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pbaaccountants
proactive business advice

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Welcome to your June newsletter. This month, we weigh up the benefits and pitfalls of employing contractor staff for your business. Elsewhere, we look at how advisory fuel rates work and what important records you need to obtain when reclaiming VAT.

Meanwhile, with recent figures showing firm insolvencies were on the up in the first quarter of 2012, we outline a short business health check to minimise the risk of insolvency. Finally, in Your Money, could you be in line for an early refund – or bill - from the taxman?

Contractor vs. permanent staff - the pros and cons.

The number of temporary agency contractors has risen sharply in recent years, with over a quarter of a million contractors now working in the UK; the majority of whom work in the private sector. Businesses may stand to gain from using contractors to carry out short term work, or when specialist skills on specific projects are required, however, it's important to weigh up your options before taking on a contractor.

Pros

- Flexibility - you can hire a contractor as and when your business needs fluctuate
- Specialist skills – one off jobs which require specific expertise can be solved through contracting
- Fast turnaround – contractors can start at short notice and work for short periods of time, even if larger numbers are required
- Less admin – you normally have no PAYE or national insurance requirements for contractors. Temporary – easy to obtain temporary cover for staff who are away.

Cons

- Cost - it could cost your business more to hire a short term contractor than recruit a new employee.
- In house skills – outsourcing doesn't let your own in house staff learn or acquire new skills
- Existing employee resentment – permanent staff may begrudge contractors being paid more for doing similar work.
- Work ethic – some contractors may not appreciate your personal business culture, lack motivation or commitment.
- Tax implications – contractors or subcontractors have different tax implications and it's important to know your responsibilities. It is important to discuss this with us.

We can help with management and tax responsibility regarding contractors. Please contact us to find out more.

Company car advisory fuel rates and reclaiming VAT

HMRC first published advisory fuel rates in 2002, allowing businesses to reimburse employees for work related travel, or when employees are required to repay the cost of fuel used for private travel, in company cars.

HMRC allows businesses to reclaim the VAT element on fuel mileage allowances, as long as they are close to its own set fuel mileage rates. The rates reflect average fuel costs at the time they are set and are reviewed four times during the tax year - please contact us for the most up to date rates. Employers may continue to use either the previous or new current rates for one month after the date of change.

Businesses wanting to reclaim VAT on mileage must retain the following records:

- The distance (mileage) travelled, and whether the journey was business or private.
- The vehicles engine size in cc
- The rate of mileage allowance.
- The amount of input tax claimed.

We can help with reclaiming VAT. Please contact us.

Business health check – minimising the risk of insolvency

Figures from the Insolvency Service last month indicated that the number of company insolvencies increased in the first quarter of 2012, with more than 4,000 firm liquidations. Despite the number of personal insolvencies decreasing, it is claimed that most business insolvencies occur as a result of management missing key indicators.

Impending problems which could lead to insolvency include:

- Businesses taking longer than six weeks to collect payment from debtors
- Increasing credit to, and working with, key debtors
- A growing amount of work-in-progress which is not billed on time
- A shrinking/reducing bank balance
- Little control over, or knowledge about, costs
- Rising stock levels but static sales
- Being involved in contract disputes
- Late payments (more than a month) to HMRC.

In many instances, these problems can be rectified, but early intervention is paramount. This could include an immediate cash management plan and a recovery plan, both of which will build confidence with stakeholders such as banks and suppliers who need to be reassured you are taking appropriate measures.

Of course, best practice would be to implement preventative measures from the outset. This could include creating a business plan, regular account audits, professional management reviews, performance projections and cash flow forecasts and closing monitoring costs as well as sales. These are all aspects in which we can assist.

We can help you minimise the risk against business insolvency. Please contact us to see how we can help.

YOUR MONEY

Are you in line to receive an early tax refund - or bill - from HMRC?

HMRC's annual automatic review, or 'reconciliation process', which calculates whether individuals have paid the correct amount of tax through its Pay As You Earn (PAYE) service is now underway, nearly two months earlier than usual; leaving millions in anticipation for a tax rebate, or a nasty surprise for those who may owe the tax man.

HMRC estimates that around 3.5 million taxpayers may have over-paid tax and could potentially be in-line to receive an average rebate of £379. Alternatively, around 1.6 million individuals may have underpaid tax and will owe an average of £537 to the tax man.

These errors may have occurred if your circumstances have changed during the past tax year; if you have changed employment, had gaps of unemployment or multiple jobs or pensions which affect your tax free allowance, and if you have received benefits in kind through your employer which may have changed.

Those who have paid too much or too little tax will be contacted by HMRC via post from May through to October 2012. Automatic repayment will be made to those who have overpaid, while HMRC will usually automatically recover any underpayments through the PAYE system in instalments over the coming year.

June's Money Facts

Current bank rate	**0.5%**
Quantitative Easing Scheme	**£325 billion**
Current inflation	**3%**