

tlp - news

July 2012

The monthly newsletter of The Long Partnership and Graeme M Fraser & Co.

www.thelongpartnership.co.uk

Let's Get Real or Let'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 today!

Kirkwall 01856 878600

Thurso 01847 890304

Inverness 01463 710166

Elgin 01343 540388

Quotes

"Few men during their lifetime come anywhere near exhausting the resources dwelling within them. There are deep wells of strength that are never used."

-- Richard Byrd, Explorer

"What you lack in talent can be made up with desire, hustle and giving 110% all the time."

-- Don Zimmer, Baseball Manager

"In the absence of clearly defined goals, we become strangely loyal to performing daily trivia until ultimately we become enslaved by it."

-- Robert Heinlein, American Novelist

"I feel that the greatest reward for doing is the opportunity to do more."

-- Jonas Salk, virologist

Banks! No, I don't mean "Rob Roy" Banks who set up and operates the ferry service between Gills Bay and St Margaret's Hope and competes very successfully with the state sponsored service between Scrabster and Stromness ... without any grant funding or subsidy. That takes guts!

I mean the other ones. You know, the ones that few of us can live without. Arguably one of their most important roles in a modern society is processing transactions whether card or otherwise. They should be some of the most organised and efficient organisations, utilising technology to help all of us to be more efficient.

So, answer me this question. We can now process faster payments so that funds are transferred from our bank accounts to someone else, often within minutes. For many businesses the ability to access their bank accounts online and make faster payments and immediate transfers is fantastic. So, why does it now take 4 days for funds received to clear when in the good old days it only took 3, and why is it that the 4 days excludes weekends and bank holidays? There is something that does not make sense here. Anyway, I am sure someone will explain it all to us in due course.

I had a visit recently from my friend at HSBC in Inverness. He was outlining the banks lending criteria. He was explaining how HSBC is different. He used to work for Bank of Scotland and is one of those "good old fashioned bankers that likes to meet with people and discuss their needs" - his words, not mine.

Now, by their own admission, HSBC are conservative lenders, so be warned. They will not bite at every hook dangled in front of them.

However, it did make us think that we should see what other people thought of HSBC and whether they really are different. This also followed on from various horror stories we have come across at other banks.

I am not going to share any of them at this stage but believe me, some of them are quite unbelievable.

So, this month we have included a **very quick survey of what you think about your own bank**. It is **completely anonymous** and you can either **post, fax or email it back to us**.

We will publish the summarised results with our August newsletter. Answer some or all of the questions - it is up to you, but **please let us have your views**. We send out nearly **3000 newsletters** every month all over the North of Scotland so it should be an interesting insight into the state of business banking in our area, and we will try to identify who are the good guys or not in the banking world, as well as who are the most and least popular business banks.

Enough of that for now. Have you been seeing the green shoots recently. Honestly, there are green shoots out there. There are businesses that despite the recession (and banks!) are making a difference and starting to move ahead. They are quietly taking those first few important steps and over the next few years, with the right encouragement, will make a real difference. I have to say that I have been impressed with HIE's involvement, yes really. That sleeping giant, who we all thought was having a long lie in, has been quietly stoking the economic furnace. Keep up the good work guys!

There are other sources of funding and approaches to business. They say that necessity is the mother of invention and in this respect, the change in the banking system has forced all of us to rethink our approach to business. If you are struggling, get in touch because we have been developing some interesting contacts who can help your business to develop and access "other" sources of funding.

Anyway, it's tough out there just now and if you are just getting started, make sure you get the right sort of professional advice from someone who understands building a business and has actually done it for themselves. Call us.

Remember, there is no escalator to the top. You have to take the stairs and it's a long hard climb....

Automatic Pension Enrolment

Starting from October 2012 the new pension auto enrolment system will be phased in on a staged basis. From that date, larger employers will have to enrol all eligible workers into a qualifying pension scheme. Small businesses will have additional time to comply with the requirements of the new regime and will have until April 2017, in some cases, to implement the new rules.

