

Financial accountant

The official magazine of The Institute of Financial Accountants

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Embrace change

Technology, talent and the transition to advisory work

Distributions

Minimising the shareholder's tax liability when a company is wound up. p8

Filing accounts

Micro and small companies now have several options when submitting accounts. p10

Powers of attorney

A lasting power of attorney can be essential if an entrepreneur is incapacitated. p16

Disciplinary cases

Maintaining standards among members is important to any professional organisation. p24



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Regulars

2 The voice of the SME

Andrew Conway and John Edwards discuss the importance of the internet and the new Office for Professional Body Anti-Money Laundering Supervision.

4 News

A round-up of recent accountancy, tax and business news.

Taxation

8 A capital idea

Paul Rigney explains how to minimise the tax liability on a final distribution.

SMEs & SMPs

10 Safely filed away

Small companies now have several options when submitting accounts to Companies House, says Sarah Baxendale.

12 The right message

Alistair Morris highlights the attributes that employers seek when recruiting potential new employees.

14 Enhance your brain power

Chester Santos outlines some memory improvement techniques that will be helpful to those in business.

16 Lasting lifeline

Jonathan Shankland and Claudia Whibley explain the benefits of a lasting power of attorney.

18 Calculated choices

Financial reporting options are discussed by Stephanie Tiller.

22 Embrace change

Technology and talent can improve your business and facilitate a move to valuable advisory work, recommends Sylvia Tsen.



Members

24 A question of standards

Chris Cowton explains the role of disciplinary cases in a professional body.

26 Helping hands

Neal Green advises on the benefits of becoming a charity trustee.

28 3D Vision

Maximise the value of your practice on retirement, recommends Simon Park.

30 Branch meetings

News of forthcoming local meetings.

32 Meet your local branch chairs

This edition features Zeeshan Rizvi, Chris Morris and Ikram Ul-Haq.



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Reliable internet is vital

Many of us become frustrated if our internet connection runs slow or, worse, fails altogether. This is critical for small businesses, especially those in e-commerce. Connecting to customers and suppliers, taking online orders for products and services, or just maintaining accounts and staying on top of cash flow issues all become significant headaches if an internet connection lets the business down. New start-up companies are also adversely affected.

I note the service outages with providers Sky and BT in the UK in July. Unfortunately, downtime seems to happen anywhere and at any time; of course, more notably when the service is needed to be at its most reliable.

Australia has embarked on an adventurous rollout of a new national broadband network (NBN) to ensure the population has access to state-of-the-art connectivity which is faster than that ever. Unfortunately, ideals do not always turn into reality.

One of Australia's leading consumer groups, Choice, surveyed more than 1,900 people about their broadband connections, download speeds, service providers and costs. Their findings prompted them to label the broadband services as "a worrying downfall for internet access" in Australia.

The Choice Internet Satisfaction Survey reported that poor connections were not solved and were sometimes exacerbated by the arrival of the NBN. The survey found that, over the past six months, 62% of Australians experienced problems including slow download speeds, broadband connection hurdles and dropouts. The complaints registered were similar whether respondents used ADSL, cable, or NBN connections.

These issues signify real concerns for businesses of any size, but the impact is greater for many small and medium-sized enterprises that may not have adequate capital to invest in quality IT products.

However, IT problems do not seem to discriminate on size. Australia's second largest government agency, the Australian Taxation Office (ATO), has had significant IT issues and many periods of downtime which has had a detrimental effect on our members who are forced to use the department's systems. The IPA has continued to campaign for compensation for practices affected, but this is difficult to quantify with so many different circumstances, including reputational damage with clients. Our advocacy on this subject is now pushing for a service commitment to make the agency more accountable.

We encourage our members to embrace technology and innovation because they must to remain competitive in an ever-changing landscape. We recognise this is a significant challenge, particularly considering those who live in the large sparsely populated areas of rural Australia.

We are interested to learn from those who have experienced broadband access issues, particularly as we continue to develop the small business white paper for which we are looking to conduct roundtable discussions in the UK later this year. If you have feedback on broadband internet, remember the dedicated email address of IPAGroupfeedback@publicaccountants.org.au and feel free to write to me at any time.

A handwritten signature in black ink, appearing to read 'Andrew Conway', with a stylized flourish underneath.

Professor Andrew Conway FIPA FFA
IPA Group CEO.

✉ I am always interested in the opinions and experiences of members, so if you have something to share, please don't hesitate to email: john@ifa.org.uk

Concerns about OPBAS

In March, HM Treasury announced the creation of the Office for Professional Body Anti-Money Laundering Supervision (OPBAS – see tinyurl.com/yaegnmus). This “supervisor of supervisors” is designed to check whether anti-money laundering and terrorist financing rules are being applied properly by 22 accounting and legal professional bodies. Hosted by the Financial Conduct Authority (FCA) OPBAS should be up and running in early 2018. The IFA is extremely concerned that HM Treasury is conducting the impact assessment for the creation of OPBAS and the draft regulations regarding its powers after the decision has been taken to create it. We are also concerned about the lack of detail, both in terms of benefits and cost. I urge all members in practise to familiarise themselves with IFA Rep 06/2017 *Anti-money laundering supervisory review consultation response* at www.ifa.org.uk/representations.

The decision on whether to create OPBAS should have been supported by a robust impact assessment before making the decision and the proposal for its creation should have been fully consulted with individuals, businesses and supervisors. This latest consultation smacks very much of shutting the stable door after the horse has bolted.

In October, new IFA articles, bye-laws, code of ethics and disciplinary regulations will be published, coming into effect on 1 January 2018. Our bye-laws were last amended in 2005 and since then there have been some key changes for the IFA as an organisation and for the accountancy profession as a whole, both in terms of legislation and best practice.

We will be sending more details of the changes, but I wanted to draw attention to two. The first is the creation of a register of members and a register of member firms that will be available on the website. The second is that the revised code of ethics will include the actions that can be taken when a member becomes aware that a client or employer has not complied with laws and regulations.

I am delighted to announce that the IFA made a net profit of £58,620 for the year ending 30 June 2017 (2016: net loss of £26,530; 2015: net loss of £207,520). Progress has certainly been made to return the IFA to a position of profit given the net deficit suffered in previous years.

Critical decisions have been required to reduce the deficit position without affecting the services provided to members. The net profit achieved can be attributed to transitional work that has taken place over this year while maintaining business as usual and creating the foundations to deliver global growth over the next decade. This includes: the successful integration of further back office systems, processes and procedures; a clear focus on membership growth; the provision of greater member value through our services; integrated member management, website and financial systems; and managing performance and expenditure.

Finally, for those who have not already done so, there may still be time to register for our Birmingham conference on 5 October 2017. Details of how to book a place can be found at www.ifa.org.uk/events.



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John

John Edwards FFA FIPA
IFA CEO.

REGULATORY

Health and safety

Manufacturing and construction industries are being hit hardest by new sentencing guidelines according to a report. For example, between February 2016 and January 2017, the construction industry suffered fines of £13m compared to £7.1m in the previous year.

tinyurl.com/ifa-5899

Money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 were published by the government on 22 June 2017 and came into force on 26 June 2017. These regulations replace the Money Laundering Regulations 2007.

An overview of key changes in the regulations can be found at: tinyurl.com/ifa-5983.

tinyurl.com/ifa-5986

Car production

As part of its clean air strategy, the government plans to ban the sale of new conventional diesel and petrol vehicles from 2040. The strategy includes commitments for a £255m fund to help councils tackle diesel vehicle emissions. Although a scrappage scheme is not planned at present, this will be reconsidered in the autumn.

tinyurl.com/ifa-5875

Data protection

Businesses will face non-compliance fines of up to £17m under a new recently announced data protection bill. Its aim is to give individuals greater control of their online data. This will include:

- the public having the right to be forgotten; and
- a new right to require social media platforms to delete information on children and adults if asked.

tinyurl.com/ifa-5889

Social security appeals

In a test case brought by the Child Poverty Action Group (CPAG), the Upper Tribunal has declared the government's restrictions on access to the social security appeals system to be unlawful. The decision should enhance and protect the appeal rights of the many benefit claimants who seek to challenge refusals of benefits.

tinyurl.com/ifa-5888

University students – work experience

The IFA works with several UK universities to promote career paths for graduates within SMEs and smaller accounting practices. We are developing a greater number of relationships with specific accounting and finance undergraduate degree programmes. As a result, we are aware of a growing pool of first, second and final year accounting and finance students seeking work experience on either a part-time, vacation or fixed duration basis. If your practice or business is looking to recruit an undergraduate to help with a specific project, additional work or to clear a backlog, please contact Jonathan Barber to discuss your requirements in greater depth. Email him at: jonathanb@ifa.org.uk.

Charity guidance

The Charity Commission has launched updated guidance for independent examiners. The guidance includes three new directions on conflicts of interest, the disclosure of related-party transactions and the charity's financial circumstances.

tinyurl.com/ifa-5904

GDPR and legitimate interest

Guidance on helping commercial and not-for-profit organisations assess whether they can rely on "legitimate interests" as a lawful basis for accessing and processing personal data under the General Data Protection Regulation (GDPR) has been published by The Data Protection Network.

tinyurl.com/ifa-5879

Estate agencies

HMRC has updated its guidelines on money laundering supervision for estate agency businesses. This clarifies the definition of a politically exposed person and expands the section on simplified due diligence.

tinyurl.com/ifa-5877

Small businesses

Regulations under SI 2017/Draft set out the small business types that will be eligible to use the Small Business Commissioner's (SBC) services. It also includes a framework for the Commissioner to operate the SBC complaints scheme.

tinyurl.com/ifa-5852

New data protection rules

A YouGov survey suggests that only 30% of businesses have started to prepare for the new General Data Protection Regulation, which comes into force from 25 May 2018. More information from Irwin Mitchell is at tinyurl.com/ifa-5884.

tinyurl.com/ifa-5882

Toilet facilities

A Guide to Workplace Transport Safety confirms that visitors (such as delivery drivers) to other companies' premises are entitled to access to toilet, washing and refreshment facilities and shelter.

tinyurl.com/ifa-5895

Data protection advice

The Information Commissioner's Office has warned companies carrying out direct marketing to screen numbers properly against the Telephone Preference Service (TPS) register. This follows a penalty of £50,000 being levied on domestic energy saving firm Home Logic UK Ltd for making marketing calls to people who had made it clear they did not want to be contacted in that way.

tinyurl.com/ifa-5886

IP threats

The Intellectual Property Office has published guidance on the Intellectual Property (Unjustified Threats) Act 2017. The act aims to clarify the communications permitted between parties involved in a dispute over IP infringement.

tinyurl.com/ifa-5880

Drones

Owners of drones weighing 250 grams or more will have to be registered and users will have to pass safety awareness tests.

tinyurl.com/ifa-5893

Tiny URL

The "tinyurl" web addresses at the foot of the news items and elsewhere in the magazine are short aliases for longer addresses. Simply type the tinyurl address in your web browser and press return to be taken to the relevant website for more information on the news item.

BUSINESS

Trademark guidance

The Intellectual Property Office has updated its guidance on applying for a trademark and recommends applicants to view the trademark timeline.

tinyurl.com/ifa-5873

IP actions

The Intellectual Property Enterprise Court heard 339 cases last year – up from 202 in the previous year. This suggests that SMEs are increasingly taking legal action to protect their intellectual property.

tinyurl.com/ifa-5858

Online shopping

The European Commission has reported that consumer online shopping levels have almost doubled in ten years – from 29.7% in 2007 to 55% in 2017.

Although consumers have more trust in e-commerce and buying between EU countries, retailers are still reluctant to expand their online services.

tinyurl.com/ifa-5871

Retail sales

A Confederation of British Industry (CBI) survey shows that sales volumes fell at the fastest pace since July 2016, with orders placed on suppliers also falling considerably year-on-year.

tinyurl.com/ifa-5866

Ransomware attacks

Following the attack in May 2017, the National Cyber Security Centre has warned that further and possibly significant ransomware attacks could be made. Businesses should keep security software patches up to date and use anti-virus software and back-up data.

tinyurl.com/ifa-5863

Privacy breaches

An analysis of data by PwC indicates that the Information Commissioner's Office (ICO) levied fines of more than £3.2m in 2016 for breaches of the UK's data protection laws. The comparative figures for 2014 and 2015 were £1.2m and £2m respectively.

