UHY Ross Brooke
Chartered Accountants

Prosper

Issue six | 2022

Practical advice to help turn your business around

Plus

Five common mistakes in R&D tax credit claims

Long term incentive plans to motivate and retain key staff

How to reduce inheritance tax by leaving a gift

Helping you prosper

Prosper is our magazine aimed at businesses and business owners, covering the pertinent issues currently affecting you and your peers.

Contents

Welcome to our sixth edition of Prosper

Our last edition of Prosper came in the wake of multiple lockdowns and new variant scares, leaving many hoping for a brighter, more prosperous future.

But turmoil continues, as the economy suffers the influence of long-COVID and punishing macro-economic forces, leaving UK finances battered like a ship in a storm. With further uncertainty ahead, our experts offer some much-needed clarity amidst the fog.

In this issue of Prosper we provide guidance for you and your business through specialist articles aimed at supporting your journey towards prosperity, despite the challenges ahead.

With the cost-of-living crisis becoming an evermore obvious part of our daily lives, and the Bank of England warning of the longest recession since records began, many businesses face tough times ahead. Peter Kubik, London turnaround and recovery partner, provides key tips for keeping your business afloat on page 3.

As an alternate option, you may be looking to remove yourself from the stress of battling recession and rising prices threatening your business' longevity. If you are considering selling your business, it is important to ensure you have prepared accordingly, to ensure your most valuable investment receives the send-off it deserves, at a price you are happy with. Peter Williams, corporate finance partner in our Manchester office, breaks down the process of preparing for sale on page 5.

With Chancellor Jeremy Hunt's promised tax rises announced in the Autumn Statement, it is important to exploit opportunities to reduce your tax bill or claim credits for your business' R&D. In order to increase your likelihood of receiving these credits it is fundamental to complete the process correctly. Kevin Edwards, tax partner in our London office, identifies the five most common mistakes made by businesses in their claims on page 7.

Aside from the issues of rising costs and inflation, many sectors are facing challenges with recruitment and retention, resulting in Britain having one of the worst post-COVID employment recoveries in the developed world. One way to retain key staff, attract new talent and increase employee buy-in is through the use of long-term incentive plans. Kerry McCreadie, head of OMB at UHY East, explains how these increasingly popular schemes work, and the benefits they can afford business owners in this challenging employment climate on page 9.

After lengthy deliberation for close to ten years, the new register of overseas owners of UK property went live at the beginning of August this year, under the Economic Crime Bill. The new register has retrospective action back to 1999 and so those it applies to must be careful to cover their transactions or face hefty fines. Anita Rajput-Havell, London Senior Manager, dissects the new legislation on page 13.

With an increasing shift towards Making Tax Digital from HMRC it is expected that income tax self-assessment will be fully digital by 2024, affecting businesses, the self-employed, and certain landlords. It is important to familiarise yourself with this technology before it is fully phased in. Sarah Hardy, outsourcing manager in our Newbury office, explains the benefits of MTD which come with this shift on page 14.

Change is something that we should all be more than familiar with these days, and it is something that businesses and individuals must be comfortable with to survive and prosper. Rhys Madoc, CEO of UHY International, gives insight on the modern demands of project management, and how to meet them on page 16.

The future is rarely as economically uncertain for the average person as it is now. Everyday, investors and savers risk being stranded in the sea of legislation proposed, passed, and reneged in recent months, without the clarity to make decisions with confidence. We offer some advice for investors and savers to keep pace on page 17, and we look at why protection should also be at the core of your financial plan on page 19. Adam Wing, IFA in our Nottingham office, prepares you for all outcomes, with tips of securing your financial future today.

The goal of protecting your finances should not die with you, as maximising the inheritance you leave to your family is at the front of many people's minds. Andrew Lloyd-Owen, financial adviser in our Manchester office, sets out a step-by-step plan for ensuring your loved ones' financial security after you're gone on page 21.

On page 23, James Foster, head of strategy, OMB, and technology at UHY East, looks at how tech businesses can prosper in an economic downturn. And we hone in on other sectors, with Martin Jones, partner and head of hospitality in London, surveying the hospitality sector, providing insight into its current state and future challenges on page 25.

David Kendrick, Manchester partner and head of automotive, takes the same birds-eye view of the automotive sector, reflecting on strong performance post-COVID and the implications of a shift towards electric vehicles on page 26. This is accompanied by a case study of the journey our automotive team have been on with Luscombe Motors, helping them prosper as they turned £100,000 into £5.7m!

Our latest edition of Prosper comes at a time when you practically need to be a qualified accountant to make head or tail of the economy! Luckily, we have you covered, with insightful articles laying the groundwork to prosper throughout the uncertainty ahead.

If any of the topics covered prompt any questions, you will find our contact details on page 30 – our specialists will be pleased to assist and we look forward to hearing from you.

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Practical advice for building business resilience in turbulent times

As confirmed by Jeremy Hunt in his Autumn Budget, the UK is now in a recession due to higher energy prices, the conflict in Ukraine, Brexit, and the inflationary effect of industries reopening after Covid lockdowns. This brings a need for enhanced business resilience and flexibility.

Few businesses have sufficient cash reserves to be able to survive an extended period during which their cashflows are disrupted. Businesses that are currently struggling for profitability - those with low cash reserves or unstable cashflows - are particularly vulnerable. However, even businesses that appear to be in good financial shape may not be immune, depending on how the situation progresses, and how long it takes for demand and supply chains to return to normal.

Below are some practical tips and advice along with a checklist of key management practices you should be addressing to help you ensure your business is in the best position to weather the storm.

Undertake a strategic review of the market, your business and your competitors

Whilst it is undoubtedly a worrying time, never forget that a recession offers opportunity as well as difficulties. Think about your competitors and whether or not they are robust enough to survive. If you sense vulnerability, consider whether you should target their customer base or even whether an approach might be possible, with a view to a merger or takeover. We may be able to assist with this review.

Prepare cashflow forecasts

Whether it be on a sheet of paper or using one of the latest software models (or ask for our help), ensure you have a clear idea of how cash will flow in and out of your business over the coming months. Consider the financial impact of losing clients, delayed payments and other scenarios such as the closure of an office or premises.

Watch your credit control

It is imperative that you retain tight control over your debtors. If you cannot convert the debtor into cash in a reasonable period of time, you will need to decide if you should be investing your working capital in that customer. If you have credit insurance, check to ensure that the customer is still credit insured and that you operate within the credit insurers' credit limits.

Speak to your customers to determine whether or not they are in financial difficulty

If they are, find out if there is anything you can do to help, such as allowing them to pay in instalments. Ensure you credit check new and potential customers before commencing work.

Turn invoices into cash quicker

Send out invoices early and consider adjusting your payment terms to reduce the number of days within which a customer is required to pay.

Cut costs in a targeted way

Resilient companies cut their costs in a targeted way. Review every cost from the bottom up with a view to cutting and saving, where possible. Streamline your business to concentrate only on profitable core activities; you need to burn off the fat to thrive during this time.

Review leases and loans

Take the opportunity to reduce your fixed costs by renegotiating fixed outflows such as lease and loan terms, for example, your agreement with your landlord.

Take stock

If you cannot sell it in a reasonable period of time then do not stock it. Clear out old stock at cost or below to generate cash.

Consider additional loans and alternative funding

Alternative funders are open for business and looking to lend to the right opportunity. It is worth investigating sources such as crowdfunding, crowdsourcing, asset finance, supply chain finance, invoice factoring and pension led funding. We have good relationships with alternative lenders, such as asset based lenders and crowd funders, and can facilitate introductions.

Our core purpose at UHY is to help you prosper. If you are concerned about the future viability of your business, or just want to tap into our expertise for suggested means of strengthening your business over the coming months, get in touch with your usual UHY adviser for tailored support.

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Preparing your business for a sale

Your business is likely to be the most valuable and important investment that you hold. After sacrificing considerable time, resource and effort in founding and developing your business, it is critical to carefully prepare your business for sale, when the time is right for you.

Failing to plan a business sale process without appropriate forethought can lead to a significant loss in value for the shareholders unnecessarily. This is value that you have earned through hard work, dedication, and commitment both professionally and personally over many years.

The time to prepare for a sale is not when you want to sell, it is much earlier on to position the business in a way to achieve maximum value.

In addition to this, exiting a business in a carefully considered state will ensure that your colleagues, customers, and suppliers continue to thrive after the deal, and will give you a better return on any deferred or earn-out elements included in a deal structure.

Below we set out a selection of key areas to consider.

Clear goals and timeframes

Start early. Setting a clear goal of what you want to achieve from your business is key. This may involve the overall valuation that you aspire to achieve, and the type of buyer who you believe would be the best fit to deliver maximum value and future success for the business. Once you know this, the timeframes can be calculated by reference to your business plan and forecast.

Ensure good quality financial information

Accurate, timely and thorough financial information should be prepared each month. Setting a business plan and a financial forecast is important to maintain clarity on the overall strategic direction of the business and can set a blueprint to hold yourself and your management team accountable. Not only will this allow you to track progress against your business plan and goals, the quality of financial information will also add credibility during a sale process.

A buyer will perform due diligence on the business, and the ability to provide robust financial information will more than return the cost of setting up the relevant processes.

Build a credible and capable management team

The management team are likely to be key to a potential buyer as your exit will mean they will be driving the business forward under their stewardship. You should assess your management team for the skills required to run the business without you in the future.

There should be a clear plan around what roles and responsibilities are transitioned from you to the management team, and an assessment of what gaps may need to be filled.

Aligning a management team to your goals is an effective way to focus on delivering the value you aspire towards.

