

the bottom line

Welcome to the Autumn edition of "the bottom line" our taxation and accountancy newsletter. This edition covers Raising Finance and News in Brief.

RAISING FINANCE

All businesses, at some time in the business cycle, require external financing. There are many issues to be considered as well as the cost of the finance, such as flexibility, appropriateness to your business and the control conditions that the financier may place over your business.

Loan Finance and Grants

• Bank Finance

Approximately 60%/70% of small businesses use bank finance to assist them through various stages of their business development. This may take the form of an overdraft or a loan and depending on the amount loaned they may require personal guarantees of the directors or proprietors. The business may have a strong asset base and the banks may want to take a legal charge over the assets instead to provide them with security in case things go wrong. For businesses that have been in existence for over two years with turnover of less than £1.5M (£3M if you are a manufacturer), but do not have sufficient security for a conventional bank loan, the Small Firms Loan Guarantee Scheme may be an option for raising business finance. This scheme is backed by the Government and guarantees loans of between £5,000 and £250,000.

• Grants

There are countless publicly funded schemes that offer finance to new and growing businesses but unfortunately large amounts put aside each year go unclaimed due to the stringent criteria that have to be met to obtain such finance.

Some grants are available for specific projects or to meet training, employment, recruitment or capital investment projects. Some grants take the form of cash awards, others as a subsidised loan or which require repayment only on the success of the venture.

• Factoring

Factoring is a flexible form of loan, which advances money to a company as it issues new invoices. Control for collection of debts passes to the factoring company. The factor often has recourse to the borrower if any debts are not settled within an agreed credit period, although some factors offer a 'without recourse' service where the debts up to a certain level are insured. Factoring is generally more expensive than an overdraft as the factoring company are administering the sales ledger in addition to financing it and ending a factoring arrangement can often prove to be difficult to manage.

• Leasing and Hire Purchase

This form of finance allows a business to acquire an asset, paying for it over a period of time. In respect of hire purchase the business will actually take ownership of the assets whereas in respect of leases, the ownership remains with the leasing company. Tax treatment of assets acquired under hire purchase and those acquired under leases is different. In the former the asset is treated as a company asset and capital allowances are available thereon. With most leases the capital element of the lease repayment is allowed as a deduction against the

business' taxable profits subject to certain restrictions. In both cases the interest is an allowable deduction against profits.

Equity Finance

There are several forms of equity finance available to new businesses although all obviously result in the initial owners losing an element of control in their business and how they run it.

• Venture Capital

A company is suitable for venture capital investment if it exhibits high growth prospects, has a product or service with a competitive edge or unique selling point, and has a strong management team. Venture capital provides long-term committed share capital to help unquoted companies grow and succeed. Generally venture capitalists look to a return of their investment in three to five years and during that time they look to generate at least a 20% return per annum.

• Corporate Venturing

In its most basic form, this is purely a financial investment with a larger company taking an equity stake in a smaller company. The larger firm looks to make a return on its investment when the company is sold or floats on a recognised stock exchange. There are tax benefits for the investing company.



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• Business Angels

Business angels are wealthy individuals who invest in start up and growth companies in return for equity in the company. The investment can involve both time and money depending upon the investor. Investments can be between £10,000 and £250,000 although in practice most investments are in the region of £25,000. As well as finance, business angels can offer years of experience in the business world. Although some prefer to become a sleeping partner, others will get actively involved in your business from writing a marketing plan to

taking the company through to a stock market flotation. Business angels tend to invest in local companies and also favour specific industries. They invest in growing companies and will generally require growth potential of at least 20%. They will require an equity stake in the business and will want to know how they will get their money back. There are various tax schemes available to business angels which make an investment more attractive.

• Incubators

A fairly new concept in the UK, incubators provide a whole range

of resources to assist new and growing businesses which include business planning, business development, human resources, recruitment, financial and administrative support as well as services relating to property. It can be a way of getting a serviced office, at a fraction of the cost and also consultancy advice on all areas of business without incurring significant fees. There may also be intangible benefits such as introductions to contacts to help grow your business.

If you require assistance in raising finance for your business please contact us for more information.

NEWS IN BRIEF

E111 form

On 1 June 2004 the European Health Insurance Card (EHIC) was introduced for individuals travelling within the European Economic Area and Switzerland. The UK has until 31 December 2005 to introduce them. However, from 19 August 2004 the UK is replacing the E111 form for people moving from the UK to other EEA states/Switzerland. From 19 August 2004, employees assigned to another EEA State/Switzerland for twelve months or less or who normally work in more than one EEA State/Switzerland and their accompanying family members will need to get new E111s from any UK post office. The new E111 will not be restricted to emergency healthcare.

Statutory Sick Pay/Statutory Maternity Pay

From 6 April 2005, under the National Insurance and Statutory Payments Act:-

1. Employers who fail to produce any document or record under the scheme will face an initial penalty of

£300 and £60 per day for continuing failure.

2. Employers who fail to maintain any document face a penalty of up to £3,000.
3. Employers who fail to make payments of SSP or SMP will face a penalty of up to £3,000.
4. Employers who fraudulently or negligently make or receive payments in respect of the scheme will face a penalty of up to £3,000. Previously employers who did not comply with the SSP/SMP regime faced minor criminal penalties.

Telemarketing

With effect from 25 June 2004, limited companies and all partnerships are entitled to register their telephone numbers on the Telephone Preference Service (TPS) register in order to block unsolicited telemarketing calls. Previously this service was available only to individuals and some partnerships. The new regulations mean that anyone making unsolicited promotional and/or fundraising calls to any business must check all numbers against the TPS list. Failure to do so could result in a fine. Firms wishing to register

must do so in writing and registration is renewable on an annual basis. (tps-online.co.uk)

Rates of interest on tax

The rates of interest charged by/payable by the Inland Revenue on corporation tax increased to 5.5% and 4.25% from 21 June 2004.

Disability Discrimination Act

From 1 October 2004 all service providers must make 'reasonable adjustments' to their premises or the way they provide their services to ensure they are not unreasonably difficult for disabled people to use. Fines may be levied for non-compliance.

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Christmas Cards

We have decided not to send Christmas cards any more and instead to donate the costs of printing and postage to a number of charities. If there is a charity that you consider particularly worthy, please let us know.

Contacts:

For further information about the issues raised in this newsletter or if you would like to find out about the range of services that we can offer, please contact Stephen Dabby, Morisha Christy, Martin McNally, Tony Sian or Nick Nicolaou.