ICO guidance is at tinyurl.com/ifa-5862.

tinyurl.com/ifa-5860

Welsh rates

A new small business rates scheme is the subject of consultation by the Welsh government. The plan is that this will replace the present arrangements from 1 April 2018.

tinyurl.com/ifa-5848

Overseas protection

The Intellectual Property Office has published guidance on countries that allow the extension of UK IP protection and accept it as protected there after completing local formalities.

tinyurl.com/ifa-5855

Fire drills

A survey by Hugh James indicates that almost one in five adults works for a company where a fire drill has not been carried out in the past 12 months. This is despite this being a UK Government requirement to comply with workplace health and safety regulations.

tinyurl.com/ifa-5857

PENSIONS

Equal pension rights

In *Walker v Innospec Limited and others* [2017] UKSC 47, the Supreme Court unanimously allowed the appeal of John Walker that his husband would be entitled to the same pension rights as if he had married a woman. This was so even though the employment predated the introduction of civil partnerships.

tinyurl.com/ifa-5853

New financial body

The Financial Guidance and Claims Bill proposes that the Money Advice Service, the Pensions Advisory Service and Pension Wise will be replaced by a single financial guidance body. This will provide:

- pensions information and guidance;
- debt advice to people in England;
- guidance and information on money matters; and
- strategic assistance by working with other bodies to improve financial education, etc.

tinyurl.com/ifa-5851

Your IFA benefits

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Finance

- Alternative finance: Merchant Money Ltd
- Borrowing and lending: Quidcycle
- Foreign exchange: UKForex

Insurance

- Professional indemnity insurance: A J Gallagher
- Private medical insurance: HMCA
- Tax fee protection: Qdos Vantage
- Cyber insurance: Hiscox

Learning

- Online CPD: Nelson Croom
- Top up degree: Northampton Business School
- Training and support: Mercia

Legal

- Legal support: RadcliffesLeBrasseur
- Online legal documents: Net Lawman

Lifestyle

- Parliament Hill

Support

- Anti-money laundering: AMLCC
- Auto enrolment: Intrinsic
- Business support: The CV Interviews Advisors
- Career management: GaapWeb
- Ethics: Institute of Business Ethics
- Events: Brain Exchange
- Insolvency information portal: FA Simms
- Intellectual property: Intellectual Property Office
- Microsoft Office training: Excel with Business

- Mobile communications: Voice Mobile
- Practice advisory services: David Verney Associates
- Secure email: FRAMA UK Limited

Tax

- Capital allowances: Veritas Advisory
- R&D tax relief: Catax
- Tax portal: Gabelle

Technology

- Office 365: Microsoft
- Online accounting software: Capium, Clear Books, Intuit and Reckon Software Ltd

Log on to www.ifa.org.uk/benefits to see the quality products and services available to Institute members.

New IFA Fellows – July and August 2017

Congratulations to the following who have achieved Fellow membership.

Mr Alan Bodman FFA FFTA
Mr Wilfried Janssen FFA FIPA
Mr Apaulinaire Kouame FFA FIPA
Mr Stuart McKenzie-Walker FFA FIPA
Mr Alexander McLaren FFA FIPA
Mrs Catherine Mullineux FFA FIPA
Mr Adebayo Olabisi FFA FIPA

To find out more on how to upgrade your membership visit: www.ifa.org.uk/upgrade

State pension age

The state pension age will rise to 68 between 2037 and 2039. This is seven years earlier than under the current law and this will affect those born between 6 April 1970 and 5 April 1978.

tinyurl.com/ifa-5903

Automatic enrolment

By the end of June 2017, 693,295 employers had enrolled more than 8.3m jobholders in pension schemes.

tinyurl.com/ifa-5905

Triple lock

As part of the policy agreement between the Conservatives and DUP, the government has announced that it will not abolish the triple lock for the state pension. This ensures that the pension will rise by the higher of price inflation, average earnings or 2.5% a year.

tinyurl.com/ifa-5907

Scottish pensions

HMRC's *Pension Schemes Newsletter 88* includes news of the development of a residency tax status look-up service for pension scheme administrators. This will be available by way of an application program interface (API) or through GOV.UK.

tinyurl.com/ifa-5909

Ill-health and pension

The Court of Appeal has ruled that a full-time worker who went part-time because of ill health was not entitled to an ill-health pension based on full-time earnings when he subsequently retired.

tinyurl.com/ifa-5912

EMPLOYMENT

Acas report

Workplace expert Acas has published its 2016/17 annual report showing that its services continue to be in strong demand. It acted in 744 national and regional disputes, helping to settle nine out of ten collective disputes. Of more than 92,000 early conciliation notifications, only 17,500 progressed to a tribunal claim.

tinyurl.com/ifa-5925

Working time

An employee had to travel from place to place using his car. He would drive from his home to his first assignment and then home from his last assignment. The Employment Appeal Tribunal held that these periods constituted working time.

tinyurl.com/ifa-5927

Workplace exploitation

The Director of Labour Market Enforcement has announced plans to crack down on "rogue employers". The aim is to prevent workplace exploitation by using its powers to jail the worst offenders.

The plans include new priorities for:

- HMRC's national minimum wage enforcement team;
- the Gangmasters and Labour Abuse Authority; and
- the Employment Agency Standards Inspectorate.

tinyurl.com/ifa-5929

Zero-hour contracts

The Labour Force Survey indicates that the number of people employed on zero-hour contracts rose to about 905,000 in the period October to December 2016. This is an increase of about 100,000 over the same period in the previous year. Those on such contracts tend to be female, young and in full-time education or part-time employment.

tinyurl.com/ifa-5916

Activate your AMLCC account

The IFA supervision fee includes the AMLCC suite of anti-money laundering compliance tools and this is free for members and up to three employees. To start, remember to activate your account. Log on to find out how to do this at: www.ifa.org.uk/amlcc.

Lawful competition

In *MPT Group v Peel*, the High Court found that the duty of fidelity or good faith did not mean that an employee had to disclose truthfully an intention to compete lawfully in the future.

tinyurl.com/ifa-5920

Transgender guidance

Research by Acas shows that many transgender employees lack support from their workplace managers and it has published related guidance.

tinyurl.com/ifa-5923

A-level results

Following the A-level results, Acas reminds new workers of their rights and responsibilities when starting out.

tinyurl.com/ifa-5918

Holiday entitlement

Workers in the "gig economy" may be interested in the opinion of the Advocate General in the case of *King v (1) The Sash Window Workshop (2) Dollar*.

The opinion states: "Where an employer has not provided a worker with paid leave, the right to paid leave carries over until he has the opportunity to exercise it and on termination of employment the worker has the right to payment in lieu of leave that remains outstanding."

tinyurl.com/ifa-5921

ACCOUNTING

Accounting standards

The Financial Reporting Council (FRC) has published feedback on updating FRS 102, which sets out the FRC's revised approach. Further evidence-gathering and analysis has been agreed before any proposals to reflect the principles of the expected loss model of IFRS 9, IFRS 15 and IFRS 16 in FRS 102 could be made. The FRC will not be issuing a triennial review phase 2 exposure draft later this year.

IFRS 17 has been issued since this consultation took place. The FRC has previously said that FRS 103 would be reviewed once the IASB had completed IFRS 17. The FRC still intends to review FRS 103 at a suitable time, but this is likely to take place once more IFRS implementation experience is available.

At present no target effective date for any changes to FRS 102 or FRS 103 has been set and any detailed proposals will be consulted on in due course.

tinyurl.com/ifa-5978

Accounting LIVE

The IFA is supporting Accounting LIVE, a two-day exhibition for accounting and finance professionals. Join the IFA, industry leading speakers and other exhibitors for this inaugural event being held at the SEC in Glasgow 1 and 2 November 2017.

General: tinyurl.com/y967bgew

Tickets: tinyurl.com/yaywvs8h

TAXATION

HMRC website

HMRC is inviting users to join a panel that aims to improve the GOV.UK website.

tinyurl.com/ifa-5842

Gone phishing

HMRC has included examples of websites, emails, letters, text messages and phone calls used by scammers and fraudsters to obtain personal information.

tinyurl.com/ifa-5981

Tax credits

The Low Incomes Tax Reform Group is urging people to contact HMRC urgently if they have missed the 31 July 2017 to renew their tax credits claim for 2017/18. If they have missed the renewal deadline by more than 30 days, the claim can only be backdated to 6 April if they can show HMRC that there was "good cause" for missing both the 31 July deadline and the extra 30-day deadline.

tinyurl.com/ifa-5932

Disguised remuneration

Following its victory in the *RFC 2012 plc* case, HMRC is inviting participants of disguised remuneration schemes to settle their outstanding liabilities from the use of such arrangements.

tinyurl.com/ifa-5934

Seafarers

HMRC has updated its forms and guidance relating to the seafarers' earnings deduction.

tinyurl.com/ifa-5936

Loan schemes

HMRC's *Spotlight 39* warns that arrangements to avoid a loan charge on disguised remuneration do not work.

tinyurl.com/ifa-5938

Advisory fuel rates

The advisory fuel rates that can be paid by employers to company car users have been updated from 1 September 2017.

tinyurl.com/ifa-5941

HMRC clearances

HMRC has published guidance on the non-statutory clearance service. This includes checklist annexes on the following subjects to be used alongside its guidance.

- Annex A – The clearance service.
- Annex B – Business investment relief advance assurance.
- Annex C – Business property relief.
- Annex D – VAT clearance service.
- Annex E – The clearance service if there is no open enquiry year.

tinyurl.com/ifa-5945

Off-payroll working

HMRC has updated its guidance on the off-payroll working rules for intermediaries in the public sector. This includes information on payment through the intermediary.

tinyurl.com/ifa-5947

Childcare compensation

Those affected by technical issues in claiming the tax-free childcare may be entitled to compensation and the refund of reasonable costs directly caused by the service not working as it should. This would apply where the applicant has:

- been unable to complete an application for tax-free childcare;
- been unable to access the childcare account; and
- not received a decision about eligibility, without explanation, for more than 20 days.

tinyurl.com/ifa-5949

VAT Notice

HMRC's *Notice 700: The VAT Guide* has been updated with details of changes to the previous version in paragraph 1.2.

tinyurl.com/ifa-5958

Image rights

Information has been published by HMRC on reporting and paying tax on payments received for the use of image rights. This includes situations where payment has been made to an image rights company. Such payments can be reported and taxed in different ways.

tinyurl.com/ifa-5952

Finance Bill (No 2)

Supporting documents for the Finance Bill (No 2) have been published. This includes:

- carried forward losses and counteraction of avoidance schemes;
- corporate interest restriction;
- deemed domicile: income tax and capital gains tax;
- employment income provided through third parties;
- hybrid and other mismatches;
- inheritance tax on overseas property representing UK residential property; and
- substantial shareholding exemption: institutional investors.

The bill is at tinyurl.com/FB2017-19.

tinyurl.com/ifa-5974

Employer Bulletin

HMRC's *Employer Bulletin* (August 2017) has information on:

- the importance of reporting PAYE information correctly and on time;
- the latest information about optional remuneration arrangements; and
- a new email alert system for the employer bulletin.

tinyurl.com/ifa-5954

Research and development

HMRC has updated its guidance on corporation tax research and development tax relief. It has information on definitions, qualifying projects and costs, and claiming and keeping records.

tinyurl.com/ifa-5956

Agent update

Among other things, HMRC's *Agent Update 61* has information on:

- the International Tax Compliance (Client Notifications) Regulations;
- what clients need to know about automatic enrolment;
- incorporating a company;
- protecting a business against cyber threats; and
- the new Making Tax Digital for Business timetable.

tinyurl.com/ifa-5963

Voluntary disclosures

HMRC has published guidance on the Digital Disclosure Service. This can be used by individuals and companies who wish to make a voluntary disclosure, but who are not eligible for one of the department's specific campaigns.

tinyurl.com/ifa-5965

A capital idea

Paul Rigney explains what can and cannot be done to minimise the tax liability on a final distribution of assets by a company.

istockphoto/dam_point



Paul Rigney is Business Development Manager at Qdos Vantage having worked in taxation for more than 30 years including eight years with HMRC and 25 years in practice.
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TEN SECOND SUMMARY

- 1 Capital treatment will be the preferred option if there are substantial assets to be distributed and entrepreneurs' relief might apply.
- 2 New rules will treat a distribution from a winding-up as an income distribution if specific conditions are not met.
- 3 It will be prudent to seek advance clearance for distributions on the winding-up of a close company under ITA 2007, s 701.

With the changes in IR35 regulations for workers in the public sector, many contractors are contemplating winding-up their company. In doing so, they will have to consider the tax treatment of the final distribution of assets. These will either be income – in other words, a dividend – or capital and subject to capital gains tax. The decision on how to treat the final distribution will depend on the contractors' level of income and the value of the assets to be distributed, normally cash in the case of a personal service company (PSC).

If there are substantial assets to be distributed which, taken as a dividend, would plunge the contractor's income into the higher rates, capital treatment will be a preferred option if the gain qualifies for entrepreneurs' relief. In this case, the capital gain – after deducting the annual exemption (the tax free allowance) of £11,100 – will only be subject to tax at 10% rather than the higher rate of income tax on dividends of 32.5%.

