



SPECTRUM ISSUE: 10 | DECEMBER 2010

# spectrum

THE NEWSLETTER FROM RITSON SMITH

Share  
options in  
the current  
climate



IN THIS ISSUE:

2. Introduction from  
Niall Farquharson
3. Share options in the  
current climate
4. A coup for  
Corporate Finance
5. Award winning deal
6. Time to pay up
7. Client Profile:  
Servtech
8. News in brief

## Introduction

Niall Farquharson Managing Partner



**As I write this introduction I can see snow-laden cars crawling along Carden Place as we deal with the earliest snow fall for 17 years. Quite a change from the 32 degrees of heat that Neil Simpson and I encountered when we attended the Praxity International conference in Singapore at the end of October.**

There we had an opportunity to learn about the impressive growth that was being created in both Singapore and China and meet with delegates from all over the world. As Aberdeen based businesses internationalise, it is important we are able to continue to support them by offering local tax, accounting and consulting advice in the country they choose to work in.

It is not only the weather that has been changing. The Auditing Practices Board have issued new International Standards on Auditing (Clarified ISA+s) which apply to audits of financial statements for periods ending on or after 15 December 2010. These new ISA+s have resulted in additional training for our staff and an update to the audit methodology all at a time when we are entering our busiest season.

We have also seen some changes in personnel and we are particularly pleased that Jacqui Taylor has joined our Corporate Finance team. A new senior audit manager and two outsourcing assistants will be joining us early in the New Year.

Sadly not all businesses are able to adapt to a changing business environment. For businesses which are experiencing difficulty, there is a greater chance of surviving if they recognise the position they are in and seek assistance as early as possible. Ewen Alexander is always happy to chat things through and can provide expert advice on how best to proceed. In this issue he highlights the change in stance that HMRC are taking with distressed businesses and it is clear there is a hardening of their attitude.

Finally to end on a more positive note, we have recently been appointed as advisors to Aberdeen Harbour Board, Flexlife Limited, XPD8 Solutions Ltd and Enterprise Engineering Services Ltd, and are delighted that these successful organisations have recognised not just our technical capabilities across a range of disciplines, but have also demonstrated their preference for the Ritson Smith approach to client care.

As always I would be happy to hear from you on any matter and it only remains for me to wish you all a happy and prosperous 2011.

# Share options in the current climate

David Dowell Senior Tax Manager

There is much talk of little cash being available for pay rises and certainly nothing like the increases that people have become accustomed to over the last few years. Indeed, pay freezes or pay cuts are now the norm. The choice facing employers therefore seems quite stark – offer staff little or nothing which neither rewards nor retains staff, or provide a pay rise and risk financial discomfort.

There is an alternative, however, that is often overlooked – employee shares can offer a valuable incentive or reward with a nil cash flow impact on the business. Companies can use their share capital as a method of recruiting, incentivising and retaining not only their directors and senior managers, but their workforce as a whole.

Even with existing schemes where the options have a current value below the option price as a result of the current economic downturn, it is still possible to spot an opportunity. New options can now be granted to acquire shares at low prices, or shares can be sold to employees at low cost with minimal tax liabilities.

There are a variety of tax-favoured share incentive schemes still available, currently not under attack by the government or HMRC, which can be used to form part of an attractive remuneration package, sometimes in conjunction with salary sacrifice schemes.

Some will even give a corporation tax deduction when the employee acquires the shares or options; a very useful relief in making such share incentive arrangements tax effective.

The increase in the capital gains rate to 28% imposes an additional tax burden on the employee when considering share incentives, especially where the effective 10% rate offered by Entrepreneurs'

Relief is not available due to the size of the proposed shareholding. The differential between the top rates of income tax at 40% and 50% and the capital gains rate of 28%, however, still makes such approved share incentive schemes an attraction that should not be overlooked.

Even unapproved schemes and their myriad variations such as phantom share schemes can have their place in certain circumstances in terms of giving employees both a stake in their employer and a 'free' addition to their remuneration package.



**If you wish to find out more about the opportunities and packages that can be specifically tailored to your business circumstances, please get in contact.**

**David Dowell** Senior Tax Manager  
01224 643311 dd@ritson-smith.com

# A coup for Corporate Finance as new Assistant Director steps aboard



Ritson Smith's expanding Corporate Finance division was delighted to welcome Jacqui Taylor on board as Assistant Director earlier this year.