In addition, during a sale process considerable time and resource is expended, which may take your attention away from the core business. A credible and capable management team should support you operating the business during a sale process and prevent the dilution of value in the due diligence phase up to legal completion.

Get solid tax advice

An early assessment of your tax affairs is critical, both for you personally and for the business. When setting your valuation aspirations, a 'net of tax' position is important to consider rather than just the headline enterprise value.

Tax issues identified in due diligence are often deducted off the agreed price or captured through the legal agreement and, in extreme circumstances, can prevent a deal from progressing. A thorough tax review at an early stage will enable you to identify potential issues, agree a more tax efficient deal structure, and take advantage of any tax opportunities prevalent at the time.

Keep on top of operational matters

It is always sensible to keep on top of 'housekeeping' and follow best practice in the run up to a sale process. Examples include renewing or establishing customer contracts, maintaining strong credit control, reviewing operating leases, performing a stock count and fixed asset count, and maintaining payment terms to suppliers.

We are here to help

If you are thinking about exit plans, or looking to implement other strategic plans such as raising finance or strategic acquisitions, appropriate preparation and know how is essential for success. To ensure you receive the best advice from an experienced team, either speak to your usual UHY adviser or contact one of our specialist corporate finance advisers for a no obligation intial call or meeting.

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Five common mistakes in R&D tax credit claims

At UHY, we have a process for completing R&D tax credit claims with technical internal checklists and quality control procedures to ensure every R&D tax credit claim is correctly prepared and is accurate and complete.

However, as corporation tax agents for our clients, we are sometimes asked to file other firms' R&D claims and have a duty to review them under our professional bodies' rules on professional conduct in relation to tax (PCRT). In this article, we look at five of the most common mistakes companies make when preparing an R&D tax credit claim:

1. Not claiming under the correct scheme

This is by far the most common mistake and can lead to very significant sums of money having to be repaid back to HMRC! R&D tax relief is subdivided into two very different schemes, depending on a large number of factors.

The SME scheme is available for small and medium sized companies, currently providing tax relief of up to 33.35%. The R&D Expenditure Credit (RDEC) is available for large companies with current tax relief of up to 10.53%. Most advisers know that HMRC's definition of an SME is to have fewer than 500 employees and either a yearly turnover of less than €100 million OR a balance sheet total of under €86 million. Whilst there are changes to both the SME and RDEC rates of tax relief from April 2023 onwards, to bring them much closer together, it is still vitally important to firstly get the size criteria correct.

Secondly, there are a number of further tests to determine whether an R&D claim or project should be made under the SME or RDEC scheme which are often over-looked, including where the company:

- is a member of a 51% group
- has any linked and/or partner enterprises under the EC definitions
- has any private equity shareholders and it becomes a venture capital company
- is in receipt of grant funding, which is notified state aid
- is incurring the qualifying expenditure in carrying on R&D activities as a subcontractor
- has R&D expenditure which has been met, directly or indirectly, by another person (including potentially customers) and so is "subsidised expenditure".

There is currently some disagreement between the tax profession and HMRC on what constitutes "subsidised expenditure", meaning this needs to be reviewed on a case-by-case basis.

The SME status is lost if any one of the above points applies, and so care needs to be taken to ensure the correct scheme is being claimed.

2. Claiming consumables that are not qualifying expenditure

Everyone wants to maximise the qualifying R&D expenditure in their claims and including the costs of consumable items that are, for example, components of a prototype that is used in testing and then scrapped has always been intended to qualify.

Likewise, an apportionment of water, fuel and power to the R&D activities will be accepted by HMRC.

However, where a company sells or otherwise transfers ownership of items produced in the course of its R&D activity as part of its ordinary business, the cost of consumable items that form part of those products is excluded from expenditure qualifying for relief.

Using the example above, if the prototype was sold to a customer, even at a discount or gifted to someone else as a goodwill gesture, the costs of the parts cannot be claimed as qualifying R&D expenditure. This is the point that is often missed by other firms and their claims could successfully be challenged by HMRC.

3. Not giving HMRC details of your competent professionals

Most firms include some technical narrative on the qualifying R&D projects that the company is claiming as qualifying for R&D tax credits.

However, we see many other firms' R&D tax credit claims where they do not give any details of the people leading the R&D projects and their professional qualifications and industry experience.

In many cases, the competent professional will have BSc/MSc/PhDs in their relevant areas of expertise. This, together with details of their number of years of industry experience and names of previous blue-chip companies in which they have worked, can help to persuade HMRC of their competence as experience professionals undertaking qualifying R&D.

The competent professional section is therefore a valuable section to our UHY R&D claims.

4. Not claiming staffing costs for qualifying indirect activities (or claiming too much)

HMRC make it very clear in their R&D tax relief manuals that qualifying indirect activities (QIAs) can be included in the qualifying R&D tax expenditure. The DTI guidelines themselves give seven examples of activities that form part of a project but do not directly contribute to the resolution of a scientific or technological uncertainty.

In terms of errors and mistakes, they are two-fold with QIAs. We see many R&D claims with no QIAs whatsoever in companies that have plenty of indirect supporting people such as IT, finance, HR and technical sales staff.

However, only activities undertaken to support the R&D team, or the R&D project, should be claimed as QIAs and, in our experience, this can be up to approximately 5-10% of their total annual time as a maximum. We have seen other firms claiming 20-25% of staff time as QIAs which could be difficult to justify to HMRC, based on their rules, in most circumstances.

5. Capitalised R&D expenditure

Some companies decide to capitalise their in-house R&D or software development costs as Intangible Fixed Assets (IFAs) in their accounts if they believe there is an enduring benefit to the trade.

R&D tax credits are only available on revenue expenditure that is deductible for tax purposes, whereas capital expenditure will only generally obtain 100% R&D allowances.

However, it is possible to elect to treat expenditure that is capitalised as an IFA as revenue expenditure for tax purposes, so long as the expenditure:

- is recognised either as a deduction in computing the profit or as an intangible asset in accounts beginning on or after 1 January 2005, and
- is not prevented from being an allowable deduction in calculation of profit for that period (for example because it is pre-trading expenditure for a company within the large company scheme, or because it is capital expenditure for tax purposes), and
- the expenditure is incurred during the accounting period.

Irrespective of the R&D tax relief, this allows 100% of the expenditure to be deducted in computing the taxable profit when it is incurred irrespective of whether it appears as a deduction in the profit and loss account. As you would expect, the future amortisation is then disallowable for tax purposes, but the cash-flow benefits and tax savings are immediate.

Once the capitalised R&D expenditure is elected to be revenue for tax purposes, the usual qualifying R&D expenditure categories can then be claimed for tax credit, giving a two-fold tax saving. Many R&D tax credit boutiques are not aware of this corporation taxes act election, and it is commonly missed.

The next step

For more information about the impact of common R&D tax credit errors on your own business, or to discuss your potential for an R&D tax claim, please contact your usual UHY adviser, or speak to UHY R&D specialist, Kevin Edwards.

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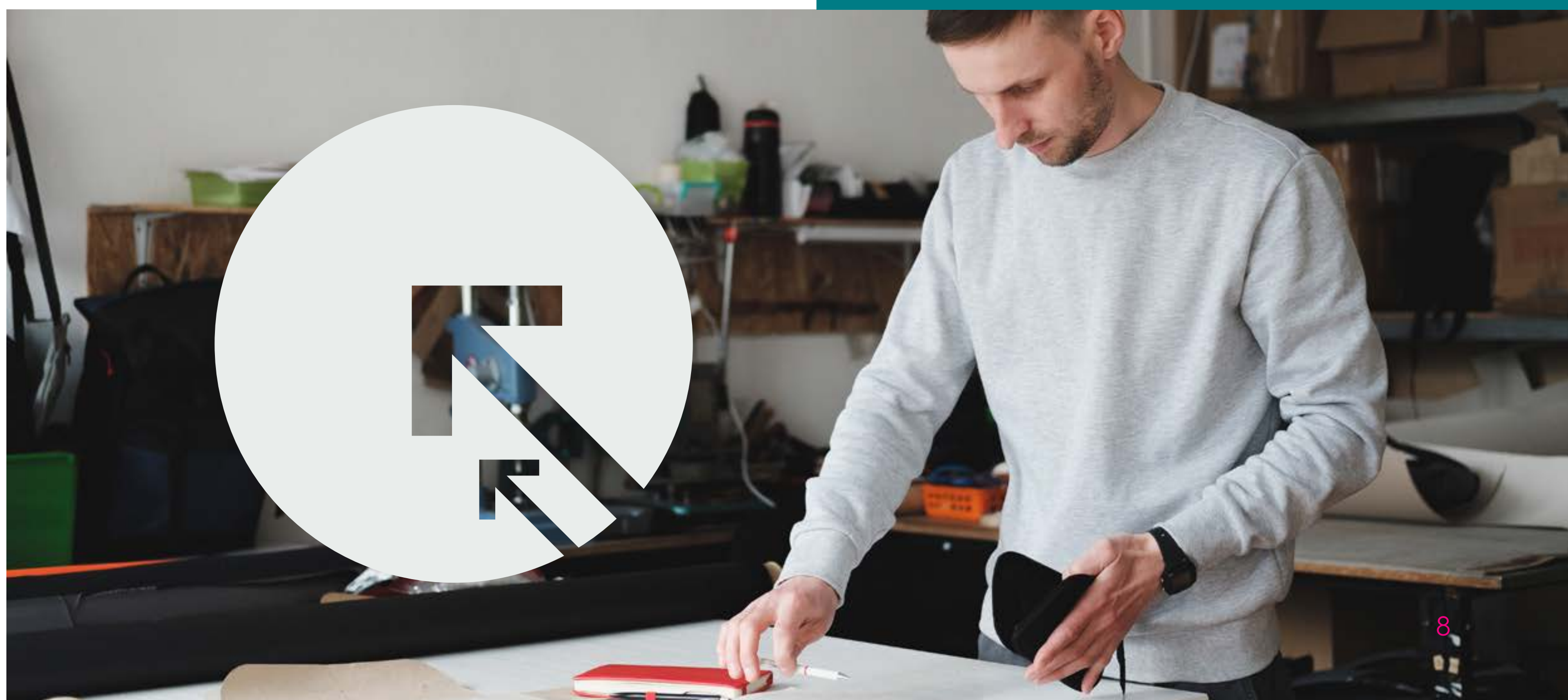

Employee ownership: Ttrough share option plans, trusts or both

EOTs – An increasingly popular alternative succession planning model

Over recent years, we have seen an increasing number of SMEs looking to retain key staff, attract new employees and increase the level of engagement across their workforce through the use of long-term incentive plans.

