

tlp - news

December 2007

The monthly newsletter of The Long Partnership

Save money on fee protection insurance.

We have a policy of insurance that will pay professional fees incurred in dealing with a Revenue investigation. This automatically covers all our clients. You pay nothing more. Contact us to find out more.

Quote:

"The beginning is the most important part of the work."

-- Plato, philosopher

December Dates:-

19 - Nov PAYE due

11/12 - Alan is in Caithness

21 Noon - Office closes for Xmas

31- Corporation Tax due (March 07 year end companies) + CT Returns (Dec 06 year end companies) + Account to Companies House (Feb 07 year end companies)

Welcome to the first newsletter that we have produced. We thought it would be fitting to start in December. It gives us a chance to make a few mistakes while people are not really paying attention. Christmas is just around the corner and by the time that the January edition arrives on your desk, you will have forgotten anything that happened in 2007.

Nevertheless, we hope that this newsletter will provide you with some useful information. Please feel free to us know what you think of it and what content you would like to see in the coming months. We are planning that the newsletter will be issued monthly and will include both commentary from us as well as news that we think will be of interest to you.

Always keen to use the latest technology, we have opted to send you this information on paper. Just when everyone else is moving to the dreaded email newsletter, we have put ours on paper. Old emails have little use. At least you can light a fire with ours.

As 2007 draws to a conclusion, what sort of year have you had? As with most businesses, we have had some ups and some downs. Thankfully there were many more ups and we ride on to meet the challenges of another year. Roll on 2008!

As anyone in business will appreciate, the first thing you have to do is survive, and then , if you are either clever or lucky or both, you can make a little money to pay for

things you enjoy, or paying for your children's education. Anyone who has children going through college or university will know the costs and most know that phone calls are often the prelude to a request for funds, and at short notice.

2007 was a good year for Mairi Wards. Mairi has been with us since we moved to Castle Street in 2001 and this year passed her final exams for the Institute of Chartered Certified Accountants.

There have been no changes in staff this year and this has allowed us to continue to develop our internal systems. We are now well on our way to a paperless office although we will never be totally without paper.

Turning to other matters, many of you will be aware of the sweeping changes taking place to the tax system. Yet again, major changes have been announced only to be followed shortly after by mitigating measures. After the changes were announced, Alistair Darling then announced the resurrection of retirement relief. Taper relief was introduced by Gordon Brown and after some adjustment was working well and was understood by most people. Yet again the affect of changes has not been properly thought through and it is the small business that pays the price. The proposed changes to Capital Gains Tax spell misery to many small businesses. However, change is in the air and there is not a lot we can do about it, until the next election!

Have a good Christmas and don't let the scary taxman give you nightmares.

Alan, Helen and everyone at TLP

Do you know what we do?

We provide express relief from the pain and stress caused by bookkeeping, accounts, tax and finance.

Come in and talk to us and let us explore with you the ways in which we can help relieve your pain and suffering.

Our services include

Accounts

Bookkeeping

Sage sales and help

Tax Returns

General Tax Advice

Special Reports

Advice on buying a business

Helping you source finance

Advice on selling a business

Financial projections

Business plans

New business start ups

Company Secretarial

Retirement planning

Succession planning

*** Fixed Annual Fee ***

We now offer the option of an annual fee fixed in advance. We have developed a program that allows us to calculate your fees accurately in advance. If you like our proposal, you then pay us a fixed monthly fee and nothing else, unless you specifically ask us to do extra work (and we can price that in advance as well!)

Contact Us:

If you would like to discuss this further, contact Alan or Helen on 01856 878600 or set up a meeting. Your place or ours?

INHERITANCE TAX CHANGE WELCOMED

Chancellor Alistair Darling announced in his Pre-Budget speech a change to the way in which the inheritance tax (IHT) nil rate band of £300,000 can be used for married couples and civil partners.