**With over nine years in corporate finance, Jacqui was formerly an assistant director in the Oil and Gas Mergers & Acquisition team at a leading international professional services firm in charge of a team in Aberdeen and London. She facilitated a number of significant transactions including the sale of SGC Limited, a leading flow metering business based in Grangemouth, to Petrofac for £3.5 million.**

Jacqui has experience both of upstream and oilfield services transactions of all sizes, and has a wide network in the industry both at a local and national level. She is also experienced in coaching and developing junior staff members both on transaction techniques and industry dynamics.

Graham Alexander, Corporate Finance partner at Ritson Smith, commented: "Jacqui brings a wealth of corporate finance and oil and gas experience from one of the 'big four' accountancy firms. Her decision to join the Ritson Smith team is a real coup for us. Her proven track record and knowledge as well as links with banks and

private equity houses will enhance our capability as we continue to grow both Corporate Finance and Ritson Smith generally."

"Joining Ritson Smith has allowed me to explore further opportunities to work with really entrepreneurial businesses which is something that I relish," said Jacqui. "Becoming part of the client team and adding real value to their success is a real motivator for me."

"The Corporate Finance team here have done a fantastic job to build a high quality reputation in a short period of time and they are still growing. I look forward to being part of their future success."

The six strong Corporate Finance team focus on M&A and financial due diligence for a range of clients including banks, private equity investors and trade acquirers, both in UK and overseas. Since the creation of Ritson Smith's corporate finance division in 2003, the team has advised on in excess of 70 transactions with a total value in excess of £400 million.

Despite the obvious frustrations and sensitivities that were presented we achieved a great result for the shareholders.



## Award winning deal

One of Ritson Smith's Corporate Finance team's most significant deals was the sale of Aberdeen headquartered IMES Strategic Support Ltd (ISSL) to Lockheed Martin, one of the largest global defence and security companies with revenues in excess of \$43 billion per annum and more than 146,000 employees. The deal was voted the 'small – mid-sized deal of the year' in the Insider Deal & Dealmakers Awards 2010 earlier this year.

Dr Melfort Campbell OBE, Chairman and Chief Executive of ISSL, said: "The customer was key to this deal which added value to all those involved in what was a long, drawn-out affair."

He added: "One piece of learning is that if you are an overseas company wanting to deal with a Scottish company, use Scottish advisors; if you are a Scottish company wanting to do business with a Scottish company, use Scottish advisors; and if you are an overseas company doing business with an overseas company, use Scottish advisors."

**Other recent transactions completed by the team include:**

- The Management buy out (MBO) of oil and gas consultancy XPD8, Aberdeen – Ritson Smith were lead advisers to the MBO team and Maven Capital Partners who funded the deal along with Clydesdale Bank.
- MBO of leading UK engineering business, Enterprise Engineering Services Ltd (EESL) along with its parent company Dales 2003 acquired by a Newco – Craigshaw Holdings. Ritson Smith were lead advisers to the EESL management team. The deal was funded by the Bank of Scotland.



Jim McFarlane from Scottish Enterprise presents the award to Melfort Campbell

## Time to pay up...



During the recession HMRC did their bit in trying to help businesses address their cash flow problems. By March 2010 some 300,000 businesses had been allowed to defer a staggering £5.2 billion of tax under HMRC's Time To Pay programme.

In a recent press article, the Director of HMRC's Debt Management & Banking Directorate said: "We haven't been here to help businesses. We don't come at it from the point of view of 'let's let insolvent businesses not pay their tax' as that will keep people employed. We are tax collectors. We are here to collect tax and if we judge that the best way to collect tax is to allow them time to make their tax payments then that is what we will do."

A pre-requisite of the Time to Pay agreement is for the business to be viable. If HMRC considers a business is viable but is unable to pay the tax on the due date, then HMRC may afford them time to pay. However, HMRC are not there to provide support for non-viable businesses.

So for those businesses who have been unable to keep to any agreement reached with HMRC or are asking for a further Time to Pay agreement, then HMRC will ask more searching questions.

A deferral agreement over a short period of time will perhaps be acceptable to HMRC. But over a long period – if a business can't pay its bills along with its tax bills, then HMRC are likely to take the view that the business is not viable.

