UHY Hacker Young
Chartered Accountants

Prosper

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Corporate turnarounds: bringing a business back from the brink

Plus

Streamlining workflow: embracing accounting automation technology

Managing the new pension allowance landscape

The rising trend of employee ownership: a path to success for businesses

Helping you prosper

Prosper is our magazine aimed at businesses and business owners, covering the pertinent issues currently affecting you and your peers.

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Welcome to our seventh edition of Prosper

Our last edition of Prosper was published at the end of 2022, and many of the issues facing the UK economy then, continue to persist. With inflation falling steadily, although more slowly than hoped or anticipated, many businesses and individuals across the UK are reviewing their finances to see if they can continue to weather the storm.

Our specialists provide expert insight on safeguarding and strengthening your business, as well as your personal financial situation, in this edition of Prosper. Here at UHY your business and personal prosperity is of the utmost importance to us, so we have worked hard to ensure that there is something of interest for all in this magazine.

As rising costs and shrinking household and business income eat into profit margins, the possibility of bankruptcy is growing for many, with insolvencies jumping by almost a third from this time last year. Daniel Cooksley, London turnaround and recovery director, offers five key recommendations for SMEs facing closure on page three.

The Government is making AI a central part of its plan to make the UK a science and technology superpower by 2030 and, as a sector, it is developing faster than many can keep track of! James Foster, UHY East head of tech & OMB strategy, overviews the Government's current stance on the rapidly evolving technology, to keep you up to date, on page 7.

Much the same as AI, accounting automation software has come on leaps and bounds, and is an essential tool that business owners should utilise to its full potential. On page 10, head of UHY's National Cloud Group, Rebecca Roberts, guides you through the simple steps of implementing this technology into your accounting workflow, regardless of your businesses size or technological proficiency.

The High-Income Child Benefit Charge has been a topic of discussion since its introduction in January 2013. Understanding this charge is crucial for families with an income that exceeds the specified threshold. UHY East tax partner, Alison Price, and tax manager, Jonathan Haggart, provide a short summary of what you need to know on page 11.

This edition of Prosper is full of advice designed to ensure your prosperity, despite current uncertainty and turbulence. Lean on our experts' knowledge and reach out to them if you have any questions regarding their articles. We look forward to hearing from you.

Ensuring that your finances are in order for retirement is an integral aim for all, and access to the UK State Pension can form a large proportion of this capital for many. Neela Chauhan, London private client services partner, writes about the opportunity to top up your national insurance contributions on page 13 to ensure you are in the best position to receive the full State Pension.

Continuing with the theme of pensions, Adam Wing, financial adviser, reviews the changes to the lifetime and annual pension allowances on page 15.

Inheritance Tax is something that many people fail to consider fully, sometimes until it is too late, and this wastes planning opportunities that could reduce the tax burden facing your loved ones after you have passed. Sarah Whalley, Manchester tax partner, explains the various ways that careful planning can benefit your estate on page 16.

In recent years, a growing number of businesses have been embracing the employee ownership route as a strategic choice for their future, with its ability to empower employees and offer the seller piece of mind that their business will be left in good hands once they have handed over the reins. Alison Price imparts further wisdom on page 17, detailing the range of benefits for both employees and sellers within Employee Ownership Trusts.

More and more businesses in today's world work with clients, suppliers and wider stakeholders on a global scale. However, overseas banking challenges – particularly following Brexit – are frequently impeding global growth. Mark Andrews of WorldFirst describes how they can help your business prosper by overcoming the complexities and high fees associated with cross-border FX transfers and international payments on page 19.

As further demonstration of our commitment to our purpose of **helping you prosper**, we are sharing a case study from one of our clients, Azotic Technologies Ltd, a biotechnology company that worked closely with Kerry Whattam from our York office to save hundreds of man hours and thousands of pounds for the business. Kerry's expert knowledge of cloud accounting systems helped to rapidly modernise Azotic's accounting infrastructure and facilitate their accelerating growth. Read the details of how we helped them prosper on page 22.

Rhys Madoc, CEO of UHY International, delves into the importance of embracing change, and how this behaviour can benefit you as an individual, and your business prosperity, on page 24.

Although crypto currency has faced a bad rap in recent times, it still poses an alternative currency choice, as talks of crypto replacing traditional flat currencies, such as GBP, still linger. Joshua Pearce, UHY Ross Brooke senior tax manager, takes a spotlight to crypto for businesses specifically, on page 25.

London VAT partner, Sean Glancy, and indirect tax consultant, Zehra Osman, provide a brief overview of the forces influencing the property sector on page 27.

Finally, David Kendrick, UHY Manchester CEO, uses his specialist knowledge of the automotive sector to outline market forces that are catching the attention of retailers, from agency to EVs, on page 29.

This edition of Prosper is full of advice designed to ensure your prosperity, despite current uncertainty and turbulence. Lean on our experts' knowledge and reach out to them if you have any questions regarding their articles. We look forward to hearing from you.

Colin Wright
UHY UK Group Chairman
+44 20 7216 4600
c.wright@uhy-uk.com

In this issue of Prosper we provide guidance for you and your business through specialist articles

Corporate turnarounds: bringing a business back from the brink

Corporate turnarounds were once the domain of publicly listed companies, driven by groups of debt and equity holders, but a controlled turnaround is possible for SMEs, with the right professional advice and guidance.

In current times, small business entrepreneurs are becoming increasingly sophisticated in their approach to dealing with a failing business, and their financiers are more comfortable in supporting the rebuilding of their businesses through a controlled turnaround.

The turnaround process is time-critical, often requiring urgent working capital and strong stakeholder management.

It means finding the source of the downward spiral. This can be difficult, as it requires an objective and unbiased approach to diagnosing your business' financial, operational, and strategic positions.

If you are concerned about the future viability of your company, here are five recommended actions to get your business back on track through a corporate turnaround:

1. If you snooze you lose

Being proactive on critical issues is essential. Turnaround advisers face many time-critical issues, especially in the early phases of turnaround, where cash and stakeholder support are needed. Indecision at this time can be fatal to the chances of a successful turnaround, as it creates uncertainty among key stakeholders about an owner's appetite and ability to deliver results.

2. Remove the rose-tinted spectacles

The need for cash may mean you need to put in place a divestment strategy including the disposal of non-core assets in order to refocus on your core business; so be realistic about the value of your business' assets. The turnaround adviser will usually obtain professional valuations of these assets. It may be that these values do not meet the expectations of an owner, but there is no time in turnaround for a long, drawn-out marketing and negotiation process to achieve your desired prices. While achieving value is important, unrealistically holding out for a better and quite likely unattainable price is not generally the best solution.

3. Its not all black or white

The existing owners and management might know the business better than anyone, but that is often the problem. Owners of SMEs can be too close to their business and fail to recognise the need for improvement or change, so listen to your trusted adviser who will bring an unbiased and balanced approach to what is needed.

It may be the environment has changed, possibly through advances in technology or social factors, which have resulted in a need to change "the way that business has always been done". Don't disregard the advice of a carefully selected turnaround adviser who will understand the need for change and know the right people for the job.

4. Communicate with your supporters

Directors of an SME often focus on their financiers when faced with a financial crisis. While this is important, communicating with all key stakeholders is crucial. Proper management of stakeholders may be the difference between success and failure. This applies to all facets of business, whether a large corporation or an SME.

