Optimum
delivering versatile solutions

Nuntium

APR-JUN 2024
ISSUE 17

As we speed into Spring and, hopefully, some drier weather, we ask: could your business benefit from using management accounts? Also, did you know, there is never a better time to file your tax return? We look at the tax efficiency of electric company cars, and explain the different types of home ownership. Finally, we also introduce our new charity of the year.

What are the benefits of management accounts?

Do you create management accounts for your business? If so, do you make full use of them?

Most people have heard of management accounts but not all businesses use them. Management accounts are financial reports produced for business owners and directors, usually on a monthly or quarterly basis, and will generally include a profit and loss (P&L) account and a balance sheet.

They are very like end-of-year accounts but less formal, more tailored and the major benefit is their frequency, so business owners and directors can know in real time how the business is performing, rather than waiting until the end of the year.

Sitting down and talking through management accounts provides an opportunity to make decisions on changes that should be made to rectify any issues.

Here's an example. If margins are being eroded, management accounts will make this clear immediately. If, by contrast, this is only spotted when end-of-year accounts are produced, think how much profit has been lost and how much could have been clawed back if changes had been made the minute the problem arose.

Management accounts also provide a great opportunity to compare performance on a year-on-year, quarter-by-quarter, or even month-by-month basis. Delving into why changes have taken place – why profits are up, or down – will help inform what should happen next.

Increasingly, we have clients who are asking us to produce management accounts, which are particularly useful for fast-growing businesses. We sit down with the figures – whether monthly or quarterly – and go through them with a fine-tooth comb, interpreting the information and acting as a trusted adviser to the business owner, focusing on their forward journey.

For example, we have a new construction client who has now opted to look at his management accounts with us. We've spotted volatility in his margins, which was due to missed invoicing.

This can now be rectified and the invoices issued in a timely fashion rather than waiting until this is highlighted at the end of the year. If you would like to talk to us about producing and analysing management accounts, then get in touch with the team.

You can read more about the benefits of management accounts **on our website,** or watch the **'Knowing your business' episode of Optimum Live!**

NEW YEAR, NEW CHARITY – helping our community

Every year, the team at Optimum support a local charity, as we feel it is important to give something back to the community we work in – plus, it gives us an excuse to have some fun!

For 2024, we will be raising funds for Doing It For Dan, a Swindon-based charity which provides grants for sports related items like equipment, kit, coaching and club fees, helping young people to achieve their sporting dreams.

It was set up in 2016, in memory of 11-year-old Daniel Climance. Dan's Mum and Chair of Trustees, Helen Hancock, said: "We are absolutely delighted that Optimum has chosen to support Doing it for Dan this year and look forward to working with their fantastic team to raise both awareness and funds, which will enable us to support more children and young people locally with sporting activities.

"As a small charity, we are entirely reliant on donations and we are looking forward to an exciting year of fundraising ahead!"

Last year, we were fundraising for mental health charity Swindon & Gloucestershire Mind, and raised £825. On top of that, our Payroll Manager Liz Grange raised an incredible £4,000 for the charity, when she completed an ultramarathon.

Over the years, we have raised thousands for local charities, and are looking forward to 'Doing it for Dan'.

HOW TAX EFFICIENT ARE ELECTRIC COMPANY CARS?

Whenever cars (be they electric, hybrid or petrol/diesel) are provided to employees or the director of an owner/managed business they are regarded as a 'benefit in kind'.

To work out what tax you will pay, you need to know the car's market value, the emissions, and the rate of tax (which is determined by the emissions). The final step is then your marginal rate of tax to be applied.

Take the cost of the vehicle when it's new (i.e. not what you pay but the agreed list price), then look at HMRC's emissions table for the emissions of the vehicle and this will give you the benefit in kind. Once you have the benefit in kind figure, you can work out what tax you will pay on this.

Remember to take into account whether adding the benefit in kind to your salary takes you into the higher rate tax bracket.

Higher emission cars are deemed a higher benefit in kind, and therefore incur a higher tax rate. This is intentional on HMRC's part, as it is trying to push car owners towards low or zero emission cars.

