tlp - news

June 2011

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 right now!

Quotes

"My greatest point is my persistence. I never give up in a match. However, down I am, I fight until the last ball."

– Bjorn Borg, tennis champion

"Progress is what happens when impossibility yields to necessity."

– Arnold Glasgow, psychologist

"At first our dreams seem impossible, then they seem improbable, but when we summon the will, they become inevitable."

– Christopher Reeve, actor

Do you think we are mad? Maybe best not to answer that. Many, if not most of you will now know that we acquired the firm of Graeme M Fraser & Co in May. To pinch a phrase from the Caithness Chamber of Commerce - "Stronger Together".

You may find it strange that we should jump in with both feet and take on another business. It is not as though we are short of work. Far from it. New work seems to come looking for us all the time, but we felt that this was a golden opportunity to grow our business. After all that is what we keep encouraging you to do. And we felt the time was right.

We knew of Graeme M Fraser & Co and always thought they were similar in client profile and that one day we might want to consider a merger with them. However, through a twist of fate we were able to acquire them outright. Cathel Fraser is continuing with us and will manage the Elgin Office. The offices in and around Inverness will be under our direct control for now.

The combined business will have many advantages for our clients because of the range of services that we will now be able to support. In the short term some of us may be a little harder to pin down but if you have our mobile phone numbers and you need to speak to us, as always, just phone!

At the start we will be ensuring that the systems that have worked so well for us "up North" are set up and working efficiently in our new offices. That may take a little while so, if you are one of our new clients, please be patient with us, but once we have our systems in place, 'cos you need systems, everything should run like clockwork. Well, that's the plan anyway.

For those of you who do not know of us, we have strong Orkney connections. Does that make me the "Man From O.R.K.N.E.Y". Sorry, could not resist that one. It's my age!

Caithness and Orkney are strong on business and enterprise and that is part of the mix of experiences that we are now bringing with us. That is not to say that these are lacking in Inverness and its environs, because I do not think that is the case. But it does mean that we talk to our clients about how they can grow their own businesses. In addition, we also thrive on competition, and we seem to be quite good at it as well.

You should never be frightened of competition. If you have no competitors it could be that your industry is finished and everyone has realised it except you. Strong vibrant competition is good for us all. So let's begin.

On another subject, let me share an email with you that I received recently.

"Just got your letter of introduction and newsletter and I have to say that you fit the stereotype perfectly, all accountants are boring.

.... you can't send a newsletter out looking like that and expect a) anyone will read it and b) get more business."

Now, if you are still reading this, I have successfully disproved "a". I can assure you that on "b" the newsletter has been very successful but you will have to take my word for that. On the question of whether accountants (and this one in particular) are boring.... Probably. But we have our moments. We have exciting dreams!

One of the things that I have noticed about other peoples newsletters is that they do not need to be glossy and polished, although there is a place for that sort of publication. They have to amuse, inform and educate in a way that people find easy to follow and understand and want to read. We could probably do better, but the important thing is that we actually "do". After all if you "do" you may prosper, if you do not "do", you cannot.

Newsletters need to be easy to read and the reader must think they are useful in one way or another. "Easy" is the watchword here. Just as it needs to be easy for clients and customers to get the information they need from you to make the buying decision and then it must be easy to buy from you. You have to be able to access us and our services, and to communicate with us easily. Our Fixed Pricing is easy to understand and paying by standing order is easy on the cash flow. That way you easily see the value in what we do.

New VAT Amnesty

If your turnover is above £73000 (£70000 before 31 March 2011, and you have not registered for VAT, this could be for you.

The VAT crackdown is set to hit later on in the summer, giving those who are unregistered for VAT time to get their affairs in order.

HMRC is encouraging non-payers to disclose what they owe before taking action against those who failed to come forward.

Surely this is the sort of basic check one would have expected to be done as a matter of course. If a taxpayer puts down on their tax return that they have a turnover above the VAT threshold, you would have expected HMRC to check this against the VAT registration database. For that matter, why do they not ask for the vat number on the tax return.

So far HMRC has raised more than £500m from voluntary disclosures and a further £100m from follow-up activity.

HMRC have missed one crucial element in this. The rate of vat means that if you are trading just above the vat threshold, you cannot compete on price with traders just below the threshold. If you supply services to householders your prices are 20% higher than non registered competitors and no-one can afford to charge that much more.

