

tlp - news

August 2008

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

Let's Get Real or Let's Not Play.

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.

Call us on:

01856 878600

Quote

We cannot do great deeds unless we're willing to do the small things that make up the sum of greatness.

Theodore Roosevelt,
26th President of the
United States

August Dates:-

**4 Thurso office
opens**

**14 Alan in
Shapinsay**

**19 PAYE payments
due**

Welcome to all our new clients. At the beginning of August The Long Partnership merged with Stuart Whiteley's practice in Thurso. Many of you will know Stuart. Although originally from Lancashire (nobody's perfect!), he has lived in Thurso for many years and built up a small but significant practice with clients from all over the North of Scotland looked after by himself and Kath his wife.

By the time that you read this our Thurso office will be open. The computers will have been installed and, if all the furniture is not yet in place, it will be on its way. All the client records will have been transferred from Stuart's office to the new office in Princes Street.

The business will trade as The Long Partnership and the directors will continue to be Alan and Helen Long. How can you have directors of a partnership, you may well ask. Well, the answer is quite simple really. A few years ago, we decided that we could save a significant amount of tax by becoming a company, but we kept the name we had used previously. Brown and Darling don't like us because we use their rules to keep our tax to a minimum. Find out how this simple strategy could save you money. Give us a call. We have some fancy software so that we can tell you in a matter of minutes whether it would be worth your while to follow us down the incorporation path and get struck off Gordon's Christmas card list!

The other little twist is that we are not a limited company. What other types of company are there? Well, we are an unlimited company although we could have become a Limited Liability Partnership.

Why are we an unlimited company? Limited companies have to file their annual accounts at Companies House and these can be downloaded online by anyone.

We do not have to file accounts at Companies House. Follow our example and you could incorporate your business, save tax and keep your results out of the public domain. Get in touch if you would like to find out more.

Anyway, back to the merger. Stuart is going to be working with us for a few months to ensure that we take proper care of all our new clients during this initial phase. The process of incorporating all Stuart's records into our own will take a little while so please be patient with us.

What else are we up to? We will be launching Crunchers later this month. You can find out more by visiting www.welovebookkeeping.co.uk. You can also see information on The Long Partnership website.

Crunchers is the brainchild of Bob Harper and his team at More Software. More Software is the accounting software that we give to clients free of charge. It has been designed to be simple and quick to learn and to use. Many of our clients now use this software and we also use it to do bookkeeping for clients at our office. Working with More Software, Bob Harper identified a gap in the market for fast high quality bookkeeping based around the More Software. We also saw the potential for this and have taken up the franchise in the North of Scotland, based in Inverness.

You may remember that we have spoken about Calum from time to time. He built our website (well worth a look!). Incidentally he also built the www.buyorkney.com website, but in future he will be working for us and his role will be to oversee the Crunchers operation. More next month.

That's probably enough news for now. There is more in the pipeline but that is for another month.

Here's a quote to leave you with. "Defeat is not the worst of failures. Not to have tried is the true failure" -- George Woodberry, Poet.

Are we trying? We think we are.

Alan, Helen and the team at TLP

Ex-Google team sets up rival search engine Cuil

Source - John Stokdyk at Accountingweb

In the space of a decade, Google has achieved such dominance in the internet search arena that, like Hoover, it has become a verb to describe the generic activity. But that hasn't stopped a team of former employees from taking Google on with a new start-up called Cuil (pronounced "cool").

Having learned their trade with Google, the Cuil founders raised \$25m of venture capital to create a new approach to internet search. Instead of looking at the number and quality of links to and from a webpage - the Google's method - Cuil tries to understand more about the information on a page and the terms people use to search. The results are displayed in a magazine format rather than a list.

Unlike Google, Cuil said it would not retain any information about what people search for.

According to reports, Cuil slowed to a crawl on Monday as users responded to the new site's launch publicity, but recovered later in the day. A sample search produced on the writer's name generated about half the number of pages compared to Google, but the layout was noticeably more attractive, with a picture of the search subject displayed prominently in the middle of three on-screen columns. The results were also punctuated with some irrelevant graphics that may be a source of advertising revenue.

On the subject of revenue and business models, no one appears to have found an explanation about how Cuil is going to supplant the online advertising income that has helped propel Google to its pre-eminent position and market valuation.

Incorporation – Source www.thelongpartnership.co.uk factsheet

The issue of whether to run your business as a company or a sole trade or partnership is an important decision. The cumulative effect of changes to the tax system over a number of years up to 2004 resulted in significant tax savings if a business was incorporated. Changes in recent years have reduced these savings and the government has moved to discourage small businesses from incorporating by increasing the tax rates for small companies. We have summarised the relevant tax changes and shown the potential tax savings currently available from operating as a company.

On Tuesday 13 May 2008 the Chancellor announced that the personal allowance for the 2008/09 tax year will be increased by £600 from £5,435 to £6,035, and the threshold at which someone starts to pay higher rate tax will be reduced.

The point at which individuals start to pay higher rate income tax is sometimes called the "higher rate threshold". It is the total of the personal allowance and the basic rate limit.

