

# E-Business



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## E-Business Trading Online

E-Business otherwise known as E-Commerce cuts completely across most industry sectors and is an increasingly important consideration for all businesses.

From 2003 onwards, the e-business sector began to grow significantly. This growth has been driven by a number of factors, including:

- A steady increase in the number of households and businesses with access to the internet
- Increasing consumer trust of online retailing, which has boosted the value of online retail sales. Many consumers believe that the best prices can be found online, and this has contributed to sector growth
- A rise in the number of businesses trading and purchasing online. According to government figures, around 70% of businesses in the UK have a website of which 13% are enabled for online sales
- The rise of social networking websites such as MySpace and Facebook, which encourage users to spend longer online. Facebook has an advertising platform that allows businesses to target the Facebook membership
- The government's commitment to developing the UK "as the best place in the world for e-commerce" led to a variety of schemes based on the Information Society Initiative, with the stated aim to make broadband available in every home.

The phenomenal growth of Amazon/eBay has had a significant impact on the e- business sector in the UK. Many online retail businesses have been set up specifically to trade on Amazon/eBay and a number of existing retailers (traditional and online) have established 'shops' to take advantage of the audience of over 10 million registered users.

Around 80% of all online sales are business to business and the remainder are business to customer. Many businesses that do not sell online are nevertheless increasingly turning to internet advertising as part of their marketing strategy, and online advertising now accounts for around 20% of the total UK advertising industry. Consumers have become increasingly prepared to make purchases online - fears over the safety of on-line credit card transactions appear to have been largely allayed.



### Some Industry specific areas of advice from our experience

VAT.....Is the cash accounting scheme of advantage or disadvantage?

There can be annual tax/NI savings to be had by operating the trade from within a limited company but with any premises being owned personally?

Is ownership of the business correctly set up such as to minimise the various taxes and maximise tax reliefs?

What are your future plans? Exit strategy or next generation involved? Plan in place to achieve this?

Sales to staff and owners; how are these dealt with and is all ok?

Wills; are they tax efficient particularly as regards the business?

Are profit shares / extraction of profits made in the most tax/NI efficient way?

Are sufficient procedures applied to try and avoid theft or fraud?

Can tax efficient wages be legitimately paid and justified to family members?

Is a "Use of home as office" charge justifiable and claimed?

Are owners and staff arrangements on vehicles maximising tax reliefs?

Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full timers.

Is a change of accounting date a good idea?

Are owners and staff arrangements of vehicles maximising tax reliefs etc.?

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Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

### Some Industry specific areas of advice from our experience (cont'd)

Has the strategy on owners' company cars been reviewed in the light of taxable benefits and capital allowances now being driven (no pun intended) by CO2 emissions? (It can now even make sense for the company to provide low emission cars to non-employee family members such as children!)

Are Paypal and EBay sales being correctly treated for VAT and are all sales included, not just the after deduction receipts?



### Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

Businesses trading online may be divided into two categories:

- Pure play businesses which only trade online - for example the online retailer Amazon.com or the travel booking firm lastminute.com. Some of these sell exclusively to other businesses (B2B) or exclusively to the customer (B2C) while others are a mix of the two
- Traditional bricks and mortar businesses such as the majority of the national High Street retail outlets which have added online sales to their existing retailing activities (sometimes referred to as clicks and bricks)

There are, of course, very many businesses with websites which are little more than advertising brochures and which do not offer online sales to users. Technological advances however mean that the internet will play an increasingly important role and it is likely that those businesses which do not offer online sales or do not have an online presence, will be perceived as old-fashioned and may be in danger of losing market share.

## Operating Practices

In order to trade online a business must first obviously have a website built. Where the necessary skills are available this may be undertaken in-house, often using off-the-shelf e-commerce software, but in most cases e-commerce websites are designed and constructed by professional website developers. Online businesses take many different forms and offer a wide range of goods and services such as:

- Physical products such as computer hardware, books, CDs, DVDs, clothing and footwear, gifts, speciality foods and so on
- Digitised products such as music, software and games that can be downloaded for a charge
- Online content that is accessed or played on a subscription or pay-per-view basis
- Portal services for specific industry sectors.
- Booking services such as flights, holidays, hotel accommodation, tickets for events and so on
- Online services for other website owners, for example search engine optimisation services.

In many cases the customer can select the goods required from an online catalogue, adding items to a virtual shopping cart which totals the cost of the items, adds taxes and delivery charges and gives the customer an indication of when the goods will be despatched. The vast majority of retail sites allow instant payment via a credit or debit card or other form of payment such as PayPal and customers may also be given the option to telephone a customer services unit and give a card number over the phone. Sites that do not accept online payment are increasingly seen as 'old hat' and will certainly be missing out.

Fulfilment of orders can give rise to problems and ideally the online business should invest heavily in back office operations so that orders are processed and stock managed as efficiently as possible. Some online businesses undertake the delivery of goods bought online themselves. Others outsource deliveries to a specialist company or use Parcel Force or other carriers. Many online businesses offering goods within a local radius started out by offering free delivery - however this has often proved too expensive to sustain.

In addition to the staff required to process and fulfil orders, an online business also needs suitably qualified people to promptly maintain the site; for example to update the content, add new features and respond to feedback. The site must also be promoted as much as possible so that customers can find it; this means including and optimising it in online search engines, seeking links to it from other websites, including the web address in all stationery and promotional material and, possibly, advertising it on other websites.

In addition to income from the sale of goods or services online many websites generate income from advertisers or from sponsorship. In order to attract advertisers, it is vital to monitor the number of visitors to the site.

Seasonal demand for the online business will depend to a certain extent on the nature of the goods or services on offer and trading patterns will be similar to those experienced by more traditional businesses.

However, because online retailing is particularly well suited to items such as books, videos, CDs, 'niche' and speciality goods, demand is likely to be significantly higher during the period leading up to Christmas. According to industry sources, Christmas has greater significance for online retailers than for the High Street and online sales during the Christmas period are likely to account for around 25% of annual online sales.

E-commerce sites obtain comprehensive details of their customers, not only for delivery purposes but also so that customers can create their own 'accounts', to which they have access using a password. Because order and customer details are captured electronically, activity reports can easily be generated by the back office system.



## Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including e-business. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter.

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be it VAT, PAYE or tax affairs generally.



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