In support of our experiences, a recent HMRC report found that a total of 16,330 companies were operating one of HMRC's tax-advantaged share schemes during the 2021 tax year - an increase of 6% on the prior year and a total increase of 88% overall since 2010.

As businesses all have different objectives and characteristics, HMRC have developed four tax-advantaged schemes. The current schemes are the Enterprise Management Incentives (EMI) scheme, Company Share Option Plans (CSOP), Save As You Earn (SAYE) & Share Incentive Plans (SIP), and there are also Phantom Shares and Growth Shares to consider.

In our experience, the most popular scheme tends to be the EMI scheme, which we focus on later in this article, but there has also been an increase in interest in another model that helps with both the retention of existing staff and succession planning - the Employee Ownership Trust (EOT).

What is an EOT?

Employee Ownership Trusts (EOTs), as the name suggests, enable businesses to transition to employee ownership by selling the company to a trust (ie. the EOT). EOTs, therefore, offer an alternative exit route for shareholders than the more traditional third-party sales or Management Buyouts (MBOs).

Are EOTs becoming more popular in the UK?

This increase in interest in EOTs isn't just our own anecdotal experience, it's reflected throughout the UK. According to the White Rose Centre for Employee Ownership, the employee-owned sector has doubled since 2020. Some of their other key findings in June 2022 reported that:

- 2021 saw a record growth increase with 285 new employee-owned businesses.
- In June 2022, there were a total of 1,030 employee-owned businesses in the UK.
- From January – May 2022, there have already been 118 new employee-owned businesses, the current year is showing similar growth to 2021.

The top five sectors for employee-owned businesses are: professional services (38.2%), construction (13.2%), manufacturing (12.8%), wholesale and retail (10.5%) and information & communications (9.3%). The construction industry, in particular, has had a marked increase in EOTs over the last few years.

Why are EOTs increasing in popularity?

Each business owner that sells to an EOT will have their own motivations as there are various benefits to doing so, however, we've outlined a few of the key ones below:

Locating buyers willing to pay a fair price

Particularly in the current climate, finding a potential buyer that will both leave the business in good hands and provide you with a fair price for exiting may prove to be difficult. Selling to an EOT removes the need for finding a buyer and allows a fair price to be obtained through an independent valuation. Importantly for employees too, this fair price doesn't require them to use their own money.

Tax relief

Providing conditions are met, including selling at least 50% of the shares to the trust, there's also a tax benefit to selling to an EOT. For the business owners selling their shares, they'll be able to sell them without attracting any Capital Gains Tax. From an employee perspective, it also allows annual bonuses of up to £3,600 to be paid free of income tax.

Retaining company culture

Many business owners will tell you that their company values and culture are one of the key drivers to their success. However, many employees that have gone through a change in company ownership will tell you that often the culture and values can change post-sale. An EOT can be a way to protect your company's culture and values that you worked hard to build, despite the change of ownership.

Rewarding & motivating key staff

For business owners looking to exit, you won't just be saying farewell to a business you've helped to build, but also to the people who have helped you along the way. Therefore, it's common that you may want to reward those people who have contributed to the success. Effectively offering them a way to become co-owners is a way you can do that, with the aim of getting greater engagement and commitment across the workforce. Another project that is often considered alongside an EOT transaction (or in isolation without an EOT) is a form of share option scheme called the Enterprise Management Incentive (EMI) scheme, which we'll discuss on the next page.

This isn't an exhaustive list, and there are other benefits ranging from the flexibility of not all shareholders needing to sell their shares, protecting the legacy of previous owners through to the expectation of a smoother sales process. Therefore, we would always advise discussing this further to establish if a sale to an EOT could work for you.

Employee Ownership Trusts enable businesses to transition to employee ownership by selling the company to a trust

Enterprise Management Incentive (EMI) schemes for tech companies

Several tech companies are looking towards EMI schemes as a way to retain and motivate key staff. James Foster outlines the basics of how the scheme works and the tax implications.

The UK continues to be the European Hub for investment in tech companies, with Tech Nation's 2021 report showing that UK tech VC investment is still the third highest in the world after hitting a record high in 2020. It is also true that there is a lot of world-class tech talent working in the UK, which is another prime reason to start a tech company here. However, this doesn't mean to say that attracting and retaining key employees is an easy or inexpensive task.

One increasingly popular way that tech companies are looking to motivate and retain key staff is through the use of Long Term Incentive Plans (LTIPs). In our experience, the most often utilised type of LTIP has been the Enterprise Management Incentive (EMI) Scheme.

How EMI schemes work

EMI schemes involve share options – the right to acquire shares in a company at a specified price at a future date. For early stage tech companies, offering high salaries often isn't an option due to current cash flow and reserves, so equity can offer an attractive alternative.

Employers view offering these share options as a way to create a vested interest from employees in the company's success akin to shareholders and increase engagement that's aligned with their company strategy. For employees, whilst they won't actually become a shareholder until the option is exercised, they are generally not required to pay anything (other than a nominal sum) when an option is granted and they may benefit from the exercise price being below the market value when the time comes to exercise.

One of the benefits of EMI schemes is the flexibility that it provides employers in choosing the nature of the exercise event. Exercise events can vary from time milestones (eg. length of service) that increase staff retention, to KPIs that improve performance, or to a very common exercise event with growing tech companies: an exit. The most common exit is a share sale, where a new owner takes over the company by purchasing a controlling interest in the shares which allows employees to exercise their options. However, other types of exits can occur, such as an asset sale where the company sells all its trade and assets to another party.

The implementation of these schemes requires substantial work from preparing documentation such as the option agreements, agreeing a proposed market value and notifying HMRC of the option awards through to staff communications. Therefore, seeking expert advice and assistance throughout the process would be strongly advised.

Tax implications

How tax is assessed and collected will depend on the market value, the exercise price and whether the shares are deemed readily convertible assets (RCAs) at the time of the exercise. RCA status effectively means that the shares are treated as being readily convertible to cash eg. just before a sale of the company.

If the exercise price is at least as much as the market value at the time of the option being granted, there is no tax or NI payable when the options are exercised. Alternatively, if the exercise price is below the grant date market value, then tax will be payable (and NIC where shares are readily convertible to cash).

If the shares are RCAs, the income tax will be collected through the PAYE system and employees' NI will be payable. If the shares are not RCAs, the income tax is paid via a self-assessment tax return and no national insurance is payable. If the shares are RCAs when the options are exercised, the company will be required to pay employers' NI.

When employees sell shares acquired via an EMI option, Capital Gains Tax (CGT) could be payable. This is calculated as the sale proceeds less the exercise price, any costs of sale, any amounts subjected to income tax, and any CGT annual exemption available. Business Asset Disposal Relief may also be available to the employee. Employees will need to pay any CGT via a self-assessment tax return.

Corporation tax relief may also be available for the company where there is an exercise of qualifying EMI options, a deduction equal to any excess of market value of the relevant shares at the time of the exercise over the price paid by the employee being available.

Getting support

Various factors such as the owner objectives, company situation and scheme eligibility criteria should be considered when deciding on the right scheme and these factors will also need to be borne in mind to get the right specific components of the chosen scheme (be this an EMI scheme or alternative LTIP). Our core purpose at UHY is to help you prosper. If you are wanting to tap into our expertise for suggested incentive plans, please get in touch with your usual UHY adviser for tailored support.

How can we help?

At UHY, our Corporate Finance team are experts in supporting business owners who wish to sell their business. Alongside our EOT-specialist legal advisers, we can support from the initial fact find and advice stage through to the implementation and beyond. To discuss this, please speak to your usual UHY adviser or, alternatively, feel free to reach out to our EOT expert Kerry McCreadie.

For more information on the EMI scheme or other LTIPs, please download our guide. Alternatively, we would advise speaking to your usual UHY adviser, or contacting the author of this article, James Foster, as below.

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Action required on transactions of UK property owned by overseas entities

The long-deliberated Register of Overseas Entities came into force on 1 August 2022 and requires urgent action from the beneficial owners (BOs) of overseas entities who buy, sell or transfer property in the UK.

The legislation has been introduced to ensure greater transparency surrounding property transactions in order to highlight and investigate “suspicious wealth”. Please note, there are severe penalties for BOs who fail to register with Companies House before 31 January 2023, with the legislation applying retrospectively as far back as 1999.

What is the Register of Overseas Entities?

The register has been prospective legislation for many years, first announced in 2016, but finally coming into force on 1 August this year. Under the new legislation, which has come through the Economic Crime (Transparency and Enforcement) Act 2022, all overseas entities who buy, sell or transfer property within the UK are required to register details of the entity’s beneficial owners (BOs) or managing officers (MOs) with Companies House.

