

# Trading in a tough economic climate

The growth of many businesses stalls, not through a lack of profits, but because of an absence of reserves.



## Sale and lease back benefits

- Improved company reserves – the cash released through the sale goes directly into your business.
- Fixed monthly payments – simplify your budgeting.
- New for old option – with cars and vans, you can use contract hire to trade up to new vehicles at the end of the agreement.

Talk of a recession might be unduly pessimistic, but with there being reports of little or no growth in the UK economy quarter on quarter, there is plenty of evidence of turbulent times to come\*.

But should a cooling property market and falling consumer confidence dent the appetite of businesses to make new investments? While some

businesses may have cause for concern, a tightening economy can be a surprisingly good thing for a business that is financially sound:

- There is an incentive to review the way things are done to drive more efficiency
- The competition becomes less active and some competitors disappear altogether
- Better deals become available on the assets that you want to acquire.

There are a variety of ways that a forward looking business can continue to forge ahead with its growth ambitions, while at the same time taking prudent steps to protect itself from the worst of any further down-turn.

Here we look at some of the options in detail.

## Maintaining your liquidity

Maintaining sufficient liquidity is vital, whatever the condition of the economy; it is even more important when unexpected eventualities can arise, for example, customers becoming slower in paying or, worse still, a major debtor going out of business.

Now could well be the time to think about freeing up extra capital. There are a variety of ways of doing this and refinancing existing assets through sale and lease back arrangements is one option.

With sale and lease back, you can quickly free the capital tied up in your assets and get the cash back into your company's reserves. A lessor, like Lombard, can offer to purchase your assets and then lease or contract hire them back to you for an agreed term. Your business retains full use of the assets during the period of the lease.

*The key is to build up a war chest of cash to trade through any difficult times*

## Optimising your balance sheet

A strong balance sheet can improve your external credit rating and lead to better terms from your suppliers. Reducing the amount of debt by using operating leasing and contract hire to acquire assets instead of buying them outright allows you to legitimately keep the liability off the balance sheet and optimise your gearing ratio.

## Use assets, don't own them

Leasing assets rather than owning them allows you to bring the latest equipment into your business and achieve the efficiencies and competitive advantage you need without draining cash resources. Lease rentals are fixed for the full term, so you will know how much your equipment will cost every month, and maintenance can be incorporated to avoid unexpected repair bills.

## Invest now whilst market prices are low

When demand is down, prices on certain assets come down too. Putting yourself in a position to negotiate as a cash-buyer can lead to deals being secured that simply wouldn't be available in more buoyant times. You don't necessarily have to have the cash or use the cash in your reserves, Lombard is happy to pre-agree leasing or hire-purchase facilities to allow you to negotiate from a position of strength.

## Make the most of 2008 Budget changes

The 2008 Budget made some important changes to business taxes and capital allowances. Used effectively, worthwhile savings in tax are possible leaving the profits where they are needed most – in your business.



The content of this fact sheet is only intended for general information purposes and is not a substitute for specific advice from your professional advisers.

## Annual Investment Allowance

The new Annual Investment Allowance (AIA) provides small and medium sized enterprises with a 100% allowance on the first £50,000 of expenditure on plant and machinery. This allowance supports businesses that are looking to invest to grow and, if fully utilised, produces a tax saving of £10,500 for a company with profits of less than £300,000.

## Company vehicles

Businesses are firmly rewarded for bringing less polluting vehicles into their fleets.

- There is a 100% capital allowance for vehicles with emissions below 110g/km
- Vehicle Excise Duty (VED) on vehicles with emissions of 120g/km or less is now £35 compared with £400 for a vehicle emitting 226g/km or more. Changes are due to come into effect in 2009 which will further increase the benefits of green vehicles and penalise the owners of polluting ones
- Writing down allowances on vehicles with emissions above 160g/km are to be reduced to 10% p.a. from April 2009

- All Benefit in Kind (BIK) thresholds have been tightened by 5% meaning that more tax will be paid by drivers at each level UNLESS the car emits 120g/km or less. These vehicles now attract a BIK charge of only 10% of their P11D value – a 5% reduction on the previous lowest threshold of 15%. You, as the employer, will benefit through a lower NIC charge.

The changes to the capital allowances system further underline the benefits of contract hire. Contract hire has always had advantages in terms of ease of administration, but now the financial business case is equally compelling. From April 2009, contract hire could be the preferred option on all vehicles.

## Energy-efficient assets

Your business can claim a 100% tax allowance for assets that qualify as energy-efficient or are environmentally beneficial technologies.

## Talk to RBS.

At RBS, we remain committed to helping successful businesses grow, whatever the economic climate. Talk to us today to find out how we can help you increase your competitiveness through:

- better cash flow
- valuable tax efficiencies
- reduced residual risk on assets
- lower monthly costs

[www.rbs.co.uk/corporate](http://www.rbs.co.uk/corporate)