



January 2009 Newsletter

Tax Return special: I've managed to produce a newsletter despite a particularly tense/bad-tempered January.



Book of the month

"Outliers" by Malcolm Gladwell.

This book got a mixed review in the press, mainly because the outlier theme is a bit weak. But the stories are wonderful:

- Why ice hockey players are all born in January/February/March
- Why the most successful lawyers in New York are Jewish
- Why children born in a recession year (eg 2009) do better
- Why you're safer on a Korean airliner if the co-pilot is flying. Or, better yet, fly with Qantas.

It's all about cause and effect.

A cautionary Christmas tale

Every year, just before Christmas, everybody asks me to remind them of the allowed expenditure on Christmas parties. It doesn't change much (fiscal drag) and currently stands at £150 per employee pa. I had this discussion with one of my larger clients and they went away (more or less) happy and determined to spend the limit (but no more) on a trip to Prague in order to reward the whole team for what had been a very hard year.

We thought no more of it till P11D time and the client confirmed (without thinking too hard) that the expenditure was within the limit.

However, come July, when we were finalising the accounts, it became clear that the threshold had been crossed. We couldn't even fix the problem by finding a couple of "spare" employees to share the load. The choice was:

- Ignore it
- Issue revised P11Ds and give everybody on the trip a tax bill
- Have the company pay the tax (the trip costs are equivalent to net pay)

Option 3 was the winner. HMRC has a procedure to allow for this ("PAYE settlement agreement"), but the agreement has to be in place before the event and the tax paid in July. So, we wrote to HMRC, explaining the position, providing the calculations and offering to pay. As you might guess, their response was one of righteous indignation: how dare we attempt to resolve a problem without following proper procedure (and here's a 30 page document explaining the rules). They didn't really want to assess the tax, but finally agreed to pass the details across to somebody who might be able to take the money off us. An experience very like shopping in PC World. If it's this hard to correct a genuine mistake, why should we bother?

Back seat drivers

Despite the doom and gloom enveloping Herefordshire, the newsletter never takes the parochial view and has even noticed that there has been a change of president in the US. So, the dinner party question of the month is:

“What advice would you give Obama if he asked you?”

The consensus view (from the world of management speak) is:

1. Keep your story clear and believable.
2. Get the right people working for you, as you can't do it by yourself. People are destiny.
3. Be bold, but get some early wins.
4. Don't run out of cash (Sorry, that's a different list)

In other words, don't do a Gordon Brown, getting panicked into creating a tidal wave of detailed initiatives without any objective whatsoever. Vision beats crisis management every time.

Chose from:

- Events, dear boy, events. Or
- Crisis, what crisis?

<http://www.strengthsacademy.com/3-tips-for-focusing-on-clarity-crisis-management-and-concrete-results>

Water skiers

This is the term used for companies who are heavily borrowed but can carry on trading as long as momentum isn't lost. If the engine slows, they sink rapidly. Such companies make very poor customers at the moment.

The management consulting press has had a fair bit to say about the recession and HBR has even released a special article on the subject: “Seize advantage in a downturn” by Rhodes & Stelter. As they point out, rising anxiety and the growing pressure to do

something (anything) usually produces a whole host of uncoordinated responses (many of which are irrelevant) and simply leads to a sense of panic. (Gordon, are you listening?) There are plenty of mechanical things that you need to get right, principally not running out of cash, but the real issue is how you position yourself for the inevitable upturn. Most companies take action far too late (panic) and then cut things that effect future revenues (marketing and R&D). They end up spending far more than they saved in order to recover. Companies that get it right invest in the future. In our world, that means recruiting good people (from the avalanche of redundancies) and getting them doing things that customers (will) want.

K2 Consulting

Our contacts at K2C have put a sporting spin on the recession. The lesson from the Beijing Olympics was that if conditions are far from optimal, then everybody is suffering the same and you simply have to focus on turning in your best performance, come what may. “Control the controllables and don't worry about the rest” as the Sage would say.

Jim Collins

The article from November's newsletter about “confronting the brutal facts” (without getting overwhelmed) is still the most relevant idea, but the Hedgehog Concept is vital in the upturn.

In case you've forgotten (November 2006), the Hedgehog Concept requires you to determine:

- What you are deeply passionate about (whilst at work)
- What you can be the best in the world (or at least Hereford) at (and for whom)
- What you can make money doing

Your strategy should be to follow the route that allows you to do all 3 simultaneously. Significantly, you should stop doing things that you are not very good at, even if (especially if?) you've been doing them for a long time.