If a company's assets exceed £25,000, a formal liquidation must take place. This will involve engaging the services of an insolvency practitioner and will come at a cost.

Entrepreneurs' relief

To qualify for capital gains tax entrepreneurs' relief, several qualifying conditions must be met. Namely that throughout the year ending with the disposal:

- the company is the individual's PSC;
- the company is a trading company; and
- the individual is an officer or employee of the company.

Company distributions legislation

Budget 2016 announced measures to introduce a set of income tax avoidance rules aimed at

preventing close company shareholders turning income into capital to enable them to pay capital gains tax rather than income tax and thereby save a substantial amount of tax.

Finance Act 2016 introduced sections 396B and 404A into the Income Tax (Trading and Other Income) Act 2005 which impose a targeted anti-avoidance rule (TAAR).

The TAAR conditions

The TAAR will treat a distribution from a winding-up as if it were an income distribution, in other words a dividend, where four conditions are met.

- **Condition A.** Immediately before the start of the winding-up, the individual has at least a 5% interest in the company; in other words, they must hold at least 5% of the ordinary share capital and 5% of the voting power by virtue of the shareholding.
- **Condition B.** The company is a close company or was close at any time within two years before the start of the winding-up. For small companies "close" is likely to mean five or fewer shareholders.
- **Condition D.** It is reasonable to assume, having regard to all the circumstances, that:
 - the main purpose or one of the main purposes of the winding-up is the avoidance or reduction of a charge to income tax; or
 - the winding-up forms part of arrangements the main purpose or one of the main purposes of which is the avoidance or reduction of a charge to income tax; and
 - the circumstances include the fact that Condition C is satisfied.
- **Condition C.** Within two years after the distribution:
 - the individual carries on a trade or activity which is the same as, or similar too, that carried on by the company;
 - the individual is a partner in a partnership which carries on such a trade or activity;
 - the individual, or a person connected with them, is at least a 5% participator in a company which at that time:
 - (a) carries on such a trade or activity; or
 - (b) is connected to a company which carries on such a trade or activity; or
 - the individual is involved with the carrying on of such a trade or activity by a person connected with the individual.

Condition D has been deliberately placed between conditions B and C to emphasise the point that if there is a genuine non-tax motive for winding-up the company, there is no need to consider condition C because it becomes irrelevant.

For instance, retirement would be a perfect example of an initial motive that is not inspired by avoiding tax. The fact that the person gains a tax advantage from the closing down of the company is secondary to the main driver of retirement.

The rules are illustrated by the example of **Martin the IT contractor**.

Martin the IT contractor

Martin is an IT contractor. As part of his strategy to escape the IR35 provisions, whenever he receives a new contract he sets up a limited company to carry out the associated tasks. When the work is completed and the client has paid, Martin winds up the company and receive the profits as capital.

Conditions A to C of the TAAR are met because Martin has a new company which carries on the same or a similar trade to the previously wound-up company. It appears that there is a main purpose of obtaining a tax advantage. The contracts could have all been operated through the same company and, apart from the tax savings, that would seem to have been the most practical option. If the distribution from the winding-up is made on or after 6 April 2016 it will be treated as a dividend and subject to income tax.

Supporting evidence

Evidence of the reason(s) for winding-up the company should be retained in case the individual becomes unwittingly involved in a similar trade or activity within the two-year period after the final distribution and is challenged by HMRC.

It is important to note that it is not the date that the company is put into liquidation, but rather the date the distribution is made that will determine whether the TAAR is relevant. Proceedings to wind up a company could therefore begin before 5 April 2016, but if the final distribution is not made until after that date the legislation must be considered.

Although HMRC will not provide clearance for the TAARs, it has added distributions on the winding-up of a close company to the list of transactions in securities in ITA 2007, s 684 for which clearance is available. Therefore, every time a distribution is imminent it would be prudent to seek advance clearance under ITA 2007, s 701 for peace of mind.

Protecting your interest

We have seen many cases of claims being made under our tax fee protection policy when there has been a final distribution and HMRC seems keen to challenge treatment when tax returns are submitted.

Indeed, there has been a continuing increase in HMRC activity across all areas through its Connect computer system. With this and the forthcoming digital returns, we would expect that more accountants in practice will see an increased risk of additional work from information requests or formal enquiries into submitted returns and compliance visits by the department's officers.

All forward-thinking practitioners should now ensure that they have a tax fee protection scheme in place to protect themselves as well as their clients from the additional time costs that arise from increasing HMRC activity.

Much current departmental enquiry activity can involve extra time being spent by the adviser that, ultimately, must be written off. This may not seem to amount to much with the occasional hour here and there, but over the course of 12 months the costs can increase considerably.

FURTHER INFORMATION

As the IFA's approved partner for tax fee protection, Qdos Vantage have the potential solution to this thorny issue.

We are here to protect, support and enhance your practice with our market leading policy. This includes support services with 12 hours of CPD accredited webinars and the opportunity to enhance your profitability along with client service while, most importantly, gaining peace of mind.

For more information please call 0116 274 9123 or visit www.qdosvantage.com.

Safely filed away

Small companies now have several options when filing their accounts, as Sarah Baxendale explains.

TEN SECOND SUMMARY

- 1 A new reporting framework for smaller entities for accounting periods beginning on or after 1 January 2016.
- 2 The option for micro, small or medium-sized companies to file abbreviated accounts at Companies House has been removed.
- 3 The option to file "filleted" accounts is likely to become more widely used.

Small companies have recently been affected by significant changes in how they both prepare and file their annual accounts. The Companies, Partnerships and Groups (Accounts and Reports) Regulations SI 2015/980 (tinyurl.com/y86efhtm) came into force back in April 2015, but for those small companies preparing and filing their accounts ahead of a 31 December 2016 year end, it is now that the impact is really beginning to show.

New accounting standards

The Financial Reporting Council (FRC) has made amendments that apply to small companies for accounting periods beginning on or after 1 January 2016. The Financial Reporting Standard for Smaller Entities (FRSSE) has been withdrawn and smaller entities are now required to use the new UK GAAP reporting frameworks for the first time for their accounting periods beginning on or after 1 January 2016.

If still reporting under UK GAAP, small entities have the choice of full FRS 102, Section 1A of FRS 102 – reduced disclosure for small entities, or FRS 105 for micro-entities.

- Section 1A Small Entities, is an addition of FRS 102 and sets out simplified presentation and disclosure requirements for those entities which wish to apply the small entities regime.
- FRS 105 is the accounting standard that must be used for the very smallest entities if they have chosen to adopt the micro-entities regime, and are eligible.

FURTHER INFORMATION

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*: tinyurl.com/y9vdswo6
FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*: tinyurl.com/ycrbz8hz



The selection of which regime to apply will depend on the eligibility criteria (found in Companies Act 2006, s 382 to s 384), and the accounting standard under which they report should mirror the selected regime.

New accounting regulations

One of the key impacts of The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 – which apply to accounting periods beginning on or after 1 January 2016 – is the removal of the option for a micro, small or medium-sized company to file abbreviated accounts at Companies House. An entity is now required to file the same accounts as those that they prepare for their members. However, this does not mean that all small companies are now required to file full accounts. The very smallest companies may disclose much less information by preparing micro-entity accounts. Further, other small companies may, instead of filing full accounts, choose to prepare a set of abridged accounts for their members, or use the option to "fillet" their accounts for filing as explained below.

Abridged accounts

The new regulations introduce an important new option for small companies to prepare and file an abridged balance sheet, abridged profit and loss account, or both.

The key features of abridged accounts are that the profit and loss account will commence at gross profit with no analysis of turnover, cost of sales or other operating income required. The balance sheet disclosure requirements are also less detailed. The filing requirements for small company abridged accounts and the relevant balance sheet formats can be found in The Small Companies and Groups (Accounts and Directors' Report) Regulations SI 2008/409 as amended by SI 2015/980. However, it should be noted that,



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due to the “file what you prepare” requirement, the accounts in this format would also be those available to the members, so it is important to weigh up the benefits of the level of information members, banks or other stakeholders require against the level publicly disclosed at Companies House.

When a small company chooses to abridge its accounts, it must also deliver to Companies House a statement that all members have consented to the abridgement. In practice, this can be met by including reference to the statement within the accounts to be filed. The consent must be obtained from all members every year that abridged accounts are prepared.

“Filleted” accounts

Small companies can also choose not to file the profit and loss account and/or the directors’ report with Companies House. This is the exemption available under Companies Act 2006, s 444 and is sometimes referred to as “filleted” accounts. Although this option isn’t new, it is likely to become more widely used as entities that wish to continue to file the minimum at Companies House will seek an alternative to filing abbreviated accounts under the old regime.

A company may take this filing exemption if it is subject to the micro-entities regime or the small companies regime. Under the later regime, the filing exemption can be taken whether the accounts are the full or abridged versions. The filing exemptions are also available regardless of whether the accounts are FRS 101, FRS 102, FRS 102 1A, FRS 105 or IAS accounts (in other words, IFRS as adopted in the EU).

Further, companies that would be subject to the small companies regime but for being part of an ineligible group may take an exemption from filing the directors’ report. In this case they must still file the profit and loss account.

However, unlike the previous option to file abbreviated accounts, there are no filing exemptions available for medium-sized companies.

Under the new regulations it is important to note that, if a small company does choose to fillet its accounts and not file the profit and loss account nor the directors’ report, this fact must be disclosed within the balance sheet in the accounts that are submitted to Companies House.

Micro-entities

If the entity is eligible, there is an option to apply the micro-entity regime. However, the regime is optional and, therefore, the entity may choose to prepare accounts under a financial reporting regime applicable to larger-sized entities. Such businesses should carefully consider the various implications before deciding whether to take advantage of the micro-entity exemptions because the information prepared for members must be the same as that filed at Companies House.

The amount of information included in the micro-entity accounts is significantly reduced compared with that in small company accounts. The information disclosed is a simpler balance sheet and profit and loss account. A micro-entity is not required to prepare a directors’ report and no notes to the accounts are required. Instead, where applicable, details of any advances, credit and guarantees with directors (companies only) and details of any financial commitments, guarantees and contingencies should be disclosed at the foot of the balance sheet. This reduced information is referred to as the “minimum accounting items”.

Micro-entities can also take the s 444 exemption and file filleted accounts at Companies House. In such cases it would only be the balance sheet, including the information disclosed at the foot, that needs to be filed.

Company size thresholds

To assess whether an entity can qualify as “micro” or “small” under the Companies Act 2006, standalone companies must be assessed against certain thresholds. A company would qualify as “small” if it meets two or more of the following criteria:

- Turnover not more than £10.2m.
- Balance sheet total not more than £5.1m.
- No more than 50 employees.

Even further, a standalone company would qualify to be “micro” if it meets two or more of the following criteria:

- Turnover not more than £632,000.
- Balance sheet total not more than £316,000.
- No more than ten employees.

In both these instances, a two-year rule must be applied to the micro and small assessment. However, for an entity to qualify, this is not always straightforward to apply, and is covered in further detail in the Companies Act 2006, s 382(2).



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The right message

Valuable attributes are required by accounting professionals working in SMEs and small practices. *Alistair Morris* explains the qualities that are sought by potential employers.

TEN SECOND SUMMARY

- 1 There may be a difference between the skills the individual *believes* employers are looking for and those that employers *are* looking for.
- 2 Softer, personal skills are desirable attributes for an employee, but difficult for the employer to assess.
- 3 Candidates should take time to understand the purpose that underlies an interview question before demonstrating the required skill.

For those left scratching their heads and wondering why they didn't get an interview for that dream job, this article is designed to unravel the mystery. My colleagues and I have worked with thousands of accounting professionals over the past decade and talked with hundreds of recruiters and hiring managers who operate within the finance sector. Remarkably, and despite the many changes and advancements in this period, one of the constants has been the level of complaints both from individuals and employers. This is because the former fail to secure interviews for jobs they know they could perform and the latter are unable to find the "right" person for a key accounting role. This is a rather frustrating situation for both parties.

Deeper analysis of this problem reveals two interesting facts:

- there is often a significant difference between the skills the individual *believes* employers are looking for and those that employers are *actually* looking for; and
- the way those skills are presented to the employer is often judged to be poor or ineffective – typically by way of a CV, LinkedIn profile and interview performance.

The right skills

Naturally, given these facts, the first question that individuals tend to ask is "what are the right skills for me?" The short answer is that they are the technical and functional skills required for the roles that accountants intend to target. For example, these include: liaising with HMRC; VAT returns; sales ledger; management accounts; and Sage 200. Employers tend not to be looking for the

behavioural skills that most people usually reference such as: enthusiasm; dedication; passion; and the old favourite "the ability to work in a team or as an individual".