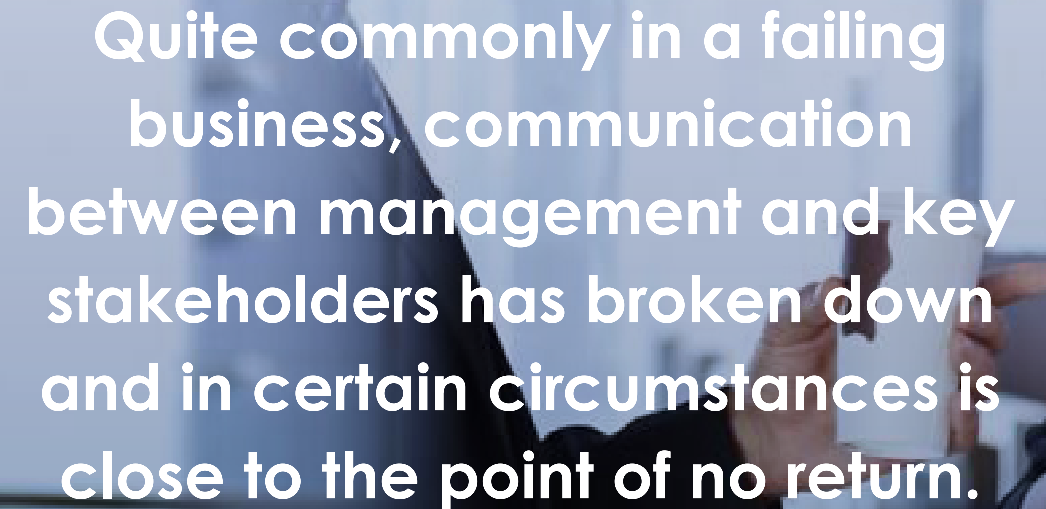
Quite commonly in a failing business, communication between management and key stakeholders has broken down and in certain circumstances is close to the point of no return.

Key stakeholders need to be convinced that rescue, rather than termination, will in fact be the better outcome. The problem is, particularly when dealing with financial stakeholders, a CEO or managing director may have little or no experience in dealing with stakeholders in a crisis, whereas the financier is very likely to be experienced and highly knowledgeable in this area.

A role of a turnaround adviser is to rebuild confidence between the parties by providing a bridge between any knowledge gaps, and to reinstate fluency between the parties through appropriate communication. To achieve this, a turnaround adviser will need to analyse and understand what is at stake for all parties and will need to be in a position to do so before starting any negotiations.

Stakeholder management during a turnaround process will change in direction from a customer focus, which is typically employed in a normal trading scenario, to that concerned with supplies, capital and other elements that impact cashflow improvement in the short term.

The customer, of course, continues to be important and supported, but will be less of a priority in this 'cash and time' critical phase.



Stakeholder management is about gaining and communicating information. Understanding a stakeholder's impact on a corporate turnaround through proper analysis is essential and includes working out the following key information:

Where do they fit within the business?

Due to the critical nature of turning around a failing business, there is rarely time to attend to all stakeholders as quickly as one may like. Consequently, stakeholders must be prioritised and graded according to the potential impact on the future of the business. Are they a key supplier, debt or equity provider? What are the implications on the business and its cashflow if they turn off the financial tap?

Are there any alternatives?

A 'plan B' provides certain comfort when negotiating in any situation, for example, finding another major supplier. But if a 'plan B' is not available, negotiate cautiously. Understand what is on both sides of the table, emphasise the benefits and be informative on any downside.

What are the expectations and limitations?

A turnaround adviser will need to assess the needs of the business against the expectations of the stakeholder and find some middle ground between them. This can be a long drawn-out process, but an important one. Knowing the limitations of all parties will help gain an understanding of where the compromise may fall.

Is there history?

Armed with a diagnostics review, a turnaround adviser will need to demonstrate that a business is capable of change and that the right team is in place to give effect to that change. It may be that, due to recent cashflow issues, it is probable that renegotiation of trading terms or financial covenants have previously been necessary. But if granted, were the varied terms met by the business? If promises have previously been broken, or a stakeholder misinformed, the relationship will be fragile and in need of repair.

The fine print

A full review of the relevant documentation is necessary to understand what legal steps a stakeholder may take in relation to a defaulted position. What rights does the stakeholder have that could seriously disrupt your turnaround strategy and plans for the future of the business?

Avoid infighting

The turnaround adviser will need to understand a stakeholder's common interests or conflicts with other stakeholders. Support provided by a certain stakeholder may well encourage other stakeholders to follow suit. However, the outcome for stakeholders within the same group may be vastly different and, therefore, each will have its own agenda – particularly when dealing with debt holders. Consequently, the managing of competing interests is often a complex and delicate task, which requires timely communication of relevant information throughout the turnaround period.

Communication

When it is finally time to open discussions remember this is not just a quick fix. The actions taken in these early negotiations will lay the foundations of hopefully a long-term relationship. It is essential, therefore, that communication is open and honest; clear, concise and continuous; and based on high-quality objective information.

5. Play the Long Game

The turnaround process is not just about establishing normality. Long-term change and process improvements are essential for future growth, cashflow and profitability, so it's important to see the process through to the end.

While the role of the turnaround adviser will likely lessen during the latter phases of a turnaround, there is still a role to be carried out. The turnaround process can be long and difficult but, if successful, will be morally and financially rewarding.

Daniel Cooksley
Turnaround & recovery director
+44 7706 309 466
d.cooksley@uhy-uk.com

What lies ahead for AI in the UK?

OpenAI launched ChatGPT 3.5 in November 2022 and, since then, it set growth records as it spread like wildfire. Today, it nears one billion unique visitors per month. Since its launch, the world has been all-consumed with talking about AI and its potential use cases across a wide range of industries. Sam Altman, co-founder and CEO of OpenAI, has said that AI tools can find solutions to "some of humanity's biggest challenges, like climate change and curing cancer".

There has also been plenty of talk about the largest tech companies (namely Google and Meta, as well as Microsoft) and their race in the pursuit of Artificial General Intelligence (AGI). This makes it sound very much like an arms race and this is a comparison that many have made. Within any race, there's often the concern that those in the race will cut corners and, in this particular race, many fear that the consequences could be disastrous. Within this article, we explore the possible consequences and the UK's stance on the regulation of AI to help safeguard against these.

The UK embracing AI

AI is seen as central to the government's ambition to make the UK a science and technology superpower by 2030 and Prime Minister Rishi Sunak again made this clear in his opening keynote at June's London Tech Week: "If our goal is to make this country the best place in the world for tech, AI is surely one of the greatest opportunities for us".

As discussed here, AI was also a headline feature earlier this year in the government's Spring Budget. Both within this Budget and since then, the following has been announced:

- £900m to establish a new AI Research Resource and an exascale supercomputer
- A £110m AI Tech Missions Fund
- An annual £1m 'Manchester Prize' to be awarded every year to researchers driving progress in critical areas of AI
- A 10-year Quantum Strategy that outlines actions for a new quantum research and innovation programme, which goes hand-in-hand with AI, with the intention of £2.5bn to be invested over the next decade
- An AI regulatory sandbox.

The risks of AI

Despite the many potential benefits of AI, there is also growing concern about the risks of AI, ranging from the widely discussed risk of disinformation to the evolving risk of cybersecurity. A couple of the widely discussed risks of AI include:

Misinformation and bias

Most AI tools will use Large Language Models (LLM), which effectively means that they are trained on large datasets, mostly publicly available on the internet. So it stands to reason that these tools can only be as good as the data they're trained on, but if this data isn't carefully vetted, then the tools will be prone to misinformation and even include bias, as we saw with Twitter's infamous chatbot, Tay, which quickly began to post discriminatory and offensive tweets.

AI alignment is a growing field within AI safety that aims to align the technology with our (ie. human) goals. Therefore, AI alignment is critical to ensuring that AI tools are safe, ethical and align with societal values. For example, Open AI has stated "Our research aims to make AGI aligned with human values and follow human intent".

Protecting jobs and economic inequality

Sir Patrick Vallance, the UK's former Government Chief Scientific Adviser, warned earlier this year that "there will be a big impact on jobs and that impact could be as big as the Industrial Revolution was". This isn't an uncommon view either, recently Goldman Sachs predicted that roughly two-thirds of occupations could be partially automated by AI. More worryingly, IBM's CEO Arvind Krishna predicted that 30% of non-customer-facing roles could be entirely replaced by AI and automation within the next five years, which equates to 7,800 jobs at IBM. Job displacement and economic inequality is a huge risk of AI.

Many have warned of other risks such as privacy concerns, the concentration of power and even existential risks. As this is a fast-evolving industry, you could also argue that, as we don't yet fully understand what AI could look like and be used for in the future, we also don't yet know all of the risks that the future will bring.

