Autumn 2022
Financial and business intelligence

Time to buckle up

It could be a bumpy ride ahead, but preparation will help to smooth the way

shipleys LLP

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Sole trader vs limited company for company directors
PSAs and employees' entertainment benefits
Covid rent arrears deadline
Buying and selling overseas property
R&D tax relief changes
HMRC gets tough on off-payroll working
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Shipleys LLP is a firm of chartered accountants and business advisers. *Shipshape* is our regular newsletter for clients and contacts.

If you have any suggestions for topics you would like to see covered in *Shipshape*, or have any comments about its content, please contact Gilda Rochester at our London office.

T +44 (0) 20 7312 0000
E rochesterg@shipleys.com

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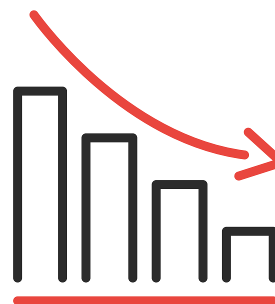
deadline for paying income tax and national insurance owed under a PAYE Settlement Agreement (PSA)

new repayment term for student loans, beginning 2023

deadline for businesses with rent arrears due to Covid to arrange repayment terms



3.0% – fall in regular pay between June 2021 and June 2022

8.75%

basic tax rate on dividends over the income tax allowance for 2022/23

Viewpoint: Steve Foster
020 7312 0000 • FosterS@shipleys.com

Rising to the challenge (again!)

I hope you were able to enjoy the sunshine and warmer temperatures this summer. On a positive note, the season also saw live events return to their full, pre-pandemic glory such as festivals, the Commonwealth Games and of course the wonderful result of the Lionesses in the UEFA Women's Championship.

It's a bit of an understatement to say much has happened since my last viewpoint! As I write, it's still unclear who will replace Boris Johnson as Prime Minister. This uncertainty, the deepening cost-of-living crisis and the Bank of England inflation forecast in August (suggesting the year closing at just over 13%) mean, once again, organisations and individuals continue to face tough times.

Retaining talent

Post-Brexit and the pandemic, the reduced labour pool meant that in early summer record levels of vacancies were unfilled, but early signs suggest this may be slowly changing. What is clear is that wages are struggling to keep up with inflation. In August, the Office for National Statistics reported an earnings growth increase of 4.7% in the three months to June (excluding bonuses). However, factoring in inflation, this left regular and total pay down. The former dropped 3.0% year on year – a record fall.

For many of the organisations we support, having the right amount and quality of talent is paramount to their operations. Most feel pressure to increase wages to retain and help staff, but this can be difficult given other rising business costs. 2022 may be remembered for the start of 'cost of living' bonuses.

Back in December we listed tax-efficient tips on how to help incentivise staff and they are still relevant – see *https://tinyurl.com/55tya8rf*. On page 2 of this issue, we've also explained the PAYE implications of staff incentives – particularly for training and entertaining.

Keeping your eye on the radar

In recent Shipshape editions we have emphasised the importance of keeping a close eye on your organisation's financial position. Looking ahead in light of the Bank of England's recession forecast, this will remain a top priority.

At the very least we urge our clients to review their accounts quarterly, and we can assist if required. Do also chat to your Shipleys contact for help with financial reports for forecasting. With our many contacts in different financing organisations, we can also make introductions where needed.

The more you can prepare for challenges, the better you'll cope. On page 9 our business club members have shared tips on how to help your business get financially fit. We've also compared options for directors' remuneration ahead of the proposed corporation tax increases (page 3) and explained changes to research & development tax credits on page 6.

Property plans

Property is often the key asset of our private and business clients, and the tax and compliance issues surrounding it are complex. Something we're asked a lot about is selling and buying overseas property if you're a UK resident. We've supplied some answers on page 4.

For our business clients, there's a reminder on page 5 that the commercial property rent arrears protection put in place during the pandemic comes to an end in September, while on page 7 we've summarised how investors can pay zero VAT and less stamp duty on property transfers.

Tightening the purse strings

The shape of the autumn Budget will of course depend on the Conservative party leadership contest. Over the summer, pressure has been on Liz Truss and Rishi Sunak to explain how they'll tackle the cost-of-living crisis, with each suggesting different approaches. This is a major issue which requires solutions that support people in the short and longer term if there is to be economic stability.

Personal finances are being hit from many angles and not just by rising energy, interest rates and food costs. For our clients with children and grandchildren, we've summarised the forthcoming changes to student loans (page 10). On the same page, there's an explanation of the impact of inflation on defined benefits pensions schemes.

