Clarkson Hyde chartered accountants

Hyde&Speak

Clarkson Hyde GLOBAL

News & comments from Clarkson Hyde LLP

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Our dear friend ‘Spike’

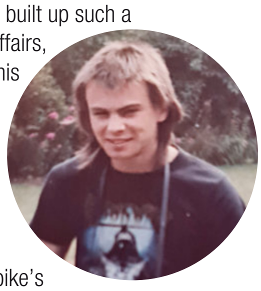
It is with great sadness that we record the loss of Mike Clark who passed away unexpectedly on 25th October.

In this issue

Mike joined our firm in the Summer of 1984 from Reigate Grammar School. In his early days with the firm he had “bog brush” hair and within weeks he was nicknamed Spike – the hair eventually ceased to be spiky but the name remained for the next 37 years!

Spike sailed through his exams and was something of a star in our firm’s soccer team. Progressing from newly qualified to manager, he became a partner in 1997 and has diligently served his clients ever since, always putting the interests of his clients first. The mountain of tributes from his clients is testimony to Spike as an individual and as a professional:
“Mike took the time not just to answer my questions – and I had a lot of them! – but to properly explain things to me. I couldn’t have asked for a more generous and patient teacher”… “He made the scary world of finance so human and understandable as we set up, and stumbled our way through growing our business”… “I have known Mike for only two years but he was instrumental in helping me set up my new business”… ”He was a lovely person and an accountant who adopted a very pragmatic approach”… “I must have known him for close to 30 years and in all that time he was always the perfect gent.”

These quotes are just a small selection from the dozens of glowing tributes which the firm received from some of Mike’s clients, and across them all there was a common thread – the professional Spike and the personal Spike were one and the same. A kind, generous, friendly and thoughtful man. A man who was unerringly cheerful, who took the burdens of others on his shoulders and who always showed great patience. He was an outstanding ambassador for our firm and it is easy to see why he built up such a following of loyal clients who trusted him with their affairs, and who also in many cases became friends – with his warm and understated ways, how could you not become Spike’s friend?



Outside of work, Spike had a number of interests - a great love of music, which he was convinced could only be properly appreciated on his large vinyl collection, following Arsenal’s fortunes (well, even Spike’s choice and judgement wasn’t always perfect!) and enjoying big, fast cars – the quiet, calm Spike became a boy racer behind the wheel!

We have lost a special man and a fabulous friend.

’Tis the season for New Year’s resolutions!

By Malcolm Coomber

Every year I make new year’s resolutions – but I can’t recall ever sticking to even one for more than a few weeks – and I would wager that many of our readers make similar resolutions with very few actually sticking to them!

Resolutions are steeped in history

Whilst our vows for 2022 may be a response to our over-indulgences during the Christmas break, the tradition of New Year’s resolutions significantly pre-dates the Christian festival, with the Babylonians being the first to leave records of new year festivities some 4,000 years ago. Their new year was at a different time from ours, being linked to agricultural seasons and resulting in a 12 day festival around the spring equinox, to celebrate the renewal of life. The superstitious Babylonians would seek to appease the gods by promising to repay their debts and to return borrowed objects.

Similarly, the ancient Egyptians would make sacrifices to Hapi, the god of the Nile, at the beginning of their year in July, coinciding with the Nile’s annual flood bringing renewed fertility to the land. The Romans continued in a similar vein but starting in March, around the spring equinox. However, the pagan new-year festivities involving the worship of Janus were offensive to Christians and in medieval times the new year celebrations were moved towards Christmas and the new calendar year. Prayers and confessions were made to comply with strict religious values. At the end of Christmas feasts, some knights were said to have taken an oath known as “The Vow of the Peacock” in which they placed their hands on a noble peacock in order to renew their commitment to chivalry. This moral flavour persisted and developed, although by the time the phrase “New Year resolutions” first appeared in a Boston newspaper in 1813, the pledges were losing their religious overtones. However, the making of resolutions has remained a tradition with, according to polls, around half of the UK population making them – but less than 10% are said to keep them!

Top resolutions of modern times

It’s interesting, and not surprising, to see what heads the list for the 50%. According to Statista the top 10 resolutions are:

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> Money, if it doesn't bring you happiness, will at least help you be miserable in comfort.
>
> – Helen Gurley Brown

- ***Eat healthier***
- ***Get more exercise***
- ***Save (more) money***
- ***Focus on self-care***
- ***Read more***
- ***Make new friends***
- ***Learn a new skill***
- ***Get a (new) job***
- ***Take up a new hobby***
- ***And not to make new year's resolutions!***

I can empathise with many of those, and have failed miserably with the first two on a regular basis, but it was number three on the list which got me thinking about financial resolutions, prompting me to suggest some Financial New Year's Resolutions for our readers.

