

tlp - news

July 2008

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.

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Quote

"Gauge your success by what you gave up to achieve it"

Eden Hampson

July Dates:-

4,7 Mairi in
Caithness

9 Alan and Helen in
Caithness

15-17 Alan & Helen
course

23/24 Alan in
Caithness

**4 August— TLP
Thurso office opens**

You are going to have to forgive us. I know we were late before and we are late again. You are probably thinking that accountants get too long holidays and that they would be better getting some work done. Not sure where the holidays went this year, so that is not the reason. Wish it was!

You may have noticed that we slipped into our June newsletter that we were opening an office in Thurso. We have been providing accountancy services in Caithness for many years and last year we put on a bit of a push. Our fixed price agreements and pro-active approach to tax advice seems to be going down "terribly well". As a result we have a lot of work down through Scotland and hence the thought that we would open an office in Thurso. The address?

3a Princes Street

Thurso

For those of you who know Thurso, it is the red door leading to the first floor offices above the bookies. Turf Accountants and Chartered Accountants in the same building. That is as far as I think we should take that analogy but we give better value for money, or at least we like to think that we do.

Anyway, first came the office in Thurso. Now we have taken over another practice and it all comes together on the same day. We open for business in Thurso on 4 August although there may not be any chairs and don't expect a cup of coffee. But we will get there, unlike our holidays! More details next month. It is still a bit hush hush, so don't tell anyone.

Have you had a look at the website recently. We have some photos ready to load but there does not seem to have been time recently. Anyway, on the website you will find tax data, helpsheets on tax and business and much more. Well worth a look!

Frank Capra once said "a hunch is creativity trying to tell you something" and of course, as everyone knows, accountants are totally devoid of any creative thought or at least that is the popular belief. But we have a hunch that what we are doing is right for us and our clients. Let's take our approach to business. We do not just "Do accounts and tax" and then send out a fee of uncertain amount. That is the way we and everyone else used to work.

We introduced fixed price agreements and price calculators to fix fees in advance and give certainty on pricing, avoiding nasty shocks at the end of the year and helping your cash flow. Now we find that some of the most progressive practices in the UK are doing the very same. As we seem to be on the same wavelength as some very modern professional firms, we are investigating what further services we can offer and what other features we can introduce. We'll let you know how we get on but look out for changes, however subtle, in the coming months

This must be a month for quotes. Here is another one for you. "It takes as much energy to wish as to plan" - Eleanor Roosevelt.

Its not that we just acquired a Book of Quotations but they seem to fit with what we are doing just now. We are planning not just wishing. We are doing not just thinking about it. As one commentator said "Action is the key" and we have certainly taken that to heart. You will see details of Crunchers on our website. More about that next month.

Is there anything that is currently on your "Wish" list that could be put on you "Do" list. Is there anything on your "Should" list that is better on your "Must" list. Is there something that you have been wishing for that you need to act upon to achieve. Remember that the clock is ticking and if Gordon Brown doesn't get you, something else surely will. Don't let the grass grow under your feet. Action is the key!

Alan, Helen and the team at TLP

Nine out of 10 accountants prefer a paperless office

Ninety percent of UK accountancy professionals surveyed by research firm CCH would recommend implementing a paperless office system to other potential users, although senior staff are seen as the greatest obstacle to change. The research, carried out among over 1,350 accountancy professionals, also revealed that more than half of firms (58%) are now storing the majority of their clients' files electronically.

"The high level of satisfaction that accountants are now expressing towards paperless office systems shows that we are reaching a tipping point in this market," said John Bower, director of CCH Business Development for Wolters Kluwer UK.

Technological advances have made the paperless office a viable prospect for firms of all sizes, Bower added.

The CCH research also revealed that over three-quarters (79%) of all accountancy firms have implemented some elements of a paperless office system. Surprisingly, 37% say they have not yet introduced online filing for tax returns, despite HMRC's hopes to virtually eradicate paper-based filing this year.