In order to understand the implications of the change it is important to have an understanding of the principles of IHT. Transfers of property between spouses or civil partners are generally exempt from IHT. This means that if an individual dies and leaves some or all of their property to their spouse or civil partner, then this is not chargeable to IHT. If they do not have sufficient assets which they are willing or able to leave elsewhere then they may not fully use their nil rate band.

This problem with 'wasting' the nil rate band, combined with large increases in the value of many family homes, has meant that many families had been inadvertently drawn into the IHT net.

The Pre-Budget change means that any nil rate band unused on the first death may be used when the surviving spouse or civil partner dies.

This change is effectively backdated for widows or widowers whose spouse died before the announcement of the change, as long as the 'surviving' spouse or civil partner dies on or after 9 October 2007. The amount of the nil rate band available for transfer will be based on the proportion of the nil rate band which was unused when the first spouse or civil partner died.

The following gives an example of how the rules will work:

Mr Smith's Will states that on his death he will leave his estate including his share of the family home to his wife. At the date of his death the nil rate band is £300,000.

On Mrs Smith's death she will be able to make use of her own nil rate band of say £350,000 (which is the band proposed for 2010/11) together with the unused percentage of her late husband's nil rate band being a further £350,000. Her total nil rate band will be £700,000.

This is a significant change that will affect many families. Please do contact us if you would like more information on this issue and how it will affect your circumstances.

INCOME 'SHIFTING' AND THE ARCTIC SYSTEMS CASE

Mr and Mrs Jones finally won their case in the House of Lords in July this year. You may remember that the profits of Arctic Systems (their company) were paid equally to them by means of dividends. HMRC had tried to have the income assessed solely on Mr Jones rather than between them but failed in their attempt.

The government had stated that it believes it is unfair for one person to arrange their affairs so that their income is diverted to a second person, and therefore is subject to a lower tax rate, obtaining a tax advantage.

The government has announced that they propose to draft legislation which will take effect from 2008/09 to address income shifting. This legislation will be issued for consultation before being implemented. The government propose that the legislation will remove the tax advantage obtained from income shifting. The rules will only apply when the income is in the form of distributions from a company (dividends) or partnership profits.

CHANGES TO VAT INVOICES

The second phase of changes to the rules regarding the content of VAT invoices commenced on 1 October 2007. The changes are explained in VAT Information sheet 10/07 which has been issued recently. Many businesses will not have to change their procedures, as they already voluntarily comply with the rules, but businesses will need to be aware of the change in the law.

The following summary illustrates the full scope of the changes.

- All invoices will be required to be sequentially numbered by law.
- If a business supplies goods under the second hand margin scheme this will have to be indicated on VAT invoices.
- Similarly, supplies made under the Tour Operators Margin scheme will have to be identified as such from the invoices.
- Cross border EC supplies will need a reference where the supply is either one which would be exempt if made in the UK, or is subject to the reverse charge arrangements.
- Finally, on intra-EC supplies of goods, which are therefore zero rated for VAT in the UK, a statement to this effect must be included.

CAPITAL GAINS TAX TAPER RELIEF TO BE ABOLISHED

The Pre-Budget speech also included the shock announcement that taper relief for capital gains tax (CGT) will be abolished from 6 April 2008. This announcement took everyone by surprise and it is still unclear in some circumstances how these rules will be applied. There is also much speculation that the proposed changes may not be implemented or may be deferred.

HMRC have however issued several examples of how they envisage the rules working. At the same time as abolishing taper relief the government proposed to change rate of CGT to a flat rate of 18%. Higher rate taxpayers currently pay CGT at 40%.

Taper relief was introduced in 1998 and can significantly reduce the amount of the amount of any gain chargeable to CGT by as much as 75%. The percentage of the relief available depends on whether the asset is classed as a 'business' or 'non-business' asset and, also, the period of ownership of the asset since 1998 (when the rules were introduced).

To give a straightforward example if you sold some shares that you have owned for two years that have always been a business asset then you would pay tax on the chargeable gain (proceeds less cost less 75% taper relief). The remaining gain would be taxed at your top rate of tax of say 40%.