Financial prudence

I have concentrated on personal finances and, of course, although my suggestions won't apply to everyone, some may apply to you, whether you're burdened with a mountain of debt or are a multi-millionaire. Depending on your financial circumstances, here are some resolutions you may like to consider:

Do a month's money challenge

If you would like to be more financially prudent then start by applying a tough discipline:

- Keep track of all your spending – every penny
- Only spend money on essentials
- No social pleasures – no eating out

It may sound tough and miserable but at the end of the month you may be surprised that you have savings and a surplus.

Pay off your credit card debt

I was shocked recently to hear a card advert openly stating a rate of 99.9% APR. I can't remember the name of the card involved, clearly seeking to capitalise on the poorest, least educated members of society but even big, respectable companies can charge what many would in other circumstances view as usurious rates. A quick Google showed Origin at 32.9%, the widely advertised Ocean Finance at 34.9% and Aqua at 32.9%. Even the more well known brands such as Barclaycard, M&S and HSBC are showing 22.9%, 21.9% and 20.9% respectively with the Bank of England indicating an average of 21.49%.

There really is no excuse for rates on cards to be at the highest levels for two decades when interest rates are so low – in October 2001 the average card rate was 18.1% at a time when interest rates were 45x higher at 4.5% (at the time of writing). Up to 75% of adults carry card debt forward from one month to the next with the £58bn card debt amounting to £3,080 per household – no wonder the card companies are rubbing their hands in glee!

> You should always live within your income, even if you have to borrow to do so – Josh Billings

So, part of your plan could be to get rid of toxic credit card debt. There are lots of ways: switch to a card which gives 0% on new purchases and at the same time pay down the old debt. You could take a loan at a much lower rate to clear the card debt or increase your monthly repayments by a small amount to eat into the expensive borrowing.

Boost your Income

If you're struggling then instead of cutting what you spend to the bone why not take the alternative approach – get a second job, do some freelance work, change jobs, reorganise your investments. If there's one thing the pandemic has taught us it's that life is uncertain and having multiple income streams is more important than ever.

Make or update your will

I am regularly amazed at how many clients, some quite wealthy, who either don't have a will or have one which is so out of date as to be hopeless. Think of the loved ones you will leave behind - if you die intestate (i.e. you have no will) then complex intestacy rules apply. And if you do have a will then I often find that clients haven't updated their wishes for 5,10 or more years and the will is hopelessly out of step with current circumstances. For example, children grow up and are self-sufficient (well, some!), personal financial circumstances improve or deteriorate, and so on.

If you don't have a will, or it is out of date, resolve to deal with it in January! And if you do so, consider a discretionary will which is a much more flexible approach than a fixed will and far easier to update on a regular basis – ask your lawyer (or me!) to explain more.

Review your life cover

Life insurance is, like wills, something which folk tend to do and forget about, feeling that they've protected their loved ones. But circumstances change – marriage, kids, divorce, children flying the nest – but often the cover remains the same. You should regularly assess your needs and increase or decrease cover accordingly.

Compare the cost of your insurance

It's so easy simply to renew – and insurance companies love lazy customers! You can often save 10%, 20% or 30% by switching, and consider combining all your insurances in one place to obtain multi-line discounts.

Review your taxes

Well, as accountants, we would make this the final, highly important, resolution! Many individuals and companies still pay far too much tax. An annual review with our brilliant senior tax partner, Charles Green, could pay handsome dividends.

I hope that one or two of my new year resolutions may have hit the right note – my own resolution is to stop procrastinating – but not today!

If you would like to discuss your personal circumstances with a view to looking at areas where we can help, please get in touch with Malcolm Coomber on 020 8652 2450 or email mec@clarksonhyde.com

Research and Development: tax savings and recent developments By Charles Green

Tax relief for research and development (R&D) has been with us since the year 2000, providing companies with a financial incentive to engage in technical innovation. The way the relief works for small and medium sized companies (SME companies) is to allow an enhanced deduction for certain qualifying expenditure to reduce their taxable profits or claim a repayable cash credit.

