

tlp - news

January 2009

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 on:

01856 878600

or **01847 890304**

Quote

"Tomorrow is the most important thing in life. Comes in to us at midnight very clean. It's perfect when it arrives and it puts itself in our hands, and hopes we've learned something from yesterday."

John Wayne, Actor

Dates:

Tue/Wed - Alan & Helen in Thurso

12 Alan in Westray

31 Tax Return filing deadline

Happy New Year. It has finally arrived, a fresh new year full of opportunities and challenges. We are all starting to write on a fresh clean page and what will you write on it this year?

Do you like our quote this month? John Wayne is an interesting source of insight, but we thought it was appropriate. We are making the transition from the old year to the new and hopefully we will apply what we learnt last year in our actions this year, maybe.

This time last year the old year was the New Year, so what have we achieved? In our own business we have seen a number of developments. Early in the year we said goodbye to Jim who moved on to pastures new. In his place came Arlene Aim (formerly from Stromness, now living in Sandwick) and many of you will have met or spoken to her. Shortly after that came another new face in the form of Karen Miller. Don't mess with her, her dad's a copper! In August we took over the Thurso based practice of Stuart Whiteley and took the plunge and opened an office in Thurso. We had been speaking about this step for a while because of the amount of work that was building up "o'er the water" and so it seemed a natural thing to do. We are following Drever & Heddle, Aurora, Pentarq and others who have expanded their horizons and started to work on "the largest of the South Isles".

The office opened on 4 August and we have been working flat out to assimilate all Stuart's clients into our business and apply all our existing systems. He was a busy man and this has been hard work but hopefully we are getting there and our new clients in Caithness will start to see the benefits from all our hard work in the not-too-distant future.

Once the office was up and running we took on Wendy to look after things in Thurso and especially on the days that we cannot be there. Wendy is from Thurso and went to school in Thurso before going south. Many of our Caithness clients will already know her. Wendy and her husband James and their two daughters live in Thurso just a short walk from our office.

Calum is a face that few of you will have seen. He works for us from his base in Elgin,

although he travels a lot and is responsible for developing the Crunchers part of our business. This is a distinct and separate arm of The Long Partnership and offers a bookkeeping service as part of the Crunchers national network, serving the whole of the north of Scotland. 2009 will be an important year in the development of this side of our business. If you want to find out more about the services that Crunchers can offer contact Calum on 07525 324898.

Well, that was last year. So, what of the New Year. Well, first there is January and that is always an interesting month for us accountants. We have a saying – "February is coming". It means that in a few short weeks we will be able to settle into a more normal routine with more time to discuss, plan and scheme along with you and develop your plans for the coming year. In the meantime, we have tax returns to file, all online of course.

January is the time that we nag some of you to get your records to us. We take pride in ensuring all our clients tax returns are submitted on time so we will not apologise for nagging you if we feel that we need to do it. If your tax return is late we feel we have not done our job right, but that rarely happens.

Have you used your tax planning gift voucher yet? The first enquiries have been logged and we will be scheduling the first meetings in February. Keep your voucher safe and use it any time in 2009, but the sooner you get in touch, the earlier you can benefit from the tax planning review. If you do not want to use the voucher yourself, give it to someone else who you want to benefit. Your gift to them.

If you want an extra voucher or two to give away, just contact Yelena at our Kirkwall office and she will send them to you. It does not matter what accountant they use because we will send a copy of our report to their accountant to discuss and action if they think it is appropriate. Don't forget that these reviews and the follow-up reports are absolutely free and it could save you and your friends and families a lot of (tax) money. That has to be good in the present downturn. Our gift to you and your friends in 2009 with our compliments.

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

Entrepreneurs laugh in the face of the doom mongers

A fifth of small business owners are confident for the year ahead despite analysts' predictions that they face the toughest economic conditions for decades, new research reveals.

As the first day back at work after the festive break for many draws to a close, the poll by Orange showed not all entrepreneurs are fearful about the 12 months to come.

