JOURNAL ENTRY

WINTER 2020

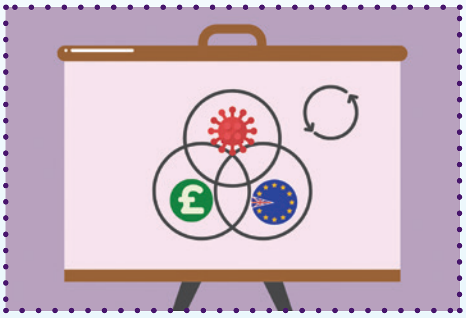
Changes at the top

The Firm is delighted to announce that it appointed Andrew Croxford as Senior Partner with effect from 1 December 2020. The former Senior Partner, David Walker, will continue as a Partner in the Firm, pending his retirement on 30 November 2021. During the next year, David will continue to work on specific tasks and focus on client service to ensure a smooth handover.

Commenting on the change Alan Mitchell, the Managing Partner, welcomed Andrew's appointment. "As David Walker approaches his retirement it was important the Firm managed this transition. During his 9 years as Senior Partner, David has managed the Firm through many changes and none more challenging than in the past 9 months during the pandemic. His leadership and commitment to clients, staff and the Firm has been outstanding. I am delighted that in Andrew we have an ideal replacement. Andrew and David have worked closely for over 30 years and share many common values and approach. I am sure that under Andrew's leadership, the Firm will continue to do what it has always strived to do which is to deliver a first class service to our clients to help them achieve their goals and objectives".

ANDREW CROXFORD
Senior Partner

PLAN AHEAD, STAY AHEAD



Many business owners found their plans and strategies thrown into chaos as a result of the pandemic. While it's hard to prepare for the road ahead when it feels like the rule book changes on a weekly basis, now more than ever, it is essential that business owners remain proactive and use their business skills to remain flexible and able to adapt as circumstances change.

Good financial planning and discipline is going to be even more crucial in the months ahead. Here are some key elements to include in your planning:

- Keep company records up to date, especially with HMRC.
- Keep staff engaged and supported, especially where individuals are working in isolation and not part of a larger team.
- Cash is king. Maintain an up to date understanding of the current and predicted cash position of the business and where issues are likely to arise, take steps to address them.
- Monitor all forms of financial support that might be available to the company and ensure any opportunities to defer liabilities are taken.
- Be fraud aware. This is particularly true when normal work practices are changing. With remote working, communication is vital to ensure that payments are checked before being made to ensure there is no fraudulent element. Make a cyber security plan.

The last nine months have been challenging for our economy and for those running businesses. If COVID-19 was not bad enough, the business community has still to understand fully the impact of Brexit. Many of the points above equally apply to Brexit. It is essential that you understand the potential impact on your business of Brexit, depending on the outcome of negotiations. Those businesses who monitor the above closely, and are quick to adapt to change, are more likely to be successful in dealing with the uncertainties posed by the future.

FESTIVE OPENING HOURS

Our offices in Dunfermline and Edinburgh will close on Thursday 24 December and re-open at 9am on Monday 4 January.

We wish everyone a safe and relaxing Christmas. 2020 has been a year unlike any other we've ever experienced and 2021 is likely to bring fresh challenges. We will be here to support our clients come what may.

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CORONAVIRUS GRANTS

Self-Employment Income Support Scheme (SEISS)

On 26 March 2020, the Chancellor announced that the Government would provide support to self-employed workers in the form of a cash grant.

The first grant being 80% of their profits, up to £2,500 per month for three months. The second grant being capped at £6,570 in total.

Is the SEISS grant taxable and, if so, in which tax year?

The SEISS grant is fully taxable and subject to income tax and Class 4 NIC.

The SEISS grant is taxable in the year of receipt (i.e. 2020/21). It should therefore be reported on your 2020/21 self-assessment tax return. It is expected that there will be a dedicated box on the SA return. Any tax arising will be payable by 31 January 2022.

Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund

In contrast to the SEISS grants, these grants were announced in the Budget in March 2020 and were to come from local councils' 2020/21 budgets. The majority of recipients would not receive their grant until after 5 April 2020.

When will these grants be taxable?

This will depend on whether the recipient prepares accounts on a cash basis or accruals basis.

For a sole trader or partnership preparing accounts on the cash basis, this income will be taxable in the 2020/21 tax year and tax will be payable by 31 January 2022.

However, for a business which prepare their accounts on an accruals basis, the government grant will be recognised on 11 March 2020 irrespective of when the amount is received.

Therefore, self-employed individuals with a year end of 31 March 2020 will need to include this grant income in their 2019/20 tax return and the tax will be due on 31 January 2021.

