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McBRIDES BUSINESS ARENA

News and views to give you the edge in business

Selling your business to the management team – filling the funding gap

For some time now we have been running a morning workshop for business owners thinking about stepping off the treadmill. Attendees vary widely but many are unsure of how to go about selling their business or who would be viable purchasers.

Increasingly we are finding that business owners would be happy to transfer their business to their management team for a fair price if they could work out how the transaction can be funded. They don't necessarily want the management team to be burdened with bank debt when for years it has been debt free. In many cases they also think the management team cannot afford to raise personal money, so they shy away from the deal totally.

But the business owner could effectively become the bank by filling the gap between an agreed price and what the management team can afford. Most often the business owner has previously made money so the proceeds from a sale are the icing on the cake.

We are seeing management teams putting money into the transaction either using money they have saved or by taking on personal debt against their property. Quite often there is some surplus cash already in the business over and above the working capital that is required to fund the ongoing trade, and this can be used to assist in funding the transaction.

The final bit is the funding gap and provided it is structured properly, this can be paid to the business owner over time, funded by the ongoing trade.

Security over the outstanding balance needs to be carefully considered and would, amongst other things, form part of the legal documentation required. The tax treatment also needs to be looked at, to ensure the right capital gains tax reliefs are achieved. But all of this is "doable".

This does not necessarily rule out all bank finance to help fill the gap. Bank funding may be available if there are assets on which the bank can take security. This could be through invoice finance where there is a good trade debtor book and the business sector sits comfortably with the bank. Term loans are far more difficult to arrange, if not impossible, where security is sparse and where profits are not so great.

To talk this topic through further please contact Nigel Kimber or Mark Grady, or email shirley.caddock@mcbridesllp.com to receive details of our next 'Who's stepping into your shoes?' breakfast briefing.

Team Talk

Having reverted to McBrides more than five years ago we felt now was the time for a subtle rebrand. We started the process before the end of 2015, introducing the new logo on our Christmas card.

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Now I invite you to explore this new look newsletter and our website www.mcbridesllp.com. We gave the website redevelopment to 'Larrytech' a young local business, who really impressed us during their pitch process. We are delighted with the results and hope you are too.

The end of March signifies another important milestone for the practice, when John Eldridge retires from the partnership. He has been a mainstay of McBrides for over 37 years, helping to grow it from a two person operation in Orpington to the 45-strong Sidcup team that we are today. He will be sorely missed, but his retirement has been planned for some time and will allow him more opportunity to indulge in his hobbies of sailing and travel. Although he is withdrawing from day-to-day responsibilities, I'm pleased to say that he will continue to act in an ambassadorial role for us, so you may still see him at our meetings and seminars. He shares some thoughts and memories with you on page 3.

Other topical content in this issue includes 'IP as a business asset', a write-up from a very interesting talk by Metis Partners at a recent FaB (Finance and Business) event we hosted, some timely tax reminders to look at before the new tax year begins on April 6th (see page 2) and finally, on the back page, our own analysis of a widely reported BBC programme on tax avoidance."

Nick Paterno,
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INSIDE ISSUE 21

Personal tax planning – five tips to minimise your 2015/16 tax liabilities

There are fewer reliefs available these days to mitigate your personal tax liabilities, but you can still take action by the 5th April to save tax.

Here are our five top tips:

1 Pension planning

By far the easiest and most effective. Make sure you maximise your pension contributions in 2015/16 before limits reduce further in 2016/17. Don't forget you can utilise unused contributions from the previous three years, and if you made contributions between 6 April 2015 and 8 July 2015 you may be able to get some additional contributions in.

2 Declare additional dividends

Shareholders of limited companies could mitigate the additional 7½% dividend tax coming into force from 6 April 2016 by bringing forward dividends into 2015/16. Restrictions and rules apply and each case is different depending on income levels but in some situations it may be a 'no-brainer'

3 Use them or lose them

Some tax allowances are lost forever if not used. Make sure you don't miss out on the following:-

- ISAs contributions
- Pension contributions as above
- Personal allowance and basic tax rate bands
- Capital gains tax free allowance
- IHT gift thresholds

4 Claim those expenses

They may be 'out of pocket' but they can soon add up and save you tax. Don't forget to claim:-

- Travel, parking and taxis
- Business use of own car (45p/25p per mile)
- Postage
- Entertaining, subsistence and staff welfare

5 Shift your income

It may be late in the day for 2015/16 but it will have an ongoing benefit. So often we see higher earning spouses in receipt of income from bank accounts held jointly with their no or lower earning spouses. Shifting income between spouses from higher to lower earners in respect of interest, dividends, rental and other income is easy and can save you a small fortune in tax. Don't delay!

