tlp - news

April 2009 **The monthly newsletter of The Long Partnership — www.thelongpartnership.co.uk**

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We want you to succeed. We know our products and services have helped clients' success in the past. Our intent is always to find a solution that exactly meets your needs. This helps to ensure a good fit between what we do and what you need. If there is a good fit, let's work together.

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Quotes

Luck is what happens when preparation meets opportunity

Darrell Royal

The key is not to prioritise what is on the schedule, but to schedule your priorities.

Stephen Covey, Author and Speaker

Dates:

Alan & Helen are both in Kirkwall and Thurso every week.

Congratulations! But why I hear you ask. The congratulations are to Mairi in our Kirkwall office who married this month and is now Mrs Fleet. We all wish her and Martin our best wishes for the coming years, but now that the party is over, its time to get on with the work. OK honeymoon first, then back to work!

Budget Day is Wednesday 22 April 2009. Everyone knows what is coming. Darling needs money but he also needs to stimulate the economy. How will he dress up any bad news? What jam will he use to disguise the pill(s)? We'll just have to wait and see. Some measures have already been announced in his pre-budget report such as the changes in tax rates, benefits, etc. What else will he do this time?

We thought it might be interesting to have a look into the crystal balls of a few different commentators to see if there was any consensus on what might be about to be sprung on us.

Inevitably there will be a lot of technical stuff including the usual plethora of anti avoidance rules to stop those nasty accountants trying to reduce the amount of tax that people have to pay. Shame on them! Do you want an appointment? These are the sort of rules that will not affect the average man in the street i.e. voter.

Last year Darling announced a temporary loss relief so that businesses caught up in the present recession and making losses could carry those losses back further and offset them against pre-recession profits to obtain tax refunds to help cash flow. He could extend this either to permit a longer carry back, say 6 years, or allow more years of losses to be available for the relief.

The rate of VAT was reduced to 15% until 1 January 2010. He could extend this, but on the other hand this measure must be costing a fortune and he probably cannot afford to do that. So, immediately after the Christmas rush this year and just when trade is dying off in January and February, retailers will have to put up their prices again just to make sure that they cannot sell anything. What about the rest of us? It does not bear thinking about.

There are changes coming in the Place of Supply rules for VAT and this will affect you if you are involved in the cross border supply of services. These changes come in during 2010 but there may be something in this budget.

After all the talk about tax havens and the G20 Summit, will Darling have anything to say about them in his budget? Might be a bit early.

A draft Taxpayers Charter has been published. This could be given the force of law this year.

Watch out for something for disabled company car drivers and the benefit in kind rules.

We are seeing reports of calls for employers to be given a National Insurance holiday, to make it easier for businesses to take on more staff. Reducing the rate of Employers National Insurance to say 8% would be a more effective measure than his reduction in the rate of VAT and it could also be for a limited period.

The rate of Corporation Tax on small companies is still set to rise to 22%. Will he defer this once again? We can only hope so, but will the taxation of small company dividends come back into his sights and the fact that they are a tax and NIC efficient alternative to salary for owner/directors in small companies.

Following a recent court case casting doubt on the legality of published HMRC extra-statutory concessions, many of these could now be rolled out as new legislation for your benefit but don't be fooled, nothing will have changed. It's just that they will now be properly legal.

And then again there is the Japanese Knotweed problem that could result in a change in the law on land remediation relief. Now, wouldn't that be exciting!

Alan, Helen and the teams at TLP in Kirkwall and Thurso

Accountants are love cheats!

So much for being dull; a recent survey has revealed that accountants are more likely to have extra marital affairs than lawyers.

Research by extra marital dating site IllicitEncounters.com revealed that 8,746 of all its male members work in accountancy.

The site, which has 300,000 members, said that accountants were the second largest professional group among its client base, beaten only by lawyers (9,048).

The site's spokesperson Sara Harley told the Telegraph: "Since the financial crisis in late 2008, we saw an influx of bankers and accountants from the City, seeking comfort from the difficult times they were facing".

"It seems those members have stuck around, and we now have more male members from the finance sector than ever before. Their presence is certainly noticeable".

Conficker threat continues after April Fools

The World Wide Web has so far survived the Conficker virus but an attack from the botnet of Conficker-infected PCs remains a danger.

So far, the international network of up to 12m infected machines is yet to execute malicious instructions. A botnet spam or DDoS attack can bring down websites and flood email inboxes with ease.

Even internal government computer systems haven't avoided Conficker, with PCs at both the Ministry of Defence and the House of Parliament dealing with the infection this year. The virus has even infiltrated the computer network of the French Navy, stopping its fighter jets from taking off during exercises, because it had infected the Marine Nationale's flight plan database.

Software suppliers have been issuing patches and updates to deal with the problem.

Enterprise Investment Scheme - A cunning tax wheeze!

Provided that all the shares are paid up in full, and in cash, when they are issued, there are no arrangements to protect the investor from the normal risks associated with investing in shares, and no arrangements for the shares to be purchased by anyone else at a later date, the following tax reliefs may be available to an investor in an EIS company, but you should seek professional advice on your own particular circumstances.

