cohen arnold
Chartered Accountants
Registered Auditors

New Burlington House
1075 Finchley Road
Temple Fortune
London NW11 0PU

Tel: 020 8731 0777
Fax: 020 8731 0778
Email: mail@cohenarnold.com
www.cohenarnold.com

The Retail Sector

The retail sector has evolved significantly over recent years. From changing consumer habits to rising employment costs, retailers face a raft of challenges in today's competitive climate.

Managing stock

If not managed efficiently, stock can be one of the biggest drains on profitability for a business. Holding stock incurs costs in warehousing, personnel, transportation and insurance. Above all, it ties up cash. A good inventory management system is vital. Not only will it provide accurate information about the volume of stock moving in and out, it will help to inform key business decisions, such as which products to expand and/or discontinue.

Business rates

Business rates can represent a significant expense for many retailers. In England and Wales, rates are calculated based on a property's 'rateable value', which is multiplied by the relevant multiplier set by the government. In Scotland, business rates are worked out using the rateable value set by the local assessor and the 'poundage rate' set by the Scottish government. In Northern Ireland, rates are calculated by multiplying the Net Annual Value of the property by the non-domestic rate poundage for the relevant year. In some cases, it may be possible to apply for business rates relief. Reliefs are dealt with separately in Wales, Scotland and Northern Ireland.

Managing cash flow

A properly developed cash flow projection can help retailers to foresee and prepare for potential shortages. Cash flow management can also help you to maintain adequate cash reserves to pay bills, reduce interest costs and expand the business. We can help you to draw up a realistic cash flow forecast.

Claiming tax reliefs

You will pay tax on your taxable profits, so it is essential to claim all deductible expenses (many costs and expenses will already be included in your accounting records). Also consider whether you can make a claim for capital allowances, which allow the majority of businesses to claim a 100% Annual Investment Allowance (AIA) on up to £1 million of expenditure on most types of plant and machinery (except cars).

VAT schemes

There are special VAT schemes for retailers as it is impractical for most retailers to maintain all the records required of a registered trader.

Point of Sale Scheme

Under this method, the VAT liability is identified at the point at which the goods or services are sold, most commonly by using an electronic till that makes the calculation on your behalf.

Apportionment Schemes

There are two types of Apportionment Scheme, depending on the business's tax-exclusive turnover.

Apportionment Scheme 1 is designed for smaller businesses with an annual retail turnover (excluding VAT) of less than £1 million. This method involves working out the value of your purchases for retail sale at different rates of VAT and then applying the proportions of those purchase values to your sales.

Apportionment Scheme 2 is available to businesses with an annual retail turnover (excluding VAT) of up to £130 million. This method involves calculating the Expected Selling Prices (ESPs) of standard and lower-rated goods that the business receives for retail sale. You then work out the ratio of these to the ESPs of all goods received for retail sale and apply this ratio to your takings.

Direct Calculation Schemes

These schemes work by calculating the ESPs of goods for retail sale at one or two rates of VAT in order to establish the proportion of your Daily Gross Takings (DGT) on which VAT is due. In most cases, you must always calculate the ESPs of your 'minority goods'. These are the goods at the rate of tax which form the smallest proportion of your retail supplies.

The Direct Calculation Scheme 1 is available to retailers with a VAT-exclusive annual retail turnover of less than £1 million. Scheme 2 works in the same way, but is only available to businesses with an annual retail turnover, excluding VAT, of between £1 million and £130 million. It also requires the business to make an annual stock adjustment.

Bespoke schemes

Businesses with an annual retail turnover exceeding £130 million must agree a bespoke retail scheme with HMRC.

There are pros and cons to each scheme and you will also need to keep certain records – please speak to us for further information.

Employment issues

The National Living Wage (NLW) and the National Minimum Wage (NMW)

The NLW and NMW are the legal minimum wage rates that must be paid to employees. The hourly minimum rates from 1 April 2019 are:

- Age 25 and over (NLW) – £8.21
- Age 21 - 24 – £7.70
- Age 18 - 20 – £6.15
- Age 16 and 17 – £4.35
- Apprentices* – £3.90

**Under 19, or 19 and over in the first year of their apprenticeship.*

With the government committed to raising the minimum rates every year, many retailers are experiencing increased employment costs. Please talk to us if this is a concern for your business, as we can help you to plan ahead.

Pensions auto-enrolment

As an employer, you have a duty to automatically enrol eligible 'workers' into a qualifying work-based pension scheme and pay a minimum contribution into the fund. Eligible employees are those aged between 22 and the state pension age, and who have qualifying earnings over the auto-enrolment earnings trigger of £10,000.

From 6 April 2019, the employer minimum contribution rate increased from 2% to 3%, while the total minimum contribution increased to 8%. The employee minimum contribution rate is 5%. Contributions are generally payable on qualifying earnings between the lower threshold of £6,136 and the higher threshold of £50,000 in 2019/20.

