

Broadcast

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A pincer movement is creating the current cost-of-living crisis. On the one hand pay rates are being held down by under pressure employers (including the government) and on the other hand by increases in two commodities that we need at almost any cost; food and energy (gas, electricity and fuel for vehicles).

If personal costs increase and earnings cannot keep pace any spare capacity – savings or expenditure on non-essential goods and services will quickly disappear. If this process continues, savings may be used in the short-term or hard-pressed individuals may be forced into debt to fund the basics.

This process of financial exhaustion holds true for businesses and individuals. Following as it does, hard on the heels of COVID lockdowns and disruption, the current economic outlook – rising inflation, rising interest rates, further energy price hikes and a possible recession – leaves little room for optimism.

So how do business owners and their employees cope in the coming months?

Don't bury your head in the sand

The remainder of this short update is a plea that we all face the approaching difficulties with our eyes wide open. We have listed below strategies that business owners and individuals may want to consider. Unfortunately, it is not possible in this short update to cover all possible tactics that you could employ, and we encourage you to call if you would like to create a personalised survival plan for your business or personal finances in the coming months.

Business strategies

Business will need to achieve two goals if they are to survive:

1. maintain profitability or at least breakeven, and
2. stay solvent.

Ideas to achieve this could include:

- When was the last time you increased your prices? If you sell goods or services that are in demand or if you offer after sales care that your competitors may not offer, then you may be able to generate additional income, and therefore profit, by simply increasing your prices.
- Could you create cross-sales opportunities by offering deals to your present clients and customers?
- Could you lock customers into longer-term contracts by offering them incentives – no price increases for a fixed term for example.
- A line-by-line review of your business costs is always instructive. Which costs could you reduce or replace with lower cost alternatives.
- Ask your bookkeeper to make a comprehensive list of costs you settle with your business credit card or by standing order or direct debit. These costs tend to be forgotten and many renew automatically even though you may no longer use the services paid for.
- Improve credit control to convert sales into cash more quickly.
- Monitor cash flow for at least the coming year to identify low points and organise funding.
- Produce monthly management accounts, even basic reports from most accounts software will confirm trading results (profitability) and produce a balance sheet (that will measure solvency).
- Double-up key suppliers so if one increases prices or cannot supply in a timely way, you will have a reserve.
- Keep an eye on competitors' websites and published price lists; are your prices higher or lower, how will you respond?
- Do you need to increase productivity – do more or as much with fewer employees?
- Could you reorganise storage and productive capacity in your workplace to free up space that could be sub-let, creating an additional income stream.
- Do you have slow-moving stock that could be sold at a reduced price to increase cashflow?
- Company directors who fund themselves with low salaries and high dividends will need to ensure that dividends payments are not made once retained profits are extinguished.
- When considering your management accounts make sure you factor in deductions for current taxation.
- If you are forced into a loss-making period, could you change your accounting date to make use of tax losses at an earlier date?
- When did you last invest in tax planning advice? There may be an opportunity(ies) to create recurring tax savings.
- Approach HMRC and apply for their Help to Pay assistance. This won't reduce taxes due, but it will help you spread the cash flow impact of payments.
- As a last resort you may have to prioritise investment decisions and defer those that will not have a positive and immediate impact on profitability.
- Approach lenders to see if present loans or asset finance arrangements could be replaced with less expensive options.

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- If you are still trading as a self-employed person or in a partnership, would it be prudent to incorporate your business or convert to a Limited Liability Partnership to protect your personal assets, particularly your home?

If you find any of these ideas useful and need help with implementation, please call. If you would like to brainstorm other ideas to better meet your business needs, please call. In both cases, we can help.

Personal cost-of-living survival strategies

Our goals as individuals in the coming economics downturn should be to:

1. meet current expenditure from current tax paid income.
2. retain our savings; and
3. avoid increasing our debts – loans and credit cards for example.

Ideas to help you achieve this are:

- If you are employed, have a frank conversation with your employer. Ask for a review to identify how you could increase your value to their business, and by achieving this, increase your remuneration.
- At present, there are plenty of job vacancies and unemployment is low. Worth applying for jobs if you are unable to win pay increases from your present employer.
- Consider swapping benefits, for example an expensive company car, for a cheaper – less tax costly – alternative and a compensating increase in your gross salary. This would also save your employer Class 1A NIC charges.
- If your employer pays for your private petrol, you will be required to pay a hefty car fuel benefit tax charge. A cheaper cash alternative may be to reimburse your employer for any private fuel and save on tax payments. Worth crunching the numbers.
- Could you take a break from making contributions into your pension scheme. This is a decision you could only make with the help of your pension's adviser.
- Would you or other members of your household have time to take on a part-time job?
- Do you have a hobby that you could transform into a small online business? You could earn up to £1,000 a year in turnover without needing to declare this income to HMRC.
- Live close to an airport or industrial area? Could you rent out your drive during the day or overnight and create an extra income. Rents of up to £1,000 a year are also tax-free.
- Could you rent-a-room or rooms in your home? As long as you stay in residence rents of up to £7,500 per year are tax-free.
- If you don't want strangers in your house but are willing to house aged parents or other close relatives, could they rent out their paid-for property and contribute the rents to your household budget.
- Set-up a local community car share scheme with your neighbours. Do you all need to own a car?
- If you already have significant personal debts, could you reduce monthly payments by refinancing with less costly alternatives?
- If your personal exposure to debt is already more than you can cope with, approach a debt counsellor or debt management specialist to see if a formal arrangement with your creditors could be organised. Very often this will result in a reduction of monthly repayments and a fixed term to the end of your debt mountain.

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- Investigate any grants or financial support you may be able to claim for insulating your home and thus reducing your energy footprint. See guide on Money Saving Expert <https://www.moneysavingexpert.com/utilities/free-cavity-loft-insulation/>
- Replace old-tech boilers with modern updates that are generally more efficient at converting energy consumption into heat.
- Dust-off your grandparent's gardening books and try growing some of your vegetables and fruit in your garden. Catch the green-finger bug and you could expand to an allotment.
- Round-up unwanted or under-utilised home equipment or personal belonging and sell on E-Bay.
- Tackle food waste in your kitchen. According to the pundits we waste 20% of the food we buy. If you spend £100 a week on food that means an annual waste bill of £1,020. An amount that if saved would make a welcome contribution towards your increased utilities bills.
- And finally, there are a wealth of recipe books that promote heathy, thrifty living. A great way to reduce your weekly food spend and increase the nutritional value of your diet.

If you find any of these ideas useful, need help with implementation or you would like to brainstorm other ideas to better meet your personal financial needs, please call. In both cases, we can help or recommend someone who can, call us on **01753 888211** or email info@nhllp.com