The calls for regulation

Despite talking about the potential benefits of AI, ranging from superbug-killing antibiotics to agricultural use and potential in finding cures for diseases, Rishi Sunak also recognised the potential dangers, saying "The possibilities are extraordinary. But we must, and we will, do it safely. I know people are concerned". Keir Starmer, also at London Tech Week, continued this theme by saying "we need to put ourselves into a position to take advantage of the benefits but guard against the risks" and called for the UK to "fast forward" AI regulation.

Rishi Sunak also went on to say that "the very pioneers of AI are warning us about the ways these technologies could undermine our values and freedoms, through to the most extreme risks of all". This could be a reference to multiple pioneers, including:

- Geoffrey Linton, widely referred to as the 'AI godfather', stood down from his role at Google so he could "freely speak out about the risks of AI", which ranged from misuse from bad actors and rises in unemployment all the way to the existential risks that AGI could pose.
- Sam Altman, CEO at OpenAI, has repeatedly cautioned about the risks of AI and in his testimony earlier this year stated "OpenAI believes that regulation of AI is essential".
- Google's Chief Executive Sundar Pichai stated in the Financial Times he believes "AI is too important not to regulate, and too important not to regulate well".
- Everyone, including Elon Musk and Steve Wozniak, signed the open letter calling for a 6-month pause on the development of AI systems that are more powerful than OpenAI's GPT-4.

Despite the calls, it should also be acknowledged that AI is extremely difficult to regulate. It is constantly evolving so it becomes difficult to predict what it will look like tomorrow and as such, what regulation needs to look like to not become quickly obsolete. The fear for governments, and the pushback from AI companies, will be that overregulation will stifle innovation and progress, including all the positive impacts that AI could have, so a balance must be struck.

What is the UK's stance on regulation?

Earlier this year, it seemed that the UK's stance on regulation was to be a very hands-off approach and this would be largely left to existing regulators and the industry itself by taking a "pro-innovation approach to AI regulation" (which was the name of the white paper initially published on 29 March 2023).

Within this White Paper, unlike the EU, the UK's Government confirmed that it wasn't looking to adopt new legislation or create a new regulator for AI. Instead, it would look to existing regulators like the ICO (Information Commissioner's Office) and the CMA (Competition and Markets Authority) to "come up with tailored, context-specific approaches that suit the way AI is actually being used in their sectors". This approach was criticised by many, including Keir Starmer who commented that "we haven't got an overarching framework".

However, since this white paper (which has since been updated), Rishi Sunak has shown signs that the UK's light-touch approach to regulation needs to evolve. At London Tech Week, he stated that he wants "to make the UK not just the intellectual home but the geographical home of global AI safety regulation". This was coupled with the announcement that the UK will host a global summit on safety in artificial intelligence this autumn where, according to a No. 10 spokesman, the event will "provide a platform for countries to work together on further developing a shared approach to mitigate these risks". It isn't just the first global summit that will come to the UK, but also OpenAI confirmed their first international office will be opening in London. Sam Altman stated this is an opportunity to "drive innovation in AGI development policy" and that he's excited to see "the contributions our London office will make towards building and deploying safe AI".

£100m has also been announced for the UK's AI Foundation Model Taskforce, with Ian Hogarth, co-author of the annual State of AI report, announced to lead this task force. The key focus for this Taskforce will be "taking forward cutting-edge safety research in the run-up to the first global summit on AI".

Time will tell on both the potential (both good and bad) for AI and how the regulation within the UK and globally rolls out, but it's clear that the UK wants to play a leading role in both regulation and innovation, which may at times clash with each other. In an interview to the BBC on AI regulation, Sunak said "I believe the UK is well-placed to lead and shape the conversation on this because we are very strong when it comes to AI". If you want to discuss the benefits of AI for your specific business situation, please contact James or get in touch with your usual UHY adviser.

James Foster
Head of OMB/Tech strategy at UHY East
+44 1462 687 333
j.foster@uhy-uk.com

Streamlining workflow: embracing accounting automation technology

In today's fast-paced business environment, small and medium-sized enterprises (SMEs) strive for efficiency and competitiveness. The integration of technology has become essential for businesses to optimise their operations, increase productivity, and deliver exceptional service.

In this article, we will delve into the world of accounting automation technology and exploring the benefits it offers. Regardless of your businesses size or technological proficiency, we will guide you through the simple steps of implementing this technology into your accounting workflow.

Harnessing the power of automation

Accounting automation technology has proven to be a game-changer for businesses. By eliminating manual tasks and streamlining processes, this technology offers significant time savings and operational efficiencies. We regularly see clients embracing technology to remove manual processes allowing their teams to focus their energy on more profitable tasks.

Bridging accounting and technology

Successful implementation of accounting automation technology requires the merging of accounting expertise with technological know-how. Today, those working in accounts teams not only need financial acumen but also to be well-versed in the latest technologies. By adopting automation tools, accounting teams can ensure that they are working in the most efficient way possible.

Shifting perceptions and demonstrating value

The advent of automation technology has shattered the stereotype of accounting as a manual and labour-intensive process. By embracing automated systems, those performing finance functions can showcase their true value to businesses. By eliminating time-consuming tasks through automation, accountants can redirect their efforts towards providing high-value advice and strategic insights. This paradigm shift dispels the notion that accountants are solely number crunchers.

Real-time data for informed decision-making

Integrating accounting automation technology enables compilation of real-time management information. Gone are the days of waiting for quarterly reports; businesses can now have access to up-to-date financial insights. This empowers business owners to make informed decisions based on accurate and timely data.

Staying ahead of the curve

To thrive in today's dynamic business landscape, you must remain proactive in adopting technology. Cloud adoption and automation are no longer optional but critical for sustainable growth and all round business health. Continual review of internal processes and adaptation are paramount to remaining competitive in the digital age.

Now take the next step...

Accounting automation technology offers significant benefits, empowering you to streamline workflows and improve overall efficiency. By embracing this technology, businesses can leverage real-time data, offer valuable insights, and deliver superior client service. In today's digital era, integrating automation is no longer a luxury but a necessity for businesses of all sizes. Unlock the power of accounting automation by taking the first steps towards a more efficient future, and speak to your usual UHY adviser for information on the best platforms for your business.

Rebecca Roberts
Director
+44 115 959 0900
r.roberts@uhy-uk.com

Demystifying the High-Income Child Benefit Charge: what you need to know

The High-Income Child Benefit Charge (HICBC) has been a topic of discussion since its introduction in January 2013. This year, as the charge celebrates its tenth anniversary, it is crucial to understand its implications, who it affects, and the available options for parents or guardians. Here we provide a high level summary of the key things you need to know.

Child benefit is a government payment provided to individuals responsible for raising a child in the United Kingdom. The amount varies based on the number of children and their ages, with the current rates set for the 2022/23 tax year. For the eldest or only child, the payment is £21.80 per week, while for any additional children, it amounts to £14.45 per week. Children must be under the age of 16 or under the age of 20 if they are still in education or training.

The HICBC applies to individuals or their partners with an income exceeding £50,000 if they receive child benefit. Additionally, if someone else claims child benefit for a child living with you and they contribute at least an equal amount toward the child's upkeep, you may still be subject to the charge. It's worth noting that the HICBC can affect not only high earners but also basic-rate taxpayers, as the earnings threshold includes various types of income, such as bonuses, rental income, and interest on savings.

For individuals with an income above the threshold, the decision to claim child benefit becomes a personal one. You can either choose to receive the payments and repay the tax charge at the end of the tax year, or you can opt out of receiving the benefit altogether. Opting out has its advantages, as it allows you to still fill in the Child Benefit Claim form. By doing so, you will receive National Insurance credits, which count towards your State Pension.

If one partner earns less than £12,570 a year, completing the form in their name is recommended. Moreover, opting out ensures that your child will be issued a National Insurance number automatically before they turn 16 years old.

If you are already receiving child benefit payments and your income, or your partner's income, exceeds £50,000, you have a choice to make. You can either opt out of receiving child benefit payments, or you can continue receiving the payments and pay any tax charge at the end of each tax year.