As the grant income can be up to £25,000, this could push an individual's profits into the next tax band for 2019/20, compared to if they had been taxed on the profits in 2020/21 when their profits have been adversely affected.

There are a couple of options to consider if the individual is caught by the above and the grant is taxable in 2019/20.

- They could consider converting to the cash basis of accounting if they meet the relevant criteria.
- Or they could consider changing the accounting year end date to ensure that the income falls into the 2020/21 tax year.

SHARE VALUATIONS IN A PANDEMIC

Recently we've received a lot of questions from clients on the topic of company valuations during the COVID-19 pandemic.

The important point to note here, is that it remains possible to arrive at a view on a value, albeit one with a wider range. Earnings based valuations of shares, for example, can be adjusted for the effects of COVID-19 but those effects cannot be entirely ignored otherwise you would likely be overvaluing the business.

As most earnings-based valuation multiples are at least partially based on recent deals involving peers, the current disruption has resulted in a lack of those comparatives.

What information we do have is also subject to question as some of those deals might well have been distressed or the sellers were in a weak position to negotiate due to liquidity issues. When combined with the volatility of the capital markets, this makes it harder to narrow the valuation range down.

When we evaluate the extent of COVID-19 impact on a business, we consider a variety of factors including, but not limited to:

- The market in which the business operates.
- Its level of reliance on external finance.
- The cost of obtaining replacement capital.
- The level of working capital required.
- The cost of store or facility closures.
- The loss of customers or customer traffic.
- The impact on distributors.
- Supply chain interruptions.
- Production delays or limitations.
- The impact on human capital.

As most valuations are on a fair value basis, this requires a valuer to assume an orderly transaction (i.e. an appropriate period and amount of marketing in advance of the transaction). As a result, we need to consider the real risk of a business having short term liquidity issues, which would mean needing to consider a distressed rather than an orderly transaction.

Finally, the market for parcels of shares is different to the market for the sale of whole companies. Buying a whole company ties up significant levels of cash which could lead to liquidity issues for the buyer leading to lower prices in general. Valuations for minority shareholdings are as a result probably less exposed to the above issues.

Outsmart the scammers!

Pension scams can be hard to spot. Scammers appear financially knowledgeable and use convincing marketing materials. Since the cold-call ban was introduced in 2019, fraudsters have become more sophisticated and the pandemic has made things easier for them as we rely less on face-to-face interactions, moving activity online.

Common scams feature 'loopholes'; unrealistic returns; high pressure tactics; high risk/high reward overseas investments; complex investment structures and long-term schemes which aren't detected for years. Fraudsters may encourage transfers to different schemes or releasing lump sums early (which can result in substantial tax bills).

Protect yourself by speaking to an independent adviser authorised by the FCA before making a change. The FCA regulates firms and individuals that provide financial advice and have a register that you can check. Don't be blindsided by smart brochures or slick websites. Ensure your advisor is who they say they are. You can report any suspected pension scam by calling 101.

https://register.fca.org.uk/s/

www.thepensionsregulator.gov.uk/en/pension-scams

www.fca.org.uk/scamsmart

If it sounds too good to be true, then it probably is! If you are in doubt about any investment 'opportunity' and would like a second opinion, contact Bruce Hendry our Head of Wealth Management at **bhendry@thomsoncooper.com**.

WHY IS COVID-19 AND HMRC'S NEW PREFERENCE A DOUBLE WHAMMY FOR CREDITORS?

The Corporate Insolvency and Governance Act 2020 introduced on 25 June 2020 is designed to provide a breathing space for businesses wrestling with the challenges and shock of COVID-19.

Among other provisions, the government legislated to temporarily prevent winding-up proceedings being taken on the basis of statutory demands, where COVID-19 has had an adverse financial effect on the debtor company which has caused the grounds for the proceedings.

No creditor is therefore able to petition on or after 27 April 2020 based on a statutory demand served in the "relevant period" of 1 March to 31 December 2020 inclusive unless,

- the creditor reasonably believes that the pandemic has not had an adverse financial impact on the debtor's business (difficult to prove to the court), or
- the debtor would have been unable to pay the debt in the normal course, notwithstanding the pandemic.

These measures alone will have serious consequences on the cashflow of all businesses, when unpaid debts in some cases could be aged nine months or older before the formal process of enforcement can begin. Unless extended again, the courts in Q1/Q2 (and beyond) next year may find themselves swamped with petitions, with significant further delays being the consequence.

HMRC will also become a secondary preferential creditor from 1 December 2020 and, therefore, all amounts due for VAT and PAYE/NIC at that date will, on an insolvency, be a priority for a company to pay, before any floating charge holder or the unsecured creditors.