While 32% of the SMEs questioned remained gloomy in their forecasts for 2009, another third predicted business would pick up after the initial struggles and despite widespread panic regarding the economic downturn, one in five said they were optimistic about the year ahead and we would have placed The Long Partnership in this category.

Credit issues were at the forefront of entrepreneurs' concerns in the study with 25% of respondents admitting that their credit facilities have been hit and a further fifth expecting changes in 2009. In the face of this however, over a third said they had not felt the pinch and were confident that their credit situation will remain unchanged.

In addition, although the recent collapse of several companies has put job losses high on the agenda, 28% of business owners said they hoped to get through 2009 without making any staff redundant, with one in 10 planning on beating the recession with more flexible working practices.

Paul Tollet, vice president for business at Orange UK, said: "I believe that 2009 is going to be a tough year for British businesses, yet the results show that some businesses have a more upbeat outlook for the year ahead.

"It is encouraging that over half the respondents of the survey are optimistic for 2009 or believe that things will pick up throughout the year. We must ensure we do what we can to drive this optimism into action and get British business back on its feet."

Source: Accountingweb

VAT – unsold new zero-rated dwellings - Planning point for house builders

HMRC have issued a brief for house builders who have built or are building new dwellings with the intention, when they are completed, of selling either the freehold interest or a long lease of over 21 years (at least 20 years in Scotland) in each of the properties.

Background

The first sale / long lease of a new house is zero rated. This allows the house builder to recover all the input tax they have incurred in connection with the development (subject to the normal rules about blocked input tax) and to sell the dwelling without adding VAT.

Some house builders have found that they are unable to sell new dwellings. For most, this leaves them with the choice of leaving them empty until they find a buyer, or renting them out in the short term while they wait for the housing market to recover in order to sell them. Short term lets are exempt and input tax recovery is blocked.

Revenue & Customs Brief 44/08 and Information Sheet 07/08 (both published on 15 September 2008) provide guidance for house builders renting out new dwellings on short term lets while retaining the intention to sell the dwellings when the markets recover. Short term lets of this kind can sometimes give rise to adjustments of input tax previously recovered.

Approach made

HMRC have been asked about the possibility that house builders might, in advance of any short term lets, make the first sale in the completed dwellings to a connected person. This zero-rated sale might remove the need for the kind of adjustments explained in Information Sheet 07/08. The suggestion put to HMRC is that the connected person would then rent out the properties until such a time as they could be sold. The rentals would be exempt and not give rise to input tax deduction on ongoing costs including the costs of the eventual sale (for example estate agency and legal costs).

However, deduction of the VAT associated with the original construction would have been secured by the builder.

The brief appears to indicate that this procedure would be acceptable to HMRC and so they would not seek to challenge. However, if the VAT deducted goes beyond the VAT that would normally be deducted in relation to the supply of the new dwelling (for example VAT on costs such as repairs, maintenance or refurbishment, which is not normally deductible) such arrangements are likely to be challenged as abusive.

Source: HMRC

Reduction of the personal allowance from 2010/11 onwards

One of the stranger Pre-Budget Report announcements was the disclosure that, from 2010/11 onwards, the basic personal allowance will be subject to income limits in a manner not that dissimilar to the regime applying for the age allowance.

Where an individual's total income is £100,000 or less before personal allowances, he will continue to be entitled to the full amount of the personal allowance. However, where that person's 'gross' income exceeds £100,000, his personal allowance will be withdrawn at the rate of £1 for every £2 of excess income up to a maximum of one half of the personal allowance.

The effect of this restriction is to create **a marginal income tax rate of 60%**.

There is a second withdrawal if an individual's 'gross' income exceeds £140,000. The balance of the personal allowance is clawed back on the same basis, but this time by reference to an income limit of £140,000. This final restriction creates **another marginal rate band of 60%**.

One of the difficulties will be that this will not fit very comfortably within the PAYE system, requiring estimates to be made of the taxpayer's income and hence of the personal allowance available. Inevitably, these estimates turn out to be wrong, meaning that people will either overpay or underpay, creating work for both HMRC and the taxpayers and their advisers.