Your unique differentiator as a business asset

If there is just one question you should ask of your business today it's: what is it that differentiates our business from our competitors?

This differentiator can take many forms and may well include a unique patent or knowledge, a trade secret, software or analytics that you have developed in-house, critical databases, your key staff, technical designs or the brand itself.

When you have identified what makes your business different, you are some way to indentifying a potentially valuable asset; the intellectual property (IP) of your business.

IP has traditionally been undervalued but of late, savvy businesses have been using it to provide security to banks, to raise finance or restructure debt, or to provide a better valuation of the business especially in negotiating the sale of a company.

How to maximise the value of your IP, was examined in detail at our most recent Finance and Business (FaB) meeting in late January with key note speaker Stephen Robertson of Metis Partners. Metis Partners is one the world's leading IP strategy companies based in Glasgow, London and the Silicon Valley, California. Stephen told the assembled audience at the London Golf Club that tangible assets are just the tip of the business valuation iceberg and urged attendees not to overlook the potential of their IP assets. He explained how IP underpins revenues and cash streams and how having an IP audit can reveal what makes a business stand out from its competition. An IP audit is "an eye opener for companies" Stephen said and can be a valuable tool for those seeking bank finance or enhancing or justifying price in a sale transaction.

Speaking after the event, Nigel Kimber said: "Our audience came away asking some very searching questions about their own unique IP. We look forward to speaking to clients further on the topic."

A very enjoyable 57%

John Eldridge's 8,700 working days at McBrides

With my retirement as a partner approaching at the end of March, I have been asked to write a short piece to illustrate my time at McBrides, but it has to be said that it turns out to be a difficult exercise. The whole retirement issue is something of a paradox in the 21st Century when we are encouraged to think that 65 is the new 40 – nothing like the retirement prospect my Dad knew!

Extremely enjoyable

In terms of pure "accountancy", I can prove that the period of employment and self-employment lasted 446 months, approximately 8,700 working days, and has taken up 57% of my time so far on the planet! All very substantial figures as far as I am concerned, but nothing to compare with the contribution of other individuals, whether they are famous or still uncelebrated. So, it may be better to describe my time with McBrides as "lengthy" and, as far as I am concerned, extremely enjoyable.

One might go to a staff file to read about the highs and lows of a career, but bearing in mind that I was Staff Partner for over 30 years, you will appreciate that I dealt with that file a long time ago! When looking back over a long career, one is expected to provide anecdotes and memorable moments, and of course these can be recalled, but will include the people I met and the surprises I found within the context of a number of significant tax investigations. So, those memorable moments and details might be best left alone - like the staff file!

Clearly, the review of all the years ought to be a modest catalogue of what you achieved, but the truth is that I am very proud of what I have done and the time I have spent with this one firm. I am delighted that I spent so much time with McBrides and I have been privileged to work with so many highly skilled and professional colleagues from 1979 onwards.

Memory Lane

The most significant memories are probably the inconsequential items that have stayed in my mind regardless of being uninteresting to anybody else. For example, appearing as an Expert Witness at the High Court and being able to put a particularly aggressive barrister in his place whilst not knowing the answer to his question and being saved by the judge who suggested that we 'adjourn for lunch', during which time I could be found in Joe Lyons finding the answer at the bottom of a briefcase.

I also recall taking the massive hands of a client involved in the construction industry away from the lapels of a young Inspector of Taxes who had overreached his questioning boundaries.

At the same time, there are very fond memories of interviewing many young candidates who endured the training rigours of the firm and the professional examinations of the Institute and have gone on to qualify and enjoy successful careers. I ought to mention the warm glow of knowing that some of them remain as colleagues in the firm and thus are now older men and women on whom I rely for their professional expertise and support.

The changing times

To say that professional life was different in the late 1970s is rather obvious, but I do reflect on how much additional discretion we had 30 years' ago in our dealings with HM Revenue & Customs, compared to today. Back then there were individual Inspectors of Taxes who you met on a regular basis and whose

reputations and quirks you got to know. At the same time, we were expected to provide audit certificates for any limited company regardless of how large or small they were and so there has been some useful progress over the years.

In all these years, there has only been halting progress because the consistent cry from various government ministers and chancellors has been the determination to simplify the tax system, reducing bureaucracy and so on.......... I forget the rest. Pure fiction!