SME Company	
2 employee salary costs	£100,000
50% time spent on R&D project	£50,000
R&D 130% enhancement	£65,000
Total enhanced R&D expenditure	£115,000
Tax relief obtained using the enhanced expenditure	
If the company is profitable: the company reduces its Corporation Tax by 19% x £115,000 = £21,850 (i.e. a tax saving of 43.7% of original expenditure)	**If the company incurs losses:** The company claims payment of tax credits from HMRC at the rate of 14.5% the tax credits claimed are 14.5% x £115,000 = £16,675 (i.e. a tax benefit of 33.35% of original expenditure)

The expenditure that qualifies for the relief must relate to activities carried out on innovative projects that involve scientific or technological advances. This can cover reasonably wide areas such as software development and creating new processes, products or services.

A typical R&D claim will be based on a proportion of specific staff costs and/or subcontracted R&D but other R&D costs can also qualify.

Example:
A company (which is an SME) has two employees with a total salary cost of £100,000.

It is determined that 50% of their time is spent on a qualifying R&D project = £50,000
The R&D rules allow the qualifying costs to be enhanced by 130% = £65,000
Total enhanced R&D expenditure = £115,000

Tax relief obtained using the enhanced expenditure: If the company is profitable:
The company reduces its Corporation Tax by 19% x £115,000 = £21,850 (i.e. a tax saving of 43.7% of original expenditure)

If the company incurs losses:
The company claims payment of tax credits from HMRC at the rate of 14.5%
The tax credits claimed are 14.5% x £115,000 = £16,675 (i.e. a tax benefit of 33.35% of original expenditure)

With the main Corporation Tax rate due to increase to 25% in 2023 the potential savings are even greater.

New developments and current issues for R&D claims

Cap on payable tax credits
For SMEs, a cap on payable tax credits has been introduced for accounting periods beginning on or after 1 April 2021. This has been introduced to minimise fraudulent claims for payable tax credits on R&D work carried out overseas by connected companies. The cap limits the amount of payable R&D tax credit available to an SME to £20,000 + 300% of its combined relevant PAYE and NIC liability for the period.

However, a company is exempt from the cap if: Its employees are creating, preparing to create or managing Intellectual Property and It does not spend more than 15% of its qualifying R&D expenditure on subcontracting R&D to connected externally provided workers or subcontractors.

Whilst this new restriction will affect many claims, a company that is genuinely carrying out R&D work and has limited spend with connected parties is essentially exempt from the cap.

State aid affects R&D claims
This is not a new rule but an issue that has become particularly relevant because of state support during the COVID-19 crisis. To be eligible for SME relief as outlined above, the R&D expenditure cannot have

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New developments and current issues for R&D claims Cont’d

been subsidised by state aid. Both the Bounce Back Loans and Coronavirus Business Interruption Loans count as state aid and these have been widely claimed by companies during the COVID crisis. If R&D expenditure has been funded with state aid it can still qualify for the less favourable RDEC scheme (the R&D scheme used by large companies) – there is still a claim to be made but it will be on less generous terms.

Cash credits or Corporation Tax savings?
The cash repayment for an SME claim is 14.5% of the surrenderable loss generated by the claim. Whilst many companies choose to claim this for the quick cash benefit it is not the only option. An alternative strategy is to carry the loss forward to use against future profits. A saving of 19% in the future may be worth the sacrifice of 14.5% of quick cash.

From 1 April 2023, the savings for choosing the carry forward option will be even greater as the main rate of Corporation Tax is set to increase to 25%. It is certainly worth thinking twice before simply choosing the quick cash option.

A wider definition for eligible expenditure
From April 2023 the list of eligible R&D expenditure is to be widened to include cloud computing and the costs of datasets. This is in recognition of the fact that these costs are often essential tools in carrying out the R&D work.

A re-focus of R&D towards UK activities
From 1 April 2023, the rules are likely to be changed in order to re-focus the incentives for innovation carried out in the UK. This potentially means that expenditure paid overseas will be excluded from R&D claims. This could have a big impact for companies that subcontract their activities to foreign countries or where workers are operating remotely and not on a UK payroll.

Tackling abuse of R&D claims
HMRC are looking at ways to prevent spurious or excessive R&D claims. This will involve the introduction of new anti-avoidance measures from 2023. The suggested changes include:

- *All claims to be made digitally*
- *Additional information will be required to substantiate the claims*
- *Claims will need to be endorsed by a named senior officer of the company*
- *Companies will need to inform HMRC in advance of making a claim*
- *Claims will need to name agents advising or assisting with the claim*

If you would like to understand the R&D tax relief scheme further or would like to know if you are eligible to make a claim, please call Charles Green, tax partner, on 0208 652 2450.