A car with low or zero emissions incurs a far lower tax liability, because the benefit in kind and the tax rate is much lower. The current tax rate for electric cars is 2 per cent. This is going up to 3 per cent for 2025/26, and will continue to rise by 1 per cent each year until 2028.

You can read more about tax and electric vehicles on our website or watch this episode of Optimum Live!

New tax year: now's the time to file your return

We're just into the new tax year, so if you are in self-assessment there is no better time to get ahead and file your tax return for 2023/24.

Although the deadline for filing isn't until January 31st, the earlier you complete your return, the sooner you know what your tax liability is.

It is especially important to get your return in early if your income has taken a dip. This is because your tax payment on account is based on the previous year's earnings. If you complete your tax return ahead of July, then you can ask HMRC to reduce the payment on account to reflect your drop in earnings.

But beware. If you reduce the payment, and you pay too little, you may incur interest on the tax owing.

How much should you put aside for tax?

The amount you need to put away varies from person to person. For example, it will be different whether you are a basic or a higher rate tax payer. It also differs between different types of income.

Employment income and rental income will be taxed at 20 per cent for a basic rate taxpayer (40 per cent for a higher rate taxpayer). Dividend income is taxed at 8.75 per cent basic rate (33.75 per cent for higher rate). You may also need to put away money to pay off a student loan.

One thing to think about is Child Benefit. Once you start earning over £60,000 annually, you start paying back Child Benefit. Once your income reaches £80,000, you need to pay back your entire Child Benefit entitlement.

If you are in paid employment and pay your tax on a PAYE basis, do not assume you won't get drawn into the self-assessment system. Looking again at Child Benefit: if your income goes over £60,000 but you receive Child Benefit, you may well be asked to complete a self-assessment form and repay the tax owing through the self-assessment system. Similarly, if you are sitting on a lot of savings, you may need to complete a tax return.

If you would like help with your tax return, then please get in touch with our team.

Joint tenancy or tenants in common: which is best?

If you are buying a property with another person, or several people, one important legal decision you must make is whether you will own the property as joint tenants or tenants in common.

While this sounds very legal and technical, in practical terms, we are referring to the actual value of the property – the beneficial interest. After all, we don't physically move the house itself when we sell! Joint tenancy and tenancy in common deal with who owns the monetary value and how.

Owning a property as joint tenants - Under the rules of joint tenancy, the interest is not divisible, there is one 'share' owned jointly.

The key characteristic of joint tenancy is the right of survivorship. This means that if one joint tenant dies, their share automatically passes to the surviving joint tenant(s) without the need for probate.

Joint tenants cannot separately dispose of, or mortgage, their individual shares in the property. Each joint tenant has an undivided interest in the entire property. If you are a joint tenant you cannot leave your interest in the property to anyone else in your will.

Owning a property as tenants in common - As tenants in common, each tenant has a specified share of that property. This may not be an equal share.

In the event that one of you dies, their portion (or your portion, if you have died) passes to the beneficiaries of the will.

If you are a couple, it is likely that you will want your share to pass to your partner, but this must be specified in your will. If you don't have a will, your estate – including your share of the house – passes to whoever is deemed to be your beneficiary. When that person inherits the share of the property, they may decide they want to sell up. This demonstrates how vital it is to make a will if you are buying a property, particularly if you are buying with someone other than a spouse.

It is also strongly advisable to draw up and sign a declaration of trust when buying a property as tenants in common. This sets out the details of the ownership, and can also include information about what you or your partner would like to happen if one or other of you wants to sell.

You can read more about the pros and cons of different types of property home ownership on our website.

For more information about Optimum's services please email info@optps.co.uk or visit www.optps.co.uk. To talk to the team, call our Swindon office on 01793 538 198 or our Cheltenham office on 01242 384 936. Our offices are at Vicarage Court, 160 Ermin Street, Stratton, Swindon, SN3 4NE and The Site, 24 Chosen View Road, Cheltenham, GL51 9LT.