JOURNALENTRY

SPRING 2021

HOPE SPRINGS ETERNAL

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Welcome to our first edition of Journal Entry in 2021.

Along with relief that lockdown restrictions are being lifted and that Spring is here, there is a real sense of cautious optimism growing within our business community.

The last year has presented us all with challenges. Most of us have had to adapt our working practices in order to deliver products and services to clients in a safe way.

At Thomson Cooper, our contingency planning and technical expertise allowed us to switch staff to remote working relatively easily. Our systems were already digitised, and with the majority of clients using cloud accounting packages, there was no break in service provision.

Communication was vital in the early days of the pandemic, to help clients make informed decisions and keep a positive outlook. We kept people up to date through regular emails and an information hub within the news section of our website. There are new articles being added every week so follow us on social media to keep up with all the latest news on funding and support.

It also meant moving our popular Budget event online for the first time. Thanks to everyone who took the time to tune in. We were delighted at the significant numbers who registered and by the positive feedback provided on the exit surveys. As much as online platforms have become part of our daily business life, it may be some time before we can resume physical events. We are looking forward to seeing everyone in person again.

Spring signifies new beginnings and growth. As we recover from this crisis, co-operation, careful planning and a positive mindset will help us to regenerate our communities and economy. We have the expertise to help with the planning process, from cash-flow projections to scenario planning. Please get in touch if that is something we can support you with, and as you plan for the next year, remember to 'aim high and trust us to deliver'.

CASH FLOW TOOLS

Cash flow planning has been crucial for many businesses during lockdown. As we start to open up, knowing that you have the cash you need to see you through will remain a top priority.

At Thomson Cooper we support clients across a range of accounting software platforms. We've highlighted below links to some of our favourite cash flow tools, several of which do not require an additional subscription if you already use the software:

- **Xero:** Short-term cash flow (xero.com)
- **QBO:** Cash Flow Planner (intuit.com)
- **Sage Business Cloud Accounting:** Cash flow (sage.com)
- **FreeAgent:** How to use FreeAgent's Cashflow functionality - FreeAgent
- **Fluidly:** Fluidly Intelligent Cashflow, forecast, plan, chase and get funding - Fluidly
- **Float:** Float Cash Flow Forecasting Software | Xero, QBO & FreeAgent (floatapp.com)

If you would like help or training on any of the above, please contact Head of Business Support Elaine Cromwell at **ecromwell@thomsoncooper.com**.

IN THIS ISSUE...

COVID-19, the impact on the Charity Sector and the way forward

A recent survey by OSCR looked at the impact on COVID on the sector. Over 90% of Scottish charities reported some form of negative impact from COVID-19 and the connected restrictions.

Almost 80% of charities reported an impact on their finances, 56% reported lost income from fundraising and 75% encountered a negative impact on staffing and administration. Operational uncertainty was the biggest challenge. 60% felt frustrated, they do not know when they can resume normal activity and 50% felt unable to plan for the long term.

70% reported increased negative outcomes for beneficiaries, such as mental health matters, 63% reported increased loneliness or isolation, anxiety about the future and worsened mental health and wellbeing. 30% reported threatened financial security and 27% a negative impact on physical health and wellbeing.

How have charities reacted?

Over half have made changes to the way they approach finances, most commonly accessing reserves (37%) and applying for additional funding (25%).

Just over half had adapted their approach to staffing and /or administration, most commonly:

- Reducing the use of volunteers (32%)
- Providing support to staff and their wellbeing (22%)

How can Thomson Cooper help?

Now is a good time to review your financial processes. Many charities have moved to online accounting to streamline processes and assist with home working. Have a range of cashflow projections and scenarios that can help forecast the future. Share the knowledge, talk to other Trustees and look for potential collaboration projects. Review your Board and governance procedures. Boards that can adapt well will be able to come out of this stronger. Anticipating challenges and being able to adapt will make Charities more resilient. Work closely with your advisers, if they can't help they might know someone who can.

Many Charities choose Thomson Cooper because of our expertise and hands-on approach. We offer a personal touch that larger firms struggle to deliver.

To discuss how we can assist your non-profit organisation, email Fiona Haro at **fharo@thomsoncooper.com**.

OSCR CHARITY UPDATE

THE IMPACT OF COVID-19 AND THE WAY FORWARD

92% NEGATIVE IMPACT

of Scottish charities reported a negative impact from COVID-19 including cancelling events, being prevented from delivering services and disruption of services to beneficiaries.

CHALLENGES 78%

reported an impact on their finances, with 'operational uncertainty' being cited as the issue causing the greatest challenge.