So, while not being able to legally pursue unpaid debts, creditors are also faced with lower returns from corporate insolvencies with HMRC ranking ahead of them. It should also be borne in mind that the various tax deferments and other HMRC support measures will have built up significant crown debt in some businesses. Should those companies become insolvent, the prospect for any dividend for creditors will be slim, or perhaps non-existent.

ELAINE CROMWELL
Head of Business Support

Life in lockdown for our payroll team

When the Coronavirus Job Retention scheme (JRS) was announced our workload effectively doubled overnight. Our contingency plans kicked in but most of our payroll team continued to work from the offices due to keyworker status for payroll professionals. Clients were emailed updates as changes occurred and a COVID-19 Hub was created on our website. Internally, we developed processes to calculate furlough and submit clients' JRS grant claims. Long hours, weekend working and copious amounts of cross-checking ensued! To date we have calculated £9.7M of clients' job retention grants and now process over 5,000 regular payments on a weekly/monthly basis.

The lockdown has reinforced the importance of working together and sharing expertise within the firm. Being adaptable has allowed us to remain agile, work effectively under pressure and meet challenges head on.

On 31 October, the JRS was extended to 31 March 2021, and the proposed Job Support Scheme was shelved. Employers will be able to apply for a grant of 80% of employees' normal wages up to a maximum of £2,500 (but need to pay pensions and employers' NIC) until 31 January. Updates can be found at our Business Hub at **www.thomsoncooper.com**.

This latest change, while welcome in terms of financial support, once again presents serious challenges for business owners who are busy trying to get to grips with yet more rules. It serves as a reminder of the crucial role payroll plays for both employers and employees. If you are struggling to manage your payroll in-house, please contact me at **ecromwell@thomsoncooper.com**.

"WE LIVE IN INTERESTING TIMES"

The continuing COVID-19 crisis and subsequent international government response to it has had a huge impact on the global economy and world stock markets.

Investors are rightly concerned about their savings and pensions being affected by a fall in markets, but a review of history and the reason you invested in the first place may provide some comfort.

Investments should be entered into with a long-term time horizon (5-10 years +) and the importance of seeking professional advice cannot be stressed enough. Your advisor will recommend you retain an emergency reserve of cash and construct a well-diversified, balanced portfolio matched to your attitude to risk, your objectives and your capacity for loss. Once this has been defined then there should be no need to make fundamental changes when market volatility markedly increases.

During such periods, continue with your long-term investment strategy and avoid making rash decisions borne out of fear. It may be tempting to exit the market, or switch to cash, in an attempt to reduce further expected losses, however it is impossible to time these movements correctly as it is not possible to predict future movement. Being out of the market for just a few days can have a large impact on returns as markets move quicker than it is possible for investors to react and redeploy their cash.

Not all markets have performed in the same way and appropriate diversification is necessary. The FTSE 100 and S&P 500 (the American equivalent to the FTSE) have returned -22.40% and -0.51% respectively since 19 February 2020 to 04 November 2020. Compare this to the returns from 23 March 2020 to 4 November 2020, FTSE 100 : +15.88% S&P 500 : +50.58%.

All investment has risk attached and volatility is merely one aspect of this. There have been similar periods of uncertainty many times over the years which felt equally unsettling at the time. However, as quoted by well-known American, Mark Twain, "History doesn't repeat itself, but it often rhymes."

The information contained within this article is for information only purposes and does not constitute financial advice or recommendations. Thomson Cooper cannot assume legal liability for any errors or omissions it might contain. The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

BRUCE HENDRY
Head of Wealth Management

Navigating the road ahead

'You never know what's around the corner', a phrase never more pertinent than at the moment.

Who would have thought at this time last year we would now be amidst a global pandemic? Causing tragic loss of life for some; and loss of livelihoods for many others, leading to job losses, business closures, and the inevitable build-up in personal debt.

While some government help has staved off creditor action, for now, there will undoubtedly come a time when all that ends.

While this may seem a bleak outlook, all is not lost. In Scotland, there are several options to help individuals, sole traders and partnerships deal with problem debt.

A moratorium – can be put in place to stop creditors from taking action for six months under current emergency legislation.

The Debt Arrangement Scheme (DAS) – allows you to repay your debts over several years, freezing interest and charges and protecting assets.

A Trust Deed – an agreement between you and your creditors to pay back an affordable amount, usually over four years. There is an element of debt relief. Assets may be at risk.

Bankruptcy – involves transferring your assets into the care of a Trustee; appointed to pay off your creditors as far as this is possible. If able, you would expect to make a contribution for four years.

These may all sound daunting, but our team of experts can make the process easier and help you find the right solution.

Whatever happens in the next few months we know that 'what's around the corner' is something we can't change. But we can help each other today.

AND FINALLY

"Hope is being able to see that there is light despite all of the darkness."
DESMOND TUTU

"Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence."
HELEN KELLER

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