These softer, personal skills are, of course, desirable attributes for an employee to have, but give a thought to when an employer will assess these skills during the recruitment process. Realistically, they will not be interested in assessing them properly until they have physically met the candidate for the first time; in other words, at the interview. Employers certainly will not believe that a candidate is enthusiastic or determined just because they have mentioned these words on their CV. Thus, there's little point in listing such skills on a CV or LinkedIn profile. This brings us to the question of how a candidate should present themselves to their target audience.

Delivering the right message

The best way to think about a job application is to compare it with pitching for an investment. A £50,000 basic salary candidate that expects to stay in a job for three years will cost their employer about a quarter of a million pounds if we include salary and elements such as bonus, travel allowances, employer's National Insurance contributions and training. Such a candidate should look on their CV as a sales brochure that must explain how a prospective employer will achieve a return on investment from this salary and other costs. Their LinkedIn profile would be a public-facing website where a prospective employer could go to carry out further due diligence. The interview process would then be the sales call to win the investment from the prospective employer.



The way employers procure goods and services and the way employers recruit are similar and it is critical that a CV and LinkedIn profile should become more of a business case – or justification – that explains clearly why a company should hire the candidate. All businesses have a brand, stand for something, have a USP (unique selling point), and marketing collateral that communicates this to their audience. To differentiate oneself from other applicants, it is necessary to think in the same way and the CV and LinkedIn profile are key elements of personal marketing collateral.

There's no telepathy, no osmotic force, no higher being telling the world how great the candidate is – there is just the CV and LinkedIn profile. If they don't tell the reader how good that person is at their job, how will the employer know? If the CV is simply a list of work roles with half a dozen bullet points describing what these comprised, how will the reader discern how good the person will be in their job? Not to put too fine a point on it, the entire decision to interview or reject a candidate is made on the contents of the CV and, increasingly, the LinkedIn profile as well.

Both elements need a strong opening "elevator pitch" drawing attention to core technical and functional skills. They also need case studies to provide hard evidence of those skills, and these should be optimised for key words and phrases, referencing topics that the audience will find relevant and compelling. These core elements are all straight out of the marketing textbooks, but when applied to a CV and LinkedIn profile, an extremely powerful set of personal marketing documents can be built that will lift the person head and shoulders above the competition, resulting in more interviews.

When it comes to the all-important interview, so many jobseekers treat this as a conversation and, just because they have talked confidently for several minutes, they think they have done well. This is simply not the case. The candidate is able to do well or "score points" only by proving that they have the skill or experience that the question is designed to explore. Points are not gained by simply being able to provide a coherent response.

Successful candidates will take time to understand the purpose that underlies a question, before providing information that demonstrates they have the skill or competency that the interviewer is seeking.

The key here is to anticipate the questions (or at least the themes) and this can be done by reading the job specification or talking to the recruiter or hiring manager. Finding out the skills, competencies and experiences the employer is looking for *before* the interview will allow one to quickly assess what each question is designed to explore. I would then recommend taking a couple of seconds, after the question is asked, before responding. This pause is all about giving oneself time to process the meaning of the question before providing an answer. The result should then be a more considered and focused answer that evidences the skill or competency that the interviewer is seeking.

Conclusion

A strong CV and LinkedIn profile that present a robust business case to the target audience, with the support of an interview technique that reinforces knowledge, skills and experience in a constructive manner, will win more job offers.



Alistair Morris is the lead appraiser for The CV & Interview Advisors. He has reviewed about 20,000 CVs for individuals. His experience includes several years working within the executive search industry. Visit: www.cvandinterviewadvisors.co.uk

Enhance your brain power

Memory letting you down at critical moments? *Chester Santos* outlines some techniques to improve matters.

TEN SECOND SUMMARY

- 1 A better memory can improve client relationships and enhance the benefits of networking.
- 2 Ten practical tips to improve your memory.
- 3 Take care with sleep patterns and diet to aid retention of information.

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An accountant or entrepreneur with a super memory would easily remember important facts and figures to demonstrate that they are the go-to "expert" in their particular field. This person would also be able to give speeches and presentations smoothly for clients and potential clients from memory and without notes enabling them to be more persuasive. Further, the ability to recall without effort foreign language words and phrases to build rapport with clients who speak another language would also be part of such a professional's skill set. This remarkable person would also be able to acquire new certifications quickly because exam material would be easy for them to master. Such a professional would also be incredibly popular due to their ability to remember the names of everyone they meet and important facts about these people to create and foster better business relationships.

Ten tips to better memory

The wonderful news is that you can become this person with a super power memory. You already have an amazing memory and it is just a matter of unlocking its full potential. Believe it or not, by using the following tips learning to do this will be easy and a lot of fun.

These ten tips can help any accountant become better at remembering important information.

1 Picture it

Take whatever it is that you are trying to remember and turn this into a simple image or series of memorable images that you can picture in your mind. We are very good at remembering things that we see.

2 Hear, smell, touch and taste

Beyond visualisation, try to involve as many additional senses as possible while committing a piece of information to memory. The more senses that we involve, the more of our brain we will be using. As a result, we can build more mental connections to that information which will then be much easier to remember.

3 Creative and imaginative

Use your creativity and imagination to turn what you are seeing and experiencing in your mind into something crazy, unusual and extraordinary. This is important because by doing this we can take advantage of the psychological aspect of our memory. Even putting in little or no effort, we can all remember things that are crazy, unusual, and extraordinary in some way.



Chester Santos – "The International Man of Memory" – is an award-winning international speaker, US memory champion and author of *Instant Memory Training For Success*.

4 Make an interesting story

While keeping the first three tips above in mind, treat new information as an interesting story which incorporates the information that you need to remember. Imagine that you must commit to memory the following random list of words: monkey, iron, rope, kite, house, paper, shoe, worm, envelope, pencil.

Instead of memorising the list with brute force repetition, relax and have fun while visualising a "story". It could be along the lines of the following.

Imagine a *monkey*, which is dancing around making monkey noises. Next, the monkey picks up an *iron*. The iron starts to fall, but a *rope* attaches itself to it. You look up the rope and see the other end attached to a *kite*. The kite crashes into a *house*. You notice that the house is covered in *paper*. A *shoe* appears out of nowhere and starts to walk on the paper. The shoe smells badly, so you look inside to find a *worm*. For some reason, the worm jumps into an *envelope*. A *pencil* starts to write on the envelope.

Read through the story just one more time while visualising everything described. Try to see it as a movie or cartoon playing in your head.

Now recite all the random words in order by simply going through the story in your mind. Many of you will also be able to recite the words backwards by going through the story in reverse.

This strategy does not only apply to random words. The images can remind you of the key points in a speech or presentation.

Many trial attorneys have used such memory training programs to help them give opening and closing arguments with minimal notes. By doing this, they can be more persuasive and not lose the jury's attention as might happen if they pause to look through a binder full of notes. This technique can help your presentations as well. The images in a story can also serve as a reminder of important points discussed in a meeting, and much more.

5 Recall names

The maximum benefit from networking with potential business contacts cannot be obtained if we forget the names of people that we meet. Things are even worse if you can't remember the names of existing clients or accidentally call them by the wrong name.

The tips learned so far can also be applied to improve the recall of names. One of the best ways to become better here is to take a person's name and turn it into a memorable image. Peter might become Peter Pan. Mike might become a mic (microphone).

This can be improved making a visual connection to a unique aspect of the person's appearance by using a story that incorporates even more senses while also being unusual. If Peter has big ears, you could see Peter Pan flying out of one of his ears and when this happens it makes such a loud noise that it irritates your ears.

Although appearing silly at first, this technique for remembering names is very powerful and effective. This is because when you next see the person it is all based on how the person looks.

6 Focus and pay attention

It may seem obvious, but the tips above will not help unless you focus and pay attention. We must focus on one thing at a time and pay attention to remember effectively. You will become better at doing this with practice.

7 Review just before sleep

Another useful memory trick to use in conjunction with those above is to review important information just before going to sleep. Many studies have shown that this causes the brain to process and solidify information in the mind overnight. You'll wake up the next morning knowing the details much better than you did the day before.

8 Use it or lose it

Make sure to follow through and use these tips to force yourself to commit things to memory. It's fine to keep notes on paper or in electronic devices, but make an effort to commit more things to memory. Using your memory more will strengthen it because the brain is incredibly trainable.

9 Watch what you eat

A healthy body equates to a healthy mind. If your diet is deficient in essential vitamins and minerals, consider taking a daily multivitamin. If you are not eating fish or ingesting Omega-3 fatty acids from other sources, consider taking a fish oil supplement. Omega-3 fatty acids are important for proper brain function.

10 Get enough sleep

If you are not sleeping for the recommended seven to nine hours each night, this will eventually catch up and there will be a sharp decline in ability to remember things even if using the other tips in this article. Conversely, getting enough sleep will maximise the chances of reaching full memory potential.

Conclusion

These tips are just the beginning. Anyone can learn to improve their memory with some fun training and practice. Invest time in developing your memory and you can soon be enjoying more success in your career and personal life.

FURTHER INFORMATION

Chester's book, *Instant Memory Training For Success* is available from Amazon UK at: tinyurl.com/imtfsbook

To book Chester Santos to speak for your organization, visit: tinyurl.com/bookchester

Visit: www.internationalmanofmemory.com

LinkedIn: www.linkedin.com/in/chestersantos

Facebook: www.facebook.com/ChesterSantosMemory

Twitter: www.twitter.com/ChesterJSantos

Chester's new speaker video: <http://youtu.be/XjaYuoCUs30>

Lasting lifeline

Jonathan Shankland and Claudia Whibley explain how a lasting power of attorney could save a business.



Jonathan Shankland is a Partner and Head of International Private Wealth at RadcliffesLeBrasseur. He has been recognised as one of eprivateclient's "Top 35 Under 35" for 2016 and is a recommended lawyer in the Legal 500 directory, which describes him as a "standout figure" and "really excellent". Jonathan has a wide and complex client base dealing with high net worth private clients with international tax and planning considerations, corporate and trust structuring both onshore and offshore, as well as traditional pragmatic succession planning, tax planning and large multi-jurisdictional probate matters.

Jonathan prides himself in the personal service that his team provides.

TEN SECOND SUMMARY

- 1 **Businesses should consider the effect of the incapacity of decision makers.**
- 2 **A business lasting power of attorney can secure and protect the individual's interest in the business.**
- 3 **It may be advantageous to appoint a business colleague to act with a family member.**

At first sight, the importance of a lasting power of attorney (LPA) in a business may not immediately resonate but, irrespective of business size, all enterprises are driven by people. What would happen if a key figure, say someone responsible for daily operations or strategic decision-making, was suddenly missing, ill, injured or otherwise incapacitated?

It is morbidly ironic that in some circumstances a key person's incapacity can be worse than their death. A death will impact the business, but a great deal of planning is usually done to cover that scenario: a will including provision for property, shareholders' agreements and key man insurance. These plans will not assist with practical issues associated with mental or physical incapacity.

There might be an "understanding" among colleagues as to what would happen in these other circumstances, but that is not sufficient from a legal perspective. Without an LPA, key business decisions cannot be taken and fundamental

businesses operations may not be possible. An application to the Court of Protection (CofP) to appoint a deputy may therefore be necessary – a process that is fraught with difficulty, inherently expensive, has no guarantee of success and takes months to complete.

What is an LPA?

An LPA is a legal document giving a person authority to make decisions on behalf of another. There are two types: one covering decisions about a person's health and welfare and another covering decisions about property and financial affairs.

Although an LPA for health and welfare can only be used when the donor lacks mental capacity to make a decision, the property and financial affairs LPA can be used immediately once registered with the Office of the Public Guardian, meaning that it can be used before any loss of mental capacity. The property and financial affairs LPA is relevant for businesses.

A "business" LPA

A business LPA is, in essence, about business continuity and securing and protecting the individual's interest in the business. The LPA's significance and purpose depends upon the business type and structure.

While it is possible for a sole trader or partnership to be run using a power of attorney, this is not necessarily possible for a company because of its status as a distinct legal entity, detached from its owners. For a business, the first

step in considering the appropriateness of an LPA is to review the business documents, including the articles of association, partnership agreement or shareholders' agreement.

Partnership agreements should set out what happens when a partner becomes incapacitated or unavailable. Significant difficulty could arise if there is nothing in the agreement on this point and no LPA is in place.

Articles of association usually govern what happens if a director becomes incapacitated. Under Article 81 of Table A, if a director suffers from a mental disorder and is admitted under the Mental Health Act 1983 or has a deputy appointed to act on their behalf, they must vacate office.