With you every step

Shipleys is always focused on helping our clients to thrive. In difficult times that often means helping our clients to successfully navigate challenges, so please do contact us if you or your business needs support and advice. Remember, we are here to help.

Steve

Using PSAs for more tax efficient employee entertainment benefits

An increase in staff social and training events could mean employees pay more tax – but employers can pick up the bill if they use a PAYE Settlement Agreement (PSA).

Employers must ensure they're fully up to speed with PAYE Settlement Agreements (PSAs) if they're to avoid leaving their staff with an unexpected personal tax bill.

Interest in PSAs has increased significantly because of a recent trend for employers to provide more employee entertainment benefits, usually in the form of social or team-building events.

As businesses move to agile working arrangements, with staff spending less time at the office, some employers are understandably putting on multiple staff team-building events. While a traditional annual Christmas party, for example, is exempt from tax if it costs £150 or less per employee, staging several staff events in one single year is likely to exceed exemptions and be taxable as employee entertainment benefits.

To sidestep adding to employees' income tax liabilities and national insurance contributions (NICs), increasing numbers of businesses are picking up the bill for these entertainment benefits themselves by taking advantage of PSAs.

Misunderstanding over PSA deadlines

However, some firms are missing out on this opportunity owing to PSA deadlines. Crucially, to make use of a PSA, businesses must first get approval from HMRC and the deadline for applying for a PSA is the 5 July following the first tax year it applies to.

After getting the go-ahead from HMRC, businesses must then report and pay any tax and national insurance owed by 22 October after the tax year the PSA applies to (19 October if you pay by post). Once HMRC has approved a PSA, it remains in place until the business or HMRC want to make a change to it.

Expenses or benefits that qualify for a PSA

A PSA doesn't just cover entertainment benefits for employees. It allows a business to make one annual payment to cover all the tax and national insurance due on "minor, irregular or impracticable expenses or benefits for your employees". However, a PSA will not include wages, or other cash payments, and high-value benefits like company cars.

Staff entertainment often comes under impracticable expenses or benefits, which are defined as difficult to place a value on or apportion between individual employees. It can also qualify as a minor expense or benefit if it is a ticket to an event.

Other minor examples are:

- incentive awards, for example, for long-service
- telephone bills
- small gifts and vouchers
- non-business expenses while travelling overnight on business that are over the daily limit.

Qualifying irregular expenses or benefits are those not paid at regular intervals over the course of a tax year. Examples include:

- relocation expenses over £8,000 (these are tax-free below £8,000)
- the cost of attending overseas conferences
- expenses of a spouse accompanying an employee abroad
- use of a company holiday flat.

Businesses that succeed in getting a PSA for qualifying expenses and benefits will not need to put them through payroll to work out tax and national insurance. They also won't pay class 1A NICs on them at the end of the tax year as they will pay class 1B NICs as part of the PSA instead. In addition, items covered by a PSA will not need to be included in a business's end-of-year P11D form.

Shipleys helps several of its clients in submitting both P11D forms to HMRC and in applying for PSAs. For further advice and information, please speak to your usual Shipleys contact.

deadline for paying income tax and national insurance owed under a PAYE Settlement Agreement (PSA)

Sole trader or limited company – revisited!

***Shipshape** looks at the key differences and the impact of proposed new tax changes.**

Choosing the appropriate structure for trading is one of the most important decisions a business owner will make.

However, once up and running, that structure is not set in stone. Sole traders can incorporate and vice versa. But when is a good time to do so? On this page, we look at the tax implications as well as other pros and cons.

There are both advantages and disadvantages to being a sole trader or limited company. Sole trader is the easier business structure to set up, whereas creating a limited company is more complicated and involves more cost, but it can be more tax efficient.

The main disadvantage to being a sole trader is, of course, the unlimited liability. You take on all the risks associated with running a business and you hold all the responsibility for its debts. In contrast, a limited company is legally separate from shareholders and directors, so you are not personally liable for any losses made by the business.

Can I Change?

Being a sole trader is a good option for many small business owners starting their own venture, owing to flexibility on use of early years' losses. However, there may come a point when you decide it's better to be a limited company and it is possible to make the switch.

The main driver behind this is often because your profits are increasing, and you want to be more tax efficient.