The penalties and surcharges for failing to register for VAT are now so painful, it will act as a disincentive to anyone who has not registered at the right time. Providing low penalty amnesties of this nature will at least give wayward businesses a low cost way back across the line to become model "customers" of HMRC.

The problem will be that many businesses have an element of "cash" and so the amnesty would need to cover not only vat and late registrations but undisclosed "cash" income that may be the reason they have exceeded the vat threshold in the first place.

If you think this amnesty might apply to you, get in touch. Time is not on your side.

HMRC targets inheritance tax valuations

HMRC is launching checks into the under-valuation of properties included in inheritance tax (IHT) calculations and seem to be actively targeting estates and beneficiaries.

The HMRC view is that these are not investigations but rather quick checks to confirm property valuations offered as part of the IHT return.

Only about three per cent of estates pay any inheritance tax at all but the value of the property can materially affect the tax payable.

Inheritance tax is typically payable if the assets of an estate total in excess of £325,000. An average house will use up much of this exemption and so it will depend what other assets are in the estate. As house prices generally start to rise again, you can see that there is scope for HMRC to collect significant amounts in tax.

If an IHT property valuation is found to be incorrect and HMRC considers that "reasonable care" was not taken in establishing it, the estate and its beneficiaries could face a fine of up to 100% of the additional tax liability, as well as the additional tax due. The onus is likely to be on your lawyer to ensure that properties are properly and professionally valued. Otherwise you could end up not only with more tax to pay but substantial penalties on top, at a time when you do not have liquid funds and did not expect it.

For example, if a property is undervalued by £20,000, this could result in an additional £8,000 tax, plus, say, a 30% penalty of the additional tax, making a total of £10,400. That is a considerable sum of money to raise when the estate and its beneficiaries may own property but have no cash.

HMRC strongly recommends the engagement of a professional valuer or chartered surveyor. If you do anything else, HMRC could say that you have not taken reasonable care and increase the parentage penalties to be paid.

New task forces to tackle tax dodgers - *HMRC press release 12 May 2011*

The first task force will focus on the restaurant trade, targeting businesses in London over the coming weeks. **The restaurant trade in Scotland** and the North West **will be the next areas targeted**.

They come as a result of the Government's £900m spending review investment to tackle tax evasion, avoidance and fraud from 2011/12, which aims to raise an additional £7bn each year by 2014/15.

Mike Eland, Director General Enforcement and Compliance, said:

> "These task forces are a new approach which uses HMRC's resources to identify and tackle rule-breakers and evaders swiftly and effectively.
>
> "Only those who choose to break the rules, or deliberately evade the tax they should be paying, will be targeted. Honest businesses have absolutely nothing to worry about.
>
> "But the message is clear – if you deliberately seek to evade tax HMRC can and will track you down, and you'll face not only a heavy fine, but possibly a criminal prosecution as well."

HMRC is planning a further nine task forces in 2011/12, with more to follow in 2012/13.

Task forces bring together various HMRC compliance and enforcement teams for intensive bursts of activity targeted at specific sectors and locations where there is evidence of high risk of tax evasion. Compliance activity through task forces is 1:1 and targets the highest-risk cases in that sector and location, typically focusing on groups of up to around 600 "customers" in specific locations.

HMRC are inviting anyone who may be aware of someone who is evading their taxes, to phone their Tax Evasion Hotline on 0800 788 887, or to email or write to them.

This could give businesses a headache through disgruntled ex-employees or discontented customers using this facility. Be warned!

Our advice: *Our government, through HMRC, is cracking down on anyone avoiding paying their share of taxes. As we have always said, keep it clean and concentrate on making profits. Making profits is hard enough, don't make your life harder.*

See next page! A Cautionary tale.........

Landscape Gardener's 13 years' of assessments - A Cautionary Tale

The taxpayer appealed against a number of HMRC assessments made for a 13 year period. The taxpayer had been a self-employed landscape gardener for several years. It was not until 2009, when statements for a bank account in his name came to light during an enquiry into the tax position of a third party, that he came to HMRC's attention.

This caused HMRC to carry out an investigation into the appellant in respect of the earlier years which would go back beyond the normal time limit. They issued 13 years' worth of assessments made to the best of the officer's judgment, as little could be ascertained about the taxpayer's lifestyle.