Under Article 18 of the Model Articles (which superseded Table A from October 2009) if a registered medical practitioner gives a written opinion that a director is mentally or physically incapable and will remain so for more than three months, the director immediately ceases to act in that office. If a director is declared incapable, others cannot simply step in to run the business; the director's family may have to obtain an order from the CoP to appoint a deputy.

Issues arise if there is no longer someone with capacity to act as a signatory on business bank accounts or documents generally. This causes difficulties making payments or leaves no one with legal authority to enter contracts. All of this is inherently detrimental or even fatal to the future of the business.

It's not possible for a director to delegate their function through an LPA. However, directors are often shareholders as well and it is possible for the shareholder to appoint an attorney under an LPA. This ensures business continuity because the shareholder's attorney could appoint a new director.

Potential problems with directors losing capacity also extend to shareholders losing capacity. There may be no provision for someone to be able to vote on their behalf, sell shares or agree to share-related corporate changes. All of these could cause problems with decision making and the passing of resolutions.

How many LPAs?

Strictly, it is only necessary to appoint one person to act as an attorney for personal finances and business interests and indeed, in one all-encompassing LPA. However, there are circumstances where it is advisable to consider two LPAs. One LPA might be appropriate when spouses are co-owners and can deal with personal and business matters, but even in these circumstances we advise appointing a replacement attorney to safeguard against the sole attorney's own incapacity or demise; a well thought through LPA also has longevity.

Circumstances often dictate that two LPAs are appropriate, separating personal and business matters. The current LPA forms allow these documents to be tailored to particular circumstances through "instructions and

preferences". If an LPA was required for financial affairs, that was limited to running the business, we would include instructions that the LPA be limited to acts in relation to the business.

There are other advantages in having separate LPAs: when the director retires, they can cancel the business LPA without revoking their personal finance LPA.

It is important to consider whether each LPA has one or more attorneys and how these may act. For example, whether they must act unanimously or by majority could be critical where a business LPA is concerned.

Business LPA appointees

The decision of who to appoint as the attorney(s) is an important one – they need to be trusted and an appropriate person for the business and the associated decisions. The nature of the LPA arrangement often dictates that there will be potential conflicts of interest in appointing a co-director as an attorney so someone who would not benefit from their appointment should be considered.

One solution may be to have someone involved in the business appointed to act alongside a family member. Such an appointment could be tailored so that some decisions are taken jointly and others can be made independently. Such arrangements would enable the business person to continue with day-to-day matters, but to have a restriction requiring them to involve the family member in important decisions.

Careful use of restrictions

Business LPAs must be prepared carefully. Difficulties can arise with the instructions and preferences within the power; they should not be too complex because there is a chance that the Office of the Public Guardian will refuse to register an LPA that is complicated or might be rendered unworkable by multifaceted restrictions. At the very least, they will exclude those considered to be "ineffective". A recent decision by Senior Judge Lush in *XZ v OPG* [2015] EWCOP35 highlighted that even restrictions which are not "ineffective" can still cause the LPA to be rendered less useful. Long and detailed restrictions should be carefully drafted to avoid impeding the use of the business LPA.

Conclusion

Few businesses, or individuals within a business, have given much thought to LPAs to deal with the incapacity of key people. With such a significant impact, it is essential to consider an LPA with business strategy and governance as a whole. This is equally applicable to large corporates and sole traders. An LPA may not be required or there may be a more favourable option, but it is essential to undertake the thought process fully. The reasoning for an LPA may be business or personal, but either way the importance should be ranked alongside a well-drafted will or a tailored shareholders' agreement.



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Calculated choices

Stephanie Tiller discusses the financial reporting options available to micro-entities and small companies for periods beginning on or after 1 January 2016 and the factors that should be considered when making financial reporting decisions.

TEN SECOND SUMMARY

- 1 Financial statement reporting options available to micro and small entities.
- 2 Key factors must be considered by micro-entities when deciding whether to adopt FRS 105.
- 3 Considerations needed by small companies when deciding whether to adopt FRS 102, Section 1A or full FRS 102.

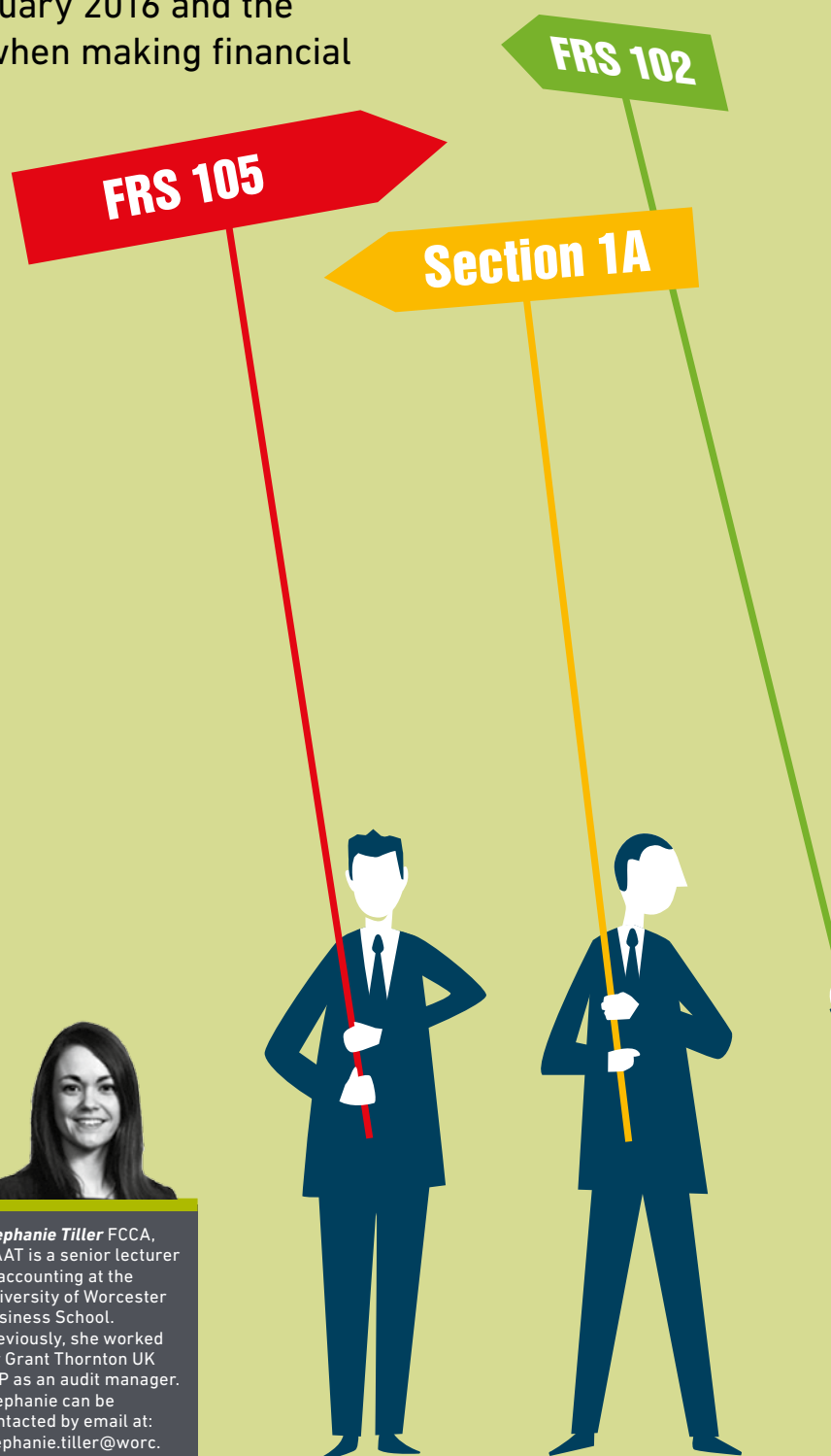
The recent changes in financial reporting requirements have understandably raised concerns for many micro and small entities. The amendments to UK generally accepted accounting principles (GAAP) aim to simplify financial reporting while aligning it with international accounting standards. As part of this transition, it is crucial that members consider the legal and practical implications that apply to micro and small entities. These include recognition, measurement and presentational requirements associated with the different reporting frameworks, the impact on tax, requirements of different stakeholders and, if relevant, the audit consequences.

The Companies, Partnerships and Groups (Accounts and Reports) Regulations SI 2015/980 set out increased thresholds for determining a company's size for periods beginning on or after 1 January 2016, as reflected in **Company size thresholds**. To comply with the definitions below, a company must meet at least two of these limits in two consecutive years to qualify as a micro-entity and, once qualified, must exceed at least two of these limits for two consecutive years to cease to qualify.

These increases mean that more companies will now be classified as small and this has two major implications. First, micro-entities will need to decide whether to adopt the micro-entities regime (FRS 105) or the small companies regime (FRS 102, Section 1A) and small companies will need to decide whether to adopt the small companies regime (FRS 102, Section 1A) or



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full FRS 102. Second, these changes will be particularly important for companies that have historically issued audited financial statements because these thresholds also apply when determining whether a company requires an audit.

Micro-entities regime

Eligible businesses that choose to adopt the micro-entities regime will be required to apply FRS 105 for periods beginning on or after 1 January 2016. FRS 105 was adapted from FRS 102 to take into consideration the simpler nature of the smaller micro-entity. However, this regime is not mandatory and micro-entities can opt to adopt the small companies regime and apply FRS 102, Section 1A.

FRS 105 only applies to companies that qualify as a micro-entity in law and it replaces the FRSE regime. Those excluded from the micro-entity regime are charitable companies, parent companies that are required or choose to prepare consolidated financial statements, investment undertakings, financial holding and insurance undertakings, credit institutions, overseas companies, unregistered companies and companies authorised to register under the Companies Act 2006, s 1040.

Because it is not possible to amend and refile financial statements that have been approved by the board and filed at Companies House, careful consideration of the appropriate regime is required before the financial statements are prepared.

FRS 105 transposes simplified financial statements formats from company law and includes a number of recognition, measurement and presentational simplifications that need to

Prohibitions and mandatory requirements of FRS 105

Not permitted under FRS 105

Accounting for deferred tax. <i>(Permitted under FRSE)</i>
Capitalisation of borrowing costs. <i>(Permitted under FRSE)</i>
Capitalisation of development costs. <i>(Permitted under FRSE)</i>
Use of the projected unit credit method to measure any defined benefit pension obligation. <i>(Permitted under FRSE)</i>
Revaluation of tangible assets, intangible assets and investment properties. <i>(Permitted under FRSE)</i>
Separation of intangible assets from goodwill following a business combination. <i>(Permitted under FRSE)</i>
Recognition of equity settled share-based payments.
Recognition of government grants using the performance model.
Recognition of financial instruments at fair value.

Mandatory requirements of FRS 105

Adhere to the accruals concept.
Recognise any material holiday pay accruals.
Transactions associated with foreign currency forward contracts are initially recognised using the rate of exchange specified in the contract.
Measure defined benefit pension obligations at the present value of the contributions payable, using an appropriate discount factor. The unwinding of the discount shall be recognised as an interest expense in profit or loss in the period in which it arises.
Recognise tangible assets at cost less depreciation.
Recognise intangible assets and investment properties at cost less amortisation.
Goodwill is considered to have a finite life and should be amortised over its life on a systematic basis. However, in exceptional cases where the life cannot be determined the amortisation period shall not exceed ten years.
Provisions and long-term employee benefits discounted to present value (if material).
Recognition of financial instruments at transaction price.

Company size thresholds

	Turnover	Balance Sheet Total (£'000)	Average Number of Employees
Micro	£0.632m	£0.316m	10
Small	£10.2m (previously £6.5m)	£5.1m (previously £3.26m)	50 (unchanged)
Medium	£36.0m (previously £25.9m)	£18.0m (previously £12.9m)	250 (unchanged)



Mandatory disclosures

Areas required to disclose
Accounting policies.
Changes in presentation and accounting policies and correction of prior period errors.
True and fair override.
Assets or liabilities relating to more than one item in the balance sheet.
Fixed assets movements.
Revalued fixed assets.
Capitalisation of borrowing costs.
Impairment of assets.
Financial instruments and other assets measured at fair value through profit or loss.
Indebtedness, guarantees and financial commitments.
Income or expenses of exceptional size or incidence.
Average number of employees.
Related party transactions and advances, credits and guarantees to directors.
Other – including entity information, combined items and post balance sheet events.

be considered when making a decision regarding the reporting framework to adopt. Some of these considerations are as follows.

