in focus

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IN THIS ISSUE

Creating Sustainable Cost Reduction Through Organisational Design

In an increasingly complex and competitive environment, a critical success factor for any organisation (regardless of size, sector or geography) is the ability to adapt their structure, systems, processes and people to consolidate existing markets and move into new ones. In assessing what gives organisations a competitive edge over rivals, organisation design is instrumental in helping organisations realise their strategic ambitions. It has been demonstrated that the process of aligning structure, strategy and execution – in other words organisation design – creates significant competitive advantage.

Reaching a strategic vision or strategic objectives is not always the priority for some organisations; sometimes it's a little bit more basic than that – it can be about keeping the head above the choppy waters of our current climate by controlling costs.

In today's climate of relentless pressure on costs and a changing workplace, successful organisation design is also a key factor in allowing an organisation to make the right cost savings in the right places at the right time. The organisation that imposes across the board cuts achieves little more than breathing space.

In a recent KPMG global survey, on average companies undertaking cost reduction are only achieving 59% of savings, with only 8% of respondents reaching their target reduction. This means that a staggering 90% of companies are not realising their cost reduction target. In a Baker Tilly Mooney Moore survey of clients – only 63% of companies achieved cost reduction benefits in Year 1 and only 30% of organisations maintained cost reduction benefit after three years.

The reason for failure to maintain cost reduction? In our experience there are a number of factors;

- Cost reduction by their very nature 'sap' organisation morale and culture and managers have little appetite to redress this, so quick gains are quickly forgotten as the organisation reverts to its set point
- As soon as evidence appears of cost savings, management tend to revert to type and rather than trimming their empire, they seek to expand their role, thus pushing costs up again
- Cost cutting tends to be born at times of economic hardship or necessity, so with slight upturn, the focus on cost gets lost
- Finally it is our experience that when making cost savings, those decisions are not based on hard data – the organisational intelligence is not as strong as managers think and consequently cuts are made in the wrong places. Once this is uncovered it's too late and requires investment again to replete what has been lost (is usually people and their knowledge/skills).

To make savings 'stick', creating 'transformational change', requires a long term structured approach to cost reduction with a focus on embedding a culture of change and management of continuous improvement.

From an organisation design perspective, re-design and re-structure are often bywords for 'cutting overheads', which is to some extent true. However in taking a more transformational approach to organisation re-design, organisations can achieve real, transformative change with a sustainable handle on costs.

Organisation design essentially is a 'process of configuring structures, processes, reward systems, and people practices to create an effective organisation capable of achieving business objectives'. Organisation design is therefore a useful tool for organisations to use when facing up to the challenges of today.

Tied to the ongoing theme of cost reduction, organisations should be aware (surely they all are!), that the future context of work is changing.

- The environment has changed – extreme volatility in the global and national context
- The workforce has changed – baby boomers are retiring; staff are more mobile, more conscious of their 'worth' and usually have a plan B. Younger generations staying shorter periods in organisation – no loyalty to brand
- Digitalisation of work and reliance upon technology
- How and where work gets done is changing.

This requires a whole new approach to how organisations are designed and how work gets done. The traditional model of people occupying a specific physical space during a specific number of hours per day is being replaced by a more fluid, digital based and empowered approach to work, where workers take control and where the definition of management is changing.

How your organisation carries out its work, whilst at the same time implementing sustainable cost reduction is the future.

In taking an organisation design approach to managing costs and adapting to a new world of work, we suggest;

- Identify your cost drivers
- Identify your areas of opportunity and growth
- Understand the difference between discretionary and operational spend
- Know your people through excellent HR metrics
- De-layer your management layers to create a flatter structure
- Consolidate and merge like-minded units
- Re-configure processes and systems to avoid duplication
- Re-define your workflow
- Re-scope your job roles to standardise similar roles and identify inefficiencies.

Fundamentally, organisations are made up of people – they are therefore living organisms and not prone to static. In our experience any organisation, system, procedure or individual left undisturbed for three years will become inefficient; equally we also know that workers over elaborate rather than simplify their work. As an organisation you need to get a handle on who does what, why they do it, how they do, who they do it with and why? If you can answer these questions for everyone employed in your organisation, you are at the start of a marvellous journey of understanding your organisation design and identifying cost reductions that might just stick.

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Buy to Let Tax Changes – A Reminder

A number of measures were announced in the July 2015 Budget by George Osborne and David Cameron as part of their 'one nation' government to reward hard working people and to ensure they can enjoy the benefits of home ownership. Some of these measures were focussed on increasing the supply of residential stock, including the unlocking of public land for development and changes to planning rules for SME builders.