So, at what level of profit might this decision point come? This has been an age-old question but worth revisiting owing to some recent and/or impending changes:

- National insurance contributions (NICs) – from 6 April 2022, a 1.25% increase in all rates of NICs was introduced. From 6 April 2023, this increase will become the new standalone 1.25% Health and Social Care Levy on the earnings and/or profits.
- Corporation tax (CT) from 1 April 2023, the main CT rate, currently of 19%, is due to cease and will be replaced by variable rates ranging from 19% to 25%. A small profits rate of 19% will apply to companies whose profits are equal to or less than £50,000. The main CT rate will increase to 25% and will apply to companies with profits more than £250,000.

In 2021/22 and 2022/23, at a profit level of £100k, you can extract more profit net of tax by trading as a limited company rather than as a sole trader – with the benefit exceeding £1,050. In 2023/24 this advantage is lost. With a marginal CT rate of 26.5% between £50,000 and £250,000 the benefit of a limited company erodes quickly and for a profit of £100k you are left with more cash in hand as a sole trader.

This is a simple example, and there are of course advantageous blends of salary, dividends and pension contributions which might reduce the tax burden of trading via a company, dependent on circumstances.

However, as alluded above, the choice is not simply tax driven, and there are other reasons why a company may or not be appropriate, so bespoke advice is required.

Key differences

Sole trader or partnership	Limited company
You are the business	The business is a separate legal entity
Employment status	
You are self-employed; you cannot be your own employee.	A director is an office holder. This does not automatically make you an employee in terms of employment law, the national minimum wage or for tax credits. For income tax and national insurance contributions (NICs), company officers are treated as employees.
Tax on profits	
You pay national insurance and income tax on the taxable profits of your business, regardless of 'drawings'.	The company pays corporation tax on its taxable profits. Employees are subject to PAYE and NICs on their earnings from employment.Shareholders are subject to income tax on dividends.
Losses	
You can offset your trading losses against your other non-trading personal income.	The company can flexibly offset its trading losses against its other income, but not against your income as an individual shareholder.

Here are some illustrative computations for a business turning a profit of £100k comparing 2021/22 to the current 2022/23 year and looking to 2023/24 given the current intended rise.

Sole Trade

	2021/22	2022/23	2023/24
Profit	100,000.00	100,000.00	100,000.00
Income tax	27,432.00	27,432.00	27,432.00
National Insurance	4,816.38	5,712.13	5,712.13
Cash in hand	£67,751.62	£66,855.87	£66,855.87

Limited Company

	2021/22	2022/23	2023/24
Profit	100,000.00	100,000.00	100,000.00
Corporation tax	19,000.00	19,000.00	22,750.00
Income tax	12,164.75	12,995.13	11,729.50
Cash in hand	£68,835.25	£68,004.87	£65,520.50

* *Shipshape was published before the outcome of the Conservative Party's leadership contest was known. Depending on the result, certain CT and NIC tax proposals may change.*

Understanding CGT on overseas property sales

Important factors UK residents need to be aware of to minimise tax liabilities.

Selling an overseas property can have unexpected implications for capital gains tax (CGT) liabilities for UK residents.

Whether a property is in Spain or New England, it's worth considering these potential issues well in advance of a disposal to minimise CGT payments in the UK.

A common error UK residents often make is failing to report the profits made from selling any foreign-based property.

Many are either unaware of the requirement to report the disposal to HMRC, or don't think it's important to do so because they wrongly assume they are only liable to pay tax in the country where the property is located.

While it's true that primary taxation rights are generally with the country where the property is physically situated, a gain remains reportable in the UK for anyone filing on a worldwide basis, which is most people. Credit may be given for overseas taxes against the UK liability, but it's possible a margin of CGT will be payable in the UK if the overseas tax rate is lower than the UK CGT rates on residential property of 18% and 28%.

Double taxation challenges

Even if the gain is less than the CGT annual exemption and no UK tax is due, the sale remains reportable in the UK if the proceeds exceed the 'proceeds reporting level' – equivalent to four times the annual exemption, so £49,200 this year.

Fortunately, the UK has double taxation treaties with many countries and therefore it's usually possible to claim credits in the UK for the taxes paid in the country where the property is situated.

However, a complicating factor is that every country has its own way of calculating profits on property sales that can lead to mismatches with the UK approach.

For example, the US has two methods of charging gains depending on whether it is 'short term' or long term', with the long-term top rate being less than the UK's 28%, possibly leading to a margin due in the UK.

There are also varying approaches to the value allowed as the base cost (the starting point) for gains around the world. Other countries may also have differing rules on what may be allowable as a deduction and, in particular, main residence relief is likely to be different. This means a property gain could be exempt overseas but chargeable in the UK, or vice versa.