In addition we consider other relevant factors including potential disadvantages.

Tax Savings

The examples below give an indication of the 2008/09 tax savings that may be achievable for husband and wife who are currently in partnership.

Profits:	£30,000	£50,000	£100,000
Tax and NI payable:	£	£	£
As partners	5,596	11,196	27,228
As company	4,017	8,217	20,121
Potential saving	1,579	2,979	7,107

The extent of the savings is dependent on the precise circumstances of the couple's tax position and may be more or less than the above figures. The examples are computed on the basis that the couple:

- share profits equally
- have no other sources of income
- both partners take a salary of £5,435 from the company with the balance (after corporation tax) paid out as a dividend.

When might a company be considered?

A company can be used as a vehicle for:

- a profitable trade
- buy-to-let properties.

Relevant Tax and National Insurance Rates

Profits of a company up to £300,000 are taxed at 21% from 1 April 2008. This rate is set to rise by 1% next year.

The rate of employees' NIC is 11%. In addition, a 1% charge applies to all earnings over the NIC upper earnings limit (which is £40,040 from 6 April 2008). The rate of NIC for the self-employed is 8%, and 1% on profits above £40,040 from 6 April 2008.

All NI contributions can be avoided by incorporating, taking a small salary up to the threshold at which NI is payable and then taking the balance of post-tax profits as dividends.

Pension provision

As an employee / director of the company, it should be possible for the company to make significant pension contributions to a registered fund irrespective of the salary level, provided justifiable under the wholly and exclusive rule. For further details of the tax position of pension provision for individuals see our factsheet on personal and stakeholder pensions at www.thelongpartnership.co.uk.

Other Tax Issues

It is all too easy to focus exclusively on the potential annual tax savings available by operating as a company. However, other tax issues can be equally, and in some cases more significant and should not be underestimated.

- ◆ **Capital gains** - Incorporating your existing business will involve transferring at least some of your assets (most significantly goodwill) from your sole trade or partnership into your new company. This can create significant capital gains although there are mechanisms for deferring these gains until any later sale of the company. We will need to discuss in detail with you the most appropriate mechanism for your business. Any gains which are chargeable may qualify for Entrepreneurs' relief, which means that gains up to £1 million, are charged at 10% rather than 18%. An outline of this relief is included in the factsheet, Capital Gains Tax. However its availability will depend on various factors and will require detailed discussion.
- ◆ **Stamp Duty Land Tax (SDLT)** - There may be SDLT charges to consider when assets are transferred to a company. Goodwill and debtors do not give rise to a charge, but land and buildings may do so.
- ◆ **Income tax** - The precise effects of ceasing business in an unincorporated form, including 'overlap relief' need to be considered.
- ◆ **Capital allowances** - Once again the position needs to be carefully considered.

Other Advantages

There may be other non-tax advantages of incorporation and these are summarised below.

- ◆ **Limited liability** - A company normally provides limited liability. If a shareholder's shares are fully paid he cannot normally be required to invest any more in the company. However, banks often require personal guarantees from the directors for borrowings. The advantage of limited liability will generally apply in respect of liabilities to other creditors.
- ◆ **Legal continuity** - A company will enjoy legal continuity as it is a legal entity in its own right, separate from its owners (the shareholders). It can own property, sue and be sued.
- ◆ **Transfer of ownership** - Effective ownership of the business may be more readily transferred, in comparison to a business which is not trading as a limited company.
- ◆ **Borrowing** - Normally a bank is able to take extra security by means of a 'floating charge' over the assets of the company and this will increase the extent to which monies may be borrowed against the assets of the business.
- ◆ **Credibility** - The existence of corporate status is sometimes deemed to add to the credibility or commercial respectability of the business.
- ◆ **Pension schemes** - The company could establish an approved pension scheme which may provide greater benefits than self-employed schemes.
- ◆ **Staff incentives** - Employees may, with adequate safeguards, be offered an opportunity to acquire an interest in the business, reflecting their position in the company.

Disadvantages

No analysis of the position would be complete without highlighting potential disadvantages.

- ◆ **Administration** - Annual compliance requirements of administration and accounting.
- ◆ **Privacy** - The annual accounts have to be made available on public record
- ◆ **PAYE/Benefits** - You will need to complete PAYE records for salary payments and benefits.
- ◆ **Dividends** - We will need to set up a system for you to correctly pay dividends.
- ◆ **Transactions with the business owner** - there may be tax implications
- ◆ **Director's responsibilities** - for filing accounts etc

Incorporation

How We Can Help?

There may be a number of good reasons currently for considering use of a company as part of a tax planning strategy.

However as you can see , there are many factors to consider.

We would welcome the opportunity to talk to you about your own specific circumstances.

Give us a call. We can quickly tell you whether you can save tax and then we can discuss the other advantages and disadvantages. We will set up the company and keep you on the right track!

VAT Registration - is it necessary?

You are required to register for VAT if the value of your taxable supplies exceeds a set annual figure (currently £67,000).

