

tlp - news

June 2009

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

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Quote

"You are the way you are because that's the way you want to be. If you really wanted to be any different, you would be in the process of changing right now."

Fred Smith

"Anything worth doing is worth doing poorly - until you learn to do it well."

Steve Brown

Dates in June

8 Alan in Westray

19 PAYE payment due

Do you people watch? I find myself on a ferry for the second time in one day. I know that many of you regularly do just that, but I bet that is usually an inter island ferry, so it doesn't count (just joking). This is my second time across the Pentland Firth today. Mind you, I have had more than one day with three ferry trips. What would you give to lead the life of a jet setting accountant in the North of Scotland! Probably not much.

Anyway, back to people watching on one of my least favourite boats. I have just seen a girl posing for photos reclining in a seat as if she was in a photographers studio.

There was the usual rush of sundry variously shaped people (uncovered because it is summer) to get drinks and food from the bar as soon as they come on board. Why?

And, of course, my pet hate are those people who put their feet, with or without their shoes on the seats where other people including me, will sit next time. Is it my age?

The other passengers are mostly tourists and they act and sound like tourists. Little do they suspect that in their midst is someone beavering away on a laptop on business. Mind you, the suit and brief case are a bit of a giveaway. So, here I am pounding away on the keyboard to bring you a little glimpse of the exciting life we lead. Could be worse I suppose.....I could be a lawyer.

I recently gave a presentation but before I stood up to speak, someone said they were looking forward to a few of my quotes and jokes. I had to confess that on that occasion I had not included any because I had been told that there was a lawyer present and I did not want to offend them. Not sure why, but I never think it is good to upset more lawyers than you really need to. You never know when you might need one on your side.

Banks! Not Orkney's favourite shipping entrepreneur but the sort that used to look after your money (or overdraft). Have you had

dealings with a bank recently? We are hearing some harrowing stories of the way that some banks are treating their customers. You can see why they have to do it, because they are fighting for their own survival, but the price of their survival is likely to be at the cost of local businesses and jobs. The culture of these banks will have changed and presumably many of the more experienced staff will move on making a bad situation even worse. No-one in these banks should be given the title "Relationship Manager".

What a way for any bank to have to operate, but then again, I do not think they will be operating like that much longer. People will remember how they were treated and these banks will be punished in the years to come.

I am however comforted by the knowledge that there are still some real bankers out there who still care about their customers, bend over backwards to help them in a very difficult trading environment and are actually able to continue to treat their customers with some respect.

Are you one of those affected by the sudden removal of the favourable tax treatment of furnished holiday accommodation? You may not realise just how expensive this could be for you. Don't you get fed up with this sort of ill planned and poorly conceived tax legislation that sometimes even changes before it can be properly enacted. Anyway, if you have furnished holiday accommodation, you have Capital Gains Tax exemptions and Overlap Relief to cash in before next April.

This was one of the topics covered in our recent presentation on Tax Planning for the Recession. We have filled the back page with tips from the event. In addition there was an investment opportunity using the present tax system to produce returns greater than 7% per annum over 3 years. Wish you had been there? I think so. Anyway, if you want to find out more, get in touch and we will be happy to explain further.

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

Tax Refund Delays

The new three year loss carry back provision will be generating potentially significant tax refunds. Over the last year we have seen a number of tax refunds that HMRC say have been repaid but in reality have not. Why is this?

HMRC uses an automated risk based process to identify which repayments can be immediately released and selects those which require further (manual) checks. The majority of repayments are immediately released. Similarly, the majority of repayments selected for manual checks pass those checks and are released for payment.

It is at this manual check stage that the delays are occurring. It is only during the course of the manual check stage that the previous history of the customer, i.e. you, can be considered, for example, that a repayment relates to a customer with a long established business. HMRC is looking to see how some of the manual checks currently undertaken might be automated to improve throughput and the speed with which the repayments are cleared.