Exchange rate impact

The impact of foreign exchange rates on a property sale is another area to be aware of, as transactions are usually made in foreign currency but UK reporting is in sterling.

For the purposes of calculating CGT on gains, HMRC takes whatever is paid in foreign currency on the day of purchase and converts it into sterling at that time, and the same when the property is sold.

Also, fluctuating foreign exchange rates can lead to currency gains or losses with implications for CGT. Hypothetically, if you bought and sold an overseas property for the same amount in US dollars there would no currency gain in the US but you would almost inevitably end up with a currency loss or gain in sterling.

Timing is critical

Getting the timing of a sale right can make a huge difference to tax liabilities, particularly if the seller will receive principle private residence (PPR) relief against CGT in the UK.

This can be claimed on the disposal of an overseas dwelling house providing the individual was resident in that country, or spent at least 90 nights in the property during the tax year.

Where a dwelling house has been an individual's only or main residence for part of the time they owned it, only a proportion of the gain is CGT-exempt. Clearly, these factors need to be taken into account when planning a disposal.

The timing of a sale also impacts on how 'split year' rules on CGT are applied for individuals who leave or return to the UK part of the way through the tax year the property sale is made in. Under split rules, CGT only applies to gains arising in the part of the year where the resident is designated as being in the UK for tax purposes.

These rules are very complicated and while they can help mitigate tax, there are many potential traps for the unwary.

Getting advice

Given the split rules issues and the wider range of complications with CGT in general, it's absolutely essential to get good advice when you're looking to sell an overseas property.

Shipleys is a member of an AGN, a global association of independent accounting and advisory business, enabling us to offer clients support and expertise relating to the country where their property is based.

If you would like to know more about how we can help with the CGT on overseas property sales, please speak with your Shipleys contact or contact one of our tax specialists.

Clock is ticking for commercial property rent arrears

Businesses that owe rent as a direct result of the Covid crisis need to be discussing repayment terms with their landlords or going through the new arbitration process.

Businesses with protected rent arrears, accrued when they were closed by government restrictions during the pandemic, have until September to arrange repayment terms under a legally binding arbitration process.

Those with outstanding protected rent debt (PRD) were given six months to begin addressing their debts with their landlord when the Commercial Rent (Coronavirus) Act 2022 came into effect on March 24 this year.

Landlords and tenants are being encouraged, ideally, to come to an amicable agreement, or go to arbitration within the six-month period.

Arbitration concerns

However there are concerns that some businesses, particularly SMEs, are not aware of the arbitration option or just not pursuing it. This potentially leaves them open to being taken to court to pay the full cost when the window for arbitration ends on 24 September.

The Federation of Small Businesses (FSB) is advising companies issued with a 'notice to pay' by their landlords to check if arbitration is an option.

Stephen Goderski, Partner with insolvency practitioner PKF GM says take up of the arbitration process has reportedly been very disappointing.

Supporting responsible tenants

"While many businesses have been responsible about paying rent, there are others that have not engaged with their landlords and reputedly this includes some high-profile retailers. In other words, they have not paid any rent since the pandemic began, and we can expect to see swift and determined action taken in such cases," he says.

> ***"While many businesses have been responsible about paying rent, there are others that have not engaged with their landlords and reputedly this includes some high-profile retailers."***
>
> **Stephen Goderski, Partner, PKF GM**

Stephen points out that while the end of protection in itself is unlikely to force businesses to cease trading, it could become a contributory factor. This is because they are already facing increased fuel, energy, materials and salary costs against a backdrop of reduced consumer spending.

"Landlords obviously need tenants. It's clear that helping those who have engaged with them throughout the pandemic and paid what rent they have been able to, may be preferable to the cost of forfeiting the lease and funding an empty property (potentially for many months) while attempting to find a replacement."

Non-PRD arrears

Landlords can reclaim any rent debts that are not covered by PRD by forfeiting leases and going through the Commercial Rent Arears Recovery (CRAR) procedure, which enables them to seize tenants' assets to the value of arrears.

Additionally, they can serve winding up petitions for undisputed debts of £750-plus, commence bankruptcy proceedings against individual tenants with undisputed arrears over £5,000, or take court action.

24 Sep

deadline for businesses with rent arrears due to Covid to arrange repayment terms

Changes on the horizon for research and development tax breaks

Businesses may need to rethink their strategies to accommodate changes to tax relief on research and development (R&D). Here's a brief breakdown of what to look out for.

