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Thinking of buying another business?

What due diligence should you consider?

When in business, it's not uncommon to be approached by another business with a view to you buying the business or entering a partnership deal. It might be a competitor that approaches you, or it could be a customer or supplier.

Alternatively, you might identify a business that you would like to acquire as part of your own growth plans.

What things should you consider before entering a deal to buy another business? In this article we will look at some of the key considerations.

Financial assessment

What is the financial health of the business you are looking to acquire? To answer this properly means reviewing accounts, cash flow projections, debts, assets, and liabilities.

Doing a detailed review of these will put you in a good position to understand the financial status of the business. You will learn what working capital is needed by the business, how realistic any projected ventures might be when compared with past performance, and whether there are any hidden liabilities. All this will help you determine the true value of the business and any potential risks involved.

Legal compliance

Ensuring that the business you are looking to buy complies with all their legal and regulatory requirements is essential. You do not want to run the risk of a problem relating to non-compliance coming out after you have purchased the business and then being liable for it.

Permits, licences, contracts, intellectual property rights, and any ongoing legal disputes should all be explored. If you can identify any legal issues upfront, this will help you to mitigate risks and avoid future problems.

Evaluate how the business operates

Assessing the operational aspects of the business helps you to understand its strengths, weaknesses, and operational efficiency. This includes looking at the processes, systems and infrastructure of the business. You should also explore its supply chain and customer base, as well as its human resources.

Evaluating how a business operates beforehand can help you to decide whether it is a good fit for your business or if there will be difficulties integrating the business with your own processes.

Market analysis

Clearly where you are relying on the target business to increase overall business income, then you need to know how this will be accomplished. You will want to analyse what the competition is for the business, what its current market share is and its potential for growth. Being knowledgeable about industry trends is also important in assessing the marketability of the business.

As you understand the market dynamics of the business you are looking to buy, you will be in a stronger position to assess future opportunities and put together appropriately targeted strategic plans.

Customer and supplier relationships

Evaluating existing customer and supplier relationships helps you to understand how dependent the business is on them, and to know whether there are any potential risks. For instance, reliance on a single customer or supplier may be undesirable.

This kind of evaluation can also help you to work out what customer satisfaction levels and the business' brand reputation is like.

Employee assessment

It is vital to review employee contracts, benefits, turnover rates, and the culture of the organisation. This can help you assess whether there are any potential HR challenges you need to be aware of. You can also get a sense of how the employees in the new business will be able to fit and work with your existing team.

Synergy analysis

Evaluating potential synergies between your business and the new business may reveal opportunities for saving costs, enhancing income streams, and efficiency gains. This could mean that the new business will offer you more value than an initial glance might indicate.

In conclusion, there is a lot to consider when looking at buying or entering into partnership with another business. However, thorough due diligence can pay dividends in minimising risks, maximising opportunities, and making sure that the acquisition will bring you success.

As expert business advisors, we have helped with carrying out due diligence in many business acquisitions. Please feel free to give us a call to find out how we can help you!

Are training costs tax deductible for the self-employed?

HM Revenue & Customs have recently updated and clarified their guidance on training costs paid by the self-employed.

The general rule for whether the cost of a training course can be deducted from your self-employed profits is that it must be incurred wholly and exclusively for the purposes of the trade being carried out by the business at the time that the training is undertaken.

If you are self-employed, a training course that updates or provides expertise or knowledge in your existing business area will normally be deductible.

This means that training on new skills or knowledge for you to keep up with changes in your industry, or to help you keep up with advances in technology can be allowable.

In addition, training on subjects that are ancillary to your main trade can be allowable too depending on the circumstances. As an example, a plumber who books a training course on bookkeeping or digital skills would likely be able to deduct the cost of those courses from his self-employed profits.

Where a training course is to give an individual skills to start a brand-new business, or to add a new, unrelated business area to their business, then HMRC view them as not allowable.

To see some examples of expenses and whether they are likely to be allowable or not please see: https://www.gov.uk/guidance/check-if-the-cost-of-training-could-be-an-allowable-business-expense

Have you checked your tax code?

Prior to the tax year starting each 6 April, HM Revenue and Customs (HMRC), will issue new tax codes to employees, usually where there is a change of tax code.

These tax codes, a series of letter and numbers, allow employers to deduct the right amount of tax to be deducted from each employee when the payroll is run. That is, unless the tax code isn't correct. Therefore, it pays to check that the tax code has been calculated correctly.

The tax code notice usually sets out what has been included.
For instance, it will usually include a person's annual tax-free personal allowance.

What do the numbers and letters making up the tax code mean?