To pay the HICBC, you must register for Self Assessment and submit a tax return each tax year. The tax owed must be paid by 31st January after the end of the tax year. It is essential to note that if you do not typically complete a tax return, you need to register by 5 October following the tax year in which the charge applies. Failure to register for Self Assessment or to declare child benefit on your tax return can result in penalties.

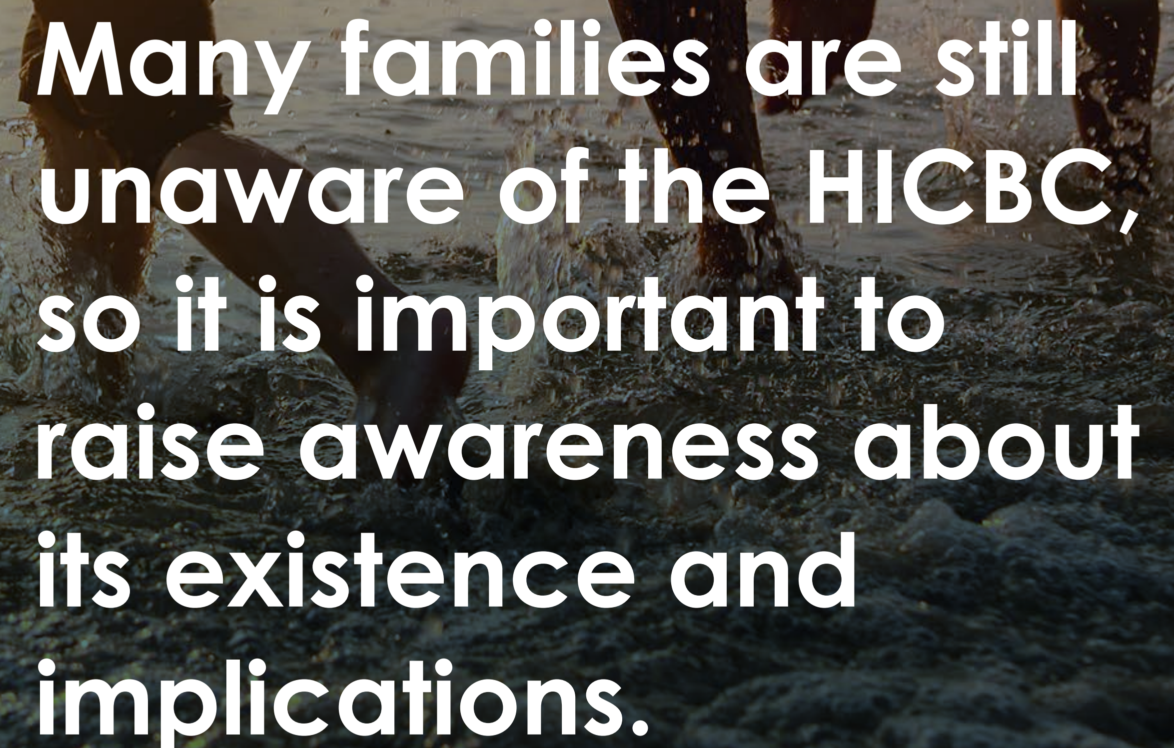
Raising awareness and seeking advice

Many families are still unaware of the HICBC, so it is important to raise awareness about its existence and implications. Employers can play a role in informing employees whose income approaches or exceeds the £50,000 threshold. Seeking advice from tax and business advisers can also provide clarity on individual circumstances and help navigate the complexities of the charge.

Understanding the High-Income Child Benefit Charge is crucial for families with an income above the threshold. This charge, although introduced to target high earners, can impact basic-rate taxpayers as well. By being informed about the HICBC, individuals can make informed decisions about claiming child benefit and ensure compliance with tax regulations. If you are unsure whether or not you are affected, or would like advice on the best way to tackle the HICBC, speak to your usual UHY adviser.

Alison Price
Partner
+44 1462 687333
a.price@uhy-uk.com

Jonathan Haggart
Tax manager
+44 161 236 6936
j.haggart@uhy-manchester.com



Many families are still unaware of the HICBC, so it is important to raise awareness about its existence and implications.

Topping up your national insurance contributions to secure your state pension

As retirement approaches, ensuring a comfortable financial future becomes a top priority for many individuals. If you plan on claiming the UK State Pension, it is essential to evaluate your National Insurance (NI) contributions to avoid any gaps that may affect your pension entitlement. In this article, we take a look at what you can do to help secure a full state pension.

Qualifying for the UK State Pension

To qualify for a full UK State Pension, individuals generally need a minimum of 35 qualifying years of National Insurance contributions. However, specific rules apply for those with an earlier retirement date. To receive a partial State Pension, at least 10 years of contributions are required. Failure to meet these criteria could result in a reduced or no State Pension at all.

Filling gaps in your NI record

Fortunately, there is an opportunity to fill any gaps in your NI record through voluntary contributions. Traditionally, individuals can only cover gaps from the past six years, however, the government extended the window to plug gaps dating back to April 2006. Initially set to expire on 5 April 2023, the deadline was extended to 31 July 2023, which we wrote to you about earlier this year. On 12 June 2023, the government announced that the voluntary National Insurance contributions deadline has been further extended to 5 April 2025. The extension means that taxpayers have a longer period to enable them to afford to fill any gaps if they choose to do so. All relevant voluntary National Insurance contributions payments will be accepted at the rates applicable in 2022 to 2023 until 5 April 2025.

The importance of checking your NI record

To make informed decisions regarding your NI contributions, it is crucial to check your National Insurance record. This includes contributions made through PAYE, self-assessment, and credits. If you suspect any errors in your record, it is advisable to contact HMRC promptly to rectify the situation.

How to top up contributions

If you are concerned about your NI contributions, taking steps to protect your access to the State Pension and other benefits is vital. You can make voluntary top-up payments through Class 2 or Class 3 contributions. However, before making additional payments, it is recommended to seek professional financial advice. Consulting with experts can help you determine if further contributions are necessary before reaching the state retirement age and they can inform you about upcoming rule changes.

Accessing your National Insurance record and pension forecast

To review your NI record and obtain an estimate of your State Pension entitlement, you will need a Government Gateway user ID and password. If you do not have a user ID, you can create one before checking your record. Online tools provided by the government enable you to check your NI record and assess your future pension prospects.

Seek professional advice

If you believe there are gaps in your NI contributions and are concerned about their impact on your State Pension entitlement, it is advisable to seek assistance from professionals. Tax partners like Neela Chauhan at UHY Hacker Young can guide you through the process of reviewing your contributions history and help you make any voluntary payments necessary to maximise your State Pension.

Neela Chauhan
Partner
+44 20 7767 2633
n.chauhan@uhy-uk.com

To qualify for a full UK State Pension, individuals generally need a minimum of 35 qualifying years of National Insurance contributions.

Managing the new pension allowance landscape

Your retirement planning options could need reviewing after the Budget changes to the lifetime allowance and the annual allowance.

When the current pension tax regime was introduced 17 years ago it had two new constraints:

- the lifetime allowance (LTA) set the effective maximum tax efficient value of your retirement benefits. It started at £1.5 million, which today would be about £2.44 million.
- the annual allowance (AA) set your maximum tax-relievable contribution from all sources across a single tax year. It began at £215,000 in 2006/07.

As the Treasury grew concerned about tax relief costs it began a whittling down process that meant by 2022/23 the LTA was £1,073,100 and the AA £40,000 (at best). As a result, some higher earners found that pension contributions had become tax inefficient. The March 2023 Budget made two important announcements on the allowances:

- the LTA will disappear completely from 2024/25, while in 2023/24 it will generally not apply to retirement benefits.
- the maximum AA was increased from £40,000 to £60,000 from 2023/24.

These changes mean that you now have greater scope to plan your retirement using pension arrangements rather than other forms of saving. That is particularly the case if you (and your employer) were prevented from making any pension contributions because of either the risk of exceeding the then LTA, or if you benefitted from one of the various transitional LTA protections introduced over the years.

Planning considerations

Now you can make a pension contribution without having to consider LTA constraints. Contributions could cover not only the current tax year, but also any unused AA from the last three tax years – a maximum potential total contribution of £180,000 in 2023/24.