1. Is the entity expected to grow in the future? If the answer is yes, the company may wish to adopt the small companies regime and apply FRS 102, Section 1A to avoid transitioning from FRS 105 to FRS 102, Section 1A in the future.
2. Will the financial statements be required by third parties? Compared to the small companies regime, financial statements prepared under FRS 105 contain significantly less information. Therefore, the financial statements prepared under FRS 105 may not provide sufficient evidence to enable banks and suppliers to reach a financing decision.
3. Will the entity opt to present additional information in its financial statements? If the answer is yes, it may be worth considering applying FRS 102, Section 1A because any additional information provided in a set of FRS 105 financial statements will need to comply with Section 1A.
4. Does the entity use fair value accounting or revalue any of its non-current assets? Unlike FRSSE, FRS 105 does not permit assets or liabilities to be recognised at fair value or for any assets to be revalued.
5. Does the entity capitalise development costs or borrowing costs? If the answer is yes, it may be worth considering FRS 102, Section 1A because capitalisation of development costs and borrowing costs is not permitted in FRS 105.
6. Does the entity want to recognise deferred tax, equity-settled share-based payments, government grants under a performance model? If so, it may be worth considering FRS 102, Section 1A because capitalisation of

development costs and borrowing costs is not permitted in FRS 105.

7. Does the entity want to separate intangible assets on acquisition of business trade and assets or account for defined benefit schemes under the projected unit method? If the answer is yes, it may be worth considering FRS 102, Section 1A because capitalisation of development costs and borrowing costs is not permitted in FRS 105.
8. Does the company want to issue a directors' report? FRS 105 does not require micro-entity financial statements to include a directors' report.

Micro-entity financial statements are presumed to show a true and fair view and as such the prohibitions and mandatory requirements of FRS 105 should be considered to establish whether these may impede the entity's ability to present financial statements that give a true and fair view (see **Prohibitions and mandatory requirements of FRS 105** on the previous page). Further, it is important to note that several prohibitions of FRS 105 were previously allowed under FRSSE, therefore micro-entities moving from FRSSE to FRS 105 need to consider these factors and whether FRS 105 is suitable for their business.

Small companies regime

For periods commencing on or after 1 January 2016, small entities that choose to apply the small entities regime will adopt FRS 102, Section 1A. However, this is not mandatory and small entities that choose not to apply the small entities regime must adopt full FRS 102.

Section 1A contains four appendices as follows.

- Appendix A – Guidance on adapting the balance sheet formats.
- Appendix B – Guidance on adapting the profit and loss formats.
- Appendix C – Disclosure requirements for small entities.
- Appendix D – Additional disclosures encouraged for small entities.

FRS 102, Section 1A has the same recognition and measurement requirements of full FRS 102, however it contains different presentation and disclosure requirements as discussed below.

Presentation requirements

Under FRS 102, Section 1A there are just two compulsory primary statements: the statement of financial position (the balance sheet) and the income statement (the profit or loss account). If applicable, small companies are encouraged to prepare a statement of other comprehensive income (the statement of total recognised gains and losses) and a statement of changes in equity (reconciliation in movement of shareholders' funds). The exemption from preparing a statement of cash flows remains for small companies, and small groups are exempt from preparing consolidated financial statements. Further, companies will still be required to meet company

FURTHER INFORMATION

Financial Reporting Council: tinyurl.com/y7m3cxx3
 FRS 105 *The Financial Reporting Standard applicable in the Micro-entities Regime*: tinyurl.com/y9vdswo6
 FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*: tinyurl.com/y9vdswo6
 Companies House – Accounts Advice for Small Companies: tinyurl.com/ybb6x5dy
 Members have access to technical support (fee payable) at www.ifa.org.uk/benefits.

law requirements and must include a directors' report in the annual report.

Disclosure requirements

Although mandatory disclosure requirements for FRS 102, Section 1A are similar to FRS 102, in general the requirements are less onerous because there is less detail.

Appendix C of Section 1A requires small entities to make disclosures in the areas outlined in **Mandatory disclosures**.

Directors of small companies must consider whether the mandatory disclosure requirements of Section 1A are satisfactory to provide a true and fair view or whether additional disclosures are required.

To provide a true and fair view, the standard encourages:

- a statement of compliance with FRS 102, Section 1A including, where applicable, that the July 2015 amendments were applied before 1 January 2016;
- presentation of a statement of comprehensive income where gains or losses are recognised in other comprehensive income;
- presentation of a statement of comprehensive income or a statement of income and retained earnings where there are transactions with equity holders; and
- certain disclosures relating to consolidation where a parent entity voluntarily prepares consolidated accounts.

Recognition and measurement requirements

The main recognition and measurement differences between the FRSE and FRS 102 are set out in **Key differences**. Unless indicated otherwise, the recognition and measurement requirements are the same for FRS 102, Section 1A and full FRS 102. This table does not incorporate the changes to FRS 102 proposed by FRED 67.

Conclusion

Both micro and small entities have some significant considerations to make when deciding which financial reporting regime to adopt. Entities adopting FRS 105 may benefit from the simplification and additional options associated with micro-entities reporting. This is particularly relevant due to the abolition of abbreviated accounts. Abbreviated accounts cannot be filed for accounting periods beginning on or after 1 January 2016. One drawback of preparing accounts under FRS 105 is the loss of information and transparency in the accounts. This may be particularly important for particular stakeholders such as creditors and banks. If this is an important consideration, FRS 102, Section 1A may be more appropriate because it has the same recognition and measurement requirements as full FRS 102, but reduced mandatory disclosure requirements. However, one of the challenges in FRS 102, Section 1A is ensuring that the financial statements are "true and fair" and applying the disclosures "encouraged" by the FRC.

Key differences

FRSE	Full FRS 102 and Section 1A of FRS 102
Intercompany loans with below market rate interest rate are recognised on balance sheet at historic transaction price.	Recognise below market rate intercompany loans at present value, by discounting the future cash flows at a market rate of interest. The discount is then unwound over the life of the loan to provide a notional interest charge to the income statement.
Directors with below market rate interest are recognised on balance sheet at historic transaction price.	Recognise below market rate directors' loans at present value, by discounting the future cash flows at a market rate of interest. The discount is then unwound over the life of the loan to provide a notional interest charge to the income statement. <i>Small companies only (Section 1A):</i> loans from directors who are also shareholders can be accounted for at transaction price.
No requirement to recognise equity-settled share-based payments. Disclosure of terms and conditions only.	Any liability and associated cost arising from equity-settled share-based payments must be recognised.
No requirement to recognise non-basic financial instruments, including derivatives such as foreign currency forward contracts and interest rate swaps, on the balance sheet.	Non-basic financial instruments, including derivatives such as foreign currency forward contracts and interest rate swaps, must be recognised on balance sheet at fair value.
Transactions associated with foreign currency forward contracts are initially recognised using the rate of exchange specified in the contract.	Transactions associated with foreign currency forward contracts are translated at the spot rate on the date of the transaction.
Credit any changes to an investment property's open market value to the revaluation reserve.	Movements in the fair value of investment properties are charged to the income statement.
Lease incentives are spread over the period from inception of the lease to either the rent review or end of the lease whichever is shorter.	Lease incentives are spread over the period from inception to the end of the lease regardless of whether there is a rent review clause.
Capitalise software development costs as tangible fixed assets.	Classify software development costs as intangible assets. Improves the ability to claim research and development tax relief because the rules specifically refer to intangible assets.
Government grants are measured using the accruals model.	Government grants are measured using either the performance model or the accruals model.



Embrace change

Sylvia Tsen suggests that embracing technology, talent and transition to advisory can allow SMPs to thrive in today's business environment.

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TEN SECOND SUMMARY

- 1 Survey results indicates that embracing the challenges of technology, talent and a transition to advisory work can enable SMPs to develop and expand their businesses and take advantage of new opportunities.
- 2 SMPs should refresh their value proposition and market the unique opportunities that are associated with being part of a smaller practice.
- 3 SMPs' in-depth knowledge and understanding of their clients puts them into positions where they can quickly apply a strategic mindset to emerging opportunities.

Maintaining a thriving small and medium-sized practice (SMP) requires a combination of high-quality professionals and sound clients.

For many SMPs today, the secret to success could lie in the three Ts: technology, talent and transition to advisory. As for most businesses, SMPs spend a great deal of time contending with the persistent challenges of rising costs, keeping pace with regulations and standards,

and attracting new clients. The potential hurdles to success have become increasingly complex, as the IFAC Global SMP Survey highlighted, with emerging challenges quickly moving from the horizon to the doorstep. Based on polling of more than 5,000 respondents across 164 countries and 23 languages, the onset of new technology, increasing competition for the best talent, and the potential for changes in revenue from different service lines means that now may just be the time for SMPs to think big and transform challenges into opportunities.

Technology helps maintain trust

With daily news about advanced developments in artificial intelligence, experiments with blockchain technology, and the transformation of accounting software into robo-accountant services, it comes as no surprise that professional accountants need to build a plan to address technology. The benefits of technology developments are well documented and SMPs are already well into transitioning from ledger paper to Excel spreadsheets to accounting software packages.

SMPs are taking note: more than 50% of survey respondents expect technology to have a high impact on their practice over the next five years. Additional investment now can enhance the value and reliability of any SMP practice, especially at



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a time when more than 40% of respondents have concerns about the perceived trust in the profession.

While robo-accountants have yet to become an off-the-shelf service, today's accounting and tax software is much more sophisticated and can further increase efficiencies.

The WannaCry cyber-attack and other major ransomware incidents earlier this year reminded consumers, businesses and professional accountants of the damage that can come with cyber-attacks. The "it won't happen to me" syndrome poses too much of a risk for SMPs, whose reputation and trust from clients can be adversely affected by spam and virus attacks that slow down workflow or corrupt information. Simple steps can go a long way, starting with the following.

- An enhanced password policy incorporating a combination of capital letters, numeric values, and special characters (such as *&%). Despite grumbles from partners and staff, adopt a policy that requires at least eight characters to increase complexity and combat any potential hackers and snoopers.
- Understand what being on the cloud really means and know how secure your cloud really is. The same questions should be asked of any software providers who offer cloud-based solutions.
- Look into cyber-attack insurance for additional coverage and peace of mind.

Increasingly, the marketplace is responding to the needs of small and medium-sized enterprises (SMEs), including SMPs. New applications and collaboration tools that are now more accessible to smaller enterprises are making life easier for many.

A simple example is managing new contacts. In the recent past, a collection of business cards from meetings and networking required manual entry into your contacts database. But now, there's an app for that. In fact, more than one. Apps can scan the physical card and input all the information into a database with accuracy and speed leaving time for busy SMPs to focus on building relationships and responding to client needs. When deployed strategically, technology can enable you and your practice to focus on the non-automated services you can provide, especially business advisory.

Talent attraction refresh

Despite the advent of automation, accounting and advisory practice, success is still very much about people. Bringing on the best talent has become increasingly challenging with more than 40% of businesses reporting that finding or retaining qualified staff is a top issue. It comes as no surprise because the professional accountant's accounting, problem-solving, and analytical skills are attractive to a wide range of employers. Further, potential future leaders often know the type of work environment they seek.

Instead of letting these differences become obstacles to hiring, SMPs should refresh their value proposition and market the unique

opportunities associated with being part of a smaller practice. Start by emphasising the value of small.

- Promote the ability to gain a broader range of client experiences more quickly as SMPs look to provide service to a diverse set of SME industries and engagement needs.
- Highlight the potential for career growth as young managers gain new experiences and have opportunities to participate in managing the practice or participating in networking events.

Today's young professionals are well-informed about societal and environmental issues and are used to social media and e-commerce meeting their preference for responsiveness. Emphasising these elements should resonate with millennials because they look for opportunities for impact, responsibility, and flexibility.

Transition to advisory

Audit and accounting services continue to be an essential part of every SMPs service offerings. However, changes in the landscape may require SMPs to rethink their specialisations. Auditing deregulation in some jurisdictions and artificial intelligence-driven business transformation may also equate to decreased demand for traditional accounting services. The good news is that more than 80% of survey respondents already provide business advisory and consulting services and a significant number – 45% – report that adapting to new client needs is a high priority for the next five years.

Even as the landscape changes, owner-managed businesses, not-for-profits and SMEs in all sectors will need expert advice on how to grow and manage their businesses and respond to evolving regulatory and compliance requirements. For those not yet in the advisory arena, demand seems highest for corporate advisory services, such as mergers, valuations, due diligence and financing. Potential growth areas include human resources, with support required for employee contracts, remuneration structures and HR compliance reporting.

Additional research by IFAC, *The Role of SMPs in Providing Business Support to SMEs – New Evidence*, shows that accountants, especially SMPs, continue to be the preferred advisers for SMEs. Their in-depth knowledge and understanding of clients puts them into positions to quickly apply a strategic mindset to emerging opportunities. Their technical expertise also provides the skills to navigate complex regulatory requirements.

For SMPs to embrace the future, they will need to weave these three Ts – technology, talent, and transition to advisory – into their business model and internal and external practices. Challenges persist, and some will continue to be perennial, but leveraging and embracing change can help SMPs continue to deliver high-quality, relevant services. This will enable them to make the most of the many exciting opportunities presented by this rapidly evolving environment.