It’s a Small World

By Graham Speck

It hasn’t been a great couple of years for international travel but with the help of Teams and Zoom the world continues to shrink and the new year is a good time to remind our clients of the valuable services available from Clarkson Hyde Global.

CHG was set up 22 years ago by Mike Whyke and Malcolm Coomber, who had the foresight to recognise that increasingly clients would need overseas/cross-border advice on a wide variety of matters such as tax, acquisition or sale etc, and in the subsequent decades it has become increasingly used not only by our clients but also those of the (nearly 40) member firms spread across most of the important commercial jurisdictions.

CHG’s chairman, Alberto C. Magri of Clarkson Hyde Commercialisti e Avvocati in Italy, is an outstanding driving force, strongly supported in the UK by Claire Berg and Carly Haines who, between them, have built a valuable support for our clients. The accounting members are further supported by our association with SMS Latinoamérica and legal advice is also available from our close ties with Cicero League of International Lawyers.

Whatever your needs for international assistance, make Clarkson Hyde your first port of call. Graham Speck can be contacted by email: gs@clarksonhyde.com or phone on 020 8652 2452.

Beware of Sharks By Malcolm Coomber

It is sooooo frustrating, as a highly regulated professional practice with partners and staff trained to high levels of skill, to see Joe Public ripped off in areas where our skills, backed by the reassurance from the Institute of Chartered Accountants, are higher, and the costs lower, than THE SHARKS!

In this article we look at just three of many areas in which these predators circle their unsuspecting prey before, like great whites of the commercial world moving in for the kill, they sign their unsuspecting clients on the dotted line ready to feast on their fees.

The Great White

Also known as the Business Sale Agent. These sharks largely prey on hard working individuals who may have built a great business over twenty or thirty years but, when it comes to exiting, have no idea about who to turn to in order to achieve a good sale. This area is littered by a number of unscrupulous, unregulated companies who generally charge high monthly fees together with a percentage success fee – typically £8k per month for six months together with 3% of the sale price.

Many of these rapacious creatures run seminars to persuade the unsuspecting businessman that they can sell his/her business for more than anyone else – and they are good! I've been to one (incognito) and, if I'd not known better, would have signed up there and then! Just think about it – who would you go with, the estate agent who re-assures you that he definitely can sell your house for a million or the more honest guy who tells you he'll market it for £900k? So, you go with the spiv who only gets you £800k – but he's still the winner as he gets the commission on the poor sale.

It's a bit like that in the M&A (Mergers and Acquisitions) business where the Great White will tell you that he can get you £6m for your business whereas I would honestly tell you I think it's worth about £4.5-5m. In the end he gets you £4m but he doesn't care – he's prepared a shoddy Sale Memorandum, negotiated a poor deal – but he still probably gets 6 months retainers at £8k + 3% of £4m = £168k. But it's worse than just the fees:

- There are exceptions, and a number of good agents out there, but I buy companies on behalf of clients and have seen so many shoddy Sales Memoranda – extravagant and unjustified profit forecasts with no cash flows to back them up and to show whether a business is cash absorptive or cash generative
- Most agents give little or no tax advice – and the right structure can often mean a lot more for both buyer and seller, whilst less for Rishi Sunak
- The lackeys working for the Great White machines often have poor knowledge both of the company they are selling and of business generally
- The liaison with legal and accounting advisers is often very poor

In reality, at one end of the spectrum, there are a number of highly professional sales agents, but at the other end there are the greedy and the unscrupulous – Google is littered with tales such as Holmefield Auto Spares who ended up in court when they refused to pay the agents' fees of RTA who bragged that they could value the business "to the penny" at £1.3m, whereas two reputable agents both came up with a figure of £600k – happily in that case the court found in Holmefield's favour but most cases are not that extreme or clear cut and the lesson is clear – whether your business is worth a million or ten million, use a professional firm. Many good firms of Chartered Accountants have specialists in the area of company sales and we chart below the comparison with the sharks relative to a sale at around £5m.

