

tlp - news

January 2008

The monthly newsletter of The Long Partnership

Wind farms—are your for or against. Do you think renewables make Orkney a better place for more people to thrive, or not?

If you are thinking of farming the wind ask us about our financial model that can predict profitability quickly and easily.

Quote

“The nine most terrifying words in the English language are, "I'm from the government, and I'm here to help.”

Ronald Reagan

January Dates:-

14 - Alan in Westray

16 /17 - Alan is in Caithness

19 - Dec PAYE due

31- Corporation Tax due (April 07 year end companies) + CT Returns (Jan 07 year end companies) + Account to Companies House (March 07 year end companies)

Happy New Year. It has finally arrived. What sort of year do you think 2008 will be for you. We hope that it brings you everything that you would wish for yourself.

2007 was a great year for The Long Partnership. The new systems that we have been working on have proved very effective and this has allowed us to significantly increase the amount of business that we are handling. We also have a number of new developments in the pipeline but more about these next month. We can, however, promise that the next few months will be very interesting. And we will keep you posted.

The quote this month comes from Ronald Reagan. He was the butt for many jokes but somehow this quotation rings a chord. If you are in business there is a certain way that you have to think in order to succeed. You are not always the most popular of people because you are focused on what you have to do to succeed. You have to take the tough decisions and you cannot switch off at 5 o'clock. On the other hand many of those who are employed by government agencies to advise businesses have little or no practical experience of business themselves. We always used to say of Tax Inspectors that they had been taught in a class room how a business should be run. You don't learn about sleepless nights in a class room. There is a big difference between knowing that the salary cheque or bank transfer will be there at the end of every month and worrying that your customers will pay you on time so that

you can have enough money to live on. That may seem a little extreme but it illustrates a fundamental difference between employment and self employment. You have to be able to handle stress if you want to be self employed. If you cannot stand the heat in the kitchen, go and get a job! And once you have been self employed, you are usually not employable. You need to be making things happen and making decisions.

Contrast this with your typical government employee. Some work hard and we could not live without them. But just the same the mind set is completely different. Most days finish at or before 5pm and the working week finishes on a Friday, need we say more.

So, when one of these comes along to tell you how to run your business, what is the first thing to do? We would suggest that you find out what they have done themselves in practice. It may be that all they are doing is telling you the rules and saving you having to read them for yourself. But in many cases they go much further, even though they do not have the relevant credentials.

Anyway, now that we have that off our chests, lets make 2008 something special, in whatever way you most want that to be. It may be that you are chasing profits or you may have personal goals that are more important. Whatever your goals, we wish you every success in 2008, and especially if we can help a little along the way.

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.

We can also help when it comes to paying.

Why not agree a fixed fee with us and then pay it over 12 equal monthly instalments.

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?

INCOME SHIFTING - GUIDANCE ON DRAFT LEGISLATION

The consultation document was published on 6 December 2007. It can be found at www.hm-treasury.gov.uk/media/1/D/consult_income_shifting.pdf.

These rules followed the defeat of HMRC in the House of Lords by Mr and Mrs Jones in the Arctic Systems case. This led the Chancellor to announce in his 2007 Pre-Budget Report that the Government would shortly be launching a consultation on draft legislation to prevent income shifting (otherwise known as income splitting or income sharing).

In summary, income shifting is the process by which an individual transfers part of their income (from dividends or partnership profits) to another person who is subject to a lower rate of tax.

What is proposed from 5 April 2008?

Very broadly, the rules will apply where under seemingly uncommercial arrangements, dividends or partnership profits are shifted from one individual (individual 1) to another individual (individual 2). The changes are meant only to affect those who transfer dividends or profits and as a consequence move income from a higher to a lower rate taxpayer. Genuine commercial arrangements are those that would exist between unconnected persons dealing at arm's length.

Unfortunately, many commercial arrangements will be caught because the proposals are very widely drafted. They will catch many owner-managed businesses involving husbands and wives and other family members. The difficulty will be working out whether they are caught by the definition of income shifting or not, which will lead to yet more uncertainty for many small businesses.