Compliance

From 1 April 2023, it is proposed that businesses must inform HMRC online that they will be making an R&D claim within six months of the end of the accounting period to which the claim relates.

Failure to notify could lead to disallowance of the R&D claims. However, businesses that have claimed R&D in one of the preceding three periods will not need to pre-notify.

Overseas activities

From 1 April 2023, R&D tax relief will be restricted to activities undertaken in the UK with only a very limited scope for claiming any overseas activities.

UK companies that currently claim R&D costs paid to, for example, overseas group companies or overseas third parties may no longer be able to include these costs in their claims.

Externally provided workers

Also from 1 April 2023, payments to externally provided workers to carry out R&D will only qualify for relief to the extent that those workers' earnings are taxed through the pay as you earn (PAYE) system.

Cloud and data expenditure

Spending related to cloud computing and data can be included in R&D tax relief claims from 1 April 2023 – a change that will be particularly beneficial for businesses working in the tech and media sectors.

For example, businesses that pay licence fees to rent cloud computer space or pay for data in the context of R&D will be able to incorporate these costs into their claims.

Cash refund cap

It is also worth remembering that the cash refund cap is now in effect for accounting periods beginning on or after 1 April 2021.

From 1 April 2021 the amount of R&D tax credit that a business can receive was capped at £20,000 plus 300% of its total Pay as you Earn (PAYE) and National Insurance Contributions (NIC) liability for the period.

However, a business is exempt from the cap if:

- its employees are creating, preparing to create or managing intellectual property
- it does not spend more than 15% of its qualifying R&D expenditure on subcontracting R&D to, or the provision of externally provided workers by, connected persons.

This change does not affect the 130% relief on qualifying annual R&D costs, just the amount which you can surrender for cash. So, if the cash refund is restricted, you can still carry forward the rest to claim as part of trading loss in future years.

HMRC gets tough on off-payroll mistakes

New off-payroll working rules for certain private sector contracting companies have been in place since April 2021, but for the first 12 months businesses have benefitted from HMRC's relaxed stance on penalties.

Businesses affected by these changes should bear in mind that that 'honeymoon period 'is now over and HMRC is charging for any inaccuracies relating to the rules that have occurred from 6 April 2022 onwards.

As you may be aware, these off-payroll working rules are designed to reduce tax avoidance by contractors who HMRC believe to be 'disguised employees'.

It used to be the responsibility of contractors to assess their own employment status. However, since April 2021, for those operating via a personal services company (PSC), this burden switched to the 'end user' client – if the client is a qualifying medium or larger business. These size classifications are based on Companies Act definitions and should be checked annually.

For companies that are covered by the rules, compliance has been complicated by uncertainties around a clear definition of employment as opposed to self-employment. Recent Court of Appeal cases have shown that even HMRC's Check Employment Status for Tax (CEST) tool can be wrong in determining employment status.

Shipleys continues to advise clients on the off-payroll working rules and there is further guidance on this on our website at: *https://tinyurl.com/28kwpn59*

Sector focus

Legal sector not one to rest on its laurels

Continuing our series on Shipleys' sector specialisms, we explore the firm's work in the legal sector.

Despite being a stalwart of the UK's business landscape, the legal sector never stands still. This is evident from the ongoing consolidation of firms across the sector, plus the continuing arrival of niche market entrants making the most of the alternative business structures that have emerged in the profession over the past few years.

> ***"The ongoing consolidation and succession considerations in the sector also keep us busy with exit planning and merger and acquisition assignments."***
>
> **Peter Conneely, Shipleys**

Just before the pandemic hit, new accounts rules from the Solicitors Regulation Authority (SRA) came into force and many legal firms are continuing to adjust to the implications of this development.

Shipleys' legal sector team works with several law firms in the UK, which tend to be local UK firms or UK subsidiaries of US ones. As well as general practice firms, the team supports those specialising in family law, real estate, corporate and commercial law and private wealth. We also advise legal specialists in technology, media and entertainment, sports, retail and healthcare.

Commenting on Shipleys' long-established legal sector specialism, Director Peter Conneely says: "We advise on a variety of issues specific to law firms. For example, mixed member partnership rules, tax planning and compliance for the firms and their partners/directors, cash flow management, revenue recognition and the financial implications of work in progress.

"The ongoing consolidation and succession considerations in the sector also keep us busy with exit planning and merger and acquisition assignments.

"In addition, while the SRA rules and regulations have been simplified, they still give rise to questions and queries. One of our roles is to assist our clients to both understand these rules and to ensure compliance with them."