The taxpayer appealed.

The First-tier Tribunal agreed with HMRC that the officer had 'discovered' that the appellant had income which ought to have been assessed to tax for 13 earlier years. The issue then was whether the taxpayer had deliberately not informed the Revenue about his taxable earnings. The tribunal found that, 'Failure is sufficient, whether or not it is deliberate.'

With regard to the estimates used in the assessments, the tribunal confirmed HMRC's figures saying the taxpayer had not shown that the amounts used were excessive. The taxpayer lost!

Rented Property and Dilapidations:

Dilapidations are works of repair or re-instatement for which a lessee is liable at the end of a property lease.

Some expenditure on dilapidations may be of a capital nature and as such is inadmissible as a deduction including.

- the cost of rebuilding the leased premises or
- the cost of re-instatement of any portion of the leased premises which has been demolished by the lessee, or
- the cost of the demolition of any structure which the lessee has added e.g. the demolition of partition walls that the tenant has previously installed.

In contrast, payments under a dilapidation provision will be allowable to the extent they relate to *deferred repairs.* This would clearly cover work to put right normal wear and tear, including redecoration.

However the tenant does not always take responsibility for doing the repairs directly and may just make a payment to the landlord who carries out the repairs, often once the tenant has left. These are also allowable to the extent they cover deferred repairs (as opposed to work of a capital nature). Note that, to be allowable for the tenant, there is no requirement for the landlord to actually do the repairs: it is sufficient that the payment relates to deferred repairs.

However, these will not be deductible where such cost is incurred:

- by the former tenant on renewal of the lease or
- where it is incurred by a new tenant to whom a lease of the premises has been granted in their dilapidated state.

If a tenant has made a provision for future dilapidations, then there it is possible to claim deductions for tax purposes when the provision is made provided i.e. before the actual cost is incurred, if the circumstances are right. e.g. The lessee must have an actual obligation under the lease and the property in question must be used for business purposes.

If the provision proves to be in excess of the actual expenditure, then the difference is added back to the taxable income and taxed in the year of the works. If there is an under provision, then the excess actual expenditure is allowable for tax as a deduction within the year.

If no dilapidations provision has been made then relief for the expenditure will be given when the actual expenditure is incurred.

The Sales Prevention Department

More stories from our own experiences of organisations that want to profit from us , have goods, services or ideas to sell, but fall short when it came to fulfilling our expectations, just did not deliver the value we were expecting and who will inevitably fail to maximise their profits.

We have been out and about more than usual this month with our acquisition, and dealing with a whole raft of new suppliers and you cannot help but notice the ones with whom you want to do business. Invariably they are the ones who are keen to share their knowledge and experiences with you honestly, for your benefit (not theirs) and are willing to put themselves out for you.

Then there was the day we had a full day of meetings but wanted to talk to one particular supplier and therefore asked for a meeting at 5.30.

We received an email saying that he would be available Monday to Friday between 9 and 5. This guy does not want sales! If he did not want to put himself out by such a small amount, could we trust him to put himself out to ensure we got exactly what we wanted. Needless to say we passed him by and bought a similar product from someone else.

These days you have to be flexible to get on. Your customers are under pressure and they need your expert advice. This builds trust and they will listen when you say that your products or services are right for them. You have valuable advice to give your client and you can use this to start to build a long term relationship based on sound advice and a genuine desire to help them.

If you go in on a "raid" to make a sale under any circumstances, you might achieve it once but your client or customer is likely to see through it. They will realise that your advice has been flawed in the past and is likely to be flawed in the future. They will stop listening to your advice and start listening to your competitor.

Getting in front of a new client or customer is a privilege not readily given to you. If you are fortunate enough to be given this privilege don't waste it.

Tax Tips and Tricks ....

Planning with the reduced Annual Investment Allowance

The limit for AIA reduces from £100,000 to £25,000 from April 2012 (1 April for companies, 6 April for income tax businesses).

The way in which the limit operates for a period spanning 1 or 6 April 2012 involves splitting the period into two across the date of change. The limit for the entire accounting period is then found by time apportioning the old and new limits e.g. YE 30 September 2012 – the limit for the accounting period as a whole will be 6 months at £100000 and 6 months at £25000 giving a total for the year of £62500. However, the maximum that can be claimed in the period after 5 April 2012 is limited to the £25000 restricted by the actual months. In this example this would be £12500. Not so good if you are in the habit of looking at capital purchased in the last couple of months of your trading year.