Importantly, the legislation also applies where property or land purchases have already taken place within the UK. There are differing country requirements, with the legislation applying to entities still currently owning or leasing land in England and Wales that was acquired since 1 January 1999, with an extension of that requirement to cover properties sold since 28 February 2022. In Scotland it applies to property acquired since 8 December 2014, and there is no retrospective requirement for Northern Ireland, with entities only needing to register for transactions from 1 August 2022.

What is an overseas entity and who are the beneficial owners?

The legislation defines an overseas entity as a corporate body, partnership or other entity governed by the law of a country or territory outside of the UK, and that are legal persons under that law. The registered beneficial owner of a legal entity is defined as a person or entity who has significant influence or control over the overseas entity, meaning they hold more than 25% of the shares or more than 25% of the voting rights, have the right to appoint or remove a majority of the board of directors, or have the right to exercise, or actually exercises significant control or influence over the entity. If there are no BOs, you will need to provide information of any MOs – this can be the entity’s directors, managers or company secretary.

How to use the register

Anyone who works at the overseas entity can use the registration service, as can a professional adviser or agent working on behalf of the entity. Before the registration takes place, a UK-regulated agent must carry out verification checks on the entities BOs and MOs within the three months before the registration takes place. The registration can then take place once the agent has sent the verification check statement to Companies House.

Once the verification check statement is received, information needs to be submitted to the register in relation to the entity, with details of any BOs or MOs, and also details of the UK regulated agent that carried out the verification checks. There are prescribed lists of the information required for each. You will also need to pay a £100 registration fee using a credit or debit card. The process is easier if the verifier submits the initial application for registration to Companies House once they have completed the checks on the BOs or MOs.

Once the registration is complete, and if the application is accepted, the BOs and MOs will be added to the register. The entity will then get a unique Overseas Entity ID to give to the Land Registry when undertaking the transaction.

Updating the register

You will need to ensure that your filing on the register is updated annually with details of any changes, or simply to confirm that the information is still correct. This must be done within 14 days of the registration date annually.

What are the consequences of getting it wrong?

If you fail to comply with the Act within the timeframes specified above, any of the entity’s registered beneficial owners could be fined up to £2,500 per day, or face a prison sentence of up to five years.

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Making Tax Digital: for income tax self-assessment – What opportunities exist?

Despite a history of MTD delays over recent years, the previous delays to the implementation of Making Tax Digital for income tax self-assessment (MTD ITSA) have not been further extended so the service is, currently, still expected to commence from 6 April 2024, meaning planning now for the change is advisable.

The phased introduction to the service is still on track, beginning with businesses, self-employed individuals, and landlords with a base income over £10,000 per annum (estimated to affect around 4 million taxpayers) unless there is an existing exemption from engagement with HMRC digitally, or if one is applied for and successfully granted.

This is expected to be followed by rollouts across partnerships and Corporation Tax in future years too.

HMRC have experienced some internal system issues since they rolled the rest of the VAT systems over to the new Making Tax Digital platforms. They have needed to enhance aspects of the service to include necessary items not previously included (this is still a work in progress at this point), and with the currently instability globally there is always the possibility that they may be encouraged to defer the implementation of the MTD ITSA service, but this is by no means guaranteed.

If you will be subject to MTD ITSA, we would recommend getting ahead of the game and starting to use the available software now. This will allow plenty of time to familiarise yourself with what’s needed and get into a good routine before it becomes a last minute panic to get up to date.

There are likely to be some initial additional costs to both businesses and individuals to set systems in place in order to comply with the MTD ITSA requirements, however, there are also many advantages to be had from this part of the process.

- Using cloud software allows easy access to records for both client and agent, helping with collaboration and strategic planning
- Bank, credit card and online marketplace activity can be directly fed into the cloud software eliminating manual data entry
- Some supplier accounts can be linked directly to the software (so it collects your purchase invoices electronically for you)
- Easily produce quotes and sales invoices, which can all be emailed directly to the customer or set in place regularly recurring invoices (eg. for rental payments)
- Easily track income and expenses
- Pre-populate regular goods/services information by using partner software to help prepare your purchase documentation. It can also store electronic copies of records (so doing away with storage space issues for physical paperwork)
- Easy to keep up to date whilst on the move with simple to operate mobile apps
- Using other partner apps to aid credit control (users have seen income from customers arrive more quickly when linking a direct payment method to an emailed invoice)
- Manage property portfolios more easily with all documentation in one place and regular reminders set so renewals are less likely to be missed
- You can also track projects, run cashflow forecasts, and so much more.

All of this enables you to keep an eye on the financial health of your business, helps you run things day-to-day, have forewarning of what your future tax outlays might be and helps decision making for big purchases of equipment, investments, loans etc. giving you greater peace of mind overall.

If you already have an agent in place, they should be well placed to guide and advise you on how to put the systems in place for your particular business needs. If you do not yet have an agent it may be a good idea to engage with one well ahead of the deadline for implementation, which will no doubt cause a surge in service demand and could leave you with little choice or support.

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Good project management – or lack of it – usually defines success or failure.

Project management in changing times

Rhys Madoc, CEO of our global network UHY International, looks at the changing nature of work. Fuelled by advancing technology, globalisation and worldwide lockdowns, good project management is more important than ever.

As the number of business teams working remotely increases, the ways in which we engage workers and develop our processes are crucial. But what is project management, beyond 'getting something done'?

In my view, project management is based on using particular tools and skills to deliver an end result, whether this is a building, an IT process, a response to a tender, a business expansion or an audit. Each needs a plan and each plan has milestones, or key stages, that need managing. Project management differs from routine operational management because there is always a goal and a conclusion.

Project management is too often seen as an 'extra', yet it is fundamental to business success. Indeed, good project management – or lack of it – usually defines success or failure. A wide skillset, effective leadership techniques and a collaborative mindset are essential.

From agile to critical paths

Project management goes beyond simply making a list and getting everything done. There is a wide range of tried and tested project management methodologies. Some are more suited to specific industries than others, so it is important to identify the right one for your needs, and to match the techniques to the scale of your challenge. Here are a few that provide a lot of food for thought.

Agile

Agile project management is an approach defined as iterative (rather than linear) because it has a more flexible approach to breaking down projects and processes into small sections, or iterations. Various techniques are utilised within the Agile approach, to meet specific challenges. For example, Scrum is an Agile technique, where a small team led by a Scrum master works to remove obstacles to business projects or activity. Work is undertaken in short bursts – or sprints – with the team meeting daily to discuss tasks and iron out any problems. Typical business users of Scrum include the financial sector, product development, construction, consulting, marketing and disrupters (for example, Airbnb, and Uber).

Prince2 and six sigma

A traditional heavyweight in the project management arena, Projects in Controlled Environments – PRINCE – is a process-based technique where project performance is subject to continual checks, with more resources committed as the project progresses. Another well-known tool is the data driven and procedure-based Six Sigma framework. This is largely focused on customer needs and is widely used across different industries. As Six Sigma works to streamline and sustain business processes, it is popular in manufacturing and financial services.

Critical path analysis

The Critical Path Analysis (CPA) method is based on mapping all possible paths to a solution, the tasks needed to complete each, and where these are dependent on other activities. This helps determine the shortest possible completion time for a project and which tasks can be delayed without impacting the outcome. CPA has a broad application sector-wise, from aerospace to professional services to software development.

The right approach for you

Not all project management techniques will work for every organisation. How we approach projects must be determined by things like objectives, budget, company culture and stakeholder attitude.

In our global professional services industry, the need to work across borders or collaborate with colleagues in different time zones is also a major consideration. I am always reassured to see how effectively UHY member firms, for example, collaborate wherever they are in the world. Working Together for the benefit of clients is one of the four pillars of our network strategy – and good project management is often key to this.

I believe that project-based ways of progressing wide-ranging business developments are unlikely to change anytime soon. As working environments continue to evolve, budgets become leaner and timescales squeezed, the demand for good project management skills will only increase, and may prove the difference between success and failure.

If you're considering a major project for your business and need advice on the planning, strategy or financial ramifications, speak to your usual UHY adviser.

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Advice for investors and savers

The future is rarely as economically uncertain for the average person as it has been now. Understandably, a large amount of the focus of financial measures going forward will be geared towards helping businesses and the self-employed, but this may leave those saving and investing their personal wealth feeling stranded. Here are a number of things to consider this winter.

Scams

This might seem to be an odd place to start but, sadly, the criminal elements in society think no less of capitalising on people's hopes and fears during a recession than at any other time. Most likely there will also be many phone and email scams, likely to centre on:

- Individuals posing as HMRC, either demanding money with threats of court action or offering refunds if bank details are given
- Boiler room scams, with investment 'safe havens' or guaranteed returns promised
- Pensions access, either encouraging encashment to prevent imminent value loss or phishing for details whilst posing as a provider
- Calls 'from your bank', regarding suspicious activity on your account.

The golden rule when online is "pause before you press". Take that extra minute to check the details and cynically assess the credibility of what is being presented. If in any doubt, do not do what is being asked.

The same premise can be applied on the phone. Any genuine caller will be happy for you to ring back, on a different phone and using a number from (for example) the back of your bank card rather than one they give to you.

Pensions

Scams aside, there are a number of areas in which pensions should be considered during the current crisis and most of these may merit input from an independent financial adviser.

Contributions

It may seem counterintuitive to be thinking about putting money into your pension but, for those with the financial resources to do so, there could be rewards to be had. The value of your contribution could be substantially enhanced if it coincides with market recovery from the current lows.