73% AGILE RESPONSE

took action and made changes by adapting their services to meet operating restrictions and changing beneficiary needs, or by offering a different type of service.

FINANCES 53%

adapted their approach to finance, many by accessing reserves and applying for additional funding.

THE ABILITY TO ADAPT MAKES BOARDS MORE RESILIENT

- Act now - review your financial processes & governance procedures
- Online accounting will streamline processes & assist with home working
- Use cash-flow projections / scenarios to help forecast the future
- Share knowledge & explore potential collaboration opportunities

Need help to make your charity more resilient?

Email our Head of Charities Fiona Haro at fharo@thomsoncooper.com

Sell in May and go away?

This phrase is an old investment term based on some investment stocks underperforming in the summer months compared to the winter months. If an investor decided to follow this strategy, they would cash in their investments for the summertime and then reinvest in the winter.

The origin of this phrase harks back to a custom where merchants would leave the city of London and escape to the country for the summer months. The original phrase being 'sell in May and go away, and come back on St Legers Day'. St Legers day refers to the horse racing event held in September.

Is there any truth in this old adage?

It seems that some traders in the United States did indeed adopt this strategy in the past and certainly some of their investment markets (e.g. the Dow Jones) did underperform in the summer compared to the winter. However, the reasons for this underperformance are not exactly known. This old adage could be a risky strategy and those selling out could well miss out on market growth.

With the advent of 24 hour news flows and the availability of data across the globe, the ability to time the entry to the market to gain an advantage is extremely tricky. Not only would the investor have to guess when to sell out, they would also have to estimate when to re-join the investment markets after their summer break.

Time In The Market

At Thomson Cooper, we believe that it is 'time in the market' rather than 'timing the market' that leads to better outcomes. Our investment discipline helps us to see through such short term strategies, allowing us to focus on the long term needs of our clients.

Our discipline helped us guide our clients through the market falls in March 2020 at the start of the pandemic, where the FTSE 100 fell to 5190. We gave reassurances, help and support to our clients to help them stay invested and ride out the ups and downs. A year later in March 2021, the FTSE100 rebounded to 6737.

That is a rise of nearly 30% which could have been lost, had investors decided to "sell and go away".

Contact Chartered Financial Planner Richard Libberton at **rlibberton@thomsoncooper.com** if you require advice on your savings, investments and wealth planning strategies.

SHORT-TERM SOLUTIONS AND LONG-TERM PAIN?

The buy-to-let market has recently been in the sight of government as a means for raising tax and the Covid-19 crisis has made this need more acute.

Shortly before the March Budget, the Government's tax adviser, the Office of Tax Simplification (OTS), recommended increasing capital gains rates to match income tax rates. As it turned out this wasn't legislated for. However, most commentators expect that there will be a move to apply it to let properties once the Covid-19 infection rate has fallen persistently and are looking at the 2022/23 tax year as being the most likely timeframe for change.

There have also been changes hinted at by government to more closely regulate the short-term letting market driven by the increase in the use of online platforms such as AirBnB. The Scottish Government cited problems with increased litter, noise, anti-social behaviour and erosion of community as reasons for their commitment to ensure that local authorities have "appropriate regulatory powers to balance the needs and concerns of their communities with wider economic and tourism interests".

A review was published in late 2019 giving Scottish local authorities new powers to regulate short-term lets where they decide this is in the interests of local communities.

These powers include the ability to create "control areas" to ensure that planning permission will be required for the change of use of an entire property to a short-term let. In addition, the Scottish Government is committed to considering how short term lets will be taxed in the future to ensure they contribute to local communities. One obvious target would be to exclude those claiming that their short-term letting properties are subject to business rates instead of council tax to take advantage of small business rates relief.

Any new taxes will be in addition to the Transient Visitor Levy (the tourist tax), which is set to be introduced in the next session of the Scottish Parliament. Decisions about applying a visitor levy, as well as certain decisions about its design, administration and collection will be the responsibility of individual local authorities.

Contact Scott Hallesy on **shallesy@thomsoncooper.com** if you require help with property tax.

SPRING CLEAN YOUR FINANCES

April brings the promise of Spring, with longer days and the welcome return to our shores of migratory birds in anticipation of Summer. It also signifies the dawn of a new tax year and an opportunity to take stock of the allowances available to individuals when spring cleaning their finances.

In the tax year starting 6 April 2021 each individual has a tax free allowance of £20,000 to invest in an Individual Savings Account (ISA). Children also have a tax free allowance for savings into Junior ISAs (JISAs), meaning parents, grandparents and extended family may contribute for the child once it is up and running.