- Income Tax Relief - Up to 20 per cent tax relief on the cost of your investment.
- Tax free Capital Gains and tax deductible losses - Subject to certain conditions, the gain on your EIS shares is tax free, but if you sell at a loss, you get Income Tax Relief for the loss.
- Capital Gains Tax Deferral Relief - You can defer payment of Capital Gains Tax where you invest the proceeds of the disposal in EIS shares. The investment must be made within the period one year before or three years after the gain arose. There are no minimum or maximum amounts and there is no minimum period for which the shares must be held.

To qualify for EIS relief there has to be a minimum investment of £500. The relief is 20 per cent of the cost of the shares, to be set against your income tax liability in the same year the shares are issued. Relief can be claimed up to a maximum investment of £500,000, giving a maximum tax reduction in any one year of £100,000 providing you have sufficient income tax liability to cover it. This relief cannot be set off against dividend income, as the tax credit attached to the dividend is not recoverable.

Some of the relief can be claimed in the previous year. Therefore, for shares subscribed before 5 October 2009, up to half of the cost of those shares can be carried back (subject to a maximum of £50000) and set against the income tax liability for the previous tax year. Relief cannot be carried forward to a later year.

The shares must be held for three years either from the date the shares were issued or the date trading commences so that you should not think of selling your investment quickly.

You must not be connected with the company at any time in the period from two years before the share issue to three years after the issue of the shares (or commencement of trading) in either of two ways.

1 Financially - By holding more than 30 per cent of the share capital (or share and loan capital taken together) or voting rights.

2 Employment - Directors and employees of the company, and their associates. There is one permitted exception to this in the case of a director who is a "Business Angel".

In determining whether you have breached the 30 per cent test, your associate's holdings are taken into account. Associates include business partners, trustees of any settlement, spouses or civil partners, parents and grandparents, and children and grandchildren. Brothers and sisters are not counted as associates for the purpose of the EIS.

Certain actions can trigger a withdrawal of tax relief including:

- You or an associate become connected (see above) with the company.
- The company loses its qualifying status.
- Any of the shares are disposed of prematurely unless to a spouse or civil partner.
- Entering into certain transactions with the company.

In order for investors to be able to claim EIS income tax relief, the company has to meet a number of conditions regarding the kind of company it is, the amount of money it can raise, how and when that money must be employed, and the trading activities carried on. The company must satisfy HMRC that it meets these requirements, and is therefore a qualifying company and it must continue to meet these conditions.

There are often EIS opportunities locally and there will be others currently in the pipeline. Ask around because it is easy for a company to become an EIS company and we will not know about all of them. Give us a call and we will tell you of ones we currently know about.

Thinking of building your own home? - The VAT Self Build Scheme

Would you like to be able to claim back all the VAT on the materials and labour? You do not need to be VAT registered, there is a special scheme just for you.

Timing

You can't claim as the work goes along - you have to wait until it's finished according to the original plans. If in doubt, you can wait until the local planning authority issues a certificate of completion.

You must make your claim within three months of completing your conversion or building work. There are a number of detailed rules and you have to have certain “bits of paper” to back up your claim, read on.

VAT invoices

VAT invoices must show:

- the supplier's VAT registration number
- the quantity and description of the goods and/or services
- your name and address if the value is more than £100
- the price of each item

Making the claim

To make your claim, you have to fill in various forms.

You must then send in your claim forms along with the following information:

- your claim calculations
- VAT invoices and other documents supporting the amount of your claim
- evidence that the conversion or building work is completed - see 'evidence of completion' below
- a copy of the planning permission
- the plans of the building

Evidence of completion

HMRC will accept any of these as evidence that the work is finished:

- a certificate or letter of completion from the local authority, for Building Regulations purposes or otherwise
- a habitation certificate or letter from the local authority - or in Scotland, a temporary certificate of habitation
- a valuation rating or Council Tax assessment
- a certificate from your bank or building society with the wording below

> 'This is to certify that the ...... Bank*/Society* released on ...... (date) the last instalment of its loan secured on the dwelling*/ building* at .... because it then regarded that building as complete.'

If you think you might qualify or just to find out more about the scheme, give us a call and remember - **WE CAN DO ALL THE FORM FILLING AND CHECK YOUR CLAIM FOR YOU.**

Ministers are starting to get it, says FSB chief

John Wright, national chairman of the FSB, said following his recent meetings with key politicians, he has developed a real sense that they are willing to offer real support to help entrepreneurs survive the economic downturn.

"At long last they realise that as many as possible viable small businesses must survive this recession and I believe that many of them, at long last now realise that it will be small businesses that will bring us more speedily out of this recession."

Wright however admitted it isn't going to be easy. He said entrepreneurs themselves must continue to raise their concerns with politicians."You need to turn up at MPs and councillor's surgeries because we know that they are all interested in getting re-elected."