The main budget announcements affecting the residential property market were:

- the increase of stamp duty by 3% for the purchase of a second home from April 2016;
- the removal of the 10% wear and tear allowance from April 2016;
- the restriction of tax relief on interest for buy to let landlords being phased in from April 2017;
- the reporting and payment of capital gains tax on a disposal within 30 days. This acceleration of the tax payable will apply from April 2019.

The restricted tax relief will be phased in from April 2017 and by 2020/21 landlords will only be able to claim basic rate tax relief on the financed costs incurred. Finance costs typically include mortgage interest, but also include interest on loans to buy furnishings and bank arrangement fees and charges.

As expected the market reacted to this additional charge with volatile pricing and a large rise in the volume of property transactions in February and March 2016. House prices increased by 2.2% in March 2016 alone and were then reported to have fallen by 0.8% in April 2016.

Those landlords that have suffered the additional stamp duty charge have been attempting to pass on the increase in their 'cost' by increasing rents rather than pulling out of the market.

If this is the case, Cameron and Osborne's attempt to temper the residential market may be a policy fail and have the effect of those hard workers that already cannot afford to buy a home, starting to be priced out of the rental market too.

Potential Solutions

As the new rules only affect residential properties, if you have a mixture of residential and nonresidential properties in your property portfolio, you may wish to consider moving borrowing away from the residential properties and borrow instead on the nonresidential properties. You will then be able to obtain full tax relief on the finance costs incurred. However, the change in borrowing may result in mortgage early redemption penalties and further bank arrangement fees, which you will need to consider and take into account. Alternatively, with careful exploration, incorporation may be advantageous with the rental properties being transferred into a corporate shell paying corporation tax at 19% from 2017 and 17% from 2020. Careful consideration will need to be given to potentially significant stamp duty land tax (SDLT) and capital gains tax (CGT) charges, which may arise as a result of the transfers, but also how to efficiently extract the profits from the company.

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HMRC to Review Trading Test for Entrepreneurs' Relief

Entrepreneurs' relief is a very important CGT relief – it allows business people to sell their shares and suffer just a 10% tax rate rather than the normal 20% (previously 28%). It is a very generous relief and very important if you are thinking of either selling your business or retiring. It has been publically scrutinised by the Public Accounts Committee in the past given the tax "loss" it creates.

It is only available for shares in companies that meet the qualifying conditions. One of these is that it must not just be carrying on a business (i.e. holds some buy to let properties) but is a full trading company. The now former Chancellor announced in the Budget earlier this year that a review of the trading test for Entrepreneurs' relief was to be conducted.

The issue was that the current definition of trading looks at the activity of the company or group rather than the nature or use of the assets. So, let us take a company whose business it is to sell flowers, which has £750,000 sitting in a bank account from selling its old shop ten years ago to a property developer. However, they carry on selling flowers from a much smaller rented shop as the owners do not want to retire yet. It currently falls to be a trading company for entrepreneurs' relief purposes; however, the value of the shares will be predominantly derived from the sizeable cash balance.

Whilst this might be an extreme example, there are many Owner Managed Businesses that will have built up cash reserves from their trading activities over the years and have not distributed them both to be prudent in these uncertain times but also in the knowledge that when they sell or wind up the business when they retire, they will pay Capital Gains Tax at just 10% rather than the much higher income tax rates (up to 45%) if they take the money out as dividends or salary.

We have obtained information that HMRC is considering alternative options with regards to the trading test such as an apportionment of the gain between trading and non-trading assets held in the business or a binary test such that if non-trading assets exceed a certain percentage, no relief will be available.

HMRC will face challenges in finalising the details as liquidations, seasonal businesses and other businesses that need to retain large cash balances pose problems in the way legislation might be drafted and how it is then applied in practice.

However, if your company does have large cash balances which may have arisen over the years for which no compelling business reason exists for it being retained in the company, you may wish to take advice on the potential consequences to your ultimate CGT bill and steps that you could take to reduce this. This would be a valuable exercise, anyway, as "too much" cash could affect another valuable relief – Business Property Relief – which reduces the IHT bill on your business in some situations.

If you think these matters could be a problem for you (for, although it could be argued that you can never have too much cash, HMRC would disagree), please contact us.

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Some 10 VAT Tips for New Developers

We've compiled a number of VAT tips for new developers below. The list is not exhaustive and as always you should seek professional advice specific to your circumstances.

1 A builder involved in constructing new dwellings from scratch in most cases should charge the zero-rate of VAT on their services. Even if they are VAT registered the bill for their services should show VAT at 0%.

2 If the same builder also buys the building materials that they install, then the onward charge to the developer for those materials will also be subject to VAT at the zero-rate.

