulators and your counterparties have stopped thinking about data confidentiality and security. GDPR is no longer a special project but part of an ongoing 'business as usual' operation. Some think it's all over, but, in many ways, it's only just beginning.

Visit our website to **find out more about GDPR** or contact **Ian Singer** on isinger@pkf-littlejohn.com or +44 (0)20 7516 2236.

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

What do you think?

A recent study by Imperial College trading platform eToro concludes that cryptocurrencies such as Bitcoin have the potential to become a mainstream payment instrument "within the decade." Do you expect your business to accept payment in crypto-currencies in the future?

1. Yes
2. No
3. Don't know

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 specialist partners.

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