What an unnecessary complication of the income tax system, again!!!

A new top rate of tax

An additional tier of higher rate tax set at 45% is to be introduced for taxable income above £150,000 from 2011/12 onwards. This will apply to all categories of income other than dividends. Dividend income above this threshold will be liable at 37.5% and so there will be three possible rates of tax for dividends:

- (i) 10% for dividends falling within the basic rate band;
- (ii) 32.5% for dividends falling within the higher rate band; and
- (iii) 37.5% for all other dividends.

This change will reduce significantly the advantage of a dividend over a bonus in the case of an owner-managed company paying corporation tax at the small companies rate. For companies paying tax at the full rate of 28%, dividends will cease to be the preferred option in such circumstances.

Accountants are not professionally obliged to promote environmentalism.

The following piece is extracted from a debate that we found on the Accountingweb website. The person advocating these views was called Rob Lewis. It is just an extract but we thought you might like to consider the view that he puts forward. Let us know what you think.

“Accountants have a whole host of professional obligations, but nowhere in the code of conduct for any accountancy body is the obligation to put the environment first – whatever that actually means. Let me to play the devil’s advocate.

What I won’t argue against is the scientific case for global warming. Some might lean that way, but as far as I’m concerned the facts are fairly damning – one day the facts may be proven wrong, but we have to go with what we can see and understand. And from where we stand, it would be fairly foolish to deny that human activity is affecting the planetary climate. So what should accountants, in particular, be doing about it?

Doubtless some will say that as thought leaders and trusted advisors and all that jazz, accountants should be at the forefront of the new green dawn, extolling the virtues of middle-class liberal environmentalism. Nonsense. In the words of Milton Friedman, the only social responsibility of business is to improve its profits. As trusted business advisors, accountants are only obliged to help their clients run better businesses. As far as it makes commercial sense, environmental issues should be advocated and pursued, but only as far they have a positive effect on the bottom line of the business.

Other than that, environmentalism is a personal moral choice (unless it becomes law). Some environmentalists believe that global warming is a result of human greed. If those people want to consider that there is an impending ecological Armageddon which is our karmic punishment for over-indulgence, fine. It’s not an unusual way for humans to react to natural disasters. Centuries ago, plenty of people thought the Great Fire of London was divine retribution for English war crimes in the Netherlands. But it’s not only irrational to assume that consumerism is intrinsically immoral, it’s patronising and economically damaging.

Much of what the business world touts as environmentalism isn’t anything of the sort, anyway. In truth a lot of green business initiatives aren’t concerned at all about the environment, or corporate social responsibility, or demonstrating “thought leadership or so on: they are PR, and hypocrisy to boot, and such posturing denigrates the integrity of the profession.

As we slide into recession, the basic, traditional value of the accountant has never been more sorely needed – some would even say missed. Some would go as far as to say it was a failure of the accountancy profession that allowed the credit crunch to happen. And at precisely this time, when the essential integrity of the profession is being called into question, blithe accountants (some of them very senior public figures) are deluding themselves that their mission has become more important than humble commerce. But if you can’t file a trustworthy set of company accounts, please don’t try and convince people you can save the world. Analysts already think your normal audits are useless. Put your own house in order before you appoint yourselves ecological saviours.“

We will let you have the reply to this in next month’s issue.

Female touch 'would have prevented economic crisis'

More women holding senior positions at City firms would have prevented the excessive risk taking which caused the current financial downturn, a poll of business executives reveals.

The majority of respondents to the study by The Aziz Corporation believed that the macho culture that exists within the financial services sector contributed to the economic meltdown with 49% claiming that if more females, who are more disposed to exercising caution, held high profile roles at least some of the excesses would have prevented.

According to the research, three quarters of executives admitted that at many City firms anyone who advocates caution is viewed as "wimpish" while 93% said the boardroom is dominated by men who tend to be more likely to take dangerous risks.

Respondents called for a new era of caution and sobriety with 85% saying businesses need more staff who are able to exercise 'cautious judgement'. That might not be easy in the short term however as two thirds said those who thrive in the cut and thrust of a doom tend to lack the skills required to manage a downturn.