Social Entrepreneurs

Jeff Skoll, the former president of eBay and now boss of the Skoll Foundation has said the failure of the financial markets was leading to a greater concentration on an ethical and social approach to doing business.

He drew parallels with the discovery of the double-helix DNA structure. Skoll said the credit crunch has provided "a new revolutionary, exogenous shot that may well propel social enterprise into the mainstream".

"While we don't know exactly how the economic meltdown is going to play out, it does seem clear that social entrepreneurs are positioned to emerge from the crisis, not only as survivors, but also as leaders."

Where can you find a Social Entrepreneur when you need one! We meet plenty and they may yet be the new business leaders in the North of Scotland.

How changes in income affect your tax credits

If your income in the current tax year is different from your income in the previous year, then the amount of tax credit you get may change. If your income changes in any of the following ways, then you need to tell HMRC about it.

- If your income for the current tax year is expected to be less than last year, you may be entitled to extra tax credits.
- If your income for the current tax year is expected to be more than £25,000 higher than income for the last year, you may get less tax credits.

There's no need for you to tell HMRC if you expect your income for the current year to be no more than £25,000 higher than your income for the last year.

It will make no difference to the amount of tax credit you will receive for the current year although the increased income will be taken into account in the following year.

Tax Planning Tips and Tricks….

VAT Flat Rate Scheme

1. Are you in business?
2. Do you have rental property as well?
3. Do you use the VAT Flat Rate Scheme?

If the answer to all three questions is yes then potentially you have problem and you may need to apply the Flat Rate percentage to your rental as well as your business income.

The easy way to avoid having to account for Flat Rate Scheme tax on your exempt rental income is to create a separate legal entity (partnership or company) between the business and rental income if this is not already in place. The alternative approach could be to withdraw from the FRS if the tax charge created by the rental situation is excessive. Get in touch so we can help you check the situation, and sort it out.

IHT - Agricultural Property Relief

The European Commission have recently issued a "reasoned opinion" declaring that the relief from UK IHT afforded by Agricultural Property Relief is incompatible with EU legislation regarding free movement of capital.

Could this be the beginning of the end for Agricultural Property Relief as we know it with its generous exemptions. Alistair Darling needs money and he might blame Europe for a tax increase and a neat source of much needed funds for the exchequer.

Anyway, it could be a good time for some IHT planning for the family farm while the relief is still so generous. Contact us if you would like to discuss the implications on your family of losing this relief.

Capital gains Tax

However, an 18% flat-rate of capital gains tax has now kicked in, and taper relief and indexation allowances have been scrapped. The exemption for capital gains tax has also risen to £9,600.

Owners of small business as well as employees and company directors who own at least 5% of shares in the company will only pay 10% capital gains tax on any profits under £1 million. It may be advantageous to distribute your share portfolio between you to benefit and to put property in joint names with your spouse.

Inheritance Tax

The nil-rate band for inheritance tax has now risen to £312,000 a year. Married couples and those in civil partnerships can also combine their allowances, meaning they will not have to pay inheritance tax on the first £624,000 of their estate. Speak to us to ensure your family gets the full benefit of this relief after you have gone!

Foreign Currency Gains - a tax on holiday money?

Do you have to report a taxable gain every time you go abroad on holiday? No of course not - the reason is TCGA 1992 s269, which provides that a gain on currency acquired by an individual for their personal expenditure outside the UK of himself and family is not a chargeable gain. (This includes expenditure on the provision or maintenance of a residence outside the UK).

The problem is that the let-out applies only to currency acquired specifically for personal use. It does not apply to currency acquired as (for example) remuneration, dividends, interest or from sale of assets - even if it is subsequently applied for personal use. If you choose to keep this in foreign currency, each foreign bank account is treated as a separate asset and so every withdrawal is a part disposal. This means that foreign currency accounts need to be constantly monitored for gains or losses, even if the funds are subsequently used for personal use.

Now, how does this apply to Single Farm Payments taken in Euros. Unfortunately we do not think that this helps you at all but if we find out to the contrary you will be the first to know.

So, if you do not want a Capital Gain, convert the foreign currency received into Sterling immediately on receipt and then use that Sterling amount to buy foreign currency kept in an account to use for holidays or foreign properties.

As so often in tax, its not what you do, it's the way that you do it.

ISAs

The annual limit on saving through ISAs is now £7,200, of which up to £3,600 can be saved as cash. If you choose to invest the maximum amount in cash, then you can only invest £3,600 in stocks and shares.

Employment Expenses

You may be able to make a claim for expenses incurred in the duties of employment. Some examples are travel & subsistence, professional subscriptions and use of home. There are also fixed rate expenses for most classes of industry for the upkeep of tools and special clothing that have been agreed with the Revenue and trade unions.

If you use your own vehicle, motor cycle or bicycle for business trips your employer can pay you an allowance, based on HMRC approved rates, free of both tax and NIC. If your employer does not pay any expenses or pays an amount below the approved rates, you can make a claim for the difference. We can claim this for you, its easy!