In practice any resumption of, or increase to, contributions should only happen after a careful review of your personal circumstances and retirement options. For example:

- if you have already taken income flexibly from your pension, your total contributions will be subject to the money purchase annual allowance of £10,000 per tax year (an increase from the previous £4,000).
- making a large contribution in one tax year may mean you receive less tax relief than you would by spreading the contribution over several tax years.
- if you are self-employed and subject to the basis year transitional rules in 2023/24, a substantial one-off contribution could help counter the increased income tax bill you may face.
- new rules that place a cash ceiling on the 25% tax-free pension commencement lump sum could mean that all or part of any fresh contributions can only be used to provide taxable pension income. In that instance you may prefer other investment options.

Even if you do not want to add to your retirement fund, pension contributions may still make sense from an estate planning viewpoint. Death benefits from pension arrangements are generally free of inheritance tax, and on death before age 75, also income-tax free for the recipients.

The value of your investment and any income from it can go down as well as up and you may not get back the full amount you invested. Occupational pension schemes are regulated by The Pensions Regulator.

If you would like to discuss your future arrangements, or to arrange a view of your current retirement position, please speak to Adam Wing or your usual UHY adviser.

Adam Wing
Financial adviser
+44 115 959 0900
a.wing@uhy-uk.com

Inheritance tax – take time to review your estate planning

Inheritance Tax (IHT) is so often associated with death that we tend not to consider the potential planning opportunities that are available. Whilst doing so may be thought of as an emotionally exhausting task, the potential savings available can make the effort worthwhile.

Inheritance Tax is a significant consideration for individuals when planning their estates. It is a tax charged at 40% on the chargeable estate exceeding the 'nil-rate band,' which currently stands at £325,000 for the tax year 2022/23. However, it is essential to recognise the potential planning opportunities available to minimise the impact of IHT and maximise the wealth passed on to the next generation.

Married couples have the advantage of combining their nil-rate bands, allowing for a combined allowance of £650,000. Additionally, the introduction of the residence nil-rate band (RNRB) in April 2017 provides further relief when the main residence is passed to a direct descendant upon death. The RNRB, currently set at £175,000, can be transferred to a surviving spouse if not fully utilised. This means that a married couple could potentially transfer up to £1 million to their descendants without incurring inheritance tax.

It is important to note that specific conditions must be met to qualify for the RNRB, and failing to meet these conditions can result in the loss of a significant tax saving of £70,000 per individual.

There are various planning opportunities to reduce the chargeable estate and mitigate the impact of IHT. Some of these options include:

Annual exemptions: Everyone can give away £3,000 per tax year without triggering IHT. In addition, small gifts of £250 can be given to any number of people per tax year.

Wedding and special occasion gifts: Parents can make wedding gifts of £5,000 to each of their children, grandparents can give £2,500, and anyone else can gift £1,000.

Regular gifts: Regular gifts made out of income and not affecting the donor's normal standard of living can be exempt from inheritance tax. However, determining what constitutes a normal standard of living can be complex, so seeking professional advice is recommended.

Sophisticated tax planning: Depending on individual circumstances, more advanced tax planning strategies may be recommended. This can include transfers into trusts or investing in assets that qualify for Business Relief.

Life insurance: If concerns about cash flow arise due to an illiquid estate, a life insurance policy can be created to cover some or all of the IHT liability.

Considering IHT and planning for it in the long-term is crucial, just as we do with income tax or corporation tax matters. By taking advantage of the available allowances and exploring appropriate planning opportunities, individuals can potentially achieve significant savings and ensure that more of their wealth passes on to the next generation.

However, it is essential to review estate planning regularly, especially considering the rising trend of inheritance tax payments. HMRC data indicates that IHT receipts hit a new high in 2022/23, with the freeze on the nil-rate band since April 2009 contributing to the increase. IHT now potentially affects more people, particularly when a surviving spouse or civil partner passes away.

To mitigate the impact of the nil-rate band freeze, individuals should consider various strategies. These include maximising pensions as an estate planning tool, utilising the normal expenditure exemption for regular gifts made from income, keeping Wills up to date, and considering passing money directly to grandchildren to reduce the IHT on children's estates. It is crucial to integrate IHT planning into overall financial planning and seek professional advice to navigate the complexities of the legislation.

In summary, inheritance tax planning is essential for individuals who want to minimise the tax burden on their estates and maximise wealth transfer to future generations. Understanding the available allowances, considering planning opportunities, and regularly reviewing estate plans can lead to significant savings and ensure that individuals have control over who benefits from their assets.

Sarah Whalley
Partner
+44 161 236 6936
s.whalley@uhy-manchester.com

The rising trend of employee ownership: a path to success for businesses

In recent years, an increasing number of businesses have been embracing employee ownership as a strategic choice for their future. Employee Ownership Trusts (EOTs) have gained significant traction as a means to empower employees and drive business growth. This article explores the reasons behind this growing popularity and provides up-to-date statistics on the adoption of employee ownership in various sectors.

The Power of Employee Ownership: Employee ownership refers to businesses where the majority of ownership is held by the employees through an Employee Ownership Trust (EOT). This unique trust structure ensures that assets are held for the benefit of both current and future employees, creating a sense of shared responsibility and commitment.

The Soaring Growth of Employee-Owned Businesses: Recent statistics released by The Employee Ownership Association (EOA) and the White Rose Centre for Employee Ownership (WREOC) shed light on the remarkable growth of employee-owned businesses:

1. Doubling in Size: Between 2020 and 2022, the employee-owned sector more than doubled in size, with over 1,000 businesses adopting employee ownership.
2. Record Yearly Growth: In 2022 alone, 332 new businesses transitioned to employee ownership, setting a consecutive record for yearly growth. This surpassed the previous record of 285 businesses in 2021.
3. Rapid Expansion: As of June 2023, the total number of employee-owned businesses reached 1,418, representing a remarkable 37% growth in the past 12 months.

Sector Breakdown of Employee Ownership: Employee ownership has permeated various sectors, with the following sectors emerging as the leaders:

1. Professional Services - 39.1%
2. Manufacturing - 15.1%
3. Construction - 13.6%
4. Wholesale & Retail Trade - 11.4%
5. Information & Communication - 8.1%

The Benefits and Motivations Behind Employee Ownership: The increasing popularity of EOTs can be attributed to several advantages and motivations for both sellers and employees:

Benefits for sellers:

- Attractive Buyers and Fair Price: Sellers benefit from readily available buyers willing to pay a fair price, eliminating the need to search for external buyers or sell to competitors.
- Preservation of Culture, Values, and Legacy: An EOT enables sellers to retain the culture, values, and legacy they helped build, mitigating risks associated with third-party sales.
- Potential Tax Relief: Unlike traditional sales routes, selling to an EOT does not attract capital gains tax on the consideration received for the shares, offering potential tax advantages.

Benefits for employees:

- Financial Reward without Commitment: Employee ownership allows employees to share in future profits without personal financial commitment, unlike management buyouts (MBOs).
- Greater Opportunities: Employees benefit from increased progression opportunities and a stronger voice in shaping the company's future.
- EMI Scheme Integration: EOTs often integrate an Enterprise Management Incentive (EMI) scheme, providing key employees with options to acquire equity and further incentivising their commitment.

Employee ownership continues to gain momentum as businesses recognise its transformative potential. The remarkable growth of employee-owned businesses highlights the effectiveness of EOTs in fostering a culture of shared ownership and driving sustainable success. As more sectors embrace this model, the landscape of employee ownership continues to evolve, creating new opportunities for businesses and their employees alike.

Alison Price
Partner
+44 1462 687333
a.price@uhy-uk.com

Employee ownership allows employees to share in future profits without financial commitment, unlike MBOs

Unlocking global growth: overcoming banking challenges for international businesses

Over recent years, global banking regulations have failed to support business globalisation by making it difficult to obtain accounts in international market locations. This issue can be overcome in some instances by registering a business within the country of operation but, in many cases, local accounts are still challenging to obtain unless the company has locally registered directors and/or shareholders.