National insurance contributions (NICs)

Employers are required to pay Class 1 (secondary) NICs on any payments made to employees that are above the secondary threshold of £166 per week (2019/20). Employer NICs for those under the age of 21 and apprentices under 25 are reduced from the normal rate of 13.8% to 0% up to £962 per week. Some businesses may benefit from the Employment Allowance, which could reduce their NICs bill by up to £3,000 per annum. The allowance is limited to the employer Class 1 NICs liability if that is less than the Employment Allowance.

Selling abroad

If your business is doing well, you may find that you are ready to start selling your products overseas. Consider the following:

Understand your market – research the demand for your product overseas and identify your local competition abroad.

Check whether you need a licence – you may require a licence or need to comply with special rules when selling certain items abroad.

Make sure your product is compliant – individual countries have their own legal requirements for the design of products, packaging and labelling. If you sell products in the UK, you may already have to comply with EU directives.

Think about shipping – consider how you will distribute your product. Depending on the volume and ease of transportation, you may be able to work with UK parcel carriers without external help.

Make the necessary declarations – if you are exporting goods to a country outside the EU, you will need to make export declarations to customs through the National Export System.

Understanding the tax rules

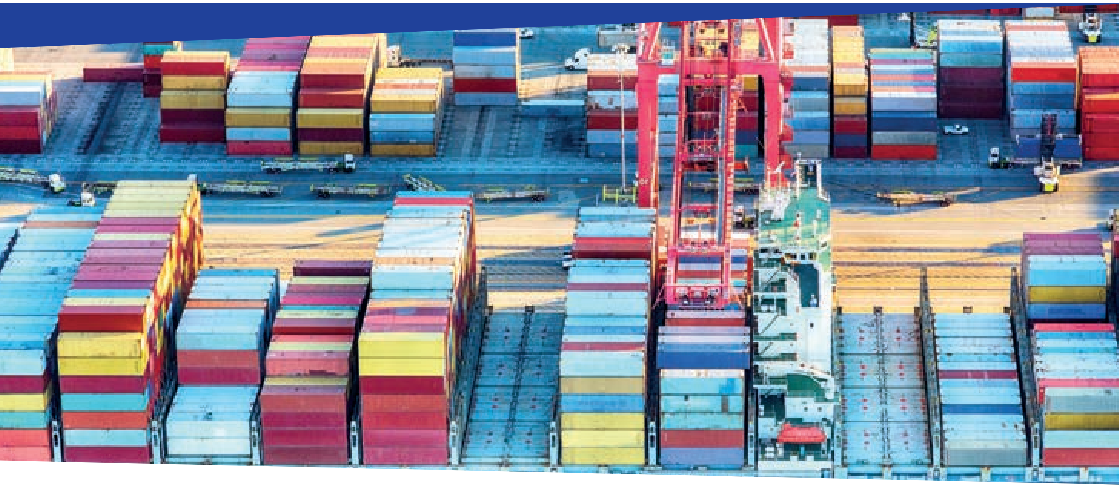
Dispatches **within the EU** between VAT-registered businesses are not subject to VAT and you can zero-rate the supply for VAT purposes, provided certain conditions are met. However, if you sell goods or services to someone inside the EU who isn't VAT registered, such as a private individual, you will need to charge VAT in the normal way.

Each country has a distance selling threshold. If the value of your sales to that country exceeds this limit, you must register for VAT in that country, and charge their rate of VAT on sales.

If you are exporting to a country **outside the EU**, you can usually zero-rate goods for VAT, provided you keep evidence of the export and comply with all other laws. When a third country receives your goods, it may charge duty. A third country may also charge their own equivalent of VAT or purchase tax.

The VAT Retail Export Scheme

The VAT Retail Export Scheme allows non-EU customers to receive a refund of VAT paid on goods exported to destinations outside the EC. It also enables retailers to zero-rate goods sold to entitled customers when they have the necessary evidence of export and have refunded the VAT to the customer. Various conditions apply.



cohen arnold

Partners:
D. B. Myers FCA
J. A. Neumann FCA
D. Goldberg FCA DChA
D. Yu
B. Leigh FCA CTA
D. Z. Harris FCA
A. Sternlicht FCA CTA TEP
M. Broner-Cohen FCA TEP
P. Olsberg FCCA CTA
B. Brenig FCA TEP

Consultants:
D.M. Birns FCA CTA
J. N. Schwarz FCA

Associates:
A. Akhtar FCCA CTA
D.S. Binstock FCA
A.M. Braham ACA
S. Cohen FCA
J. A. England FCA
P.S. Gill FCCA
M. Hool ACA FCCA
M. Rosenblum FCA DChA
K. A. Sussman FCA