If you are making supplies below the limit you can apply for voluntary registration. This would allow you to reclaim input VAT, which could result in a repayment of VAT if your business was principally making zero rated supplies.

If you have not yet started to make taxable supplies but intend to do so, you can apply for registration. In this way input tax on start up expenses can be recovered.

Taxable person

A taxable person is anyone who makes or intends to make taxable supplies and is required to be registered. For the purpose of VAT registration a person includes:

- ◆ individuals
- ◆ partnerships
- ◆ companies, clubs and associations
- ◆ charities.

If any individual carries on two or more businesses all the supplies made in those businesses will be added together in determining whether or not the individual is required to register for VAT.

Virus Alert: 'Your parcel is at the customs office'

A new virus is circulating on the net that has evaded many anti-virus programs and email filters. Have you received an email purporting to be from "Customs Service", carrying a 21kb zip file called "Tax_Invoice.zip".

It has all the hallmarks of a classic email virus scam. The return address "bxeshfnce@bluetongue.com" was one clue, as was the message that read: "We have received a parcel for you, sent from France on July 9. Please fill out the customs declaration attached to this message and send it to us by mail or fax. The address and the fax number are at the bottom of the declaration form."

The Customs tax invoice message looks to be closely related to an attack that started circulating last week in the guise of a message from UPS Packet Service. It appears that many businesses had already been infected by the bogus UPS delivery form. If you receive this email please delete it straight away and DO NOT open the attachment.

The McAfee Secure website identified the UPS virus as a variant of Generic Downloader.ab and reported that it was also circulating in a message claiming to include nude pictures of Angelina Jolie. Symantec Security Response catalogued it as Downloader.Diliv and Panda Security calls the Trojan virus Agent.JEN and notes that it has been in circulation since 2005.

What is worrying, however, is that such an obvious and publicly documented virus has made it through so many defences - and that users are still clicking to open suspicious email attachments. Remember that IT security is as much a state of mind as a function of anti-virus programs and observe the following instructions.

Safe computing precautions

Ensure your anti-virus signatures are up to date and follow the "safe computing" guidance issued by software security companies. Install anti-virus software and **never open attachments** directly from Outlook. Treat every attachment with suspicion, download to your hard drive first (where it can be scanned with your AV software) and delete any mails with attachments that you are not expecting. Many viruses "spooof" the from address to be senders who may be familiar to you.

And finally.....

How many lawyers does it take to change a light bulb?

Such number as may be deemed necessary to perform the stated task in a timely and efficient manner within the strictures of the following agreement. Whereas the party of the first part, also known as 'the lawyers' and the party of the second part, also known as 'the light bulb' do hereby agree to a transaction wherein the party of the second part (light bulb) shall be removed from the current position as a result of failure to perform previously agreed upon duties, i.e. the lighting, elucidation, and otherwise illumination of the area ranging from the front (North) door, through the entryway, terminating at an area just through the primary living area, demarcated by the beginning of the carpet, any spillover illumination being at the option of the party of the second part (light bulb) and not required by the aforementioned agreement between the parties. The aforementioned removal transaction shall include, but not be limited to, the following steps:

1. The party of the first part (lawyer) shall, with or without elevation at his option, by means of a chair, step stool, ladder or any other means of elevation, grasp the party of the second part (light bulb) and rotate the party of the second part (light bulb) in a counter clockwise direction, said direction being non-negotiable. Said grasping and rotation of the party of the second part (light bulb) shall be undertaken by the party of the first part (lawyer) to maintain the structural integrity of the party of the second part (light bulb), notwithstanding the aforementioned failure of the party of the second part (light bulb) to perform the customary and agreed upon duties. The foregoing notwithstanding, however, both parties stipulate that structural failure of the party of the second part (light bulb) may be incidental to the aforementioned failure to perform and in such case the party of the first part (lawyer) shall be held blameless for such structural failure insofar as the non-negotiable directional codicil (counter-clockwise) is observed by the party of the first part (lawyer) throughout.
2. Upon reaching a point where the party of the second part (light bulb) becomes separated from the party of the third part ('receptacle'), the party of the first part shall have the option of disposing of the party of the second part (light bulb) in a manner consistent with all applicable state, local, and federal statutes.
3. Once separation and disposal have been achieved, the party of the first part (lawyer) shall have the option of beginning the installation of the party of the fourth part ('new light bulb'). This installation shall occur in a manner consistent with the reverse procedures described in step one of this self same document, being careful to note that the rotation should occur in a clockwise direction, said direction also being non-negotiable and only until the party of the fourth part (new light bulb) becomes snug in the party of the third part (receptacle) and in fact becomes the party of the second part (light bulb).

Note: The above described steps may be performed, at the option of the party of the first part (lawyer), by said party of the first part (lawyer), or by his or her heirs and assigns, or by any and all persons authorized by him or her to do so the objective being to produce a level of illumination in the immediate vicinity of the aforementioned front (North) door consistent with maximisation of ingress and revenue for the party of the fifth part, also known as 'The Firm'.