HMRC say "Allowing for all our other priorities we have brought as much resource to this work as possible. Over the last few months we have dealt with 90 per cent of those repayments selected for manual checking within 30 days. At the end of April that position had improved to between two and three weeks. The introduction of more automation in the next few weeks will cut that period further."

However, bear in mind that when HMRC says that a refund has been made, it means that that the repayment process is in process, and not necessarily that a repayment has been issued.

What do you think HMRC would say if you told them your tax payment is presently "in process".....

Two VAT Saving Tips for VAT Registered Charities

1 Fundraising income is exempt from VAT

A club dinner is classed as a social event and output tax will be payable on the ticket sales but input tax will be reclaimable on the caterer charge. So the VAT man's coffers would be boosted. However, a concession within the legislation (VATA 1994, Sch 9, Group 12) is that income from a fundraising event organised by a non-profit making body or charity is exempt from VAT. There are limitations on the quantity of qualifying events that can be held by a body within its financial year (15 events of the same kind in the same location) but these are very generous.

So what do you need to do to take advantage of this concession.

- Change the description of the event to 'Fundraising Dinner' and record this description on all publicity material and tickets.
- Identify a potential project for the profits made by the event and record this in the minutes of the club's committee meeting. There are always lots of calls on cash and for example a football club could fundraise for 'summer pitch improvement works.'
- The ticket sales are now exempt from VAT (no output tax payable), and the input tax on the caterer's charges can no longer be claimed as it relates to an exempt supply but the club is significantly better off.

On occasions you can do better still and reclaim the input VAT as well but you will need to speak to us if you think you might qualify.

The VAT exemption applies to any income generated at a fundraising event. So, if you sold advertising space in the dinner menu or T-shirts as the guests arrive, these sales will also be exempt.

2 Advertising costs

Advertising supplied to a charity is zero-rated, unless it relates to advertising for one of its trading companies (VATA 1994, Sch 8, Group 15). The reason this concession is so important is because many charities are unable to fully recover VAT they are charged on their expenses as input tax due to non-business or partial exemption issues.

Examples of when advertising expenditure for a charity is zero-rated include:

- A charity places an advert in the local newspaper for a new Chief Executive.
- A charity is organising a Christmas appeal and has placed an advert on the local radio station asking for cash donations to be sent to its local office.
- A charity places an advert seeking volunteers to help with its charitable work.

What happens when a charity has been unaware of the above rule for the last ten years and has paid VAT to all of its advertising suppliers? The good news is that there is scope for the supplier to issue a VAT credit note for the last three years but anything older than that is lost.

The supplier should be provided with evidence of charitable status (see HMRC Notice 701/58/02, Part 10 for an example of a suitable format).

Personal Tax Losses - Cashing in During the Downturn

How can you generate welcome tax repayments to help until the green shoots of recovery take root. Here are the places to look:

- Old shareholdings that you thought were worthless - if you subscribed for the shares and did not buy them from someone else, you could get **Income Tax Relief** on the value you have lost...without even selling them.
- EIS investments that have not prospered - you knew that any gain would be tax free but did you know that you still get **Income Tax Relief** on the value you have lost.

If you think that either of these situations relates to you, get in touch and let us have a closer look. This could result in significant tax repayments whether you are a basic or higher rate taxpayer. By the way, it also applies if your own company goes belly up!

6 Steps to effective restructuring - Source Accountingweb

To ensure an effective restructuring programme, businesses should consider the following:

1. Talent mapping

Talent mapping provides a detailed picture of each person's existing skills, development plan and future potential. This enables informed decisions to be made regarding which employees are best equipped to drive the organisation forward in a given situation, and also what additional training and support they might need.

2. Assessment and selection for restructuring and redeployment

Informed restructuring decisions should be based on past performance and an awareness of the personal capabilities, motivation, experience, knowledge and technical expertise required for future success. When these requirements are matched against the attributes of each existing employee, it is possible to identify in a robust and legally defensible way those individuals who should be retained.

3. Transition and outplacement

Organisations have a legal obligation to mitigate the impact of redundancy and help individuals re-establish and revitalise their careers, but typically they use a 'sheep-dip' approach to outplacement support - everyone gets the same support, regardless of need.