Where the rules apply, the income is treated as forming part of the income of the individual shifting the income and not the income of the other individual.

The new rules only apply to dividends and partnership income. Therefore, amounts paid out as salaries will not be affected by these rules.

It is anticipated that the new rules will apply to dividends or profits paid on or after 6 April 2008 whether or not these derive from accumulated profits.

An example of a serious cases (which will be caught by the proposed rules)

A husband and wife own a company in which the husband does all the work, but the shares are owned 50:50. The profits of £60,000 are usually paid out as dividends. Under existing rules following Arctic, the husband and wife will each receive dividend income of £30,000 and be taxed accordingly. If the income shifting rules are applied, the whole of the £60,000 of dividends would be taxed on the husband, with the result that some or all of the income shifted will be taxed at a higher rate.

Let us suppose that this company has considerable reserves built up over the past few years. It would be worth giving serious consideration to extracting these reserves before the rules change on 6 April 2008. As it is a company, the dividend must not only be declared, but also actually distributed before 6 April 2008. In similar cases involving partnerships, changing the partnership year end to, say, 31 March will ensure that profits earned before and after the change can be clearly identified.

HMRC staff to strike?

The Public Commercial and Services Union (PCS) will be balloting all their members in HMRC on their willingness to engage in strike action. The union has been seeking a negotiated settlement on the Revenue's continuing job cuts and office closure programme.

The Union has argued that the recent cuts have led to greater stress, longer working hours and difficulties in taking leave for HMRC staff. Roughly 80,000 employees at HMRC are PCS members, which gives the Union an 80% density at the department. The Revenue has made 13,000 job cuts to date, with a further 12,500 staff and 250 offices to go by 2011. Morale problems have been widely reported.

Do we care?

What expenses can I claim if I am self employed and working from home?

Some expenses are incurred with a private subconscious motive and so are not allowable at all. Others may have been incurred at least in part for some private motive, but you are nevertheless allowed to claim a proportion. This creates some rather strange results such as the case of the barrister who was not allowed to claim anything for her work clothes as there was a subconscious motive of warmth and decency. This contrasts with a situation where a proportion of a claim for rates in a public house was allowed where the accommodation was in part private, and the rates payment clearly suffered from duality of purpose.

In calculating the profits of a trade, no deduction is allowed for expenses not incurred wholly and exclusively for the purposes of the trade but if an expense is incurred for more than one purpose, a deduction is permitted for any identifiable part or identifiable proportion of the expenses which is incurred wholly and exclusively for the purposes of the trade.

HMRC updated their guidance and the result is that it is now OK to claim a great deal more expenses in relation to self-employed home working than you might have contemplated in the past. You may now claim *a proportion* of telephone fixed line rental on a domestic phone and a proportion of exterior house repairs and so on.

It is possible to apportion the use and cost of a room on a time basis, and to allow the expense of the room during the hours in which it is used exclusively for business purposes, in the same way as it is possible to calculate the business expenses of a car which is sometimes used for business purposes exclusively and sometimes used for pleasure.

The key to claiming expenses is to ensure that they are reasonable in relation to the type of home-office user.

It could be argued that there are five basic types of self-employed home worker:

The 'kitchen table' - settles down at the kitchen table once a week to write invoices etc.

The 'part-time home PC user' - pushes the children off the PC every other night to type invoices, check email, and maintain basic books and records.

The 'serious PC' - has a PC which the children will not dare to touch (they have their own), in its own corner of a room on a desk, not an office as such, but a clearly defined space.

The 'in-home office' - has partly converted a bedroom into an office, which is mainly, but probably not exclusively used for business.

The 'dedicated office' - the office is just that, possibly a converted garage, room or loft, or maybe free standing in the garden. This office may or may not be used exclusively for the business.

Planning points

User types 1 to 3 will be unlikely to make any high claims for use of home, as the proportion of their business use is likely to be very low compared to the private use.

Users 1 to 4. will not have any capital gains problems on the sale of their main residences, because they are not using any part of their home exclusively.

User 5's office may be used exclusively. Any home office will be a business asset, and so benefit from business taper relief (until 5 April 2008, when CGT reform removes this relief).

