

tlp - news

February 2010

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

Let's Get Real or **L**et'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 right now!

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Quotes

"Business is like a wheelbarrow - it stands still until someone pushes it."
Anon

"A man, as a general rule, owes very little to what he is born with. A man is what he makes of himself."

-- Alexander Graham Bell, inventor

Date in February

9-10 Alan at CES Revenue Projects Conference in Glasgow.

February is the start of the accountant's New Year. So, January is now behind us and we can look forward to the next annual cycle of events, or is that deadlines?

We spend February clearing away the debris from January and then we get into Payroll year ends and planning the year ahead. All of our clients will shortly be hearing from us

We will shortly have some new faces to tell you about but not just yet. Ben will be joining our team in Thurso and Andrew in Inverness. More later.

I have just come back from Glasgow where I was attending The Community Energy Scotland (CES) Revenue Projects Conference held aboard The Tall Ship on the Clyde. This is an old Clyde built square rigged ship (The Glenlee) that is being restored. It is located just downstream from the SECC and is worth a look. One of the first things that they need to restore is the heating. Have a look at the Community Energy Scotland website and you will see a picture of everyone in their coats and scarves. You might think this is because the picture is being taken outside, but actually this is what we looked like below decks in the conference. Other than that it was a very good conference and very illuminating. It is clear that community projects in the North of Scotland are generally very well advanced compared to projects further south. However, the evidence is that these other groups will be catching up. Wind energy is giving communities all over Scotland the opportunity to get away from the culture of grant dependency and allowing them to become financially independent in a way that could not have been imagined just a few years ago.

One of the messages that came over at the conference loud and clear was that these "community" projects are very serious businesses and need to be taken seriously and approached in a business like and professional manner. This exposure to finance and business is bound to encourage a new breed

of social entrepreneurs. And how many of these will move on to set up their own businesses and we'll be here to help. Give us a call and come along to discuss your plans, sooner rather than later.

And when you think about business someone (usually than damned accountant) raises the question of who is going to do the bookkeeping. Bookkeeping is a fundamental part of any business but not for the reason most people think. It is necessary in order for accounts to be prepared and tax returns to be completed but is not necessary for you to do it. It is however essential that you use the information from your books to plan, run and develop your business. It is the information you need not the heartache. You need to run your business and not spend hours doing something that someone else can do better. If you have a business there are things that only you can do, so let someone else do the books Provided that they are set up so that you get the information you need to make the decisions that you need to make. It is not a test of manhood that you can do your own books. The most successful entrepreneurs do not spend time doing books! So, why should you?

Companies have become very topical again but beware! They can save you tax. TLP is a company and the tax advantage was one of the reasons that we incorporated. But it does not suit everybody and if it is not done properly, or you try and do it on the cheap, it can cost you dearly. If you go online you can probably buy a company that would "do the trick" for under £50, but it could cost you thousands in additional tax or lost tax relief. Companies can be very good but there are pros and cons so we have summarised these for you this month. Have a look inside.

Have you been looking for finance recently? There seems to be more money around now for the righty projects. If you have a project ready to go and just need finance, come and speak to us. Turbines, buildings or boats. We have done them all and we know who to speak to as well.

Alan, Helen and the teams at TLP in Kirkwall, Thurso & Inverness.

Hot Tax Topics for 2010

Retirement age increase

Currently the age of retirement is 65 for men and 60 for women. The government plans to raise this to 65 for women from 2010 onwards, pushing it up by two years every year. The changes will take effect over the next two months, so it's important to make clients who may be affected by this aware as soon as possible. Going forward, there are also plans to increase this to 68 for both sexes between 2024 and 2046.

New 50% tax band

The chancellor unveiled plans for a new 50% tax band in this year's Pre-Budget Report. The new band will come into effect this tax year and will apply to those earning more than £150,000 a year and is expected to affect around 350,000 people. For those earning over £150,000 it might be worth looking at bringing income forward or deferring expenditure where possible.

High earners' personal allowances

From 5 April those earning over £100,000 p.a. will see their personal allowance decrease. Personal allowance is currently £6,475, but this is to be removed on an incremental basis.