3 Architect and surveyor fees are usually charged with VAT at 20%, but using a 'design and build' company to provide these services allows them to be subject to the same VAT rate as the building works, potentially reducing the VAT on these services down to zero.

4 When renovating an old residential building, it's good to know that if it's been empty for 2 years or more, the works should qualify for VAT at the reduced rate of 5%. Sometimes it's worth postponing the works for this very reason. The builder will not necessarily know this and may need you to guide them.

5 Similarly, the works involved in converting an old pub, barn or other commercial property into residential units should be subject to VAT at 5%.

6 It's possible to 'dis-apply' the VAT on a commercial property purchase if you intend to convert it to residential units. This is done by submitting form VAT1614D to the vendor prior to agreeing the price.

7 If the vendor is strongly opposed to the disapplication, keep in mind that you may be able to recover the VAT charged on the purchase if you plan on selling the new residential units, or granting long leases in them.

8 It's not usually possible to recover the VAT on a conversion or renovation, if both before and after the works; the building was residential in nature. However, if an old residential property has not been lived in for 10 years or more, the VAT on works is recoverable if the plan is to sell the new units or grant long leases in them.

9 If you are not developing new property in the course of business and want to construct or convert something for your own personal use, there is a DIY refund scheme that endeavours to put self-builders on an equal footing to commercial developers.

10 Watch out as there are conditions and exceptions associated with the tips above, so it's always good advice to seek advice.

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Making Tax Digital – Simple Assessments

HMRC's vision of the future is that all dealings with tax payers and agents will be digital.

As a first step in this process, the 2016 Finance Bill contains clauses for the introduction of a new system of Simple Assessment for taxpayers with "straightforward" affairs. Straightforward means where HMRC already hold all the information they need to calculate an individual's tax position without the need for any further information to be supplied on a tax return. The idea is that this will remove many people from the self-assessment system.

The new provisions will enable HMRC to issue these taxpayers with an assessment (a simple assessment) showing the information which has been used to calculate the tax and the amount of tax payable. It will then be up to the taxpayer to tell HMRC if they think the assessment is incorrect. HMRC will then confirm, amend or withdraw the simple assessment. If you cannot reach agreement you will have a period of 60 days to lodge a formal appeal against the assessment. However, HMRC hope that it will be possible to settle most queries at the query stage without the need to go through the formal appeal process.

The system applies from the 2015/16 tax year onwards, the first simple assessments will start to be issued in April or May 2017. Simple assessment is intended to cover income and capital gains, although how HMRC will obtain the information to enable them to correctly assess capital gains tax due on things like shares which have been held for many years, is yet to be seen.

The payment dates for the tax assessed under simple assessment will be the same as under self-assessment i.e. 31 January following the end of the tax year. In addition, the same interest and late payment penalties regime which currently applies to self-assessment is also likely to apply to simple assessment, although the legislation is not yet in place.

HMRC's press release on simple assessment states that *"the main benefit for individuals will be an improvement in the customer experience. In particular these customers no longer need to complete a Self-Assessment tax return." It goes on to say that "The Simple Assessment will reduce the need for customers to contact HMRC because they are experiencing difficulties completing their tax return" and "this measure will reduce the number of customers who incur a penalty or have to pay interest because they have not sent a return in on time".**

We are aware of many instances at the moment where HMRC is unable to correctly tie up PAYE and self-assessment records for our clients, resulting in incorrect tax calculations and, in some cases, incorrect tax repayments being sent to clients. Undoubtedly, HMRC will have improved their systems by next year. However, we would suggest that anyone who receives a simple assessment next year should check it carefully to make sure it is correct rather than just assuming that it is.

If you have income or capital gains which are not included on the simple assessment, the onus is on the taxpayer to ensure that this income is declared to HMRC in the normal way. Non-declaration will result in the same exposure to penalties as under the self-assessment regime.

Trying to bring simplicity to one of the most complex tax codes in the world is laudable and time will tell if simple assessment will prove to be so simple.

** Source: gov.uk*

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Lorraine Named as one of NI's most Inspiring Women

Lorraine is pictured receiving her award from Keynote Speaker Dorothy McKee

Tax Manager Lorraine Nelson has been named as one of the Business First Northern Ireland's Top 20 Most Inspiring Women.