The process could be so much more efficient, cost effective and valuable if affected individuals were each handled based on their actual needs. Some people will only require minimal support, so why spend money on them when others need much more intensive support?

4. Enhancing performance

Restructuring can lead to a massive dip in morale and productivity. Watching their peers being ushered out the door and listening to whispered uncertainties by the water cooler is a far stronger communication than the merger press release or any announcement on the company intranet.

Thorough transition planning can help improve the quality of immediate communication and enable line management to offer a more detailed and consistent set of reasons to support the change programme. In addition, the provision of outplacement support for individuals leaving the business has repeatedly been shown to reduce the undercurrents of dissent within the business.

5. Team building

Once the structure of a team has been changed, it is important to re-form that team, establish a new way of working and a clear sense of purpose. Many individuals will also need to be encouraged to take a more active part in the direction of the team and to feel that they have a valuable contribution to make.

6. Development planning and coaching

Following a restructure, affected individuals will typically reflect on what the restructure means for them and their future and the best way to develop their careers in the context of the new structure. In hard times and when the pickings are rich, the most successful organisations are those with a lean structure and talent management processes that make best use of their employees' skills and potential.

Is it Time to Hand Over the Family Silver?

There are times when you look to hand over assets and these occasions can arise from a desire to minimise taxes on death, to just plain old succession or retirement planning. In the current economic climate, values of everything are lower. Property, investments and businesses generally will be worth less than before. So, this is a good time to transfer assets at modest values and minimise the tax payable, whether it be Inheritance Tax (what you do now could affect your tax position on death in the next 7 years) or Capital Gains Tax. To see how you could benefit, get in touch with us to discuss your particular situation and your options.

HMRC prepares for new Off-shore Income disclosure opportunity

UK taxpayers with undisclosed income from offshore accounts will be invited to reveal their earnings and suffer a limited penalty under HMRC's New Disclosure Opportunity, which is expected to run from Autumn 2009 until March 2010.

HMRC will impose a fine equal to 10% of the total unpaid tax owed in line with the previous Offshore Disclosure Facility (ODF) and tax advisers will be able to file online on behalf of clients.

Government Enterprise Tsar

The government has come up with a novel way of helping the UK's small businesses survive the recession - they've hired celebrity entrepreneur Sir Alan Sugar.

The star of BBC TV's *The Apprentice* has accepted a non-paid position as the government's 'enterprise champion' to give guidance to ministers on how to boost UK enterprise. However, Sugar is now under increasing pressure to resign his role as judge on the BBC One reality show amid claims of a conflict of interest.

According to one publication, the millionaire, who started his first business at age 16, will focus specifically on apprenticeships and the 'green and digital technology agenda' in his new government role.

Some reports claim that Sir Alan's role may go even further by taking over from Peter Mandelson as business secretary. If that were to happen, he would have to become a peer.

Shadow culture secretary Jeremy Hunt wrote to the BBC Trust this week on the issue, arguing: "No government minister or someone who's got a key role in formulating government policy has ever had a weekly television programme."

"Sir Alan is using a BBC programme as a way of promoting Government policies, which completely compromises the BBC's impartiality", he added.

Tax Planning Tips and Tricks....for the Recession (from a recent presentation by Alan Long)

Earn Extra Tax Free cash

You can earn £4250 tax free every year by letting out a room in your residence. This is worth £4250 if you do not pay tax, but £7083 if you are a 40% tax payer.

The other thing to bear in mind is that while you must let a room presently used residentially, it might be possible to let it as something else.

Food for thought and especially if the cash flow is a little tight.

Choose your business car carefully

CO2 emissions are now part of your car purchase criteria.

Under 110 g/Km - 100% first year allowances against business profits in the year of purchase plus minimal road tax and, if it is a company car, the benefit in kind is only 10% of the purchase price.