Furnished holiday lets

The tax advantages previously conferred on furnished holiday lets will terminate on 6 April 2010. HMRC recently published its interpretation of the transitional rules that will apply when FHLs move from trading to property rental status on 6 April 2010. These transitional rules have introduced a number of new, surprising and welcome openings to exploit.

VAT to surge to 20% under next government

VAT increases usually occur at the start of a new parliament, regardless of who is in power. A 2.5% increase in VAT is almost inevitable this year.

Increased VAT would also bring the UK more in line with the average EU rate of 20%.

“Whatever you do, don't incorporate!”

For many years small businesses have faced the question of whether there would be a tax advantage in converting from an unincorporated sole trade or partnership to a limited company, with shareholders and directors. The threshold for tax efficient incorporations is now at a point where, on paper at least, almost every business could save tax by operating as a limited company.

This is important!

Whilst it is relatively easy to get a business into a company, it is important to plan not only how the transfer in will be managed to gain the most tax advantage, but also an exit strategy, in case one is needed! You need advice.....

Advantages of Incorporation

Limited liability status – the main commercial advantage, which provides protection for the owners' personal assets against commercial risk. This advantage may be diminished where bank finance or other sources of credit can be obtained only on giving personal guarantees. This is probably the single most important factor in deciding whether or not to operate as a company.

Adding “substance” if you have the word “Limited” after a business name - This can help to raise the status of your business by giving it the appearance of substance, just in the same way as being registered for VAT, when your turnover is actually below the registration threshold. It can enhance your position with bankers, suppliers and potential customers and could help with winning new contracts.

Taxation - the main financial benefit from operating as a company is the ability to avoid Class 4 NIC on profits by paying dividends. Furthermore, the controlling director/shareholder can determine how much salary to pay and can therefore control how much Class 1 NIC is payable. Many of us pay nothing at all!

For larger, more profitable businesses with annual profits of, say, £45,000 and above, significant further tax savings can be made where the proprietor chooses to retain profits within the business for future expansion, and limits the amount of salary or dividends taken and higher rate tax payable by them personally. The small company corporation tax rate of 21% (for profits up to £300,000) compares very favourably with the 40+% income tax rate and NIC payable on unincorporated profits above the basic rate band.

Disadvantages Of Incorporation

The importance of these will vary from one business to the next but may include:

- A less favourable treatment of any trading losses which may arise.
- Significant tax charges on company cars, depending on the type and price of car and the extent of business and private mileage.
- Reduced Inheritance Tax relief for assets owned personally (common with farms) but used by the company, e.g. office or factory premises.
- Potential double tax charge on the sale of the business, if the purchaser does not wish to buy the shares.
- The possibility of future changes in tax law which may reduce or eliminate the savings altogether (combined with expensive exit charges to dis-incorporate).
- The requirement to file accounts at Companies House, so that the financial results of the business are on public record, and easily accessible online by anyone. There is a way round this, so speak to us and we will explain what we do!
- The accounts need to meet with rigorous disclosure requirements of the Companies Acts and if the turnover exceeds the defined threshold, the accounts will require an audit. This could affect small businesses with large turnovers but low margins, e.g. second-hand car dealers.
- Additional administrative burdens which may result in increased professional fees, especially if the job is going to be done correctly and maximum tax efficiency achieved.
- Initial upheaval during the transition from sole trade/partnership to the limited company, as bankers, customers, suppliers, insurers, etc, need to be informed. In regulated industries, e.g. Construction and farming, there may be additional hurdles to overcome, e.g. applying for new licences, registrations, etc.

In most cases, the additional time and cost of running a company should be easily outweighed by the tax savings, but if the likelihood of tax savings is uncertain, e.g. because of fluctuating profits, incorporation may not be worthwhile.

Other Factors

If a business has recently, or is about to undertake significant investment in plant and machinery or motor vehicles, care is needed to ensure valuable capital allowances are not lost or deferred.

Knowledge based businesses need to be aware of the IR35 legislation which applies to “personal service companies” and which may render the tax advantages of paying a nominal salary and substantial dividends unobtainable.

Finally, particular care is needed where there is the prospect that the business could be sold within the next two or three years.

Conclusion

A multitude of factors need to be taken into account in deciding whether or not to incorporate a business. Professional advice should be taken in all cases before a decision is made.