> **It is good practice for married couples to consider ways of balancing out household income to avoid one spouse paying a higher rate of tax than the other**

Retirement

If you are nearing retirement age in the next few years you should urgently look to speak to an Independent Financial Adviser about your pension arrangements to assess your options.

Final salary schemes and annuities

Final salary schemes offer certainty of income, but often also provide for a transfer value should the pensioner wish to 'cash out' and control their own pot of funds. Annuities are basically the opposite, allowing a pot of pension funds to be given up in return for an insurance company backed guaranteed income. The rates and terms applying to both are likely to be impacted to some extent by the current situation, and again we would recommend you take financial advice before you act.

Gifting

As with every new tax year, your annual exemption of £3,000 to make gifts out of our estate renews. Remember, if you did not utilise this last year, you can roll forward any left over for the current year.

This may also point to one of the perks of the stunt in growth for the economy – generally, stock prices are lower now than they have been for some time. If you are planning on gifting assets, such as shares or property, it may be best to look at doing that in the near future. You are able to gift more within your exemption if they are valued for less.

As assets are deemed to be transferred at 'market value' for connected persons (children, parents, etc), there may even be a loss to be claimed. Although these losses would only be available for relief against gains to those same individuals, it is certainly something that may come in handy in the future and is as good a time to do so now as any.

Bed and ISA-ing

This is the term describing an investor selling shares held outside an ISA and buying back the same shares within an ISA. The sale will trigger any pregnant capital gain, but the buy-back puts the shares in a (income and capital gains) tax free environment.

It belongs in this article because of the double benefit a suppressed share price can bring: firstly, that the CGT on sale of the shares will be reduced and secondly that ISA subscriptions are limited to £20,000 per year, but any growth in share value (associated with a hoped for stock market recovery) happens within that contribution limited wrapper.

The tax man is coming

Some savers and investors will be high earners and will continue to be so despite the recession and hardship. Government spending proposals are to be funded by reducing spending elsewhere and raising taxes, as partly announced in the Autumn Statement on 17 November. Further changes cannot be ruled out and so fixing liabilities now, rather than in later years, could prove beneficial.

So this thought is another counter-intuitive one; make hay while the sun shines.

Balancing household income

It is good practice for married couples to consider ways of balancing out household income to avoid one spouse paying a higher rate of tax than the other, on income which could easily be transferred between them.

With the potential for the cost-of-living crisis to impact different household income streams differently, now is a good time to revisit this sharing of income.

In most cases, this balancing will require that the asset generating the income be transferred and care should be taken to avoid unanticipated (eg. Capital Gains Tax, inheritance tax or stamp duty tax) charges when doing so.

As well as considering tax rates, remember to think about the various allowances each of a married couple can claim such as the dividend allowance (£2,000 – set to reduce to £1,000 in 2023/24 and £500 in 2024/25),, savings income allowance (up to £1,000), trading and property income allowances (up to £1,000 each), tax reducers such as the marriage allowance, and non-tax income linked liabilities such as the high income child benefit charge and repayment of outstanding student loans.

The next step

All of the above are suggested areas to consider and you should seek professional advice when looking to make significant changes to your personal financial position. Please speak to your usual UHY adviser if you have any specific queries related to the current situation, and more generally if you are looking to ensure you are maximising your personal financial and tax position.

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Protection should be a core part of your financial plan

When you think of financial planning, pensions and savings will spring to mind. But, whilst often overlooked, protection should be a core part of your financial plan.

If you are worried illness or injury could leave you without enough to pay bills, there are solutions available. Some people could rely on state benefits as a safety net if they experienced a sudden loss of income. However, for many the drop in income would be too severe to maintain their standard of living.

Being able to keep paying bills

In many situations, families rely on both partners' income to pay the monthly bills. Not thinking about the impact losing one income could have on their standard of living. People recognise the need to take out life insurance to pay off their mortgage if they die. However, some may not think about how their family could continue to pay their outgoings if they became ill, or were injured and unable to work for a long period of time.

If something were to happen to you, would you and your family be able to keep paying the bills? The cost of living crisis has made many of us think more carefully. Protecting ourselves and our family from financial difficulties has become more important than ever, when external forces are only exacerbating problems, with no clear end in sight. However, this isn't just about having savings and investments to provide for the long term. It is also about ensuring you and your loved ones are provided for should the worst happen.

Sufficient savings to manage financially

Have you calculated how much you and your family would need if you found yourself unable to work? This should also take account of your savings and any other income you might have. Using a budget planner will enable you to work out what you're spending each month, from household bills to general living costs. Having a good idea of your overall budget will make it easier to make changes.

Not everyone will have sufficient savings to manage financially for long periods of illness, particularly if this money is earmarked for other plans like retirement or helping children with their education. That's where insurance protection comes in. There are a variety of options that could help to cover specific costs, or replace income, should you find yourself unable to work. Which product or solution is right will depend on individual circumstances. Various factors including age, health, lifestyle etc. have an impact on the cost of premiums.

Income protection

Income protection insurance can provide a regular replacement income. This is if someone is unable to work because of an illness or injury. Typically, a policy pays out after you have been off work for six months (often called a 'deferred' or 'waiting period'). It can pay a percentage of your salary until either of the following occurs:

- you return to work
- you reach state pension age
- death occurs during the claim.

Critical illness cover

Critical illness cover is a type of insurance that pays out a tax-free lump sum if someone is diagnosed with, or undergoes surgery for, a critical illness. So long as it meets the policy definition during the policy term and you survive a specified number of days. It is designed to help support you and your family financially while you deal with your diagnosis. Allowing you to focus on your recovery without worrying about how the bills will be paid.

Life insurance cover

Life insurance cover pays out a lump sum if someone passes away during the policy term. If you are diagnosed with a terminal illness and are not expected to live longer than 12 months, some policies will provide the sum prior to death. It is there to provide financial support for your loved ones after you are gone. Whether that means helping to pay off the mortgage or maintaining their standard of living.

Private medical insurance cover

Private medical insurance cover is a type of cover that pays your private healthcare costs if someone has a treatable condition. Whether it is overnight care, outpatient treatment, diagnostic tests, scans or aftercare, you receive the specialist private treatment you need, in comfortable surroundings, when you need it. There are a range of different levels of cover at various premiums designed to meet your specific needs.

Time to safeguard your financial future?

The possibility of passing away prematurely, getting a serious illness or sustaining an injury isn't something we like to think about. But being prepared can help you to avoid money worries for both you and your family.

Are you facing a retirement challenge?

With double digit inflation a current reality, you may need to reassess your plans.

The Bank of England's Monetary Policy Committee pinned the blame for this steep rise in inflation on energy prices, the Ukraine war and supply chain issues. None of these have a clear end date, but the Bank expects inflation to be "close to our 2% target in around two years". Whether or not their forecast proves correct, if you are close to, or about to, retire the immediate outlook is unsettling. So, what should you do?

The starting point is to do nothing until you have sought advice. Some aspects of retirement can be impossible to unscramble once set in motion. Your pension arrangements may state a specific retirement age but you may also still have choices.

Crunch the numbers

Your next step is to work out your likely expenditure and income in retirement. This needs to be a realistic assessment – a recent survey found that two fifths of 2021 retirees were already spending more than they had expected. We can help with the complex calculations using software that can handle assumptions about differing rates of inflation and investment returns. Identifying future income and spending patterns is vital in understanding what your options are. Cash flow analysis can show whether the level of investment risk that you are normally comfortable with is compatible with your retirement spending plans.

Bear in mind that at 65, average life expectancy is 20 years for men and 22 years for women.

If the calculations suggest that you will outlive your retirement fund – a common concern for recent retirees – then you could consider revising your expenditure plans or accepting that at some point you will need to trade down to a smaller property or look at other options to extract value from your home. At the opposite end of the financing scale, the data might show all your needs can be met with an index-linked annuity, carrying no investment or duration risk. However, sadly that is unlikely as at current RPI-linked annuity rates the standard lifetime allowance of £1,073,100 will provide a monthly income of about £2,850 before tax.

In the worst case, a cashflow analysis may force you to consider deferring or phasing in your retirement. That may seem an unpalatable option, but it is better to be aware of the situation before your earnings have ended. A survey of 2022 retirees found that a fifth were retiring later than they had originally planned, with the main reason for the delay being not having saved enough. An extra period of work – whether full or part time – reduces the pressure on your retirement savings and may allow you to continue your contributions rather than making withdrawals. For advice tailored to your circumstances, please speak to your usual UHY adviser.

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How to reduce inheritance tax by leaving a gift

When you have worked hard and invested carefully to build your wealth, you want to look after it. That's why it is important to plan for your wealth preservation and the eventual transfer of that wealth. If you're considering making a gift to someone, there are a few things you need to know about Inheritance Tax. Gifts can be a great way to reduce the amount of Inheritance Tax (IHT) that your family will have to pay when you die, but there are some rules that you need to follow.

Make use of the annual exemption

IHT is a tax that is levied on the estate of a person who has died. The estate is the value of all the property and assets that the person owned at the time of their death (with some exceptions for certain business assets and pension funds). IHT is charged at 40% (tax year 2022/23 – a UK tax year runs from 6 April to the following 5 April) on anything above the IHT threshold, which is currently £325,000. Although, if you are married or in a civil partnership you can have a combined allowance of £650,000.

There are some gifts that are exempt from IHT, such as gifts to your spouse or registered civil partner, or gifts to registered charities. However, you can also reduce the amount of tax that your family may have to pay by making use of the annual exemption and also carrying forward any unused annual exemption from the previous year.

Residence nil-rate band

In April 2017, an additional inheritance tax allowance was introduced called the 'residence nil-rate band' (RNRB).