In the wake of Brexit, this issue has become increasingly common with trade between the UK and European Union, with some UK banks even proactively closing accounts of UK & EU registered businesses who have shareholders who are not located in the UK (and vice versa). This creates barriers for ambitious companies seeking to grow through international markets such as:

- Lack of financial presence within operational countries/regions
- Lack of connectivity to local payment networks
- Expensive payment fees/margins when selling through marketplaces and platforms, or collecting revenue through payment gateways where revenue is repatriated from the source straight to the UK business
- No infrastructure to hold balances and pay local costs such as office/operation, suppliers, marketing and staff
- Inability to register for tax/VAT within country of operation
- Additional complications in managing multi-jurisdictional tax.

In some cases, these challenges have discouraged businesses from entering new markets. We have even seen businesses proactively withdrawing from historically profitable markets due to their frustrations with these challenges.

With much of the traditional banking industry unable to provide a sufficient solution to overcome these challenges and provide a platform for global growth, there are other options available outside of the banking industry to obtain local accounts, without the need to register new business entities.

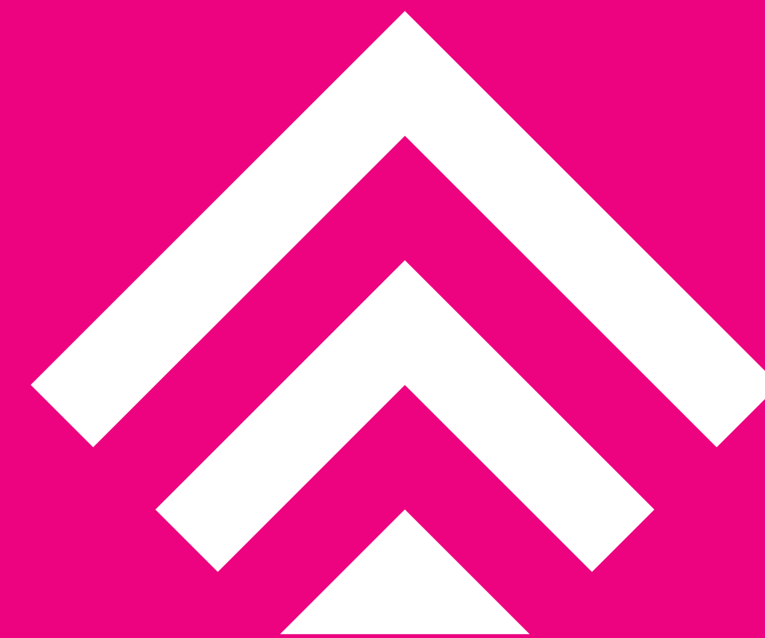
Operating local accounts provides a significant benefit compared to operating "offshore" accounts which are not domiciled in the country of the currency they are in. With local accounts you are able to:

- Connect to fast, low cost, local payment networks enabling your clients to pay you quickly and locally
- Collect revenues from a multitude of payment channels such as electronic transfers, payment gateways and marketplaces
- Demonstrate a local banking presence to register for tax in the countries your business is generating revenue
- Hold funds locally, pay local costs and repatriate profits inter-company
- Reduce exposure to FX by paying in the currencies you are receiving as required
- Manage local payrolls.

Traditional banking falls short in addressing global growth challenges, prompting businesses to explore alternative options for obtaining local accounts without extensive registration requirements.

WorldFirst offers local currency accounts available in 12 currencies through our global network of counterparty banks. This enables businesses to manage multiple multi-national accounts across group companies with a single point of visibility and control. To learn more about how implementing a local account solution can support your business simplify global trade please contact your UHY contact who will make an introduction to WorldFirst.

Alternatively reach out to Mark Williams, Senior Relationship Manager - Partnerships at mark.williams@worldfirst.com.



Future fit finance function for a futuristic business - a client case study

Azotic Technologies Ltd is a cutting-edge biotechnology company, formed to introduce sustainable biofertiliser options around the world. Headquartered in York, and with North American offices in California, USA and Ontario, Canada, Azotic has used more than 20 years of academic research to develop revolutionary 'N-fixing' technology that enables crops to fix nitrogen directly from the air, reducing requirements for synthetic nitrogen.

From growing crops to growing the business

Azotic's product, Encera, gives crops access to nitrogen where it is needed, when it is needed. When Encera was launched in the US in 2019, growers were impressed with the product's ability to boost both the yield and quality of crops and Azotic quickly became a global leader in this technology. Following great success in North America, expansion into Europe was next. With a cutting-edge product and a clear growth strategy, the concern for management was whether or not the finance function was capable of scaling up and supporting Azotic's evolving development and growth.

This is where UHY comes in

Recognising the need for support, Azotic approached our York office, UHY Calvert Smith, in November 2021 with an initial brief to outsource the finance function. Following appointment, it became obvious to our team, led by UHY Calvert Smith manager Kerry Whattam, that Azotic had outgrown their accounting systems and procedures.

The solution was to offer a fully managed financial service, converting Azotic's finance systems onto cloud-based software and introducing partner apps to improve processes and efficiencies. Our UHY team have worked very closely with Azotic since, preparing management accounts, cash flow forecasting, profit projections as well as financial reporting and compliance work.

The change process…

Kerry and our UHY team started the change process by converting the accounting system from Sage Desktop to cloud-based accounting product, Xero. With management working between the UK headquarters in York and North American offices, including the CEO and Director of Finance based in Canada, having access to accounts and documents online, wherever in the world the team were based, transformed the finance process. From full transparency and access to accounting reports and the ability to monitor actual vs budgets at the click of a button, to specialist modules such as a fixed assets module accessible by management at a time to suit them, to a multi-currency function to account for foreign transactions; the benefits were immediate.

Once the accounting system had been converted, it became clear Azotic's chart of accounts were no longer in line with management's needs. After consulting with management and establishing business goals and requirements, our UHY team developed a new chart of accounts. As a result, management now have access to meaningful reports and the new chart of accounts has also simplified the process of preparing the year-end statutory accounts and improved the process of identifying qualifying R&D expenditure. Reporting app, Fathom, has also been introduced to further improve the reporting process, allowing insightful cash flow forecasting and actionable financial insights.

Fit for purpose = fit for the future

Our UHY team went on to review Azotic's internal processes and highlight areas for improvement which included digitalising the purchase ledger, purchase ordering and expense procedures.

Historically, invoices were kept in a filing cabinet, visible only to the team in York. Management would have to request information and, given the time zone differences, often wait for hours, or even days, for the response. By introducing DEXT, a cloud app that effortlessly integrates with Xero, invoices are now digitally captured and stored, with document images available via the chart of accounts, bills and even the VAT return. This not only allowed Azotic to replace folders of paperwork with fully accessible information, but it also enabled our UHY team to offer a fully remote managed finance service to Azotic, ensuring no disruption to suppliers along with the added benefit of being environmentally friendly.

Automation and accountability

Purchase orders were based on a Word and email based approval system, which involved manually searching an inbox for approved purchase orders; a very admin heavy task at both junior and senior level. We introduced ApprovalMax, an app that replaces paper or email approvals with fully automated multi-role and multi-tiered approval workflows. Not only has the app saved valuable hours in administration, but it has also introduced accountability for purchase order spend and aided cash flow forecasting, as well as providing instant visibility of unbilled purchase orders.

Staff expenses were also historically based on an email approval method. However, the introduction of DEXT meant employees were able to digitally submit expenses for approval, meaning no missed claims and a faster reimbursement turnaround.

Huge savings to international payments

Due to the global reach of Azotic, the business makes a large number of international payments a year and is subject to high foreign transaction fees as a result. Having identified the business would benefit from both the services of an international broker and a payment solution provider, our UHY team introduced open banking payment platform, Crezco. The direct bank-to-bank platform integrates with Xero and has already resulted in considerable efficiencies, including saving the time associated with the banking payment process as well as saving over £32,000 (and counting!) in bank exchange rates and fees.

With Azotic's Director of Finance in Canada, our UHY team are able to simply select which invoices need to be paid and create a payment batch via Crezco. The payment batch link is sent to the Director of Finance who can approve payments with one click.

Not only is the system extremely efficient, but it also enables payments, even multiple invoices, to automatically reconcile in Xero – again, saving time.