The most frequently cited reasons for moving to a paperless office system was to benefit from a secure electronic backup and easier access to client files, with ninety five percent of respondents revealing that each of these factors played an important role in their firm's decision. This was followed by administration and storage cost savings (89%) and a reduced risk of human error (84%). Bowers said it was also encouraging that 67% cited environmental concerns for going paperless.

An Introduction to Charities and Trading by Charities - Part 2

Extract from a presentation given by Alan Long at the HICEC Funding Day

What kind of trading can a charity carry on?

1. **Trading that contributes directly to the charitable objects** e.g. education, sale of goods manufactured by disabled people – primary purpose trading – this is tax exempt.
2. **Contributes indirectly to the successful furtherance of the purposes of the charity** e.g. sale of food and drink by a theatre charity – ancillary trading – this may or may not be tax exempt.
3. **Trading to raise funds for the charity** provided that **no significant risk is involved**. i.e. risk of deficit on trading. This is normally taxable but there are certain specific exemptions that may apply e.g. Small Scale Exemption.

Small Scale Exemption

Total incoming resources in period – total receipts from any source	Max permitted turnover from trading
Under £20000	£5000
£20000 to £200000	25% of total incoming resources
Over £200000	£50000

It must be remembered that the permitted maximum turnover is not the profit. That means that a charity with total incoming resources (income and grants) of £20000 in a year in total can only have £5000 in sales that is fundraising from trading.

There are also some other exemptions that cover small local events such as car boot sales, jumble sales and coffee mornings. What we are speaking about here is small scale commercial activity by a charity.

Why use a trading subsidiary for trading?

- ◆ Where trading poses a significant risk to the assets of the charity – to protect the charity.
- ◆ Reducing tax liabilities – more about that below.
- ◆ Organisational and financial clarity – clearly distinguishing a trading operation from the charity's main work by creating a separate administrative unit.

Disadvantages of using a trading subsidiary?

- ◆ additional management and other costs
- ◆ personnel issues, additional responsibilities to be allocated
- ◆ where use of a trading subsidiary is tax driven, do the tax savings actually warrant the additional costs
- ◆ Some benefits / funding sources available to a Charity or "not for profit" organisation may not be available to the trading subsidiary e.g. rate and stamp duty reliefs.

Important! Don't get this wrong or it could cost you.

- ◆ The interests of the Charity must be paramount at all times.
- ◆ The interests of a trading subsidiary, its directors, creditors or employees are secondary.
- ◆ The purpose of using the trading subsidiary is to benefit the charity (reducing risk, enhancing return etc). This purpose would be frustrated if the Charity's assets are put at risk for the benefit of the subsidiary.
- ◆ Trustees that forget these principles may find themselves personally liable for any loss arising.

Mitigation of Tax on Trading Profits

The general position is as follows:

- ◆ The profits of the trading subsidiary are liable to Corporation Tax
- ◆ Trading profits in the Charity are taxable – subject to small scale exemption.

So that, on the face of it, whoever undertakes the trading activity, tax will be due. There is a way to avoid this and it is all quite legal.

The subsidiary pays its entire taxable profits to the parent charity under Gift Aid. The payment to the Charity is tax deductible in the Subsidiary and not taxable in Charity. Perfection!

Here is a simple example. Take a charity that has some rental income from an investment property and a trading operation with a turnover of £100,000 and taxable profits of £40000 that would normally attract Corporation Tax in excess of £4000.

P&L of the Trading Subsidiary

Turnover	100,000
Expenses	60,000
Profit	40,000
Gift Aid to Parent (Charity)	40,000
Taxable Profit	£nil

Statement of Financial Activities of the Charitable Parent

Income	Tax Treatment	£
Rent	Tax exempt as investment income	10,000
Gift Aid from Trading Subsidiary	Tax exempt—gift aid receipt	40,000
Total Income	Totally exempt from tax	50,000
Corporation Tax payable		£nil

It would be nice if everyone running a business could do this. You can get an element of this tax saving by incorporation. Otherwise you will just have to turn yourself into a charity.