TOP CHALLENGES



Investing in and staying current with software



Achieving a digital, paperless environment



Determining what technology is best for the practice



Managing privacy and security risks

FURTHER INFORMATION

IFAC Global SMP Survey:
tinyurl.com/ybpaup37
The Role of SMPs in Providing Business Support to SMEs – New Evidence:
tinyurl.com/y7ra2o8y

A question of standards

Chris Cowton explains that disciplinary cases will be a feature of a well-functioning professional body, but its role is more high-performance coach than police officer.

TEN SECOND SUMMARY

- 1 Professional bodies promote high standards of competence and integrity.
- 2 Disciplinary cases may be necessary due to allegations of professional misconduct because a member has discredited themselves, the IFA or the accountancy profession.
- 3 Professional bodies have a vital role to play in encouraging and supporting members to achieve high standards.

In a previous issue of this magazine I wrote about what makes an individual professional and what constitutes a good professional body ("Professional body building", January/February 2014, p28). I explained that, with the right approach, professional bodies have much to offer. In particular, living up to the high standards of technical competence and integrity expected of them would be more than welcome as society sought to recover from the economic ravages and destruction of trust wrought by the global financial crisis and subsequent period of austerity.

Good governance

Professional bodies tend to be relatively well-developed in the UK and countries with a shared heritage such as Australia. Although their respective contributions to society tend to be worked out slightly differently, depending on history and context, in such countries professional bodies are part of the institutional fabric or social capital. And this can be drawn upon for the good governance (broadly defined) and functioning of a nation. Some countries, though, do not have this option. This might be because economic

development has been too limited or recent to allow such institutions to flourish. On the other hand, in many developed countries the state grants little "space" for professional bodies to operate in. In particular, countries having a highly codified approach to law and regulation tend to provide limited opportunities for professional bodies to take root and make a substantial contribution while still enjoying a significant degree of self-regulation.

Privileges and responsibilities

So what sort of "space" do professional bodies in the UK and similar countries occupy and how does that come about? The classical answer to this is that the state (admittedly perhaps in response to lobbying) reserves specific activities in a defined sphere of activity to a particular occupational group. As a result of this granting of privileges, the professional body is responsible for ensuring, among other things, that aspiring professionals are properly trained and certified and that they act with appropriate expertise and integrity. Members in good standing possess the necessary licence to operate.

However, it should be acknowledged that many things that professionals do are not reserved to them, but the imprimatur of a professional body is sufficiently attractive to persuade people and organisations to prefer to engage their services, trusting members to act in accordance with high standards. As explained in my previous article, the rewards earned by professionals can be viewed as a return on the collective commitment to high competence and integrity. The latter is supported by a code of ethics that goes beyond ordinary morality and the law. After all, ordinary morality and laws (especially) apply to everyone, so more is needed to justify the respect in which professionals are held and the rewards they earn. This is often summed up in the idea that



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a profession provides a public benefit, not just private benefits for its members.

Disciplinary cases

So far, so good. But things do not always work out this way, with some members not living up to the ideal. Indeed, in a well-functioning professional body I would expect to see some disciplinary cases that relate to instances where a member has fallen short of the standards expected. This includes regulations, standards and requirements set by the IFA and others such as the government, regulators and standard-setters. Nevertheless, professional bodies must sometimes deal with cases when a member is alleged to be guilty of professional misconduct, usually involving a lack of competence or integrity. At the very least, this brings the professional body into disrepute and tarnishes its members' collective brand. It is important that the professional body reacts, albeit after the fact, perhaps even to the extent of exclusion.

However, this might raise the question of what a professional body should do "before the fact". Certainly, by way of, for example, initial qualification and continuing professional development, the body should support members to understand their responsibilities under the law. However, a professional body is so much more than that, seeking to establish and promote *high* standards. Disciplinary cases for falling foul of the law or other external regulations will be an occasional necessity, but a professional body is – or should be – a fundamentally positive and constructive endeavour whereby a group of individuals pursue a project of excellence in their particular field. It is not about ensuring some legal minimum only, perhaps through a box-ticking compliance exercise. Such a focus would undermine its mission and divert resources from its true purpose. It would be in danger of becoming little more than an arm of the state,

IFA STANDARDS

The IFA demonstrates its commitment to acting in the public interest, promoting trust in the profession and upholding high ethical and professional standards by:

- Having bye-laws, regulations and guidance for its members which outline ethical and professional standards – tinyurl.com/IFAmember-regs.
- Providing resources, technical help and training such as the recently launched starting up in practice workshops – tinyurl.com/IFAtech-res.
- Monitoring adherence to standards and guidance – tinyurl.com/IFAcumplaints.

The IFA's disciplinary process is a crucial part of maintaining professional standards, since fines and other penalties can be imposed on those members who are found not to comply with these standards. In certain circumstances, members can even be excluded from membership for failure to adhere to appropriate standards. Should you find yourself the subject of a complaint and in receipt of correspondence from the IFA's disciplinary case the process is as swift and painless as possible, please consider the following:

1. Do we have your up-to-date contact information? Members are required to advise the IFA immediately of any change in address(es) other than one that is merely temporarily.
2. Make sure you reply. Members are obliged to provide their "full and prompt cooperation" in connection with the investigation of a complaint.
3. Provide relevant evidence at the outset. Members should provide relevant evidence regarding the complaint allegation at the outset of the disciplinary process to save potential stress and expense being added to the disciplinary hearings. Be specific as to how the evidence you have provided relates to the alleged complaint.
4. Be aware of IFA's bye-laws and regulations. Be familiar with these. In the case of a complaint, ignorance of these regulations will not be bliss! The regulations can be found at: tinyurl.com/IFAmember-regs.
5. Let us know if the complaint has been resolved. Tell the IFA and also ask the complainant to confirm to the IFA that the complaint has been withdrawn.

losing the "space" in which to make its most important contributions.

Legal and regulatory requirements

Granted, a professional body needs to react when a member is known to have fallen short of the bare minimum, but its focus should generally be on "higher things". Adherence to minimum legal and regulatory requirements should be taken as read. The key role of a professional body – as a community of experts engaged in a common purpose to the benefit of society – is to encourage, support and even warn members to uphold high standards always, not to check routinely on whether they have met the bare minimum. The latter function best belongs to the authorities, particularly when the relevant law or regulation does not relate to some sphere of activity reserved solely to the profession in question.

Conclusion

Disciplinary cases will occur in any well-functioning professional body, but the focus of its activities should be on promoting high standards, not looking for cases that fall short of the bare minimum. When it comes to a professional body and behaviour management overall, think high-performance coach, not police officer.

Helping hands

Looking for new opportunities? *Neal Green* advises on becoming a charity trustee.

TEN SECOND SUMMARY

- 1 The trustees are responsible for making sure charities adhere to their aims.
- 2 A trustee recruitment process should ensure a good match between skills and experience and the charity's needs.
- 3 Remember that all trustees share equal responsibility for the finances of the charity.

What would I advise someone who was thinking of becoming a charity trustee? I would want to start by saying "Great! You are doing a good thing." This is because it is – charity is part of what makes our society better. It's about making a positive difference, fixing what is broken or protecting what is precious – mainly by voluntary effort. There are 167,000 registered charities in England and Wales – and many others that don't have to register. They range from the small and local to the large and international and deal with a wide range of causes, issues and people.

Trustees duties

The trustees are legally responsible for making sure charities stay on track. They include the management committees of charitable societies and community groups, governors of charitable schools and directors of charitable companies. Despite the huge diversity, they all have the same basic duties. These are explained in the Charity Commission's guidance *The Essential Trustee*. To summarise, these are as follows.

- Ensure that the charity is carrying out its purposes for the public benefit – doing what it is set up to do.
- Ensure that the charity is complying with the law.
- Act in the charity's best interests.
- Manage the charity's resources responsibly.
- Act with reasonable care and skill.
- Ensure that the charity is accountable.

In practice, the job of a trustee is mainly about making sound, well-informed decisions in the best interests of the charity; deciding what will most effectively further its mission – see our guidance *It's Your Decision*. It also involves identifying and making decisions about risks: which to take, which to avoid, and how to manage them.

The real world

From a regulatory perspective, that's it in a nutshell – but what is it really like to be a trustee? By coincidence, a friend has just been invited to become one. I know the charity in question and the current trustees quite well, because we are both members of the charity. So, in this case, I am very confident in encouraging him to go for it in terms of his aptitude, the organisation he is taking responsibility for, and the individuals on the board. It is important for a potential trustee to find out what they are letting themselves in for, both as regards the legal duties (read our guidance), and in terms of what the organisation and its board are like.

Many charity trustees are recruited through personal contacts. In my friend's case, it's a membership charity so the constitution gives few options other than recruiting from within the membership. That can have limitations in terms of diversity, which we will explore later. Alternatively, some charities use external organisations to help them recruit; for example, see the "find a trustee vacancy" page on <http://trusteesweek.org/>.

Ideally, there should be a recruitment process whereby the charity assesses whether there is a good match between skills and experience and the charity's needs. It should also be an opportunity for the applicant to decide whether the charity's "offer" matches what they hope to obtain from volunteering as a trustee (because the vast majority of trustees are volunteers). The applicant will also want to find out whether the cause is something they are passionate about, and whether they think they will get on with the other trustees.

So, it should be a two-way process. The charity should identify what it needs and the prospective trustee should identify what they can offer and what they would like to obtain from the role. However, the charity should be carrying out more in-depth preparation. It should be thinking about where it wants to go and the full range of background, skills and experience it will need to get there. It's too easy

not to think beyond “we need a fundraiser” or “we need a new treasurer”. For example, how will the rest of the board prepare for a new person, make sure they get the information and support they need, and feel valued?

The applicant could also carry out some preparatory work. For example, if the charity is registered, check out its register entry. Check that accounts are up to date and in the black. See what the charity’s website says about it. Go to the interview prepared to ask searching questions about finance, risk, insurance and, above all, how the charity knows whether it is fulfilling its mission.

Improving diversity

My friend was recruited to fill a specific role which had become vacant and which would benefit from his specialist knowledge. The board is also having a wider discussion about skills and diversity. It wants to improve its diversity in terms of “size, shape and colour”, the obvious things we think of when we mention diversity. They were encouraged when we talked about “diversity of thought” – the idea that the real benefit of diversity in governance is to provoke questions and challenge. Trustees should have permission to disagree with a point of view or ask probing questions about how an idea will work, while remaining committed to working together. Such diversity enhances the quality of decision making which, ultimately, is what trusteeship is about. Diversity of size, shape and colour helps to further enrich diversity of thought. Would the applicant be joining a diverse board or one where they fit in all too well?

If joining a board with a healthy range of personalities and perspectives, some individuals may be easier to work with than others. One of the skills that may be required is the ability to modify an approach, depending on whether dealing with (for example) a strong leader who wants the trustee to get to the point; someone who wants to see, understand and digest the detail; or an innovator who likes energy and enthusiasm. This may be important if the potential trustee is being recruited to bring new external perspectives to a well-established board. But have the board prepared themselves to be challenged?

If the applicant has financial or accounting skills to offer, no doubt charities will be keen to recruit them. They don’t have to be the treasurer. For those wanting such a role, bear in mind (and remind the rest of the board), that all trustees share equal responsibility for the finances.

Financial sustainability is a big issue for the charity sector at present for understandable reasons. Asking the right questions is vital. Our “15 questions” toolkit may help.

Above all, the potential trustee should aim to have an enjoyable experience where they will work hard, but be able to see that they are making a positive difference to a cause that they value. And aim to have some fun in the process.

FURTHER INFORMATION

Charity Commission:
tinyurl.com/charityco
Charity Commission –
general contact:
tinyurl.com/yd7by843
The Essential Trustee:
tinyurl.com/ln9q9dh
It's Your Decision:
tinyurl.com/zdahm8t
Trustees' Week – 13-17
November 2017:
<http://trusteesweek.org/>
*Charity governance, finance
and resilience: 15 questions
trustees should ask*:
tinyurl.com/o6veu2b



Neal Green is Strategy and Insight Manager at the Charity Commission. He specialises in charity governance, and using research and analysis to develop policy. He represents the Commission on the Charity Governance Code Steering Group.



Simon Park explains how accountants can maximise the value of their practice for a sale on their retirement.

TEN SECOND SUMMARY

- 1 Has the potential impact of Making Tax Digital increased the accountancy practices being sold?
- 2 Practices with a turnover of between £50,000 and £200,000 attract the most interest.
- 3 Balancing valuation, payments and security is key to the success of an acquisition.