Following the success of Crezco's implementation for domestic and international payments, our UHY team now also use the system for the monthly payroll run, increasing accuracy and reducing the process from 45 minutes to seconds.

Growth enhancing systems for a growth enhancing product

With a ground-breaking product and high levels of demand, Azotic is a fantastic business that is evolving rapidly. With data proving Encera results in consistent yield increases, the product is now registered for use in Europe and Azotic has plans to commercialise Encera across the EU; and that is just the start. "The USA and Canada established our foundation, with the EU representing our next growth phase," explains Tom Chavez, Global Head of Sales for Azotic. "We are actively pursuing registrations globally, including in Latin America, South East Asia, Africa, and Australia. The level of interest in Encera from these regions is remarkable, and we look forward to expanding our market access".

At UHY, we are driven by our purpose of helping our clients prosper. As Azotic's operations branch out into new markets, we are looking at the systems around stock control to ensure they support future growth. The management pack will also continue to evolve. Essentially, our UHY team are reviewing every part of Azotic on an ongoing basis, seeking to add value and digitalise where appropriate. Our support to date has resulted in hundreds of saved hours and thousands of pounds – and there are many more to come.

Kerry Whattam
Cloud Accounting manager
+44 1904 557 570
k.whattam@uhy-calvertsmith.com

Embracing change

If there is one thing we have learned over the last few years it is the value of embracing change. Nobody could have predicted the global disruptions but it is true to say that those whose businesses have survived, or even prospered, have been those who have been better at dealing with change.

There have been dramatic changes not just in the workplace and in ways of working, but also in the adoption of technology: how we work with clients in the cloud, manage teams remotely and use AI-based data analytics software for improving efficiency and accuracy.

Rather than accept change, or rush headlong into it, many of us have had change thrust upon us. As a result, some businesses have pivoted entirely, organisational models have adapted and we have seen long-term thinking change drastically. The idea of the Great Resignation (the observed mass exodus of workers after/during the pandemic) tells us a lot about how we might need to approach work from now on.

Embracing change

But what does embracing change really mean? It is about looking for opportunities and advantages, but it also means being optimistic if a perceived change does not at first look like one for the better. For us at UHY it also means being open to innovation and not necessarily accepting 'business as normal'.

But it is not always easy. Research published in the Harvard Business Review* asserts: "A root cause of resistance to change is that employees identify with and care for their organisations. People fear that after the change, the organisation will no longer be the organisation they value and identify with."

Of course, change for some people is easier than for others. For those who find it more challenging, it is sometimes the case that being an employee of an established business means not having to deal with the disruptions and pivots usually associated, for example, with startups and entrepreneurial businesses. Some people thrive in an organisation with set processes and procedures, and so do their managers.

Cultural solutions

However, when change is inevitable, how can you embrace it and encourage your employees to also do so without fear?

One way is to create a culture of dialogue and continuous improvement. Staff and management feedback is essential. By seeking input from your employees, by showing that you are open to their ideas, and by demonstrating a willingness to embrace new things, you can encourage your people to do the same. Similarly, by setting expectations of continuous improvement, incremental change becomes the norm.

Leading by example and having a positive response to change at management level, whether technological or in terms of process, is also likely to foster a more open-minded approach across the rest of the workforce.

In order to help people cope with change, it is useful to understand how they might react to it. For example, some people will respond quickly while others may respond well but with a longer transition time. Understanding this and adapting your expectations and processes will make embracing change easier. Addressing reactions and dealing with them diplomatically and sensibly will help, so strong employee-employer relationships are important.

The UHY network has an ambitious, collaborative and innovative culture. We are open to embracing new methods of working when they yield positive outcomes and the same applies to more 'traditional' models. It is an approach to change that I hope has served our member firms and their clients well. While nobody would say that the events of the last few years have been anything but difficult, the transformations they have enabled for many of us have been phenomenal and this is something we should all embrace.

For further advice, or any queries, please contact Rhys Madoc here.

Rhys Madoc
CEO, UHY International
r.madoc@uhy.com

*Harvard business review research: To Get People to Embrace Change, Emphasise What Will Stay the Same

Crypto in business: navigating payments, taxes and regulations

Many think of crypto as digital currency and it has often been suggested that certain cryptocurrencies such as Bitcoin will become a global currency, reducing the need for traditional fiat currencies such as GBP.

In the UK, cryptocurrencies are not currently considered currency in the traditional sense, but this does not mean that cryptocurrencies cannot be used in business transactions. Increasingly, businesses are accepting payment in crypto and this can lead to unusual outcomes for the payer and recipient.

Accepting payment in crypto

When the payment is received, the crypto will need to be converted to GBP to determine the amount of revenue that needs to be accounted for. This is no different from receiving payment in a foreign currency such as USD, and there are crypto tracking products that will handle the conversion for you.

If the business is VAT registered, a valid VAT invoice will need to be issued and the transaction would need to be converted to GBP to produce the invoice. Again, using software can take the stress out of the process.

The tax on the profits must be funded in fiat (HMRC is not willing to accept crypto as a payment method). If the business has other non-crypto income, the tax could be paid from these funds. Where crypto needs to be converted to GBP to settle the tax liability, this is considered a disposal for Capital Gains Tax (CGT) purposes. A resulting taxable gain or allowable loss will arise on the difference between the value of the crypto when received and sold.

Due to crypto's volatility it is always prudent to convert a portion to GBP immediately to cover any tax liability. We have seen businesses accept payment in crypto and not convert enough to GBP to cover taxes, the crypto value has subsequently crashed, and they are left with a tax liability and a substantially reduced crypto asset value from which to pay it.

Finally, the business will need to revalue its crypto holdings at the year-end, and this will create an unrealised gain or loss in the profit and loss account.

Paying in crypto

When an individual or business makes a payment in crypto this is a disposal for CGT purposes and, as such, any purchase using a cryptocurrency could give rise to a CGT liability. This is because upon transferring the crypto by means of payment the purchase no longer owns the asset and, therefore, a disposal has occurred.

Paying employees in crypto

Employees can be paid in crypto and the payment of their salary will be a disposal in the same way as above. The business also needs to account for PAYE and National Insurance on the amounts paid to the employee. Again, the PAYE and National Insurance needs to be paid in GBP and therefore if the business needs to fund this from crypto assets it is strongly recommended that they do this at the same time as payment is made to the employee to minimise the exposure to volatile crypto prices.

Investing in crypto

More and more businesses are investing in cryptocurrencies to diversify, and the rules here can become far more complex from a tax perspective. The reason for this being there are no specific crypto based tax laws in the UK and therefore we are currently forced to apply existing tax laws to crypto transactions.

The general rule is that any buying or selling of crypto or exchanging one token for another gives rise to a capital disposal and therefore a gain or loss. Cryptocurrencies are fungible and therefore we must pool them when calculating gains and losses in the same way as for stocks and shares.

The position is more complicated for rewards received from staking or lending, which can be subject to tax as income or capital depending on how the reward mechanism is structured, and care must be taken here.

As you can imagine, this causes a great deal of uncertainty and often unfairness. HMRC have released their crypto guidance, but this is not binding nor is it universally agreed upon.

HMRC have started the process of creating crypto specific tax laws with their consultation on how to best tax transactions in Decentralised Finance (DeFi). The move towards creating certainty for UK taxpayers in their crypto transactions is welcome and we can only hope that they arrive sooner rather than later.

What is the future of crypto ?

Regulation is one of the major talking points in crypto at the moment, with the EU introducing its Markets in Crypto Assets (MiCA) regulations, making the EU an attractive place for crypto businesses. In contrast, many crypto businesses are considering their future in the United States due to what is seen as anti-crypto narrative and regulatory uncertainty.

In the UK, HM Treasury has been consulting with industry experts on how to best regulate crypto. The hope is that the UK government can quickly implement a pragmatic and robust set of regulations. However, recently the Treasury Committee released a report in which they suggested that crypto should be regulated as gambling, this is at odds with the government's announcement last year that they plan to make the UK a "global crypto asset technology hub" and only fuels the current uncertainty.