You can find out more about the team's work at *https://tinyurl.com/yak7da5j*

VAT corner

Reminders and updates on VAT

Zero VAT on property transfers

The VAT-efficient transfer of investment properties, whether a single tenanted building or a property portfolio, can be complex and involved.

However, if structured correctly, an arrangement known as a transfer of a going concern (TOGC) can exclude VAT from the selling and purchase price and reduce stamp duty land tax liabilities. Every situation is unique, but the most relevant qualifying TOGC conditions are:

- The vendor must operate a property letting business and have a tenant in situ (or lined up for occupation).
- The purchaser must operate the same type of business as the vendor, ie property letting, and will do so with no break in the business.
- Where the vendor is VAT-registered, the purchaser must also be VAT-registered or, as a consequence of the purchase, must register for VAT.
- If the vendor has opted to tax the property (or it is a commercial freehold that is less than three years old), the purchaser must opt to tax and notify HMRC before the sale is completed.
- The purchaser must confirm that the option to tax will not be disapplied for any reason. Particular attention needs to be paid to the anti-avoidance provisions that disapply an option to tax where there is an exempt use of the property by a connected party.

TOGC is a complex area so talking to a VAT specialist with TOGC experience will help you ensure that all conditions are met. Contact the Shipleys VAT team at vat@shipleys.com or by calling one of the Shipleys offices.

HMRC delays

HMRC's VAT teams across the UK are still operating with significant work backlogs, despite assurances that these would be cleared by the end of April.

In such circumstances, it's more important than ever to get expert advice to ensure there are no mistakes in any VAT information your business submits, which could exacerbate delays.

A piece of Cake

Angry Birds: Summer Madness – photo credit: Rovio Entertainment Corporation.

Cat Seddon gives her insight on the company behind hit TV shows for children and families around the globe.

CAKE Entertainment serves up a significant slice of the best entertainment worldwide for younger viewers.

Its distribution business sells the work of renowned producers including Rovio Entertainment, Fresh TV, Wildseed Studios, La Cabane, Thuristar, Paper Owl Films and Ragdoll Productions on hit titles including Angry Birds, Total Drama Island, YouTube sensation Lucas the Spider, pre-school CBeebies hits Kiri and Lou and Tish Tash, and school-based animated comedy Dodo.

The production business produces and co-produces shows, with projects including Angry Birds: Summer Madness for Netflix, Mush Mush & the Mushables for Warner Bros Discovery and Pablo for CBeebies.

Based in London, where the majority of its 25 employees work, CAKE holds its own with bigger operators because of its reputation for giving broadcasters and streamers the quality content they want.

Cat Seddon, CAKE's chief financial officer and chief operating officer, says: "Quality is a given, but we also try to ensure the content has the 'CAKE factor'." She points to the example of Pablo, which features an autistic central character. Another show, Mama K's Team 4, co-produced with South African studio Triggerfish, tells the tale of four teenage girls from Lusaka who become superheroes.

"We're dealing with organisations from lots of different countries, each with different tax rules that we need to comply with. Shipleys is a firm that has the expertise to meet that challenge."

Rise of streaming subscription channels

CAKE has flourished despite the rise of streaming subscription channels in recent years, which has brought opportunities and challenges. Cat explains: "The growth of Netflix and others has generally meant we've been able to sell and produce more content, but they've also recruited much of the talent. We've been able to counter that because, as a smaller business, we can give our people opportunities and experience to develop and learn very quickly."

Not surprisingly, Cat believes the ability to identify and create good content that will sell in major global markets underpins CAKE's continuing success, but a willingness to evolve has also played a part.

She says: "When the company started around 20 years ago, it was a distribution-only business, but we've since moved into producing and co-producing. With the expertise we already had around what content sells, plus the relationships we'd developed with broadcasters, it's a shift that makes sense. It's also much easier now for people to distribute their own content in the digital world and undervalue the expertise of a distributor."

Challenges and opportunities for growth

With significant exchange rate fluctuations, the loss of the Ukrainian and Russian markets and a recent restructuring within major broadcasters and streamers, Cat says CAKE is looking at a "more challenging market" in the immediate future.

However, she says: "We're always hungry for content – we've recently acquired new titles to be launched at MIPCOM, the industry trade event at Cannes – and we'll continue to develop the production and co-production side of the business, including more live action, where we see real opportunity for growth."