Collins's example came from the drugs industry: Abbot v. Upjohn. In the early 60s, the 2 companies were the same size and their main products were antibiotics. Abbott realised that it couldn't compete with the big players in R&D, but it could be the best in the world in health care products. Upjohn,

meanwhile, continued to live with the delusion that it could compete with the big boys. Belatedly, it attempted to diversify, but into areas where it still couldn't be the best in the world. After 25 years of poor performance (compared to Abbott) Upjohn was acquired in 1995.

We all work in small, fragmented industries where the chance of being best in the world is entirely irrelevant. However, as long as you concentrate on being better than the competition, the concept still works.

http://www.jimcollins.com/lib/articles/07_03.html

Sticky story

“A friend of a friend was on a business trip to the States and had time to kill before his flight home. He thought he'd catch a bit of local colour and went into a nearby bar.

He'd just sat down when a particularly gorgeous woman came over to him, commented on his accent and offered to buy him a drink. It would have been bad manners to decline. The next thing he knew, he was waking up in a bath of ice/water. He could feel a pain in his back. He reached round to find a plastic tube sticking out. He then noticed a mobile phone on the edge of the bath with a post-it note stuck on it with the instruction to “dial 911”. He gingerly reached for the phone, dialled accordingly and explained his predicament to the operator. She checked the tube in the back details and then advised him that kidney thieves were known to be operating in the area. She instructed him to stay on the phone while the emergency services located him.”

This is an urban myth, but a great dinner party story. It's also so memorable that I can repeat the story (with my own embellishments) having read it once a couple of weeks ago. I bet you wish your marketing material was as sticky as that?

“Made to stick” by Chip & Dan Heath.



Social networking trends

It may be my age, but I don't get Facebook etc. Allegedly, businesses are setting up teams to monitor social networking trends. These may be the ones to watch:

www.friendfeed.com

www.twitter.com

www.ryze.com

www.orkut.com

"Adopt a human centric design perspective" if you can figure out what that might be?

Orange Wednesday+

Apart from snaffling a day of the week, Orange has come up with the startling idea of slotting a dummy number into your mobile phone at the front of the alphabet; "aaadummy". This is to prevent you from accidentally phoning somebody whilst engaged in a "romantic/intimate moment". They've even got case studies?

<http://tinyurl.com/5dbwqz>

On the subject of mobile phones, a US company is about to launch a system for charging phones by walking. Or better yet, by engaging in "romantic/intimate moments".

Pre Budget Report

The Chancellor's PBR statement in late November last year was dominated by the change in the VAT rate to 15% (18.5% when it comes back?) and the huge level of government borrowing that will be needed to pay for it (and other give-aways). As ever, a number of smaller issues got lost in the furore:

- The small company tax rate stays at 21% for an extra year (to 31.3.10) – and then goes to 22%
- The government appears to have given up on income splitting/Arctic. This was spun as a boost to small business, but inside sources suggest that the Revenue simply can't come up with workable rules. In contrast to the spin, IR35 activity is on the increase.
- The new rules on capital allowances for cars (as of April 2009) moved forward
- For a 12 month window, you can carry back losses for 3 years (against profits from the same trade)
- Fuel only reimbursement rates are down; 15p => 12p for petrol cars (1.4 to 2litres)

Don't forget, the PBR also raised Employers' NI and introduced the 45% top rate of income tax (+NI).

Tax investigations

When a company is subject to an in depth investigation, the Inspector is always looking for missing income. The obvious place for missing income to go is into the hands of a director and an Inspector is keen to identify directors who appear to be living beyond their means. It's easy enough to check with the Land Registry which properties are owned by a director and what the mortgages are. However, the Inspector does not have an automatic right to call for the director's personal data – he generally has to prove that there is an issue in the company's records (he has to "break the records" in

Revenue-speak). Whilst my clients may keep impeccable company records (or answer to Sue), they rarely keep such good personal records. Once he's got hold of your personal bank statements, a vindictive Inspector will always believe that a birthday gift from a distant aunt is actually diverted takings unless you can prove otherwise. Please be paranoid: they are most certainly out to get you.

HBR ideas for 2009

Every January, HBR comes up with a series of ideas that may change the world. I couldn't find anything particularly exciting (flexible solar panels?), but psychologists have come up with a new model for how we judge people we meet for the first time. In theory, when we meet a new person we need to assess whether they have negative intentions towards us and whether they can do anything about those intentions. In practice, we can't tell so we work on whether (based on stereotypes) they are warm towards us and whether they appear to be competent. Worse still, we tend to see warmth and competence as inversely related (when they are not). Which is why good accountants are cold and blondes aren't that bright (even if they do have more fun).

Disclaimer

Freedom is the ability to decide whose slave you are going to be.

"For well-being we must engage realistically with the freedom we do have and strive to reach our potential in the face of anxiety, uncertainty and ultimate extinction. This requires courage, a leap of faith and a letting go of old habits."

Just get on with it: things could be worse.



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