It is therefore likely that every employer will have to take some action to comply with the new legislation.

There are 7 steps to prepare for automatic enrolment:

1. Know your staging date (when you need to have all your employees enrolled into a pension scheme),
2. Assess your workforce and ensure that all eligible employees have been identified. This will be all those aged between 22 and state pension age, working in the UK and earning above £8,105.
3. Review your existing pension scheme if you have one, because this could be used to enroll all your remaining employees. If you do not have an existing pension scheme or you cannot use your existing scheme for automatic enrolment, you'll need to choose another pension scheme and in this case, all eligible job holders will need to be automatically enrolled in your new pension scheme.
4. Clearly communicate the changes to all your workers.
5. Automatically enroll your eligible jobholders.
6. Register with the pensions regulator and keep appropriate records.
7. Contribute to your workers pension. This will be phased in with the minimum employer contribution rising from 1% to 3% over time.

Alternatively, contact an IFA and if you do not have one, we can give you some contact details.

Planning for Retirement

If you have been in business and are considering retirement, there are a number of considerations that you need to take into account.

Your business

If you have a business it is important to plan ahead in order to maximise personal financial gains as well as ensuring the smooth transition of the business. It is fair to say that every business owner should have a clear view and develop appropriate exit strategies from their business. That is not to say that their plans will work perfectly. They may need to be adapted to changing circumstances, but at least they have a plan to work to.

Considerations

1. Is the business to be transferred to your children or other family members?
2. Is your share in the business to be sold to your business associates or are your shares the company to be bought back by the company?
3. Can you sell your share in the business to some or all of your existing workforce?
4. Are you happy to sell your business to a third party, always remembering that one of your competitors could be interested in expanding their business?
5. Would you be better off winding up the business and selling off the assets?
6. How will you fill your days when you no longer have a business to run?

Selling your business

You need to consider:

1. When you want to sell and also when is the best time to sell to get the best price.
2. The profit history of the business will have a big impact on the selling price. So, does your choice of disposal date give you a good profit history to present to prospective buyers? If the profits have been declining for couple years, you may need to wait until profits are climbing once again before offering your business for sale.
3. Who are the prospective purchasers?
4. Can the sale be structured to minimise the tax you suffer so that you retain as much of the proceeds as possible?

Changes to your business ahead of sale

It can be very tempting to make changes to your business with a sale looming with the intention of saving some tax. However, these sort of last-minute changes can actually result in more tax being payable so it is important that you take advice and that any changes being made are properly planned and thought through.

Inheritance tax

When you come to sell a business, it is important that you give some thought to the impact this will have on your potential inheritance tax liabilities. Your existing business and your share in that business could well qualify for some significant exemptions from inheritance tax. When your interest in the business has been converted into cash in your bank account there will be no further exemptions from inheritance tax. It is therefore something that should be considered before the sale so that any potential IHT savings can be built into the sales strategy.

Pension planning

You can request a forecast of your state pension from the State Pension Forecast Service by logging onto the direct gov website at www.direct.gov.uk And we would urge you to do this so that you know exactly what state pension you are likely to receive. This will not be enough to support you but it will be a useful component to your income in retirement.

If you are thinking about creating your income after retirement then the sorts of plans they can make might include the following:

- **A company pension scheme** - Both you and your employer can make contributions into the scheme. While it is most efficient for the employer to make contributions, you can also add to the scheme. However, your own contributions can only qualify for tax relief for the greater of £3600 or your total UK earnings.

- **Private pension schemes** - These are generally arranged with independent third parties and you should speak to your IFA.
- **SSIPs** - This is a form of pension plan which gives you more influence over how funds are invested. It is possible for your SSIP, for example, to own your business premises and the rent that you pay for those premises will build up your pension pot within your SSIP.
- **Personal pensions** - you can invest the greater of £3600 and your total UK earnings and get tax relief for contributions into a personal pension. Unused contributions can in some cases be carried forward. Some people have used this to make very substantial contributions to their schemes.