To qualify for this allowance, you must pass on your main residence, or the sale proceeds of your former residence, to your children (including adopted, foster or stepchildren) or grandchildren when you die. For the 2022/23 tax year, the maximum RNRB is £175,000, meaning your overall IHT allowance could potentially increase to £500,000. There is a tapered reduction of the RNRB where the net value of the assets held in a personal estate at the time of death is over £2 million.

Mitigate your inheritance tax liability

If you're thinking about making a gift, there are a few things you need to bear in mind. Firstly, you need to make sure that the gift is genuine and that you are not just trying to avoid paying IHT. Secondly, you need to consider whether the person you're giving the gift to can afford to pay any IHT that might be due on it (which would apply if the cumulative gift exceeds your nil-rate band). And finally, you need to think about what will happen to the asset after you die. Any income or gains made from the gift could have tax implications for the beneficiary, eg. Capital Gains Tax.

You can make exempt gifts of up to £250 as long as each gift goes to a different person and each person has had no more than £250 from you in gifts in that tax year. This will commonly include birthday and Christmas gifts.

Money or items of property

A wedding gift from a parent to their child of up to £5,000, from grandparent to grandchild or great-grandchild of up to £2,500, or up to £1,000 to another relative or friend, is also exempt.

In addition, each tax year you have what is known as an 'annual exemption'. Under this you can give away money or items of property to the value of £3,000. This can all go to one person or be shared between several people. And if you didn't use that exemption in the previous tax year, you can use it in the current tax year and give away £6,000. It is worth noting that certain gifts do not count towards this annual exemption.

Making regular payments

Known as 'normal expenditure out of excess income', you are able to make regular payments from income you do not need to maintain your normal standard of living. For example, if you wanted to pay a loved one's rent or mortgage, or make regular payments into a savings account for your grandchild.

There is not a limit on how much you can give away and, like the exempt gifts above, the amount you gift will leave your estate straight away. But you must be able to afford the payments after your regular living costs and without having to cut back. Plus, the payments need to come from your normal monthly income and must be regular.

Working out if there is tax to pay

If you wanted, you could combine regular payments with your annual exemption in the same tax year so that one person can receive even more. It is important to consider carefully how much you can afford – although you may not need the money now, your circumstances in the future could change.

Keeping a record of the gifts you give is essential. It helps you show which are exempt and which may have to be included as part of your estate. And in the event of your death, it will also help those responsible for the administration of your estate when it comes to claiming any allowances and working out if there is tax to pay.

Non-exempt gifts

If you wish to make larger gifts that fall outside the above exemptions, those gifts will not fall out of your estate for IHT purposes for seven years. Meaning they could fall back into the estate, which could make them subject to IHT depending on the gift amount.

Ready to discuss how to protect and pass on your wealth?

We are living in an unprecedented age of personal wealth. Many of today's baby boomer generation are far wealthier than any before, built on the back of generous pensions, secure high paid jobs and soaring property values. But for many of the next generation, future financial security and goals may be increasingly reliant on receiving a sizeable inheritance.

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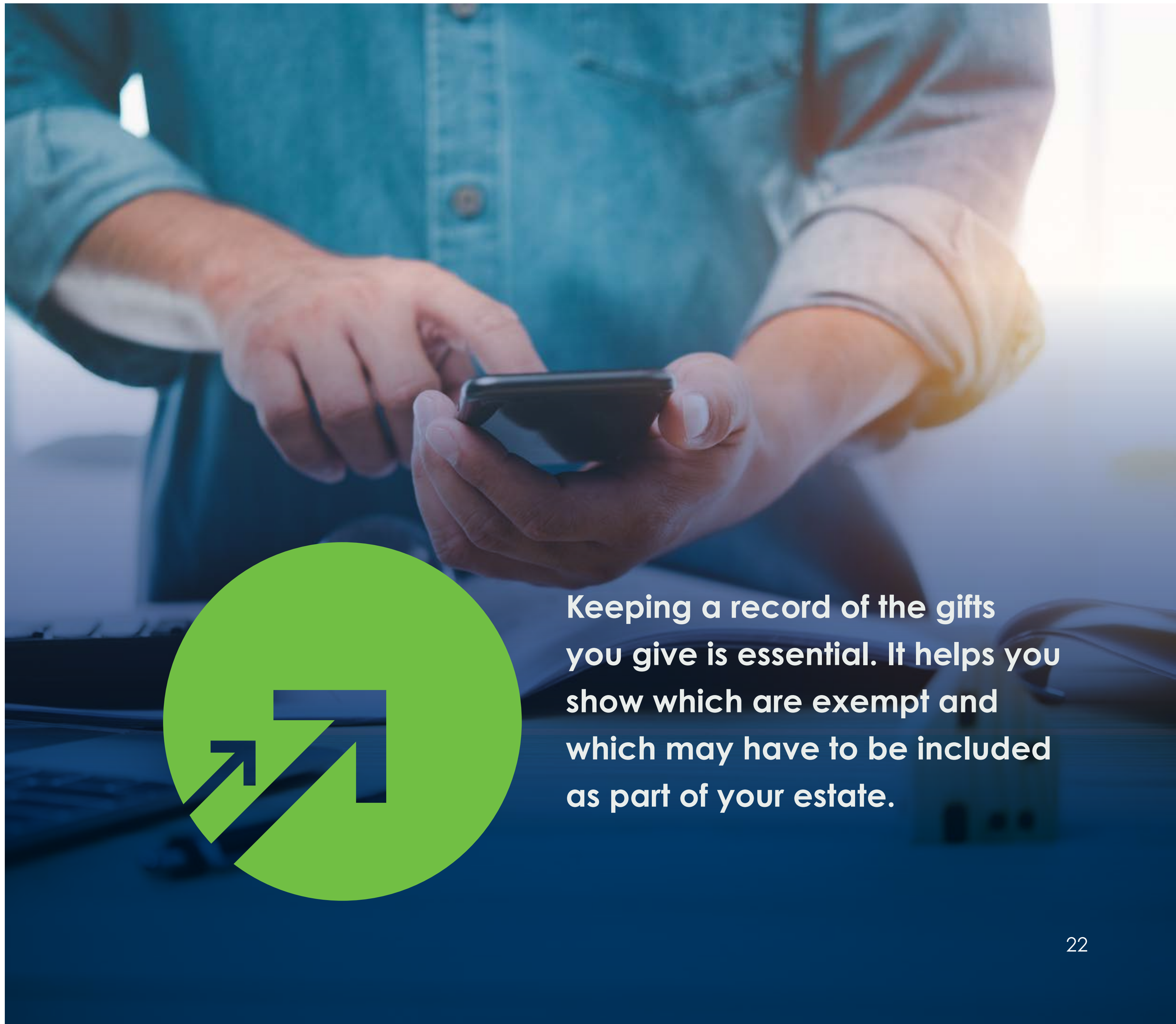

How can UK technology companies survive and thrive in an economic downturn?

As we enter the cold wind of a recession, how can UK technology companies prepare to weather the storm? With the right preparation, we believe businesses can survive and even thrive…

According to research from PR agency CommsCo, 83% of tech leaders are worried about the recession. The data revealed that 37% believe the uncertain economic situation poses the biggest risk to their business. This was followed by retaining key staff (26%).

Other key findings included:

- 77% believe a recession will affect investment in the tech market
- 49% have increased the cost of services to mitigate the effects of a recession
- 47% are reducing marketing spend.

However, the more upbeat news is that 59% are optimistic about the prospects in 2023, while 52% plan to expand during the next year.

So what can you do to ensure your UK technology business navigates the choppy waters ahead?

Start with an assessment

While the new headlines are dominated by economic doom and gloom, it is worth remembering that many successful businesses were born in times of crisis. For example, Uber and Airbnb were founded during the 2008 financial crash and Google managed to source vital investment in the wake of the dot-com bubble.

While the airwaves and social media channels are filled with general business advice, every company is different. The most pertinent and practical advice will be tailored to your specific circumstances, which is why an accountant that understands your business can be so important in times like these.

Before you can make a plan and any informed decisions, you will need a thorough assessment of your situation. Ask yourself some tough questions, including:

- What is your current cash runway?
- What is your current burn rate?
- Will you require investment?
- What are your key revenue drivers currently?
- Do you have other possible revenue streams?
- Are there any non-profitable products or services, or spending that isn't necessary or providing a return on investment?
- Are your products right for the changing market?
- Are your current objectives and growth plans still achievable?
- Who are your key team members to reach these objectives?

Monitor your KPIs regularly

Once you have performed this assessment, you should continue to monitor these key financials (and non-financials) on an ongoing basis to allow you to be agile and make informed decisions quickly. For example, by performing an assessment, you may have identified that you need to:

- reduce your Customer Acquisition Cost (CAC)
- reduce your customer churn and retain a certain level of customer satisfaction (eg. a Net Promotor Score)
- reduce accounts receivable days and bad debt.

These key KPIs should therefore be included within your management reporting so that you can continuously monitor them and, hopefully, drive positive change in your business operations.

Plan ahead

Cash is king may be an old cliché, but liquidity becomes even more important in a recession. Cashflow forecasting can be a useful way to identify any future financial issues and to get a picture of your cash runway, that is the number of months you will be able to operate before raising funds.

This can be even more useful when you layer in scenario planning, which forecasts your financials if certain events take place or conditions apply, such as:

- an overall drop in sales or losing certain contracts
- an increase in client churn.

This can also be used to aid decision-making, such as reviewing forecasts when certain actions are undertaken eg. hiring new staff or increasing marketing spend. A rolling forecast will help keep you and your management team aware of financial risks before they become a reality.