In 2009-10, some £6.3 billion of tax was written off by HMRC – most of which was

tied up in insolvent businesses. Against that background, together with a challenging economic outlook for the UK economy, there will be on-going pressure by HMRC to recover tax due – be it corporation tax, VAT, PAYE/NI.

Various steps will be taken by HMRC to identify problem cases at an early stage and to take appropriate preventative action.

### These steps will include:

- Greater use of VAT and PAYE/NI security bonds for non-compliant businesses;
- Mandatory electronic filing of VAT, PAYE&NI for many businesses;
- The advent of "roving" case officers to make business assessments "at the coal face";
- Targeting specific sectors – recruitment, retail and "cash" businesses; and
- Streamlining their winding-up procedures against non-compliant businesses.

HMRC are improving their debt collection and businesses can expect to see them pursue tax debt more actively and more vigorously than they have perhaps experienced up to now.



# Client profile: Servtech

**Last year, one of Aberdeen’s most successful indigenous companies Servtech Inspection Services celebrated a quarter of a century in business with its most successful year to date.**

Started in the mid 80s when red phone boxes were being phased out and Mike Tyson stepped into the professional boxing ring for the first time, founders and friends Phil White and Walter Brown had little idea of the global entity that they were about to create.

From a small team with a turnover of £309,000 after the first year of trading, Servtech today has 156 employees in Angola, Aberdeen, Kazakhstan and the Far East with a turnover of £12 million.

Servtech’s global area of operations is increasing significantly with the establishment of exciting work opportunities in China. Australia and the USA are the next regions that Servtech has in its sights although Phil admits that the latter is “an expensive exercise”.

“Along with global growth come the headaches and complexities of different ways of working,” explained Phil. “That’s when you really rely on your professional advisors. We have a good and trusting relationship with Ritson Smith. In particular, their knowledge of overseas tax is first class which is important to us when we are having to deal with dual tax treaties and different financial regimes. It’s a real comfort to have George Birnie around as he is so on the ball with it all.”

Servtech’s relationship with Ritson Smith began when the company ended a five year relationship with Deloitte’s: “We were a ‘small fish’ in a big pond and the fees were simply too high. It was the right move to make as now we have a much more personal relationship with Ritson Smith and the range of expertise is there.”

Clocking up 25 years in business in the oil and gas industry is impressive, particularly in recent years when many companies have come under pressure, and Servtech’s success shows no sign of waning. Spectrum asked Phil White what he felt was key to the success and longevity of the business that he and Walter started when they were still in their 20s:

“It’s not one single thing. We’re good at what we do and we have invested a lot in systems to really add value to our service offering. Mutual respect between client and contractor is key to maintaining good relationships, and therefore gaining more

business. Respect is also key when it comes to your people and we have a fantastic team with years of experience – you just can’t put a value on that.”

We have reached a milestone in the company’s history but our journey is never ending, we will always strive for continuous improvement which is why we are still here and still successful after all this time.”



Servtech today has 156 employees in Angola, Aberdeen, Kazakhstan and the Far East with a turnover of £12 million.



## News in brief

### A double centenary and counting...

Partners Neil Harper and Niall Farquharson and four members of staff at Ritson have notched up an incredible 230 years of service between them.

Neil and Senior Manager, Alistair Macrae who is based in Aberdeen but looks after the Aboyne office, are the longest serving employees with 40 years apiece.



LtoR Back Row: Neil Harper, Gary Robertson, Bernard Henderson, Bill Saville. Front Row: Alistair Macrae, Niall Farquharson, Yvonne Brebner.

They are closely followed by Bill Saville, Accounts Supervisor, with 34 years then Accounts Manager, Bernard Henderson and Ellon based Accounts Assistant, Gary Robertson with 30 years each.

Managing Partner, Niall Farquharson and Administrative Assistant, Yvonne Brebner have both entered their 30th year with the Company.

### New year, New VAT rate

Remember that the standard rate of VAT, currently 17.5 per cent, will be increased to 20 per cent on 4 January 2011.

### Web refresh

"These days, the first port of call for finding out about a business and what it is up to is via its website. The website refresh allowed us to take advantage of the latest technology while ensuring the site was aligned with the Ritson Smith brand."

**Mike Hampton** Hampton Associates