This is a complex area and we would recommend that you speak to an IFA. If you do not have an IFA that you regularly deal with, please get in touch and we will be happy to point you in the direction of an IFA that we trust and that is operating in your area.

Tax calculator App - a little something from the Treasury...

The Treasury has released a mobile phone app to make it easier for people to work out how much tax they pay. The app will function as a tax calculator and is available for smart phones and is downloadable through the HMRC website.

It comes in response to surveys in February that demonstrated that most taxpayers do not know how much tax they pay annually. It also showed only 26% check to work out how much tax they have paid.

The Treasury says that the App will make it easier for taxpayers to understand the tax system. It will work in tandem with plans to provide all taxpayers with a personal tax statement detailing the total income tax and government spending that it funds from 2014/15 onwards.

Who has been locked up by HMRC?

There have been a succession of recent cases where individuals have been given custodial prison sentences for tax evasion. The existence of these cases and, in particular, the publicity that has been given to them, seems to be a warning to the public at large that HMRC will pursue anybody evading tax and impose whatever penalty is necessary both to compensate the public purse and to deter future offenders.

A **15 strong criminal gang** who attempted to defraud more than £176 million in VAT through a complex mobile phone trading scam has now been sentenced. The gang claimed to have sold 4 million mobile phones worth £1.7 billion. In an attempt to make the trade appear legitimate, more than 5700 fake business transactions were created in order to claim large amount of VAT. The proceeds from the fraud were laundered through a Property Management Services Company using various methods including an offshore bank, car sales business, a property investment company and a loans company.

HMRC lately reported that a **property developer**, who closed a secret Swiss bank account in an effort to avoid detection, has pleaded guilty and been ordered to pay fines and compensation totalling £830,000, plus costs.

In January, a **former accountant** was ordered to pay back £2,462,175 following conviction for tax fraud.

In March, a **plumber** was sent to prison for 12 months for evading £91,000 over 12 years.

A **young woman, who worked as an escort** has been sent to prison for 16 months for evading tax on £300,000. Clearly a lucrative business. I wonder what sort of books she kept.

Given that this woman evaded tax on an amount considerably less than the property developer, and she got locked up while he escaped jail, you cannot help but feel that there is some persecution here of the "oldest profession". It would also appear that plumbers are just the same, but I am not aware of any plumbers making profits anything like this young lady.

But higher rate taxpayers, who have been issued with tax returns and failed to return them, are being let off with reduced penalties, apparently irrespective of the amount of tax omitted. Can you see any logic here? That's HMRC for you!

US Tax Cases

Lauryn Hill, the former Fugees star has pleaded guilty to tax evasion on earnings of \$1.8m (£1m) at a court in New Jersey.

She faces the prospect of three years in jail for the crimes of failing to file tax returns between 2005 and 2007.

Hill confessed to not paying taxes on around \$818,000 in 2005, \$222,000 in 2006 and \$761,000 in 2007.

In addition to the three years in jail she could also be given up to \$75,000 in fines.

Rihanna is suing her former accountants claiming they lost her tens of millions of dollars.

The 24-year-old singer and her tour company, Tourihanna, are seeking an unspecified amount of compensatory damages and loss of earnings from accountancy firm Berdon LLP and former employees Michael Mitnick and Peter Gounis.

The Bajan singer, suing under her real name, Robyn Fenty, alleges the defendants cost her millions of dollars from four national and international tours over a five-year period.

The lawsuit alleged that the practice of paying itself commissions on revenues was not standard in the accounting and business management industry and created a clear conflict of interest.

She also blamed the accounting firm for an ongoing IRS audit of her tax returns, saying she was forced to spend significant resources to correct errors resulting from negligence.

The firm also failed to uncover millions in unpaid royalties or that there were problems with tracking song royalties.

The accountants also mishandled foreign and domestic taxes by withholding more funds than necessary, leading to "significant losses of tax benefits" and failed to file taxes on time, causing late penalties.