Seek the right investment

Whilst many investors and lenders are understandably nervous and more cautious, making it more difficult to raise funds in the current climate, this may be required to increase your cash runway or to fund growth plans. However, you should explore all your financing options, including grants, R&D credits, asset finance, crowdfunding and venture capital.

Seeking the right investment involves substantial preparation, including a business plan, detailed cap table and financial forecasts. These deals can also take time, so funds should ideally be raised when the business is still in a comfortable position, not at a time of distress.

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The most pertinent and practical advice will be tailored to your specific circumstances, which is why an accountant that understands your business can be so important in times like these.

UHY's sector outlook

In this section, our UHY sector heads take a look at what's on the horizon for a number of our key sectors.

Hospitality sector outlook

As far as the Hospitality sector is concerned, the big question is when will the recovery begin? Predicting the future is challenging at the best of times, but with the backdrop of coming out of a pandemic, war in Ukraine, rampant inflation, rising interest rates and Prime Ministers playing musical chairs, it is almost impossible to predict. It is clear that the winter of 2022/23 will be tough, not least because of the higher energy costs for both businesses and consumers, in spite of support packages from the Government.

Realistically, some form of mild recovery from the middle of next year is probably the best outcome that we can expect, with 2024 more likely to be the year in which trading conditions become more stable.

Before we discuss the future prospects, it is worth reflecting on the impact of the forced closures on Hospitality operators during the imposed lockdowns in the pandemic.

Gordon Ramsay

Gordon Ramsay Restaurants for instance suffered huge losses due to Covid-19 restrictions. The celebrity-chef-run restaurant group is also warning of further pressure on its financial performance, caused by the cutbacks in consumer spending and rising inflation.

The latest financial results for Ramsay's restaurant group reported combined losses before tax of £6.8m for the 12 months to August 2021, up from £5.1m losses reported in the previous financial year. The celebrity chef runs or owns a stake in 35 restaurants in the UK, and a further 13 worldwide.

The £26.2m in revenues made by Gordon Ramsay Restaurants in the last financial year are less than half that made during pre-pandemic trading, with turnover of £54.7m in 2019. Net liabilities at 31 August 2021 amounted to £23.4m. Conditions are likely to remain challenging as inflation rates in the UK reach a 40-year high and consumer confidence dips.

Recovery

In terms of the recovery, there are reasons to be cheerful, particularly for City Centre operators who suffered the most from the lockdowns as many people worked from home.

There is clear evidence that more people are returning to City Centres and their offices, even if this is on a hybrid basis.

Hotels, restaurants and bars are hoping that the increase in density numbers will build confidence and subsequently lead to better results. Leadership will be key, as it was during the pandemic, with the emphasis on creating a culture that inspires the team.

The economy will play a key role in the timing and extent of the recovery in the sector, so it is important that inflation is controlled and interest rates become more stable.

Policy

In September, nearly 300 UK Hospitality businesses signed an open letter to the government warning the industry will not survive without support to deal with rising costs.

The letter proposed a five-point plan of action through to April 2023, with a review in early 2023.

The measures include:

1. a 10% headline VAT rate for hospitality
2. a business rates holiday for all hospitality premises, with no caps applied
3. deferral of all environmental levies
4. reinstatement of a generous HMRC Time to Pay scheme
5. reintroduction of a trade credit insurance scheme for energy.

Kate Nicholls, chief executive of UK Hospitality commented: "Whilst it's somewhat disappointing that no specific budget measures are planned for hospitality businesses to limit the headwinds we are facing, this was largely expected. It's positive to see measures aimed at protecting disposable income announced, as this should allow consumers some wriggle room for holiday spending over the next 12 months.

"The business rates relief package and extension to energy support from April 2023 should provide some cushion for the bumpy ride ahead but more details are needed on the energy cap to fully understand how this will benefit businesses."

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Property sector outlook

Recent developments

Higher mortgage rates will significantly impact the housing market

The rise in interest rates could not have been missed by many. There are obvious concerns for the housing market and it is predicted 120,000 households in the UK, the equivalent of 400,000 people, will fall into poverty when their current mortgage deal ends due to interest rate rises.

Analysis from Citizens Advice has suggested a quarter of mortgage holders would not be able to afford their monthly repayments if they increased by £100 a month. This increases to 45% if they rose by £250 a month.

The Prime Minister, Rishi Sunak has promised "to do absolutely everything [he] can to grip this problem, to limit the rise in those mortgage rates."

If people cannot afford their mortgage payments then the knock on effect can be considerable. Previous property crashes have caused wider economic problems and the construction sector has taken a long time to recover. If the housing market contracts, and this leads to a downturn in construction, then this will have wider repercussions. Conversely, there is a significant need for more affordable housing, but it is difficult to see how a balance can be struck.

The social and economic impact of 120,000 households entering poverty cannot be understated.

Overseas entities owning UK properties

If an overseas entity owns a UK property then new rules have been introduced that mean the overseas entity must register with Companies House by 31 January 2023. This includes overseas entities where any properties have been sold after 28 February 2022. There are severe penalties and even possible criminal proceedings against anyone that does not comply. You can read more about this in our article on page 13.

This comes alongside calls for a levy on owners of homes in the UK who live overseas. Some ministers are calling for the levy to help the Chancellor raise taxes and fund the shortfall. This reflects concern that the overseas speculators are buying homes which are then unoccupied. The estimate of the number of homes in England and Wales owned by people based abroad has increased significantly from 2010 and is now thought to be 247,000 properties.

Summary

The most pressing and obvious concern is the interest rate increase, and where that might lead to. With many fixed rate deals ending over the next year this will have a worrying impact for people and there seems to be limited ability within household budgets to cope with any meaningful increase. This can only have a negative impact on the housing sector.

There seems to be an opportunity to increase taxes for overseas owners of UK properties, particularly if those properties are vacant.

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Automotive sector outlook

After a phenomenal couple of years of profitability for the sector post Covid, many businesses have broken records and made levels of profitability they may never have imagined possible. Vehicle supply has been hampered by Covid as well as component shortages (microchips as well as Ukraine production being the largest issues), which has led to a huge pent up demand for vehicles and long waiting times due to lack of supply. This has resulted in dealers making record profits and no longer having to discount vehicles. How long this will last for no one knows, however so far in Q4 of 2022 there are signs of things slowing and profitability easing – this will also no doubt be due to the wider economic pressures across the UK.

The shift towards electric vehicles remains a real talking point also with most manufacturers now offering some sort of EV product. Infrastructure across the UK continues to be developed alongside the battery technology in the vehicles allowing them to travel further on a single charge. The ever increasing energy prices may start to have an impact however, with many EV products being substantially more expensive than an equivalent combustion engine vehicle.

It's going to be increasingly difficult to get people to switch to electric cars if they are more expensive to buy than petrol or diesel cars and no cheaper to run.

Saving several hundred pounds a year in Road Tax is a meaningful incentive to switch to electric. Once that's gone an electric car is less appealing to many.

Along with the phasing out of grants, the sky-high price of electricity and the costs of finance as interest rates rise, the money involved in having an electric car has become a real problem for a lot of households.

If the Government is serious about net zero the EV market will require more support than this.

The continued lack of infrastructure and electricity supply also remains a concern for the 2030 deadline around combustion engine vehicles in the UK – will an alternative such as hydrogen become a real option? And will the 2030 deadline be extended? There are so many variables at play, it is uncertain as to where things will end up.

One other shift that has been regularly discussed is the push towards 'flexible ownership' and subscription services. We can see the market shifting towards a small new car agency 'box', situated on a supermarket car park style footprint, allowing customers to maintain a monthly rental and simply swap in and out of different derivatives depending on what they are requiring within their lifestyle at that moment. In 20 years of working in the automotive sector, never have there been so many variables and changes afoot which will make it a very interesting sector to monitor over the coming months and years.

Ten years from now – who knows what vehicle supply and the automotive space may look like?

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Driving prosperity for Luscombe Motors - helping you prosper case study

At UHY all of our teams are driven by our purpose of helping you prosper. As a UHY client, this means your team will be focused on helping you to determine what prosperity means for you and how we can help you in pursuit of that. In this case study, we look at what that meant for our client Luscombe Motors.

Turning £100,000 into £2.8million in just seven years proves how driven Robin Luscombe has been since he bought his Suzuki dealership. It was a team effort, one Robin is very proud of...

In 2006, Robin was employed as operations director at a Suzuki dealership in West Yorkshire. He was hungry for success and when he met David Kendrick and Paul Daly, who now head UHY's national automotive offering, at a local franchise event, he shared his desire "to go it alone".

Paul and David helped Robin identify and consider various opportunities and, following a speculative call in 2009, the opportunity to buy Bowetts Suzuki in Leeds came about.

A leap of faith...

At the time the business was experiencing various issues, but Robin was ready to back himself, his knowledge and his skills. He was sure he could make it work but he also knew the risk was significant and he needed some help and guidance.

There's a lot to buying a business, and Robin turned to Paul and David to help ensure all financial aspects were in place. They worked together on the documentation, the dealings with the bank and with the vehicle finance companies, plus working with Suzuki themselves.

As a result, after three decades in the motor trade and 28 years' experience with Suzuki, Robin Luscombe became the proud owner of his own Suzuki business, Luscombe Motors, in 2010.

A different perspective pays off

On purchase, the business was loss-making and Robin had a long road ahead of him. Some believed the business would be bankrupt within six months, however, Robin's commitment, work ethic and ability to lead a team saw fortunes rapidly turned around. In an early boost to team morale, one of first things Robin did was redecorate. He was supported one night by all 11 original team members who stayed behind after work to collectively repaint the showroom walls!