For those saving into pensions, the maximum amount allowable this year remains at £40,000. It may be possible to contribute more than this in certain circumstances. For higher earners, the amount of £40,000 will be reduced down to a minimum of £4,000, based on their own individual circumstances. Those with little or no earnings may still contribute to pensions at a maximum level of £2,880 this tax year. With the Government providing a boost through tax relief, pensions are an extremely efficient way to save for the future.

There is a cap on the total amount of pension savings that may be accrued. This is the Standard Lifetime Allowance (SLA). At the recent budget, the SLA was frozen at £1,073,100 until April 2026. This means that anyone retiring between now and 2026 may incur a tax charge on any pensions savings above this amount. The lifetime allowance is unlikely to effect the majority of savers in the UK however.

Former Chancellor Roy Jenkins famously described Inheritance Tax as 'a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue.'

Each person has an annual (IHT) exemption of £3,000 for the 2021/22 tax year. If this annual exemption was not used fully last tax year then this gives the potential to gift £6,000. For a couple that means £12,000 may be gifted, free of IHT. Gifts to a spouse or civil partner are unlimited and gifts to charity/political parties are also exempt.

Given the new tax year is upon us, now is a good time to assess what allowances are available and to use them effectively to plan for the future.

Contact Chartered Financial Planner Richard Libberton at **rlibberton@thomsoncooper.com** if you require advice on your savings, investments and wealth planning strategies.

Is now the time to think about outsourcing?

As the country comes out of lockdown and businesses reassess their operating models, is now the time to consider outsourcing some of your day to day admin tasks? There are a number of advantages to outsourcing:

Save money

You might be spending more time than you want on processing and reporting your own accounting and payroll information, and not enough time doing what you should be - running your business.

With outsourcing you only pay for the actual time it takes to complete your work - less expensive than employing a full-time staff member. Aside from wages, employing people means you need to provide for annual and sick leave, equipment and material costs. You also won't have to lock up cash in extra workspace or office furniture.

Peace of mind

Payroll, VAT and tax are complex. The rules are copious and changed frequently. Outsourcing your payroll and VAT compliance obligations means peace of mind that a pool of experts have your back and will keep you right.

Get better reporting and expert advice

One of your main motivations for outsourcing should be to obtain better financial information and reporting. The right information at the right time could end up saving your business money over the long term.

Free up time

Having more time to spend on business and relationship building could be vital. You might also find that your stress levels naturally decrease by getting a skilled bookkeeper on the job.

Improve your service and efficiency

If you decide to outsource, part of the role can be issuing invoices in a timely fashion and ensuring your bills are paid on time. We can help your business become more efficient by reducing late payments. By taking these tasks off your hands, you might be able to focus on improving the service you offer your customers.

With the positives there are always a few negatives. Outsourcing is no different, and as well as cost, there are other potential issues to consider.

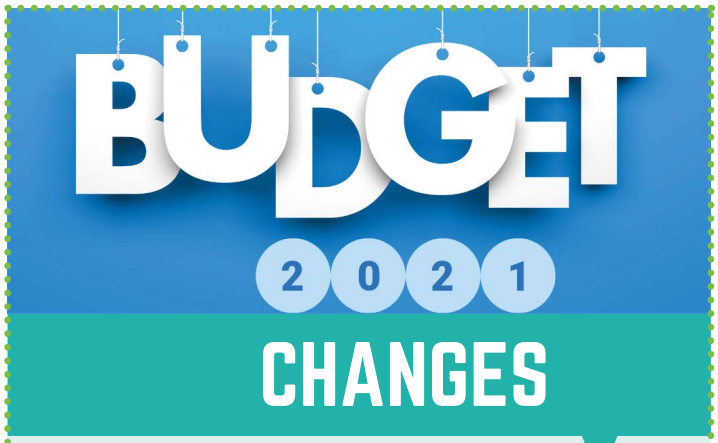
Loss of control

If you outsource you may have less control over your financial information and the confidential data associated with it so it is really important to choose the right contractor. You want to choose a firm which can demonstrate good systems of security, internal control, data protection, confidentiality and of course, are suitably skilled and insured for the services provided.

Summary

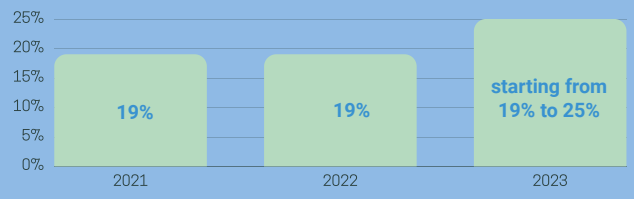
We have a growing team of specialist staff able to take care of your payroll, VAT and bookkeeping needs. Contact partner and Head of Business Support Services, Elaine Cromwell for further information at **ecromwell@thomsoncooper.com**.

