

# Insider: June 2014

Welcome to your June newsletter. In this issue, the news that the economy continues to recover and a leading business group predicts future growth. Small firms are reluctant to switch bank accounts despite a third calling their current provider 'average'. Just over half of small employers have thought about auto enrolment pension scheme providers. And in Your Money news, we look at the effect of rising house prices on inheritance tax planning.



## **Economic growth continues**

UK economic output grew by 0.8% in the first quarter of 2014, according to the Office for National Statistics (ONS).

Annual output is now 3.1% higher than in Q1 2013 and 0.6% behind its peak in Q1 2008.

David Kern, chief economist at the British Chambers of Commerce, said the growth reflects the "confidence and enthusiasm" of UK businesses but warned that more must be done:

"To ensure that the recovery is sustainable, the Government must do far more to support growing firms. Further deregulation, improved access to finance and more export support are all crucial for a lasting economic recovery."

## **Looking ahead**

The Confederation of British Industry (CBI) has predicted that the economy will grow by 3% in 2014, up from a previous forecast of 2.6%.

This expected higher growth means that the business group has brought forward its estimate of an interest rate rise. It now expects interest rates to increase from 0.5% to 0.75% in Q1 2015.

However, John Cridland, director general of the CBI, warned that "political risks" must not be allowed to jeopardise economic stability. He said:

"The recovery is advancing after a strong performance in the first quarter of 2014. Prospects are bright and we expect the recovery to broaden out this year, with greater support from business investment in particular.

"Businesses recognise the realities of election time but want all parties to ensure their policies make a positive difference. Politicians must be wary of the risk of headline-grabbing policies that weaken investment, opportunity and jobs."

## **Banks 'average' for a third of small firms**

More than a third of small business owners describe their current banking services as 'average' yet only a fifth would consider moving their account, the Forum of Private Business (FPB) has found.

The FPB's latest banking and finance survey found that just over half of small businesses feel their bank offers good or excellent value for money.

Other findings include:

- 16% are concerned about getting finance from their bank
- 15% said they want more flexible and less centralised lending
- 14% would like greater access to finance
- 12% feel banks should shoulder a greater proportion of risk
- 13% would consider an alternative bank for some services; 14% would consider them for additional finance.

The survey also revealed that a quarter of small firms are still reluctant to seek alternative forms of lending, with cost (35%), awareness (21%) and lack of reliable advice (19%) cited as concerns.

Phil Orford MBE, chief executive of the FPB, said:

"A growing economy poses its own issues for small businesses, as they decide whether to invest for expansion.

"The Government, the banks, other lenders and businesses support organisations are all important enablers of growth and need to work together to ensure small businesses are getting the necessary amount of money in the right format."

## **Auto enrolment overlooked by SMEs**

Four in 10 (44%) SMEs have not thought about finding a pension scheme compatible with auto enrolment, according to research by NOW: Pensions.

The survey of 450 SMEs found that 14% will ask their accountant for assistance and 5% will consult an independent financial adviser. Only 2% of surveyed firms have decided on a scheme.

Key findings:

- 22% of firms would prefer to use their existing pension provider for auto enrolment
- 57% of firms believe their choice of provider is important
- 8% do not think the provider is important
- 40% believe that offering a good pension scheme will improve employee retention
- 32% think a good pension scheme will help make their company more attractive to potential employees.

Stephen Milne, chair of the Chartered Institute of Management Accountant's Members in Practice Panel, said:

"With over 10,000 employers auto enrolling each month, support for SMEs is inevitably in short supply. Accountants are ideally placed to provide much needed help with the process from scheme selection to assessment and implementation."

Morten Nilsson, chief executive of NOW: Pensions, said:

"As auto enrolment gathers pace, accountants will play a key role in guiding small and medium-sized companies through the complexities of the legislation. For those accountants that manage payroll, auto enrolment is unavoidable so getting to grips with it sooner rather than later is a must."

## **YOUR MONEY**

### **Rising house prices affect IHT liability**

House prices increased by 8.5% in the three months to April 2014 compared to the same period last year, bringing the average UK house price to £177,648, Halifax has found.

The gap between supply and demand continued to widen with new buyer enquiries remaining steady in Q1 2014 but the number of properties for sale falling for the third consecutive month.

Key figures:

- house prices were 2.3% higher in the three months to April 2014 than the preceding three months
- home sales fell 5% in the 10 months to March 2014
- mortgage approvals fell 12% below their January 2014 peak.

Stephen Noakes, mortgages director at Lloyds Banking Group, said:

"With supply of properties being slow to respond to market conditions, stronger demand in the past year has resulted in upward pressure on house prices."

The rise in house prices may lead to an increase in the number of people liable to pay inheritance tax (IHT) on their estate. The nil-rate band threshold for IHT has been £325,000 since April 2009 and will remain frozen until 2017/18. Assets over this amount are liable for tax at 40%.

Careful planning, including transferring unused IHT threshold between spouses, gifts and giving to charity, can help minimise IHT.

*Contact us to discuss estate planning.*