If the subsidiary is 100% owned by one or more charities then the payment can be made at any time up to 9 months after the trading subsidiaries period end and be treated as tax deductible in the previous period. Otherwise payment must be paid before the end of the relevant period and interim management accounts and projections will be required.

Are You Thinking of Selling your business? The importance of planning.

Whether you are a new start-up or perhaps closer to retirement age, you should always keep the end goal of selling your business in site. Selling your business is going to be stressful, it will take you on a rollercoaster ride fuelled by mixed emotions, anxiety and will be emotionally draining.

But at the forefront of your mind you need to keep your end goal very much in focus and remember that the sooner you begin the journey of selling your business the easier and more straight forward it will be. If you plan to retire in five years' time start planning now and give us a call.

You will need to evaluate and consider all potential buyers very carefully. For example you should avoid timewasters and enquire into funding lines as a matter of urgency.

Results and trends

A saleable business is one that clearly demonstrates consistent and steady growth in the pre-sale period. Your profit patterns, trends in turnover, margins and pre-tax profits are all important. Any potential buyer will want to see a profitable track record, evidence of positive cash flows, a solid customer and supplier base and sound financial records.

Ensuring the business is not overly reliant on the owner manager, avoiding risky projects and reducing the borrowings are some of the areas to be looked at as part of pre-sale planning and these all take time to quantify.

Taxation

The major revamp of capital gains tax, which came into force 6 April 2008, may result in you facing a higher than expected tax liability on sale. The new entrepreneur's relief for capital gains tax has, to some extent, offset the loss of taper relief but it is not quite as generous.

However, it is not purely capital gains tax that should be considered. Your sale could be an asset sale or a share sale and each will have its own tax issues.

There are planning opportunities that can be utilised which will require action well in advance of the sale, in some instances a year or more in advance.

Finally without inheritance tax planning after the sale, it could all have been in vain.

Once you are cash rich, Inheritance tax planning becomes even more vital so that the government do not take a substantial amount of your estate in the end. Don't do all the hard work to save tax on the sale and then just give it to Gordon at the end of the day.

Lawyers!

Two lawyers entered the restaurant and ordered a couple of drinks. They then took sandwiches from their briefcases and began to eat. Seeing this, the angry owner went over to them and said, "Excuse me, but you cannot eat your own sandwiches in here!" Shrugging their shoulders the lawyers exchanged sandwiches.

Lawyer Quotes

Lawyers are like rhinoceroses: thick skinned, short-sighted, and always ready to charge.

David Mellor, Conservative politician.

No artist ever interpreted nature as freely as a lawyer interprets the truth.

Jean Giradoux

Don't be humble - you're not that great.

Golda Meir

The first thing we do, let's kill all the lawyers

William Shakespeare: Henry VI (Part 2)

Who could buy your business?

Consider all stakeholders. Could you:

- ◆ Sell your shares to other shareholders?
- ◆ Invite the manager (s) to consider a management buy out (MBO)?
- ◆ Sell to family members who could raise the funds?
- ◆ Invite suppliers or customers to invest?

Non-stakeholder' options to consider include

- ◆ A management buy in (MBI) – which means you sell your shares to someone with financial resources and a sound track record
- ◆ BIMBO – the collaborative purchase by both the Management team and the buy in
- ◆ Trade sale – selling your shares to another trading entity i.e. a competitor

The Excel camera – smile please!

Simon Hurst (Accountingweb)

Simon Hurst offers some tips on how to use Excel's little known 'camera' feature.

Most people have worked out how to print from their Excel spreadsheets. You can even set the print area to include several individual, distinct areas. This is relatively easy to accomplish by holding down the Control key while selecting additional areas. However, if the print area is made up of separate areas, then Excel will print each on a separate page.