Professor Khalid Aziz, chairman of The Aziz Corporation, said: "While the glass ceiling has been much talked about over the last decade, nothing has been done to dismantle it. "

"Addressing the cultural problems within City firms is now a business imperative if they are to manage and control the risk they run. A little more application of female caution and intuition might do wonders for our major financial institutions."

Source: Accountingweb

What's the difference between a lawyer and a herd of buffalo?

A. The lawyer charges more.

What's brown and black and looks good on a lawyer?

A. A Doberman.

Tax Planning Tips and Tricks....

Carry-back of trading losses

Current-year trading losses, which currently can be set against the previous year's profits, are available to carry back for a three-year period, with losses being carried back against later years first. The amount of losses that can be carried back to the preceding year remains unlimited.

After carry back to the preceding year, a maximum of £50,000 of the balance of the unused losses will then be available for carry-back to the earlier two years. This is a temporary measure for one year only. The change has effect for company accounting periods ending in the period 24 November 2008 to 23 November 2009. For unincorporated businesses, the measure will have effect in relation to trading losses for tax year 2008–09.

Combine this with the availability of 100% relief for plant and equipment under the new Initial Allowance for capital allowances scheme and you could generate some impressive tax refunds by purchasing equipment at the right time.

Christmas or annual party

There is a tax exemption which allows employers to have one or more annual events for employees, providing that the cost per head does not exceed £150. Cost includes VAT and the cost of transport as well as overnight accommodation, if provided. The total cost of each function is divided by the total number of people who attend (including guests that are not employees) in order to arrive at the total cost per head.

The £150 per head limit is not an allowance to be set against the cost if the cost of £150 is exceeded. So, for example, where an employee attends two functions during a tax year, one costing say £70 per head and the other £100 per head, the higher costing event is covered by the exemption, while the other at £70 is taxable.

Corporation tax small companies rate

The planned increase of the small companies rate of corporation tax from 21% to 22%, from 1 April 2009, has been deferred until 1 April 2010. The marginal relief fraction will remain at 7/400.

Consider taking measures to bring profits forward to the lower rate period but consider the effect on cash flows. This could be done by deferring capital expenditure on which an initial allowance of 100% can be claimed.

Further measures to support businesses

The Government has announced the following measures to help small and medium sized enterprises facing credit constraints, including:

- a new small business finance scheme.
- a new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their tax bills on a timetable they can afford.
- a temporary increase in the threshold at which an empty property becomes liable for business rates. For 2009–10 empty properties with a rateable value of less than £15,000 will be exempt from business rates.
- an interest-free payment schedule for backdated business rates bills.

Interest relief for loans to buy shares in, or lend money to, close companies

Most small companies fall within the definition of a "close" company. If an individual takes out a personal loan to acquire ordinary shares in a close company or to lend money to a close company, any interest which he pays on that loan will qualify for full income tax relief against earnings subject to certain conditions. If you have borrowed to lend money to your company and have not told us, get in touch so that we can see what can be done.

Trivial benefits at Christmas

It is traditional for some employers to provide their employees with a small gift of a Christmas turkey, a bottle of wine or box of chocolates. P11D employees must have this gift declared on form P11D and they are taxed at the cost to their employer.

P9D employees are taxed on the second-hand value of the benefit.

Although tax and NICs are due on all benefits, tax is waived on benefits of a trivial nature such as turkeys, chocolates or one or two bottles of wine. No specific value has been placed on a trivial benefit so if in doubt a check should be made with the tax office. However, if the wine provided to an employee was an expensive bottle of vintage wine then the de minimis rule does not apply.

Have you used your Gift Voucher yet?

The ***Crunchers*** are coming!

You have a business to run but you want to spend more time with your family.

You know you need a fast efficient reliable bookkeeper.

Go to www.welovebookkeeping.co.uk, or

Contact **Cruncher Calum Reay** on **07525 324898** to find out more now.

"It could be the best thing you could do for your business, your family and you."