Sale at £5m	Clarkson Hyde	The Great Whites	Comment
Initial upfront fees	Yes	Yes	A detailed Sales Memorandum can be costly to produce but invaluable in the sale process
Advance fees/retainers	Modest	Often high -up to £8K/month	Analysis shows that some agents fail to make a sale in up to 90% of cases, but having pocketed large retainers, do they care?
Commission on sale	Yes, but incentivised – modest on target price increasing thereafter	Generally, 3% - can be as high as 7%+	The hard sell sharks don't mind if they've got you a poor deal – they have their retainers +3% of whatever sale figure they get. CH basis - we only succeed when the client succeeds.
Robust Sales Memorandum	Yes - thorough and comprehensive	Often very shoddy	Professionalism pays dividends
Tax advice	Always	Rarely	Important in most deals
Comprehensive service	Always	Rarely	Complete 'hand holding' from start to finish including close liaison with other advisors
Ability to advise on a range of exit options	Yes	No	The sharks are only interested in a sale – CH can advise on alternative options such as MBOs, IPOs, etc
Scattergun approach	No	Generally	Most agents rely on scattergun mail shots, etc rather than getting to understand the business/ sector and targeting the right buyers
Professionally qualified team	Always	No	No Comment!
Regulatory body	Yes	Rarely	Always look for this reassurance

Beware of Sharks Cont'd

The Tiger shark
Having harpooned the Great White, let's move on to the Tiger – he swims in the increasingly murky waters of the unregulated world of R&D (Research & Development) claims. The origins of R&D relief date back to the Labour government of 2000 when they introduced the scheme with the laudable concept of encouraging and rewarding investment in innovation.

The subject is dealt with in more detail in Charles Green's excellent article but, in a nutshell, SME R&D relief allows companies to deduct 130% of their qualifying costs from their yearly profits as well as the normal 100% deduction to make a total 230% deduction. The aim of providing companies with a cash value to advance science and technology in their particular industry is working quite well in practice, with the government paying out about £5bn a year to claimants. However, there are a couple of ways in which the sharks have spotted an opportunity to get their "jaws" into R&D claims:

Although competition and good marketing have reduced the incidence, there were and are a number of firms charging an astronomical percentage of the sums they recover. We took over a client where the annual claims were regularly about £150k and they were being charged a usurious 25% - 6 or 7 x what we charged. Similarly, although not normally my area in the firm, I was personally involved with a client where we charged less than 5% for a six figure claim.

In addition to outrageous overcharging, another problem has evolved. The value of claims is now so large and the R&D industry so well established that it has attracted a number of extremely dodgy "advisers". So far HMRC have identified (and prevented) about £300m of false claims and large sums can be involved – 3 fraudsters were jailed for 21 years at Birmingham Crown Court for falsely claiming £29.5m

In addition to out and out fraudulent claims (often based on apparently loss-making companies) there are firms which either "manufacture" circumstances in which there is no real innovation, or greatly exaggerate the costs involved. After a period of laissez-faire during which HMRC allowed most claims "on the nod", the Revenue have woken up to the extent of the abuse – false claims, manufactured claims, exaggerated claims etc. They are now tightening up their rules and procedures.

The lessons are clear – this is a great incentive to legitimate companies but avoid the dodgy dealers who overcharge and ensure that your claim is properly dealt with by a regulated firm of Chartered Accountants.

The Pygmy shark
The Pygmy, simply because the abuse of the client is not as large or as widespread, but another area which is exploited is the EMI (Enterprise Management Incentive) Scheme.

We are strong supporters of the most widely used approved scheme to incentivise and reward key employees and have covered this in detail in previous editions of Hyde & Speak. The award of share options to employees under the EMI scheme is extremely flexible and tax efficient for both employee and employer – with no tax on the grant or exercise of the option and any profit on sale only subject to the relatively low rate of Capital Gains Tax.

The abuse we have found is massive over-charging by some firms who create a mystique around what is a relatively simple process. In essence, there is a simple process of agreeing the value with HMRC (there can be a reasonable cost to preparing the valuation) but there are standard agreements which can be tweaked and certain simple submissions to the Revenue.

The solution – come to Clarkson Hyde for your EMI arrangements – we have dealt with dozens and provide excellent value for money. Please get in touch with Malcolm Coomber at mec@clarksonhyde.com or call 020 8652 2450.

Hyde & Speak is the newsletter of Clarkson Hyde LLP and is written for general guidance only. Professional advice should be sought before taking any action. If you would like any further information about the issues raised, please call and speak to any member of our team on 020 8652 2450. Alternatively, you can email any questions to Claire Berg at clb@clarksonhyde.com.

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