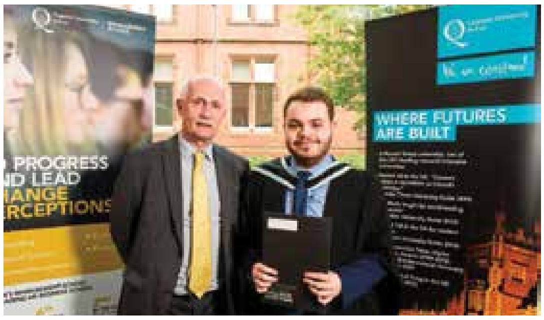
Open nominations for the awards were gathered in June with 10,192 votes cast in a public online vote. Business First managing editor Gavin Walker explained "Unlike many awards, the Business First Northern Ireland's Top 20 Most Inspiring Women was driven by the Northern Ireland public. From the start we – along with Awards sponsors MGMPR Ltd – wanted to give men and women from across Northern Ireland the opportunity to vote for the women they felt were the most inspirational based on their own experiences."

At the age of nine Lorraine lost her mother in a tragic car accident and found herself taking on more responsibility at home, helping out with her younger sisters and domestic life. Focused on a career in accountancy and after starting her own family at an early age, she began studying for the Accounting Technicians qualifications at night, working in a full time job during the day. With an Accountancy Training Contract secured, she qualified as a Chartered Certified Accountant. Keen to specialise in tax she joined a Belfast firm, gaining significant experience and qualifying as a Chartered Tax Adviser. This year Lorraine joined Baker Tilly Mooney Moore's growing tax team as Manager and has recently passed the Chartered Institute of Tax's Transfer Pricing Exam.

Anne Fitzpatrick at the World Bridge Games

Tax and Audit & Assurance Partner Anne Fitzpatrick represented Ireland at the World Bridge Games in September.

Queen's University Prize Presentation



John O'Rourke presents Paul Devlin with the Baker Tilly Mooney Moore award for the best student in Issues in Not-for-Profit and Public Sector Accounting at Queen's University.

Brexit Planning Guide

In light of the Brexit vote our Planning Guide looks at the impacts for businesses and how you can put in place plans to minimise risk and maximise opportunities. To order your free copy of the Brexit Planning Guide please email janecampbell@bakertillymm.co.uk or Tel: 028 9032 3466.

The Executive Insights Series

Led by Consulting Partner Donal Laverty, the Executive Insights Series aims to provide thought provoking, stimulating updates drawn from best practice, current thinking and emerging trends. Future events include:

24th November - The Healthy Board – Hallmarks of an Effective Board
19th January 2017 - The Impact of Leadership on Successful Organisation Transformation.

For more information please contact donallaverty@bakertillymm.co.uk or janecampbell@bakertillymm.co.uk
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Business Eye First Trust Bank Small Business Awards

Congratulations to SPAR Ardoyne & SPAR Landscape for winning the Community Contribution Award. Gavan Wall is pictured (left) receiving the Award.

Peninsula Care Services Won Healthcare Business of the Year and John O'Rourke is pictured presenting the award to Doreen Bingham, Johnny Cook and Rosemary Watson.

Slim's Healthy Kitchen Founder Shortlisted for UK Business Award

Gary McIldowney, the founder of healthy eating restaurant Slim's Kitchen, was selected from over a thousand entries to make the shortlist of the Emerging Entrepreneur of the Year at the UK Private Business Awards.

The awards celebrated the contribution of private businesses to the UK economy and reflected the increasing diversity and innovation in the private business landscape across a diverse range of sectors.

Slim's Healthy Kitchen was set up in June 2013 on Belfast's Lisburn Road with the aim of revolutionising the eating habits of the general public by offering a healthy alternative to fast food. In three years the business has grown significantly employing in excess of one hundred staff and operating at four locations in greater Belfast; Lisburn Road, Victoria Square, Belmont Road and Dundonald Omnipark.

Baker Tilly International Named Network of the Year

Baker Tilly International has been named the winner of the prestigious Network of the Year Award at The Accountant & International Accounting Bulletin (IAB) awards 2016.

The annual Accountant & International Accounting Bulletin (IAB) awards celebrate excellence in the accounting profession and bring together some of the most prominent people in the industry.

The IAB Network of the Year is awarded to networks that have demonstrated the execution of profitable growth strategies during the past 12 months and have excelled in a number of key strategic and operational areas. They are also recognised by the industry as a reputable brand that consistently delivers high quality professional services.

Desmond Mooney, Chairman of Baker Tilly Mooney Moore with Geoff Barnes, CEO & President of Baker Tilly International

CEO and President of Baker Tilly International Visits Belfast

The world's eighth largest network of independent accounting and business advisory firms, Baker Tilly International has 165 members in 141 countries. Desmond Mooney, Chairman of Baker Tilly Mooney Moore said "We were invited to join the Baker Tilly International network in 2003 and it has been tremendously important in our firm's development. Through this truly global network we collaborate with experts around the world to deliver exceptional services to our clients' changing needs."

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