So, if anyone says it is easy and will not cost much, speak to us and then make up your own mind. Don't misunderstand us. We like companies and have incorporated many. We do it online and it can be done in a few hours. But we do our best to ensure that anyone incorporating gets all the tax advantages available, some of which you would not even dream were there to be had. We also make sure that the company's Articles incorporate all the safeguard that you need.

So, if you are thinking about incorporation, come and speak to us. It is worth being properly informed.

We don't work 9 to 5 because neither do you.

The world has been revolutionised by the growth of the internet. The way in which business is conducted and consumer behaviour has changed beyond recognition in just a few short years.

Service providers are moving online more and more whether it be from a new business sourcing perspective or client relationship management.

The extraordinary growth of digital technologies in the past couple of years have enabled consumers to browse the web more easily, researching the sorts of things that may, a few years ago, have been restricted to the traditional working week.

Naturally, along with the consumer product shopping and general web browsing, research into tax and finance is just as likely to take place out of the 9-5 Monday to Friday working week, when people are likely to be at home and carrying out essential life admin or discussing their requirements with partner or family.

We receive a large number of both questions and leads out of normal work hours and anyone in business these days has to embrace this culture, or get left behind. So, if you send us a query outside of normal office hours, don't be too surprised if it is dealt with outside of the usual 9 to 5.

People who are used to doing business online generally expect an immediate response and expect to be able to converse with an organisation 24 hours a day, seven days a week. Sometimes this expectation may be unrealistic, particularly from a financial / tax advice perspective, but we all need to adapt somewhat to meet this demand.

I am not suggesting that this requires a wholesale shift of behaviour, but perhaps just the odd attempt outside the conventional working hours could prove worthwhile for any business Especially if you want to grow!

WeightWatchers to shed £23m to HMRC

WeightWatchers is facing a £23m tax bill after losing a case against HMRC over the tax status of its regional leaders. The weight loss company insisted that its regional meeting leaders are self employed, but a first-tier tax tribunal has ruled in favour of HMRC's view that they should be treated as employees for tax purposes. As a result of the ruling, WeightWatchers may be forced to pay back \$37m (approximately £23m) in taxes covering the period from April 2001 to the 2009 year-end, including accrued interest. Do you want to speak to us about tax status issues?

Accounting humour

Over the last couple of years we have filled odd spaces in our newsletter with Lawyer material. We thought it was time to redress the balance as well as giving you a few nuggets to brighten up the start of another year and ease the depression of “what's going to be in the (emergency) budget after the election”. More on the next page.

Record 6.4 million file their Income Tax returns online

A record number of taxpayers filed their Self Assessment tax returns online this year, HM Revenue & Customs (HMRC) revealed on 1 February 2010.

A total of 6,429,899 people filed online by the 31 January deadline – three quarters of all returns submitted. This represents an increase of nearly 12% on the 2009 total, when around 5.8m people filed online by 31 January.

On the busiest day for online returns, Friday 29 January, HMRC received 384,638 online SA returns. And the rush hour for online tax returns occurred between 4pm and 5pm on that same day, when 39,512 returns were received by HMRC.

Welcoming the figures, Financial Secretary to the Treasury, Rt Hon Stephen Timms MP, said:

‘More people than ever before are now filing their tax returns online. It's easier, quicker and HMRC processes your return faster, so any money you're owed is repaid more quickly. If you haven't yet made the switch from paper to online, do so, and join the millions who are benefiting already.’

More than 9.5m Self Assessment returns are issued every year.

**I am glad I am British,
I am glad that I am free,
but I wish I was a dog.....
and Brown was a tree.**

Anon

Accounting Celebs

Eddie Izzard - failed accountancy student who turned to surreal stand-up comedy.

His father was Harold Izzard, a former president of the institute of internal auditors and chief auditor of BP.

Robert Plant - gave up accountancy training to sing for the rock band Led Zeppelin.

Fred MacAulay - Scottish Comedian graduated from the University of Dundee with an MA in accountancy and jurisprudence.

Ken Bruce gave up accountancy to be a radio presenter.

Tax Planning Tips and Tricks

Avoiding Late Filing Penalties

HMRC have confirmed that for individual and trust returns, any late filing penalty will be reduced to nil if all of the money due has been paid by 31 January 2010.