If you sell the same shares on or after 6 April 2008 taper relief will no longer be available to reduce the amount of the taxable gain. The rate of tax applicable to taxable gains will be changed from 6 April 2008 to 18%.

The Chancellor confirmed that the annual exemption, which for the current tax year is £9,200, will continue to be available in the next tax year. The amount of the exemption has not yet been announced.

Another complication in current capital gains computations is that if you have assets which you acquired before April 1998 you are currently allowed to include an element of inflation in your capital gains tax computation. This inflation allowance, known as indexation, increases the cost of your asset and therefore reduces the amount of the taxable gain. This relief will also no longer be available in computations from 6 April 2008.

Will I have more tax to pay? These rules will generally increase the amount of tax payable by individuals who own assets that currently qualify for full business asset taper relief. There are many conditions that have to apply for assets to qualify, and the definition of a business asset has changed since the introduction of the rules in 1998.

If you are planning to sell assets in the near future please do get in touch so we can advise you.

John Cridland, Deputy Director-General of the CBI, had this to say about the change in the rules:

"Changing the capital gains tax rate to a flat rate of 18% will adversely affect the balance between risk and reward, both for entrepreneurs and for the UK's vital private equity industry. This move is disappointing and may lead to a reduction in investment in start-up and growing businesses."

COMPANY CARS AND FUEL

The Pre-Budget report also contained an announcement which will affect some company car drivers.

If the employee is provided with free fuel for private motoring then a fuel benefit charge arises based on the percentage used for the car benefit and a 'multiplier', which is currently £14,400. For 2008/09 this figure will increase to £16,900.

The fuel scale charge figure has not changed since it was introduced in 2003. This rise, when combined with an increase in the car benefit percentages for 2008/09, will mean that many employees will see a substantial increase in their tax bills from next April. This change will initially make itself felt in the form of an increase in the benefits in kind included in their coding notices for the year, meaning that more tax will be deducted from their pay.

There will also be an additional cost to employers as the related Class 1A NI charge will also increase.

Did you know?

A venture capital company has just paid £150,000 for recycle.co.uk, the highest amount ever for a UK web address.

“**An accountant** is someone who tells you about a problem you did not know you had, and how to fix it in a way you don't understand”

“**An auditor** is someone who comes along after the battle has ended and bayonets the wounded.”

“**An actuary** is someone who finds accountancy too exciting!”

MICROSOFT LAUNCHES FREE OFFICE ACCOUNTING SOFTWARE

Office Accounting 2008 comes in two flavours. **Office Accounting Express** is a free download available from www.msofficeaccounting.co.uk. This is a permanent policy, not a limited offer. This version includes all the accounting functions – sales (including quotes), purchases, bank, 20 pre-defined reports and Office integration. Microsoft has included an integrated PayPal option which enables you to add a PayPal link to electronic invoices and then import PayPal payment details back into Accounting. Online bank statements in OFX format can be imported.

VAT accounting includes cash or invoice accounting and is well controlled by the locking of transactions once a return is finalised. Backdated transactions are automatically picked up on the next return.

For £149.99 you can upgrade to **Office Accounting Professional**, which gives you:

- A further 40 report options
- Stock management - not bill of materials, but it does virtually everything else
- Job tracking
- Sales and purchase order processing
- Business overview dashboard
- Multi-user access with role-based security to control access rights
- Built-in cash flow forecaster
- Multi-currency support
- Microsoft point of sale integration
- For the time being Professional users have to install the Express download and then upgrade it. Next year a retail version should be available on CD.
- Additional users can be added at £149.99 per user or a three user licence is available at £399.99, which is the normal multi-user installation Microsoft envisages. However, the software should support up to eight concurrent users and given the choice of SQL Server as the underlying database system it should be quite robust in any multi-user environment.

Express users can upgrade to Professional by buying a £149.99 product key – the full software is already included in the Express installation, it just has to be unlocked. Payroll is available in the Professional Plus edition at £249.99, which includes a one year subscription to the payroll service from April 2008.

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