She adds: "We also think our involvement with Animation UK, which represents our sector, is important because we can be influential in shaping government support for the industry and keep abreast of trends and be ready to adapt and change."

Shipleys has been working with CAKE for the past 18 months and Cat says: "Shipleys has a good track record of working for the entertainment sector, so it really understands our business. For example, we're dealing with organisations from lots of different countries, each with different tax rules that we need to comply with. Shipleys is a firm that has the expertise to meet that challenge."

Cat herself joined CAKE in 2019. She jokes: "My role means almost anything and everything comes my way but, whatever it is, it's about finding solutions and it's a job I enjoy." After a career primarily in financial services, she says working in a creative industry is "very different". She adds: "It's a great business and we have a great team."

https://cakeentertainment.com

Keeping your business financially fit

Our recent Business Club get-together spotlighted the business essentials for 'staying in shape' in turbulent trading times.

After the turmoil of the past two years, many businesses are facing new challenges because of inflationary pressures, rising energy costs and difficulties recruiting and retaining staff.

Having proved their resilience during the pandemic, 'battle-hardened' businesses have learned that a healthy financial position is vital to 'weathering' economic storms.

Financial fitness is multi-faceted, and it pays to keep an eye on all aspects of your business. Sometimes, though, a few small changes can make a big difference. Here is a brief run-down of some financial fitness essentials shared by our business club members.

Cash flow

Cash flow is vital because it enables your business to cope with sudden challenges and opportunities. You may want to focus on one or more of the following:

- Credit control – be more proactive in ensuring your business gets paid on time.
- Review margins – assess pricing and profitability levels.
- Spend analysis – ask yourself where your spending is most, and least, effective.
- Check you're making the most of your capital allowance, research and development tax credits and any applicable grants.

Financing

Although many government-backed finance schemes have now been withdrawn, there are other sources of funding you can tap into. Which of these is right for you depends on the size of your business, what it does and what the finance is for. Our club members suggested exploring a few options, such as:

- overdrafts
- different types of bank loan
- asset finance to upgrade equipment or leasing in the short-term
- invoice finance – releasing cash from invoices awaiting payment.

Just-in-time financial information

Access to up-to-date financial data helps a business to spot problems on the horizon and many are switching to digital accounting software that provides a real-time snapshot of the cash flow position. There are many such products available, so contact the Shipleys team for further information.

This Business Club in April was our first in-person meeting for two years and it was great to welcome people back to Shipleys' Godalming office. To join future events, email Amanda Lopez at *lopeza@shipleys.com* For more on getting financially fit go to: *https://tinyurl.com/5j38sjf2*

A warm welcome to our new trainees

A record number of new faces and a round-up of all the rest of the news from Shipleys.

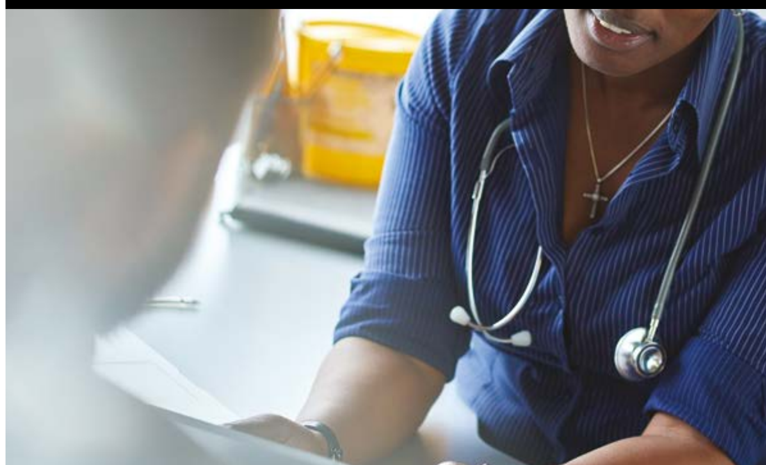
The autumn marks an exciting time for the firm, as we welcome new trainees to the Shipleys team. In fact, we are delighted that the firm's growth means that a record number will commence their studies and work with us over the coming months. It's so good to see people begin their Shipleys journey and the whole firm extends a very warm welcome.

In other news, our sector teams have been busy creating bulletins around the latest industry developments impacting clients. In the summer, we published our latest Financial Services Update (see: *https://tinyurl.com/mr4xvzhm*) and Charity Update (see *https://tinyurl.com/bwkxwn23*)

Back in April, our Business Breakfast Club returned to an in-person format, following its online mode throughout the pandemic. More recently, our Godalming office reinstated our in-person lunchtime business networking event. It was wonderful to see so many new and familiar faces join us on the day. The lunchtime event will take place every other month with the next on Friday 14 October. Please contact Michelle Daniels (*danielsm@shipleys.com*) to receive an invitation.