While some parts of the HMRC website and some HMRC reminders sent to taxpayers correctly state that returns filed late will be subject to a late filing penalty of £100, there is little coverage of the fact that, currently, these penalties are reduced to nil if all of the tax and NIC due has been paid by 31 January 2010.

Penalties of £100 per partner do apply to late partnership returns (because there is no tax payment to cap the penalty).

This may be the last January that this capping rule applies, as it is expected that the new late filing penalty provisions, with an uncapped penalty, will commence in the near future.

Enterprise Investment Scheme - Pension Solution?

Advantages:

- 20% upfront income tax relief
- CGT deferral
- Potential IHT relief in two years - if combined with a Business Property Relief (IHT) qualifying investment
- Tax free capital growth
- Leapfrog capital gains to offset later losses

The maximum EIS investment is £500,000 per year for income tax relief, against an income tax bill for this year (or the last year).

These and Venture Capital Trusts (VCTs) are increasingly being used to complement pensions as part of an overall retirement planning solution. While the tax relief provides a reliable return, you can access your money after the tax qualifying period to re-invest (or spend) which you cannot do with funds locked into pension schemes.

A Little bit of (accountant) humour.....

A budget is a means of worrying before we spend, as well as afterwards.

What's the difference between a fine and a tax?

A fine is a tax for doing wrong. A tax is a fine for doing well. (bit too close to the truth!)

There are three kinds of accountant...

Those that can count, and those that can't.

Auditors - by Stephen Brown.

Auditors are people too, we're not nasty and mean
No need for fear and loathing whenever we are seen
Don't hide behind your desk or go and nervously take flight
We're only there to try to make sure everything's all right
So when we do a test it isn't just because we can
It's to check your system's working right all neatly spick and span

When we ask awkward questions it's simply that we care
That your records may be incomplete with not all you need there
We look for fraud it's true but hope to find it? We do not!
Dealing with fraud just adds more to the work that is our lot
Yes auditors are lovely with a helpful task to do
It's only incidental when we make more work for you
I hope that now you understand and so, what do you say
Will you fight prejudice and hug an auditor today?

NMW Clampdown - not tax but useful to know.

HMRC have set up a new Dynamic Response Team to target employers who pay migrant workers below the National Minimum Wage in an attempt to undercut competitors. Since April 2009 around 14000 workers have had to be paid arrears of NMW.

The current rates are :

Age 22 + £5.80

18 to 21 £4.83

16 to 17 £3.57

Watch out for changes coming up. There is a rumour going about that the age categories are to be changed and that will cost you money (just for a change).

PAYE, Employers and mileage allowances - NIC

Where an employee uses a personally owned car for a business journey a payment of up to 40p per mile can be made tax and NIC free for the first 10,000 business miles per year. Any excess is liable to tax and Class 1 NIC if that higher, but commercial, rate is actually reimbursed by the employer.

Above 10,000 business miles the tax-free amount is limited to 25 per mile (if a higher rate can be justified and is paid there is a liability). What is commonly overlooked is that for NIC purposes the 40p rate applies to all miles (whether among the first 10,000 or not).

There is no requirement to payroll payments up to and including 40p per mile for any reason.

Payments between the 40p and 25p limits for income tax go on a P11D.

Amounts paid above 40p per mile attract Class 1 NIC/Income Tax on the excess and need to be payrolled.

Brown is my Shepherd, I shall not work.

....with apologies to the original

Brown is my Shepherd, I shall not work,
He leadeth me beside still factories,
He restoreth my faith in the Conservative Party,
He guideth me to the path of unemployment.

Yeah, though I wait for my dole,
I own the Bank that refuses me,
Brown has anointed my Income Taxes,
My expenses runneth over my income,
Surely, poverty and hard living will follow me all the days of his term.

From hence forth we will live all the days
of our lives in a rented home with an overseas landlord.

An Accountant's life

"He was a very cautious man, who never romped or played.
He never smoked, he never drank, nor even kissed a maid.
And when he up and passed away, insurance was denied.
For since he hadn't ever lived, they claimed he never died."

And finally, if you want to see what some sad people (aka accountants) do on Second Life, have a look at the video on: <http://marksaccjokes.blogspot.com/>