Crypto is moving towards a more regulated future, which can only be beneficial for an industry that has been described as the 'wild west' by some commentators. Regulation could provide greater security and protection for its investors and allow the industry to continue to innovate and grow.

In a nutshell...

Businesses can receive payments in crypto but it creates a level of additional complexity that means that widespread adoption is unlikely in the short term. At present, the majority of businesses receiving crypto as payment are those in the crypto space (developers, digital artists etc.). However, with the introduction of crypto regulations, and specific crypto tax legislation, these barriers may reduce in the long term and crypto may become a global payment method.

Joshua Pearce
Senior tax manager
+44 1635 555 666
Joshua.pearce@uhy-rossbrooke.com

UHY's sector outlook

In this section, our UHY sector heads take a look at what's on the horizon for a number of our key sectors.

Property sector outlook

The property market is central to the performance of the UK economy and critical to social wellbeing. It is responsive, reflecting trends and changes in business and social behaviour. In this article we consider some of the current issues facing the residential and commercial property markets.

Residential

The obvious opening gambit for residential property issues has to be the increasing Bank of England interest rates. Many of the 8 million people with mortgages have been protected by fixed rate deals, but a considerable amount are due to end in the foreseeable future, and those borrowing are looking at significant and, in some cases, unaffordable increases in payments.

It is probable that initial increases in the base rate had limited impact due to the protection afforded by existing fixed rate deals, but this is likely to change as borrowers are hit by an immediate and not gradual increase. This is then likely to be compounded where borrowers fix their new payments for two to five years, resulting in higher repayments. Disposable income is estimated to drop by more than 20% which is likely to have a recessionary impact for the economy. The Institute for Fiscal Studies estimates that of the 1.4 million most likely to suffer, 700,000 will be under the age of 40.

The Treasury is understood to be in discussion with lenders to mitigate the impact to mortgage holders. This suggests a sympathetic approach, similar to the support provided during the pandemic, might be applied. However, there may be ramifications for borrowers whose credit ratings might be affected by taking up offers of help.

In respect of the impact on the housing market, we are already seeing values drop. Lenders apply strict eligibility criteria, so there may be less of an issue with negative equity than during previous recessions in the housing market.

This will have an impact on the availability of housing as new buyers may not be able to afford the new rates and any drop in house prices is unlikely to cover the shortfall.

This is compounded for renters as many landlords will face their own issues with rate increases resulting in increased rents.

For developers, the interest rate rises could result in more expensive financing, and less return on investment with lower house values. Nearly all developments require some form of financing, so this is likely to be a sector wide issue.

In turn, we may see a shift to other markets, for example student lettings, but this still requires financing and as such remains influenced by the base rate.

For investors with capital, the decrease in house prices and the increase in rent returns are likely to make this an attractive investment. We are seeing an increase in those at or around retirement age investing in property to provide income through their retirement while protecting their initial capital investment.

Commercial

The main issue has been the change in office culture after the pandemic. Working from home has become a part of working life and the routine use of technology for calls and meetings has been a game changer for many businesses. Some use the office to catch up with colleagues now, rather than the place where they undertake their actual work. It has resulted in many businesses reevaluating their office space and its use – can they decrease their footprint, and is what they have fit for purpose?

Many are waiting for the break clause to determine actual future requirements. This has produced something of a buyers market with half of the multinationals looking to cut office space in the next few years.

However, while the lockdown trend of working from home has become embedded as part of employee expectations, particularly in larger cities, the US government reported the number of firms with no remote working is within 6% of pre lockdown levels. Other surveys have found that over 50% of employees would consider leaving their roles if flexibility decreased. Therefore, employers need to find the right balance and provide the right environment to make it all work.

The market trend appears to be a higher increase in industrial rents through to 2027. There has been growth in respect of industrial investment as manufacturers look to decrease their reliance on overseas production.

Office rents are increasing at a much lower rate. Growth is however expected in this sector and was at around 1.6% in the year to 2023, up from 1% the year before. Key to growth will be the provision of the right space. Some estimate that over £2bn has been invested to repurpose offices no longer fit for purpose.

Overseas investors

Investment in UK properties has been something of an issue for a number of years, with many empty properties. The Economic Crime (Transparency and Enforcement) Act 2022 came into effect 1 August 2022. This resulted in a requirement for overseas entities that own UK property to register with Companies House by 31 January 2023.

This was introduced to provide better transparency in respect of corporate ownership (nearly 100,000 properties were recorded as owned by overseas entities). This gives HMRC more information and the ability to investigate the tax treatment. It has the potential to deter investors, but the compliance requirement is impossible to argue with.

What lies ahead?

There has been much commentary regarding the continually increasing interest rates and their imapct on the property market. The bigger issue may be the duration of their impact when the rates decrease but many are locked into higher rate deals for a much longer period. This then will directly impact the economic stability of the UK.

Sean Glancy
Partner
+44 20 7216 4674
s.glancy@uhy-uk.com

Impact of locked-in higher rate deals on long-term stability

Automotive sector

Last year the automotive retail market faced numerous unprecedented challenges, but it managed to remain steady and resilient. Many dealer groups reported healthy profits that were still considerably stronger than the outlook at the start of 2022.

Supply began to normalise, with an influx of new vehicles, although the industry did struggle overall, as demonstrated in the SMMT data showing a new vehicle registration volume of 1.61m, 2% down year on year. Pre-registration of new vehicles delivered to retailers by their brand partners also indicated that the manufacturers were keen to translate production into registrations by any means.

The turbulence of last year's market has raised questions as to what we can expect from this year, with forces like the impact of the agency model and steadfast pressures on supply and demand painting a muddy picture of 2023. We look at some of the key developments that will have the greatest impact on 2023 industry performance.

Overheads and cost of living

With UK inflation remaining steadier than was hoped for, and real incomes continuing to fall as a result, even in a strong performing market, inflated costs of things like utilities, borrowings and the cost of labour will affect retailer net profit. Couple this with further uncertainty over new car volumes, and furthermore permitted margins, it is easy to see why 2023 performance is expected to be at a level of around 70 – 80% of 2022.

The remainder of 2023 will certainly not be without its challenges but the retail motor sector is robust and, time after time, the industry has demonstrated its ability to evolve; in many cases, better than the start-ups who seek to exploit a marketplace that is often not fully understood in terms of its complexities and nuances, but that is what makes it so interesting.

EV residual values

Whilst EVs may be cheaper to run, most cost many thousands more to acquire when new, or nearly new, than the equivalent ICE derivative. The decline in used car confidence in a number of EVs in December 2022 was no doubt a wake-up call to the industry that some consumers have tried the BEV model and decided it is not for them. This faltering demand is combined with an EV market where residual value (RV) has become less certain and the cost of borrowing has increased, the monthly cost may not be bearable for all.

The incentives to buy EVs are still there, as a company car or salary sacrifice arrangement, or through the grants and loans offered by the government, but we would not want this to be at the expense of an artificial demand cycle which could weaken industry confidence as RVs falter. This could lead to the private owner failing to see the value in EVs over the Whole Life Cost (WLC) of the ownership proposition.

Agency and investment

The agency model will be a point of interest for many dealers, looking to evaluate its success and see how those that have adopted it have fared. This growing alternative will have major implications for the industry, and many dealers will have to plan and adapt as needed.

The model offers both advantages and disadvantages. Starting with its drawbacks, there is a significant ongoing cost associated with building a branded new car facility, or having to update a current one to the latest identity. This is a major challenge when the restricted return on investment is considered. However, the agency business model does offer a more appealing option for some smaller brands, with sales points of representation being available from a lower initial capital outlay in areas such as display, demonstration and stocking.

As the agency model matures there are several questions being asked by retailers and stakeholders in the industry. Will we see more buildings constructed as a 'generic', corporate but modular blueprint? Will the owner rotate brands as an agent, by wheeling in the latest signs to support the marque that is in vogue? Either way, commitment of capital must be a difficult decision for many, and something we believe will be key in deciding many strategic decisions over the next 12 months.

David Kendrick
Head of automotive
+44 161 236 6936
d.kendrick@uhy-manchester.com

The agency business model offers both advantages and disadvantages for dealers to consider.

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