Of course, you could create a separate sheet with links to all the different areas, arranged as you wish them to print, but this might be tricky to maintain. Changing the formatting of the source areas, or inserting rows and columns would all require you to make corresponding changes in your printing sheet.

One possible solution is to use Excel's little known 'camera' feature. The camera 'takes a picture' of a selected area, and you can then paste that picture wherever you want it. It updates automatically, and because it is a picture rather than a set of links to the original cells, any formatting of the source is automatically reflected in the picture. The picture will also adjust to include any rows or columns inserted within the source area.

There are two ways to create a linked picture. You can either use the camera tool, or use the 'Paste Picture Link' option. To use the camera you first need to add the button to an existing toolbar. To do this, choose View, Toolbars, Customize. Click on the 'Commands' tab and then the Tools category. The camera tool is close to the bottom of the list of Commands – just drag it to whichever of your existing toolbars you want it to appear on. In Excel 2007, right click on the Quick Access Toolbar, choose 'Customize Quick Access Toolbar', choose commands from: 'Commands Not in Ribbon' and 'Camera' should be in alphabetical order. Click on it and then the 'Add' button to add it to the toolbar. Now select the first area that you want to include on your printing sheet and click the camera tool – this 'takes a picture' of the selected area. Now go to your printing sheet and click at the top left-hand corner of where you want the picture to appear. You would then use the same technique to add the other separate areas to your printing sheet, and then set a print area on that sheet that includes the individual areas.

The alternative approach uses 'Paste Picture Link'. Select your first area and copy it, go to the printing sheet and click the cell at the top left-hand corner of where you want the picture to appear. Now hold down the Shift key and click 'Edit' on the menu, you should see an extra option - 'Paste Picture Link'. Click on this option to paste the picture link to the printing sheet. In Excel 2007 the Paste button dropdown on the Clipboard section of the Home ribbon tab includes an 'As Picture' option, which includes the 'Paste Picture Link' sub-option. Copy and 'Paste Picture Link' any further areas as with the use of the camera tool.

This could be very useful for any of you presently engaged in preparing business plans or presentations.

Small companies on brink of tax revolt!

Small business owners are so unhappy with the tax system that many may soon refuse to comply with their legal obligations, a lobby organisation has claimed. In a stinging attack on the government, the Professional Contractors Group (PCG) warned that because the tax regime is so complex, uncertain and plagued by "sometimes strange and inconsistent...outcomes", the willingness of taxpayers to adhere to the rules "will begin to evaporate" with "small business taxation in particular...getting close to this dangerous territory".

Is the UK tax system so anti-small business that you are considering non-compliance? What do you think?

In its 'position paper', the PCG, which represents contractors and consultants, accused the government of becoming "more aggressive" in its attempt to extract the maximum revenue, saying ministers have "complicated the system substantially" in order to disguise high tax levels.

To correct the situation, the group demanded an immediate and independent review of small business taxation to work on new policies to be introduced during the next Parliament. After that, it added, there should be no significant structural changes made for a "substantial period".

PCG managing director John Brazier said: "Our new position paper represents a significant contribution to the debate around taxation in the UK.

"In it, we identify where the problems are, and some of the solutions; but what we really want to see is an independent review deciding the exact shape of new reforms in a genuinely consultative manner."

Gadgets blamed for surge in emissions

The Independent

The surging boom in new technology for home entertainment, from CD players and DAB radios to flat-screen televisions, is taking up huge amounts of energy and undermining the fight against climate change, a report claims today.

The consumer electronics sector is three years away from becoming the biggest single user of domestic electricity in Britain, according to the report - and in 2010 it will overtake lighting, and "white goods" such as fridges and freezers, in home energy use. By 2020, entertainment and computer technology in the home will account for 45 per cent of electricity used in UK households, according to the study from the Energy Saving Trust. This is equivalent to the output from 14 power stations, the report says, and undermines the battle to reduce CO2 emissions.