Types of expenses to claim – whole or apportioned

Expenses broadly fall into two categories, fixed costs and running costs. Fixed costs will have to be apportioned while running costs can generally be calculated by usage.

Light and heat – apportion by metered use, failing that by proportion based on square meter of room space use, or by number of rooms, and maybe factor in the % use on an hourly basis.

Telephone and broadband – apportion by call time (incoming and outgoing).

Rent, Council Tax, cleaning, house repairs – apportion by square meter/room and percentage use.

Mortgage interest – as rent, unless part of mortgage relates to part used exclusively for business, for instance, if you got a 'top-up' to convert the garage into an office.

Insurance – as rent, apportion part of the general household policy, and claim all of a dedicated business policy as a normal business expense.

Repairs to business equipment – all allowable, restrict if private use

This is fun and saves time too...

You probably use the web for all sorts of reasons such as buying, selling, information seeking, perhaps email, research, tools, tips, techniques, ideas and who knows what else.

The 'who knows what else' is usually the sites you visit regularly such as the weather to plan for outings, golf games and more. You also probably have a number of sites listed in your 'favourites'. Here is a way of making the page you have set as the 'home page' in your browser more user-friendly.

This is what to do...

Create a page (you can use Excel) that contains the sites that you visit regularly. Then save that document as a 'web page'.

From My Documents, where you've saved that page, click it to open it on the web. Then go to TOOLS, click on the GENERAL TAB, and in the HOME PAGE SECTION, click on USE CURRENT then click APPLY

You can even add in some clip art and other images and hyperlink them to the appropriate pages just to spark it up a bit.

And so...

Now when you launch your web browser – there is everything you need – all on one page!

Of course the great news is that as you regularly visit other websites it's just so easy to add them to the original EXCEL document and update your browser home page.

Q. How do you drive an accountant completely insane?

A. Tie him to a chair, stand in front of him and fold up a road map the wrong way.

New advisory fuel rates from HMRC

To reflect the increases in fuel prices, HMRC have issued new advisory fuel rates for company car drivers. These take effect for all journeys undertaken from 1 January 2008 so employers wishing to use the new rates should advise affected employees and update any expense forms as soon as possible.

Engine size	Petrol	Diesel	LPG
1400cc or less	11p (10p)	11p (10p)	7p (6p)
1401cc – 2000cc	13p (13p)	11p (10p)	8p (8p)
Over 2000cc	19p (18p)	14p (13p)	11p (10p)

Other points to be aware of about the advisory fuel rates:

- employers do not need a dispensation to use these rates
- employees driving company cars are not entitled to use them to claim a deduction if employers reimburse them at lower rates. Such claims should continue to be based on actual costs incurred.

The advisory rates are not binding where an employer can demonstrate that the cost of business travel in company cars is higher than the guideline mileage rates. The higher cost would need to be agreed with HMRC under a dispensation.

If you would like to discuss your company car policy, please contact us.

Consultation document from HMRC on residence and domicile

In the Pre-Budget Report the government announced a package of reforms affecting the personal tax rules on residence and domicile. The government has now published a consultation document which contains further detail on the proposed changes.

This guidance is consultation, at this stage, and we will have to wait and see what is finally enacted. Copies of the consultation document can be obtained from the HM Revenue & Customs website at : www.hm-treasury/media/1/2/consult_residenceanddomicile061207.pdf

Corporation Tax enquiry window—forthcoming changes

- for accounting periods ending on or before 31 March 2008, the enquiry window for returns filed on time closes 12 months from the statutory filing date.
- for accounting periods ending after 31 March 2008, the enquiry window for most returns delivered by the filing date will close 12 months from the day on which HMRC receive the return.

The Long Partnership

Chartered Accountants — Chartered Tax Advisers

Whether you are just starting out in business for the first time or have been around for a while

Whatever business you are in

Whether there is a problem to be solved or you just want to find out more

If you have an idea for a new business and are not sure how to proceed

Come along and speak to us

Free no obligation initial meeting

Fixed price monthly billing available

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