The singer also claims that, as a result, the IRS is now auditing her because Berdon mishandled tax returns between 2008 and 2010. The suit includes claims of breach of contract, negligence, breach of fiduciary duty and unjust enrichment.

Tax Tips and Tricks

Land Rover Discovery

A mobile car engineer was supplied with a Discovery. The rear seats could not be used because tools and racking had been installed that made their use impossible.

The First-tier Tribunal upheld HMRC's view that, despite the modifications, the Land Rover Discovery remained a car (on which car benefit was chargeable) rather than a goods vehicle.

The Tribunal found that although the Land Rover Discovery supplied to the engineer might have become primarily suited for the conveyance of goods or burden, this was as a result of modifications and not because it was 'of a construction' for such a purpose.

Seafarer's Deduction - Vessel was not stationed!

In a recently decided case, the taxpayer claimed seafarers' earnings deduction for the years 2001/02 and 2002/03 on the basis that the vessel on which he was working at the time, located to the west of Scotland or in the Asgard Norwegian Continental shelf, should be classed as a ship.

HMRC said it was an offshore installation and the deduction was not due.

The vessel in question, the Regalia, was self-propelled and semi-submersible, having been originally designed as a sub-sea diving construction and installation unit.

The First-tier Tribunal found that the Regalia was very versatile, navigating between different places. For the years involved, the activities carried out by the vessel entailed work on the top of the well, which meant it was involved in 'the exploitation, or exploration with a view to exploitation, of mineral resources by means of a well'.

However, the fact that the vessel moved around so much led the tribunal to conclude that it was not stationed while working at the west of Scotland or Asgard and was therefore not an offshore installation in the relevant periods.

The taxpayer won his case and the Seafarer's deduction was allowed.

Do you employ students in the summer?

When you take on students during a holiday, get them to sign the form P38S. This allows you to pay them free of tax if they confirm they will continue to attend college until the end of the tax year, have no employment except during holidays and their total earnings will be less than £8,105 in that tax year.

Share Your Investments - Save Tax

Are your investments held between you and your spouse/civil partner so as to minimise your income tax? If you pay 40% or 50% tax and your spouse/partner pays 20% or less, you should consider transferring some income producing investments to your spouse/partner to reduce higher rate tax you pay.

Personal Pensions for You and Your Family

When you contribute to a registered pension scheme you automatically get basic rate tax relief on your contributions. If you are a 40% taxpayer you can also claim an additional 20% tax relief through your tax return.

This means when you contribute £4,000 (net of 20% tax) to the pension scheme, you will get a further tax reduction of £1,000, and the pension scheme will receive a total of £5,000.

You can also contribute up to £2,880 net (£3,600 gross) per year into a pension on behalf of your children or grandchildren. The funds will be protected from tax charges and cannot be drawn on until the child/grandchild is aged at least 55. As always, it is wise to speak to your IFA about this. If you don't have one, let us know and we can put you in touch with someone who can help.

Using Your Family to Save Tax

If your spouse/civil partner earns less than the single persons allowance of £8,105 per year and helps out in your business you can pay them a wage to reduce your taxable profits. A wage of between £107 and £144 per week will not create a National Insurance charge, but it will help your spouse gain credits toward the state pension and other state benefits.

If your children are aged at least 13, earn less than £8,105 and help out in your business you can pay them a wage to reduce your taxable profits. But remember, you must actually pay them, so if you presently get their help for free, trying to save tax in this way could leave you out of pocket.

Have you considered making your spouse or civil partner, a partner in your business so that you can allocate some profits to them at a lower rate of tax?

If you are operating as a Limited Company, you can gift them some shares so that you can pass dividend income to them.

Come and speak to us about what this could actually mean in your particular situation.

Not Married?

If you are not married or in a civil partnership, but want to leave assets to a long-term companion or partner, inheritance tax will be payable on that gift. The only way to secure the exemption from inheritance tax on the gift is to marry/register a civil partnership with the intended recipient before you make the gift.

If your whole estate is worth less than £325,000, this will not matter. However, check the value of your house and other assets and if you think this could affect you, get in touch.