One of the benefits of standing back from the front line is that my consummate IT skills and general internet savvy will not be rigorously tested anymore. That's a great relief for me, the firm and the world at large.

This professional journey

I am not leaving McBrides entirely and although the concept of retirement is rather scary and ageist, I shall still be involved in the continued promotion of the business and HMRC enquiry work. Nevertheless, day to day compliance and advisory work will be something that I can leave to my colleagues with whom I have the most cordial and enjoyable relationship and continue to have great respect.

This professional journey has surpassed all expectations and it has been a privilege to spend so much time with our clients, getting to know them and their families and at the same time enjoying the professional and family support that I have received from my tremendous firm. My thanks include a great debt to the guy I met in early 1979 and whose name we continue to use on our stationary, who gave an opportunity to a bloke in flared trousers with no appointment, in between jobs, trying to move house and enjoying the rigours of the first child of three months.

It must be obvious to the reader at this stage that I am beginning to be overcome with emotion, and so in the words of the immortal Young Mr Grace "you have all done very well" and I am looking forward to a new chapter in my career.

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"Dutch Sandwiches"– not on our menu!

BBC2 broadcast a programme about tax avoidance in January "The Town that Took on the Taxman." The programme focussed on local traders in the town of Crickhowell in the Brecon Beacons coming together to attempt to replicate the tax avoidance techniques used by their multinational rivals. The focus was on perceived unfairness in our tax system and how many multinational retail giants might have a trading advantage over smaller businesses due to their lower tax liabilities on profits.

The programme aimed to prompt HMRC into taking action to stop these multinationals using tax avoidance techniques - although some of the traders involved appear to lose their way, getting excited at the prospect of avoiding UK taxes themselves before being brought back on-message!

The tax avoidance 'sandwich'

In a nutshell, their approach was to create intellectual property offshore - in this case they created a "Fair Tax Town" brand and housed this in an Isle of Man company. They then licensed the brand to their various UK companies to reduce their UK profits, and create profits in their offshore company. For the licensing arrangements to work tax-efficiently they interposed a pass-through entity in the Netherlands - taking advantage of its famous treaty network and low tax rates - and created what is known as a "Dutch-Sandwich"!

This kind of arrangement is not uncommon in multinational businesses, indeed there has been significant press coverage of how certain brands in the UK have used these types of structures to pay staggeringly low levels of corporation tax in the UK.

Injustice and oversimplification

The programme was right to point out the injustice that multinationals seem able to avoid paying the amount of tax which UK SMEs generally suffer. However, its coverage of several areas of the tax structuring were overly simplified and it did not describe the "weapons' HMRC has in its armoury for attacking these structures.

Had the traders of Crickhowell proceeded with their tax avoidance, HMRC would likely have taken them to task using predominantly the Transfer Pricing rules, forcing the traders to justify the value of the licence costs for which they were claiming a UK tax deduction. Discussions on value with HMRC can be difficult and time consuming, often incurring significant professional fees in defence of the taxpayer's position. Another tack HMRC might take is to challenge whether the Isle of Man and Netherlands companies are in fact UK resident for tax purposes – a successful challenge would undo all of the tax benefit obtained but the costs associated with running these additional companies would remain! To demonstrate overseas residence involves the Board of Directors physically being in the overseas territory when making key decisions associated with those companies – such trips in themselves add cost to the arrangements.

HMRC also has some newer weapons that they can deploy – perhaps deeming the arrangements to be abusive and using the General Anti-Abuse Rule to attack the structure. And, for larger corporates, in April 2015 HMRC introduced the Diverted Profits Tax (affectionately known as the Google-tax), to charge a punitive tax rate on profits which HMRC believes has been artificially diverted away from the UK tax-net.

You might wonder why, with such means of attack at its disposal, HMRC has failed to take on these multinationals? To add some context, over the last decade, corporation tax receipts have made up an average of just 10% of the total receipts of HMRC. Couple this with the deeper pockets and greater resources of multinationals for defending a strategy, then perhaps HMRC has had to pick the battles it fights to suit its relatively meagre resources! It's not acceptable that certain multinationals are avoiding UK corporation tax, but they are creating jobs and earnings, thus contributing towards the 56% of total receipts of HMRC from income tax, capital gains tax and national insurance over the past decade.

McBrides' view

So where do we stand on this? Serving up 'Dutch Sandwiches' for our clients is almost certainly not in their best interests, so we won't be putting them on the menu anytime soon. But there is an onus on Government to maintain a level playing field between SMEs and multinationals and we certainly will be encouraging them to do so with greater effectiveness than seems to have been the case in the past.