Numeric component

This usually represents the amount of tax-free income an individual is entitled to in a tax year. For example, a tax code of 1257L indicates a tax-free allowance of £12,570 for the tax year.

Letter component

This letter indicates specific circumstances or adjustments that apply to the individual's tax code.

Some common letter codes include:

- L – the individual is entitled to the basic tax-free allowance.
- M – marriage allowance is being transferred from a spouse or civil partner.
- K – additional deductions are being made from the individual's pay, such as underpaid tax from previous years or tax on benefits in kind.

It is important to check that a tax code is correct to avoid overpaying or underpaying tax.

If an employee believes their tax code is incorrect or needs adjusting, such as due to a change in personal circumstances or income, they can contact HMRC directly to request a review or update of their tax code. HMRC will then make any necessary adjustments and send an updated tax code to use in subsequent payroll calculations.

If you need any help with your own or your employees' tax codes, please do not hesitate to contact us. We will be very happy to help you.

New R&D tax relief guidance available

For accounting periods beginning on or after 1 April 2024, a new merged scheme for research and development tax credit comes into force.

The new merged scheme replaces the old RDEC and small and medium-sized enterprise (SME) schemes.

The new scheme reduces the amount of benefit that would generally have been received under the old scheme.

Loss making R&D intensive SME companies can also benefit from additional support through Enhanced R&D Intensive Support (ERIS). Broadly speaking, if a company's R&D expenditure amounts to at least 30% of its total expenditure then it may qualify as R&D intensive.

HMRC has published guidance on how to claim, but if you need any help with an R&D claim or wonder if your business could make a claim, please contact us at any time and we would be happy to help you.

Guidance on the merged scheme and ERIS can be found here:
https://www.gov.uk/guidance/research-and-development-rd-tax-relief-the-merged-scheme-and-enhanced-rd-intensive-support

New service to manage import duties & VAT account

HM Revenue and Customs (HMRC) have published guidance on a new online service to help businesses with their import duties and VAT accounts.

If you or your business are involved in importing goods into England, Scotland, Wales and Northern Ireland, you can use the new service to:

- Get your import VAT statements and certificates;
- Manage your payment accounts; and
- Manage or view authorities.

This new service should help to bring everything you need into one place.

To use the service, you need to have a Government Gateway user ID and password, and you must be subscribed to the Customs Declaration service.

If you need any help registering with HMRC, please do not hesitate to contact us!

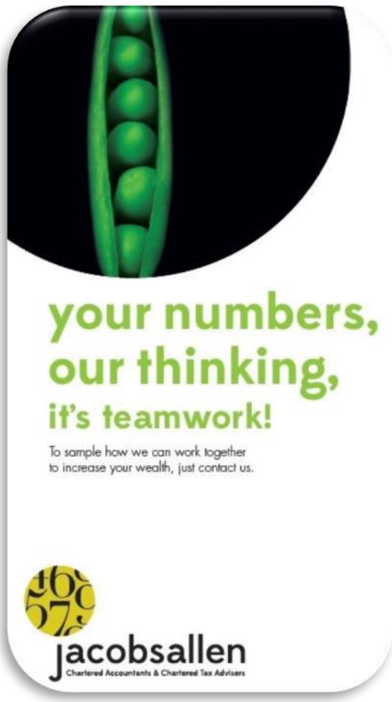
For more information and to log in, please see:

https://www.gov.uk/guidance/manage-your-import-duties-and-vat-accounts

Labour to close tax gap

The Labour party has published their plan to close the tax gap – the gap between tax owed and tax paid – which is estimated at £36 billion.

The plan broadly proposes to do this by boosting tax compliance. Labour plan to be able to raise up to an additional £5 billion a year as a result of their proposed measures. They anticipate that £1 spent on compliance activity will result in £9 of revenue and so reckon they will need to invest £555 million per year to achieve £5 billion of revenue.



Some of the measures they propose introducing includes:

- increasing staffing at HM Revenue & Customs (HMRC) with an additional 5,000 staff.
- Focusing additional resource to target businesses with greater complexity and return.
- Ring-fencing "blockbuster" funding that can be used on strategically important criminal

cases to increase the deterrence effect that a high-profile case can bring.
- Improving customer service at HMRC.
- Investing in digitisation and technology.

The plan also notes areas where changes to the law may be needed to help tackle tax non-compliance. This could include regulating the tax advice market and requiring a wider range of tax schemes to be reported to HMRC.

For more details on the proposals, please see: https://labour.org.uk/wp-content/uploads/2024/04/Labours-Plan-to-Close-the-Tax-Gap.pdf

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