PLANNING, FORECASTING AND SEEKING ASSISTANCE IN UNCERTAIN TIMES



CORPORATION TAX

The rate of Corporation Tax will remain at 19% for the next two years. From April 2023 Corporation Tax will be tapered from 19% on profits up to £50,000, increasing to 25% for profits over £250,000.



CAPITAL ALLOWANCES

From 1 April 2021 until 31 March 2023 there will be an introduction of a 130% upfront capital allowance for investments in new plant and machinery and a 50% first year allowance for qualifying special rate assets.

LOSSES

If you have made a loss in any of the accounting periods ending between 1 April 2020 and 31 March 2022, you can carry back those losses three years, rather than the usual one year. This time span seeks to cover losses in accounting periods hit by COVID-19, to permit relief against profits that arose before the pandemic.

As businesses continue to benefit from the series of Government measures and initiatives, all designed to stem the rising tide of unemployment and corporate failure, many business owners will now be planning for survival rather than growth. This inevitably means cutting costs and overheads (inc staff) to keep them in line with income and to avoid insolvency.

Generating and maintaining sufficient cash reserves is absolutely crucial. Contingency planning however can only be short term at best, in the current environment of falling consumer demand and changing behavioural patterns.

Businesses have faced extraordinary conditions throughout this pandemic and will continue to do so for the foreseeable future. They will need targeted support more than ever, to help them not only survive and adapt, but to plan for the new trading environment.

The government will need to adopt a measured response when progressively withdrawing support and reigniting the economy to avoid a cash flow precipice. Businesses will no longer have the option of being able to furlough staff. HMRC will eventually start to tighten tax collection activities. There is an expectation of increased bad debts. Repayments on CBILS, Bounce Back and other loans taken out during the pandemic will eventually fall due. All of this will generate additional cash strain and place further pressure on Directors.

Engaging with funders, creditors, and other stakeholders, together with accessing government support initiatives are all vital. Prepare short term cashflow forecasts as a matter of pressing urgency, even daily or weekly if cash is expected to be tight. Make them realistic, rather than optimistic. Understand the business's payment position on everything including payroll, suppliers, bank interest, tax, pension commitments. Consider which are most important and the consequences of non-payment.

Systematically chase your debtors for payment in the expectation that many will find life difficult in the post Covid era. Maintain communication with them and press for payments on account if they are in financial hardship.

Our team of experienced professionals will be at your disposal to help you navigate the business and financial challenges which undoubtedly lie ahead. If all looks bleak, please email George Dale at **gdale@thomsoncooper.com** to arrange a consultation to discuss your options.

THE COVID DEBT CONUNDRUM

The news tells us one week that due to COVID-19 *'British households repaid record amounts of debt racked up on credit cards and personal loans as consumers stayed away from the high street during the lockdown'*.

The following week we are told that *'Some nine million adults in the United Kingdom are diving deeper into debt, a trend that is also exacerbating income inequality'*.

So which is correct? Like everything during this devasting pandemic, no one fully knows yet. It's a case of 'wait and see'.

As we start to get back to 'normality' it is becoming increasingly clear that there will be those who have been able to repay debts due to a reduction in spending and continuing to receive an income. But there will also be those whose debt has increased due to job losses, businesses being closed and changes in circumstances that have forced them to rely on further borrowing or benefits.

The worry for the latter group is that currently, there are various schemes in place to help people but, as the pandemic regresses and these support measures are wound up, they will find themselves with unmanageable debt they cannot afford to repay.

Hopefully, the government will not just let those who are most vulnerable and in need of help, metaphorically 'fall off a cliff', when the support ends. But instead introduces some tapered relief to ease the way back.

In Scotland, we have options such as the Debt Arrangement Scheme, which allows individuals to repay debts over several years, freezing interest and charges and protecting their assets.

We are expecting to see a significant rise in those having to deal with personal debt. It is a conundrum, but one which, with the right debt advice, can be resolved. If you need help with problem debt, please email Ian Brown at **ibrown@thomsoncooper.com** to arrange a consultation.

AND FINALLY...

"Hope springs eternal in the human breast..."

ALEXANDER POPE, AN ESSAY ON MAN

This edition of Journal Entry is centred around positive planning. Our first article is entitled 'Hope Springs Eternal', an expression first coined by poet Alexander Pope in 'An Essay on Man' published in 1734.

"Hope springs eternal in the human breast," meaning it is human nature to keep on hoping against all odds.

As well as becoming a familiar phrase, it has since inspired books, songs and a film.

We hope you join us in looking forward to new beginnings, and to a future filled with hope. Stay safe everyone.

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