Under 160 g/Km - attracts 20% capital allowances and goes into a pool. As a company car it attracts a benefit in kind charge of 15% to 20%. Road tax is up to £150.

Over 160 g/Km - you get taken off Gordon Brown's Christmas Card list, the rate of capital allowances is only 10% per annum, a company car attracts a benefit in kind charge of 21% to 35% and the road tax can be up to £405. Lease cars suffer a restriction for tax of 155 of the lease payments.

So, what car will you choose next? It could be a Toyota Prius 1.5, a Mini Cooper D 1.6, a VW Polo Bluemotion or a Seat Ibiza Ecomotive. They are all less than 110 g/Km. Personally I would take a walk down to see what my local dealer can offer. Watch out for new models coming out to fit these criteria. You could also have a look at www.green-car-guide.com

Invest and Save Tax

The EIS has been around for a long time and many small companies have used it to attract outside investors. It is not hard to do! There are also well established EIS investment opportunities on the market.

Individuals who subscribe for shares i.e. they are issued to them, not bought from someone else, gets 20% tax relief on their investment. Any gain on the shares is tax free but if you suffer a loss you get income tax relief against your other income. So for an investment of £100, a basic rate taxpayer is risking just £64 while a 40% taxpayer is putting less than half of their investment at risk.

There are investment products on the market that make use of this to produce short term tax free gains well above the current returns that you get on your deposits. Ask your IFA and if you do not have one, ask us and we will put you in touch with an IFA.

Also, if you have made a Capital Gain, you can use your EIS investment to defer paying the tax for years and years....

Incorporate to Save Tax

While this is not as popular as before, there are still tax savings to be made by incorporating a business as long as you are making or expect to make sufficient profits.

The incorporation itself will take careful planning as will the way you take your profits out of the company.

Most small businesses currently pay tax/NIC of 28% while small companies only pay 21%. But, you have to do it right and that means taking advice sooner rather than later.

Making Losses - Special Limited Life Rules

Affects company years ending in the 2 years to 23 November 2010 and self employed year end in 2008/09 and 2009/10. Losses in these periods can, in addition to the usual rules for losses, be carried back 3 years. If you can use these losses, this is a good time to enhance them by buying equipment qualifying for 100% allowances under the new Annual Investment Allowance regime. So, if you need a new tractor, this could be a good time to buy it. But there is a limit of £50000 on the losses you can set off, so watch what you spend and take advice.

Turn trading losses into cash if you can!

Thinking of Selling an Asset or a Business

Remember you can transfer assets to your spouse tax free and then on a sale you get 2 CGT Annual Exemptions and if it is a business and the sale generates an Income Tax charge, you have 2 basic rate bands to utilise. A simple piece of tax planning that could save you thousands of pounds in tax.

Also, consider rolling over gains into new business assets but check with us first to see if you (and the assets) qualify.

Watch out for balancing charges on the sale of equipment. With the new Annual Investment Allowance at 100%, most items of equipment will be written off for tax in the year of purchase. That means that any proceeds of sale will be taxable. You may be able to minimise this with a bit of careful planning e.g. how much of the sale price of the whole business should be allocated to equipment. Careful consideration of the tax effects of the sale can save you a lot of money, so speak to us before you agree anything with the purchaser.

The length and timing of your final trading period can also be important and should be planned carefully. Having two short periods could save you a lot of tax albeit that your poor accountant may earn a little extra.

Heading for the buffers?

If your business is going down the tubes there are some things that you can do that will help you to obtain some much needed cash moving forward.

You can incorporate your business. This may not be easy, particularly if you have substantial borrowings. However, by incorporating you could obtain income tax relief for the value of shares issued if the business fails.

If you are already a company and you have been pumping your own cash into it to keep it going, convert your loans to shares and then, if the business fails, you will also get income tax relief on the money lost.

So, how are you going to get the Income Tax Relief? You can set the loss off against other earnings on which you might have paid PAYE, perhaps a job that you took after the business ceased.

Remember, speak to us sooner rather than later. We could help you find a hidden pot of tax gold. We have done it before!