The question "What's it worth?" or words to that effect tends to be the most important one in conversations with retiring accountants about the value of their practice and, of course, it is easily answered with "What someone will pay for it". In truth, many factors will affect that value and in reality a few tweaks to a practice now could improve its value later when the time comes to sell.

However, as a first step, it is always prudent to review the current marketplace and what the benchmark should be.

In terms of numbers, 2016-17 has seen an increase in the number of firms coming to market and can possibly be attributed to the impending introduction of "Making Tax Digital". Brexit is also a well-used excuse for most things or simply the ever-aging population. Put in context, we listed 70 unique practices in the period from June 2013 to May 2014 (65% in the south east). Between June 2016 and May 2017, the number was 112 across the UK of which, surprisingly, only 36% would be classed as south-east.

Prices have remained static with an average sale price at a factor of 1.17 of gross recurring fees (GRF) in 63 sales. This was a slight increase from 1.16 of GRF (in 39 sales) three years ago and a significant increase from the industry standard of between 0.9 and 1.00 of GRF that we all hear on a regular basis from the experts. The figures are taken from Retiring Accountant's August 2017 whitepaper.

Interestingly the range of the GRF multiplying factor has increased recently to between 0.45 and 1.4 and the real question here should be "How do I get the most for my practice when the time comes?"

Obtaining an above market valuation comes from 3D vision:

- demand;
- desire; and
- deal.

Demand

Size matters and practices with a turnover of £50,000 to £200,000 attract the most interest. The sector, by practice numbers, largely comprises one to two-partner firms with a turnover up to £250,000. Augmenting a similar or smaller practice and having access to the necessary funds or funding is achievable and thus demand at this level is strong in any part of the UK. In my experience, a fee block of less than £200,000 is rarely sold for less than 1 x GRF with half payable in advance.

As practice turnover starts to creep towards £300,000 and beyond the demand (from suitable buyers* in an area) can start to wain and the ability to raise larger deposits, retain large premises and the potential TUPE liabilities become a serious consideration. In some circumstances, these may become negative factors leading towards a reduced offer.

Forward planning has driven a trend towards portfolio splitting if turnover exceeds £200,000 and selling the right fees to the right acquirer can command higher values. Further, this often matches clients with the right service provider.

FURTHER INFORMATION

Retiring Accountant is the leading brokerage of practices in the UK, boasting more than 1,000 active buyers and a leading voice in the industry with content related to delivering success for acquirers and sellers alike.

For an extended look at current deal structures and how they affect your valuation our free 2017 whitepaper is available at www.retiringaccountant.co.uk.

Splitting off the preparation of simple tax returns and the accounts and tax work for sole traders and partnerships and selling these to a smaller local individual, while selling the limited company accounts and audits to an independent, multi-partner practice with regional presence, could increase the overall return by 25%.

On location, a practice based in the East Riding (low demand) can't simply move to Middlesex (high demand). Equally, if 20 competitors aren't within ten miles they can't be created overnight, but that doesn't mean we should despair.

High value sales occur in peculiar locations through careful planning and an understanding of geography. "Brass plaque" accountants in the immediate area may be thin on the ground, but regional firms are always keen to acquire an established satellite office if it is presented properly. More interesting, however, is the fact that over 30% of our practice sales are to ex-industry, unhappily employed or relocating accountants who are looking for a "turnkey" operation.

A fundamental change from the traditional, established buyer and a rise in qualified and experienced individuals seeking to bolster their existing portfolio is driving demand and price increases. The key to success is to use social media to understand the "true local market" which may be more buoyant than first thought.

Regardless of location or size, a potential successor requires a semblance of continuity for 12 months following the sale and is unlikely to have suitable premises. An ideal local acquirer is probably hidden on LinkedIn and a quick connection may help them become aware that your practice is available.

Desire

To create desire on the part of a purchaser, we need to ascertain exactly what is being sold: strong profits, loyal clients, a high average fee level, £100,000 of fees?

We find the facts by analysing factors such as the past year's turnover, GRF, average fee size, the breakdown of limited companies against sole traders, the largest client, the total wage bill, HLP costs and the percentage of fees from the immediate post code?

It is important to remember that acquirers do not buy fees or profits. They buy a secure and timely return on their investment.

If a business can't answer these questions with confidence and how they relate to a safe and secure practice, it isn't yet ready to speak with a buyer. Imagine now that there are only three buyers in an area. A potential seller who puts one off with guessed information or by failing to highlight the security, will now have a much weaker hand.

The quickest way to lose an interested acquirer is with uncertainty. On the other hand, the quickest way to increase practice value and desire is with well-presented information showing a secure return on investment.

That said, the desire to acquire SMEs, owner-managed companies, niche sectors, standing order payments, payroll work, localised client base, and average fees of more than £800 remains high.

It is not possible to change a client profile quickly or underlying profits. However, with planning, one can highlight the security of the acquisition and how it will add value to another practice.

The hope is that years of successful trading will have ensured that a practice has become a well-oiled machine, full of efficiencies and knowledge developed. An accountant that looks at a client's business can offer suggestions on where they could improve things. But what about the accountant's own business? If they have not worried that their wage bill is now 60% of turnover, that their lease is due to increase by 10% this year or that the average fee is low because they are charging friends £30 for a tax return, I can promise that the buyer will have immediate concerns on these matters.

Not only will the buyer notice, but this will cloud their judgement on the whole deal. The GRF factor will reduce as will the amount payable upfront and the term of the lease that they are likely to take on the seller's owned office.

Be mindful that one erroneous cost has an impact on the valuation. This might be an extra staff member taken on in the hope that turnover will grow. Perhaps consider reducing their hours or redundancy. Does the practice have some lovely clients that won't pay a "reasonable fee", but have been advised for years? The seller could consider setting them aside and retaining them to raise the average fee of the rest of the practice. Ideally, leases should be in place with a break clause and clear terms for dilapidations.

Deal

The biggest effect on valuations can be the seller's demands for the deal. The three main areas to balance are valuation, payments and security.

Balancing these three areas (for both parties) is a fundamental key to the success of an acquisition. Without labelling the points, higher deposits, limiting clawback and quicker payments tend to reduce the GRF multiple. Conversely, a smaller deposit, extended clawback and slower payments tend to increase it.

Before considering a practice sale, grade each of these areas in order of importance. If done properly, a sensible compromise of these factors can offset potential value erosion.

Summary

The market continues to offer retiring accountants an exit strategy and demand continues to rise. However, those looking to sell or find succession can dictate significant premiums, reduced risk or on-going income through consultancy by spending some time reviewing their practice and making a few small changes in advance.

Remember, the sooner consideration is given to the relevant sale factors mentioned above, the better. To quote Benjamin Franklin: "By failing to prepare, you are preparing to fail."



Simon Park is a Director at Retiring Accountant which partners with accountancy practice owners and entrepreneurs seeking to grow or dispose of their lifetimes' work.

With experience in transactions from £17,000 to £3.6m coupled with an attention to detail as it relates to deal formation, Simon's skills are a useful addition to any practice looking to leverage the best possible deal for its business.

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T: 01765 698699
Visit: www.retiringaccountant.co.uk

Branch meetings

Linda Wallace provides details of forthcoming local branch meetings and establishing new branches.

TEN SECOND SUMMARY

- 1 Branch meetings, speakers and topics for the coming months.
- 2 Members must register their place through www.ifa.org.uk/events.
- 3 If there is no branch in your area would you be interested in starting one?

These pages and www.ifa.org.uk/events include information on forthcoming branch meetings. To attend a meeting you must register your place through www.ifa.org.uk/events otherwise you may not be admitted if the event is full.

Branch events are free, keep you up to date with IFA news, important issues and contribute towards your CPD. They are an excellent way to meet local members.

There are local branches in the following regions.

- Bucks, Oxon & Berks
- Devon & Cornwall
- East & South Yorkshire
- East Anglia
- East Midlands
- Essex
- Hampshire & Dorset
- Greater Manchester, Lancashire & Cheshire
- London
- North & West Yorkshire
- North West Midlands
- Northants, Beds & Herts
- Northern Ireland
- Northern Counties
- Scotland
- South West Midlands
- West of England & South Wales

New branches

If you do not currently have a branch near you, and are interested in setting one up, we can provide all the necessary assistance and support to make it happen.

Email us on mail@ifa.org.uk with the following information:

- your membership number;
- telephone number; and
- your enquiry.

15 NOVEMBER 2017 (4:00PM – 7:00PM)

Scotland

Topics to be confirmed

Glasgow Caledonian University

Cowcaddens Road, Hamish Wood, Glasgow G4 0BA

12 OCTOBER 2017 1.45PM – 5:00PM)

Northern Ireland

Philippa Hume, Quickbooks: cloud accounting and making tax digital.

Dunsilly Hotel

20 Dunsilly Road, Ballymena BT412JH

26 SEPTEMBER 2017 (4:45PM – 7:30PM)

Manchester

Paul Foley, Catax: Unclaimed capital allowances in commercial property

Maxim Cohen, Hale Mortgage Brokers: Bridging the gap in the mortgage market

University of Manchester

Room 6.211, 3rd floor, University Place, Oxford Road, Manchester M13 9PL

27 SEPTEMBER 2017 (6:15PM – 9:00PM)

Milton Keynes

Duncan Walker, IFA Scottish branch chair: The Success Factor Programme, helping SMEs to grow, consolidate, recover or exit their business.

Chris Parsons, Catax: Research & development tax credits

Holiday Inn

500 Saxon Gate, Milton Keynes MK9 2HQ

9 NOVEMBER 2017 (6:00PM – 9:00PM)

Bristol

Topics to be confirmed

The Bristol Golf Club

St Swithin's Park, Blackhorse Hill, Almondsbury BS10 7TP

19 OCTOBER 2017 (7.30PM – 9.30PM)

Leeds

Richard Simms, FA Simms: Anti-money laundering compliance update and insolvency and business rescue

Weetwood Hall Conference Centre and Hotel
Otley Road, Leeds LS16 5PS

28 SEPTEMBER 2017 (6:00PM – 8:00PM)

Leicester

Tom Moore, Obsidian Tax Ltd: Property tax
Nicola Draper, Draper Hincks: Preparing your practice for sale

Stoneycroft Hotel
5 Elmfield Ave, Leicester LE2 1RB

12 OCTOBER 2017 (6.30PM – 9:00PM)

Redditch

Topics to be confirmed

Abbey Hotel
Hither Green Lane, Redditch B98 9BE

9 OCTOBER 2017 (5:30PM – 8:30PM)

Ipswich

Duncan Walker, Badgar: Success Factor Programme

John Hood, Gabelle: HMRC compliance visits, joint visits and minimising penalties

Ipswich Hotel
Old London Road, Copdock, Ipswich IP8 3JD

20 NOVEMBER 2017 (6:00PM – 9:00PM)

Essex

Topics to be confirmed

Jupiter House
Warley Hill Business Park, The Drive, Brentwood CM13 3BE

6 NOVEMBER 2017 (6:00PM – 9:00PM)

London

Topics to be confirmed

London South Bank University Keyworth Centre
Keyworth Street, London SE1 6NG

18 OCTOBER 2017 (4:00PM – 9:00PM)

Winchester

Topics to be confirmed

Marwell Hotel
Maplethorpe, Thompson Lane
Colden Common, Winchester, Hampshire SO21 1JY

Meet your local branch chairs

In each edition we will be introducing members to their branch chairs. This time it's the turn of *Zeeshan Rizvi*, *Chris Morris* and *Ikram Ul-Haq*.


Contact details

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Zeeshan Rizvi, North & West Yorkshire

After being made redundant in 1984, I started my own practice, Rizvi & Co Accountants. I have now been providing a range of services to small and medium-sized business clients for more than 33 years.

Interests

I enjoy watching cricket and giving a helping hand to local communities and charities.

Chris Morris, East Anglia

I am a Fellow of the IFA and IPA. My working life has been varied, having worked in accountancy for a number of organisations. I set up my own accountancy practice in Ely, Cambridgeshire in 2001. As well as this, I work as part-time Area-Line Manager for a friendly society in London and, since 2011, have been a District Councillor for East Cambridgeshire District Council. I am also Vice-Chair of the Licensing Committee.

Interests

My hobbies consist of going to the gym, playing tennis, watching cricket at Lords as a member of the MCC and watching football as a Tottenham supporter. I also sing tenor in Ely cathedral and Ely Choral Society. Finally, I enjoy travelling the world when time allows.


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Ikram Ul-Haq, East Midlands

After finishing my studies in Manchester, I worked in several sectors including industry, local government and private practices. I moved to Leicester in 1984 and opened my own practice in 1991 with the aim of providing a professional service to small and medium-sized enterprises. I currently work with a staff of four.

Interests

Outside office hours, I am a flying instructor and I spend much of my time teaching people how to fly aeroplanes.

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