Around the same time, we are very proud that a team of 11 colleagues from Shipleys will be running the Great South Run. This is the south coast of England's biggest running event and takes place around historic sites in Portsmouth. The team will be running on Sunday 16 October in aid of the Group B Strep Support charity, which works to stop the life-threatening group B Strep infection in babies.

Finally, we're always keen to share our clients' stories in the client profile section of Shipshape. In this issue, we were delighted to showcase the work of CAKE Entertainment (page 8). We are now planning future editions of the magazine and if your organisation would be happy to be featured in our client profile section, please contact Michelle Daniels (*danielsm@shipleys.com*).



Inflation threat to some public sector pensions

A warning that high inflation could have a big impact on defined benefits pensions schemes of high-earning public sector professionals, including GPs.

The current high inflation, not only increases the cost of living, but can push some professionals' pension benefits over the annual allowance – even if the amount that the member has contributed has not changed.

The effect inflation can have on members of defined benefits pension schemes is particularly problematic for GPs, who have their benefits revalued each year in line with inflation. It can also impact the pensions of members of the armed forces, teachers and other public sector professionals.

This is partly due to a disconnect between the way that the pension schemes and HM Revenue and Customs calculate inflation. To calculate the increase to a member's closing pension value for the annual allowance, HMRC uses the consumer prices index (CPI) rate from the September of the previous tax year. However, to revalue pensions in line with inflation, many defined benefit schemes use the CPI rate from the September of the current tax year.

In a year of runaway inflation, this can make a big difference. For example, when a GP's pension benefits were calculated by HMRC in April 2022 they would have been judged to have increased by 3.1% based on the inflation rate recorded for September 2021. Any pension benefits accrued above that percentage would count towards their annual allowance.

But when the benefits are revalued by the GPs' pension scheme, it will use the September inflation figure for this year, which is expected to be about 10%, plus an additional 1.5 percentage points, which the scheme adds in automatically.

The British Medical Association (BMA) said that "because of the anomalous use of two different values of inflation in calculations, the dramatic rise in CPI over the last year could severely impact doctors, in particular GPs – leaving them facing significant annual allowance charges".

How parents and grandparents can help reduce student loan debt

Changes to student loans may increase the debt burden for some graduates. We look at what families can do to help.

Changes being introduced to student loans are likely to present some university graduates – especially those not moving into high-paid jobs – with the burden of longer-lasting and more expensive debt as a legacy of their studies.

New rules will affect students starting their university courses from September 2023. The main points are:

- The repayment term is being extended from 30 to 40 years.
- The earnings threshold at which students start making repayments will drop to £25,000.
- The interest rate charged will match the retail price index (a dramatic rise in RPI has already seen the UK government cap the 2022 rate at 7.3%).

For parents and grandparents who want to reduce student debt by helping to pay tuition fees, there are some options to consider. First, you can make a gift of £3,000 a year to someone without tax liability. You can give more than that – but there may be a liability if you die within seven years.

A second option for grandparents is to put funds into trust for their grandchildren, which can then be used to pay fees. Trusts come with set-up costs and ongoing work to prepare accounts and annual tax returns, but can be hugely beneficial for income tax, capital gains tax and inheritance tax (IHT) planning. Parents can also set up trusts for their children if they are over 18, although IHT is likely to be less of an issue in this case.

Parents or grandparents could also take out a personal loan to cover fees, which could be cheaper than the capped interest rate for student loans. Of course, the repayment term will be far shorter, and parents and grandparents should generally ensure that they don't have to rely on their children or grandchildren for repayment.

At Shipleys, we can arrange for a trust to be created and provide ongoing guidance on this. There's more on trusts on our website here:
https://tinyurl.com/38z67sdm
https://tinyurl.com/ykjkuap8
There's also information on gifts at ***https://tinyurl.com/yk5tah3s***

For further information, please contact one of our offices:

London
10 Orange Street
Haymarket
London
WC2H 7DQ
T +44 (0)20 7312 0000
E advice@shipleys.com

Godalming
5 Godalming Business Centre
Woolsack Way
Godalming
Surrey GU7 1XW
T +44 (0)1483 423607
E godalming@shipleys.com

www.shipleys.com
@Shipleys_LLP
Shipleys LLP