> **"Paul and David are not only great business advisers, but have become good friends, which cements the relationship."**
> Robin Luscombe, Luscombe Motors Managing Director

This was the start of Robin building a team culture, one where staff are trusted to make deals with their customers. At Luscombe Motors they avoided chasing aftersales work to boost profits, preferring to do things differently. Turning the car sales rule book on its head, the typical hard sale approach was replaced with training the team to help empower customers to buy a car.

With the strapline 'We won't sell you a car. We will help you buy one!', the approach at Luscombe Motors was to respect the wishes of their customers and build a reputation of doing things right first time around, in the hope customers come back for future purchases.

Despite what may sound like an altruistic approach to business, Robin's model proved itself quickly by returning a profit. After the first year of trading, the business went from a loss-making position to making a profit of £163,400, testament to Robin's drive and commitment.

More big steps forward...

The business developed rapidly. In the summer of 2016, Luscombe Motors secured the freehold of the Suzuki site, along with the neighbouring Mitsubishi franchise and used car pitch. Another entrepreneurial move on the property also secured a rental income stream from a hot tub company.

Driving growth...

By 2017, Luscombe Motors was turning over £26.3 million, making a profit before tax of £1 million (up 24.5% on the previous year alone) and had accumulated a net worth of £2.8m. Considering the initial capital invested of £100k, this was an amazing achievement.

In 2018, Robin looked again to UHY for advice regarding the potential to purchase another multi-million pound site adjacent to the business which would enable Luscombe Motors to unlock its next phase of growth. With the support of our UHY automotive team, in November 2018 Robin completed this purchase and company operations expanded further with an MG franchise from 2020.

The family prospers...

This phase of development also saw Robin's son, Sam Luscombe, join the business as MG Dealer Principal and focus on group innovation and the fast-growing digital side of the business.

£2.8million turns into £5.7million...

Luscombe Motors continues to go from strength to strength and, despite the damaging effects of the Covid-19 pandemic, the business is so strong that it still made a pre-tax profit in 2021 of £1.6m and grew its net worth further to £5.7m.

From a £100,000 investment to a net worth of £5.7million, employing initially 11 people and now employing 56 people, just shows what's possible.

The right support helps build security as well as growth...

Since meeting in 2006, Paul and David have not only helped Robin secure his business but supported him during its subsequent additions and developments. Our UHY automotive team also now provide audit and tax services and have advised on the company structure, including the introduction of a holding company to de-risk the business, and introducing Robin to advisers who have set up a pension fund, which now owns two of his four freehold properties, further strengthening his financial position and delivering considerable tax advantages.

We continue to be committed to helping Robin and his businesses prosper, and this help goes far beyond the traditional accounts, audit and tax services. Robin speaks regularly with both Paul and David and often seeks their opinion about the latest automotive insights. However, the critical element to this story was getting the business off the ground in the first place.

Knowing how to present the business case to get buy-in from the Suzuki brand, the bank and other financial stakeholders, convincing them that the significant sums they were investing were secure in this new venture, helped Robin get his start as business owner. Our team's knowledge and reputation in the automotive sector has proved to be a big help to Robin.

Financial results are important, but prosperity means more than money making...

Luscombe Motors has become highly regarded amongst the industry and its customers alike. As testament to this, the business has won multiple industry awards in recent years, from being named four time winner of 'Suzuki Dealer of the Year' to receiving Automotive Management's flagship 'Best Dealership' award in 2020.

With a very distinctive culture and a focus on treating staff and customers 'like family', Luscombe Motors has developed from a loss-making problem to a multi award winning business achieving record profits in recent years. Robin's robust belief that 'everyone is part of its success' has seen him develop a strong and successful management team, allowing Robin to enjoy the prosperous business he has created whilst also enabling him to indulge his passion for travel and motorcycle trials competitions.

Our UHY automotive team are very proud to have been part of the team that has helped Robin and Luscombe Motors prosper.

If you are interested hearing more about how UHY can help you prosper, whether as a client, a member of our team or as part of our local community. Visit our dedicated page on our website, which explains our purpose in more detail.

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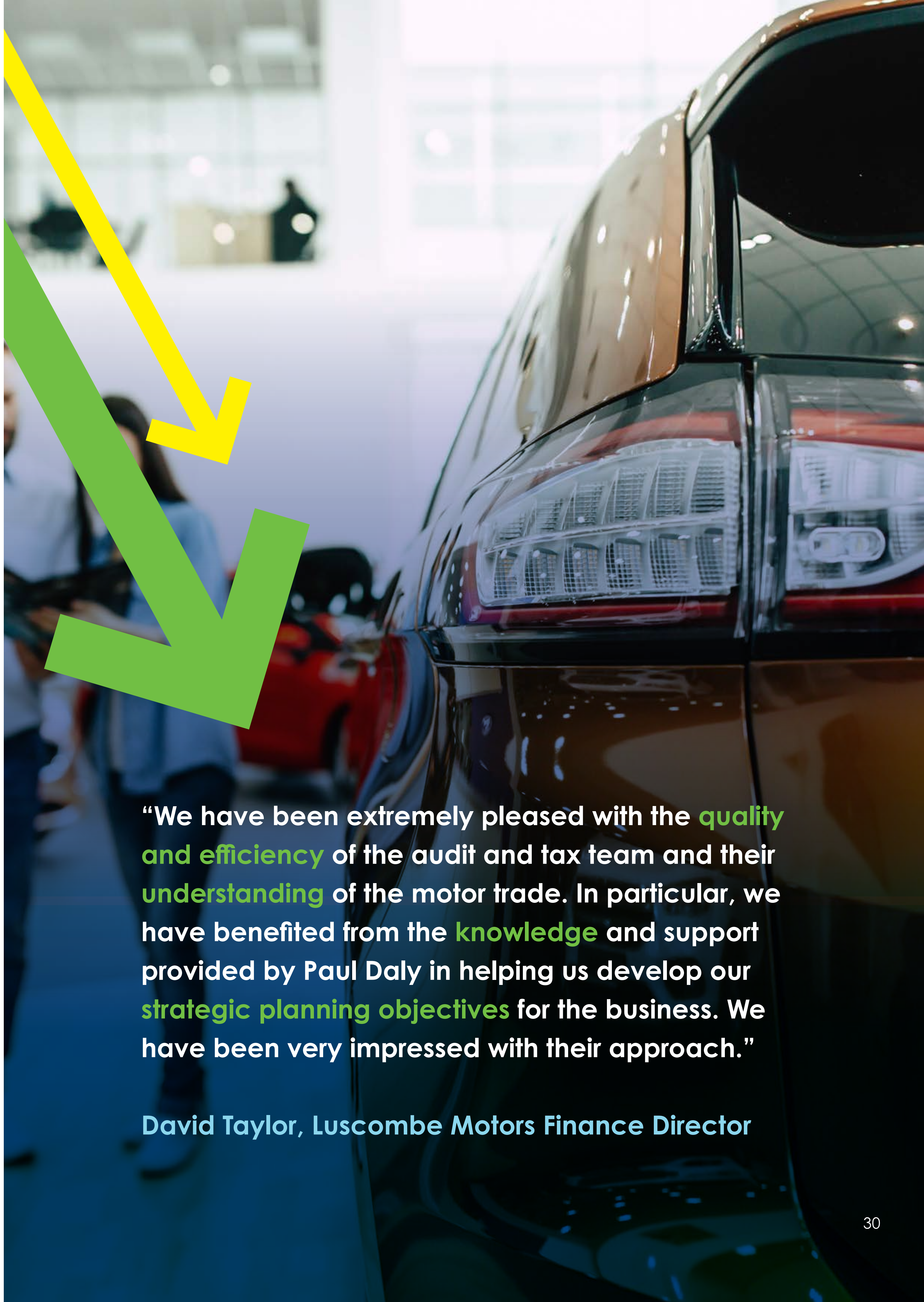


"We have been extremely pleased with the quality and efficiency of the audit and tax team and their understanding of the motor trade. In particular, we have benefited from the knowledge and support provided by Paul Daly in helping us develop our strategic planning objectives for the business. We have been very impressed with their approach."

David Taylor, Luscombe Motors Finance Director

UHY in numbers

Top 20* UK accounting firm

23 offices across the UK

95 partners

640 professional staff

Founder member of **UHY,** our international network

340 offices

in more than

100 countries

In the latest Corporate Advisers Rankings Guide, we are currently ranked:

15th
by number of AIM listed audit clients

17th
by number of stock market audit clients

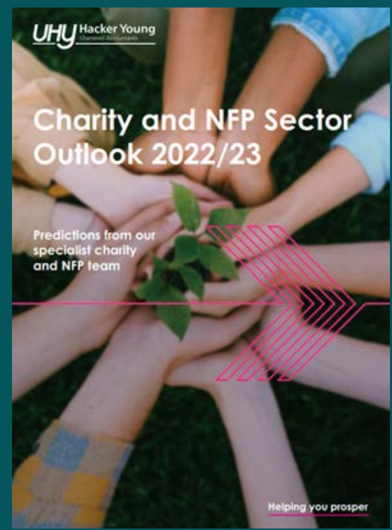
* Latest Accountancy Age and Accountancy Magazine league tables

In the 2021 Charity Finance Audit Survey, **100%** of our charity clients participating awarded UHY the top score for not only the level of our expertise in the charity sector, but also for our overall service levels as well as for being contactable.

Working with **more than 500** academies and free schools nationally.

Involved with more than **1/3 of the transactions** within the automotive retail market for the last three years.

Some of our recent sector and service publications:



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