If you need to incur substantial capital expenditure prior to 5 April 2012, it might be worth looking at changing your year end to 31 March or 5 April 2011, so that your 2012 year is a full 12 months and you qualify for the full £100000 AIA.

Online returns

HMRC have announced that some businesses that were registered for vat before 1 April 2010 are still filing VAT returns on paper, even though they are required to file online i.e. their turnover has now exceeded £100,000 pa.

From April 2011, there will be a penalty for continuing to file on paper when an online return is required. So, just because HMRC are still sending you a paper VAT Return it does not mean you should be using it.

Annual VAT exclusive turnover	Penalty
£22,800,001 and above	£400
£5,600,001 to £22,800,000	£300
£100,001 to £5,600,000	£200
£100,000 and under	£100

70% Tax Relief for EIS investments

The new rate of income tax relief for EIS investments (shares in a company that qualify for Enterprise Investment Scheme treatment) is 30%. If you hold those shares broadly for 3 years from the later of (i) the issue date or (ii) 4 months after the company commences trading, the profit on sale is tax free.

Once the shares have passed this time limit you can have them purchased at market value by your SSIP. The SSIP will have been funded by contributions on which you will have received tax relief. The money from the sale of the shares is once again back in your bank account.

The shares are discounted to 70% of cost by the EIS relief. The pension contribution is discounted to say 60% because of the tax relief on pension contributions.

You have spent 130% of the cost of the shares but you then get 100% of the cost back when the SSIP pays you. So the net cost of the shares now in your SSIP is 30%.

Simple everyday tax planning.....

1. **Don't pay corporation tax at the highest marginal rate**. The rate is highest for profits between £300,000 and £1.5m but remember these limits are divided by the number of companies in the group. If this applies to you, then you need to ways to reduce the taxable profits. See below.

2. **Make a pension contribution from your company into your (and possibly your spouse's) pension fund**. Income tax relief is received at the individual's highest rate of income tax. If you trade through a company, pension planning allows for a corporation tax deduction and no income tax or national insurance payable by the owner managers. Pensions can also be an important lever in managing the company taxable profits i.e. keeping you out of the marginal rate, but you must pay the pension contribution by the year end to be tax deductible in the company in that period.

3. **Optimise the tax on your remuneration**. A small salary (no income tax or national insurance is due) can be paid during the year with regular dividends to cover living expenses. Spouses, who ideally take an active role in the business, can receive a small salary and dividends (subject to shareholdings) to maximize the use of both husband and wife personal tax allowances. Consider whether a final bonus or dividend should be awarded before the year end.. Normally, a dividend will be the most tax efficient means of extracting profits for most business owners

4. **Watch the 60% marginal income tax rate for income over £100,000.** Total personal income of £100,000 is a new watershed for taxpayers as income received between £100,000 to £114,950 attracts a marginal rate of 60%! This is due to the personal allowance being phased out for income above £100,000. So if your total remuneration package is likely to be around this area, you might be well advised to limit your income to £99,999 by pension contributions, gift aid payments or deferring bonus payments.

5. **Optimise the timing of dividend and bonus payments for cash flow and tax rates**. Dividends and bonuses are taxed on business owners on a receipts basis. If your income is already high for one tax year then you could defer paying out a dividend until after the start of the next tax year so that it falls within the following year's tax allowances and limits. Also, you can accrue a bonus which can be deducted in your company's accounts but not actually paid until 9 months after the company's year end and hence possibly into a new tax year.

6. **Plan capital items to get tax relief quicker.** 100% AIA on the first £100,000 spend per year will reduce to £25,000 from April 2012. Make sure you bring forward any expenditure to reduce your taxable profits, but watch out for the trap for expenditure incurred in your year that straddles April 2012.

7. **Get tax deductions now for provisions against stock and debtors etc.** Consider the valuation of any stock or debtors at the year end and make specific provisions where the likely recoverable value is less than the original amount.

8. **Claim loss carry backs as soon as possible to get refunds.** If you have a forecast tax loss then you can set this against other income to save tax or get a refund, so get your accounts and tax returns in quickly.