tlp - news

March 2011 **The monthly newsletter of The Long Partnership — 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!

01856 878600
01847 890304
01463 732575

Quotes

"Ignore the conventional wisdom. If everybody else is doing it one way, there's a good chance you can find your niche by going in exactly the opposite direction." - Sam Walton

"Few people are willing to stop being what they are to be what they want"

Dr Gene Landrum

"The most important word in business is: next"

Dan Kennedy

"The only unpardonable sin against Nature is standing still."

Robert Collier

We have bought a letterbox! For those of you that know and use our Thurso office, it will have been a source of frustration that you could not deliver anything to us out of hours and just "put it in the letter box". Well, shortly that is precisely what you will be able to do. Where is the letter box to go, I hear you ask. The secret, and that is what it has been (or as much as a secret as you can keep in Thurso) is that we bought a building to which the letter box is attached. We have been renting our 1st floor offices in Princes Street but as anyone can see, we are very short of space and, when I am in Thurso, I work in the kitchen, which is very handy for the kettle but not ideal. We have now bought the whole building and so, in due course, we can extend downstairs which will give us more room for files, records, staff, etc. It will also give us a letterbox and a front door!

Now, it is not strictly true that "we" have bought the building. We like to share things with you in case you find it useful and that is what we are doing here. It was not "us" but our SIPPs. A few years ago we transferred our ordinary, run of the mill pensions (retirement annuities, personal pensions and others) into SIPPs. It is the SIPPS that have bought our offices in Thurso. Why? Firstly the SIPPs have the money from our pension contributions over a number of years, so we did not need to look for bank finance. Second, any increase in value of the offices will be tax free. Third, we have to pay a market rent for The Long Partnership to use the offices, but that rent goes into our pensions and boosts the funds available. This is rent and so tax deductible by the company. So, we are withdrawing money from the company (the Long Partnership is an unlimited company) and the company gets tax relief on it, and we pay no tax on the money withdrawn. Now, isn't that a cunning plan that you could consider. Do you have pension policies that could be used in the same way. We can put you in touch with someone to advise you on this. Just let us know.

On a different subject, I came across a couple of quotes recently. Sir John Harvey Jones (ex BP chair) said there were two types of accountant. Those that grow the business and those that 'keep the score'.

Robert Craven (theDirectorsCentre.com) sums up the differences in different language.

Accountant Historians

"As their name suggests, these people focus on the past, on analysing it and preserving it. But what do they then do with that information? Often, very little. When asked by clients what the figures might mean for the future, they don't feel comfortable making predictions – and rightly so. In truth, they know very little about their clients' businesses."

Accountant entrepreneurs

"Are a very different kettle of fish with very different attitudes towards the contribution they can make to their clients' businesses. They do the basics as well as anybody else, but they know information is power, and use it to help their clients – and earn themselves higher revenues. They use their knowledge of many companies to provide a real world, really current perspective for clients. They know what has worked for other companies – and what hasn't. They earn the respect – and the fees – accordingly."

Having come across these I thought it would be good to share them. What is our role? We do it all. We "keep score" if that is what you want, we help with the compliance aspects of tax, company law, etc and then we get involved with businesses and try to help the owners and managers to be the entrepreneurs. We are a "Jack of all Trades" organisation sharing our knowledge and experiences (not other clients details!) because that is the best way that we can benefit our clients. Use us at whatever level suits you best. So, if you think you know what we do, why not discuss with us what else we can do to help you.

And, just to show that we never stand still, we will shortly be offering online accounting through our website. **Next!**

TLP in Thurso, Inverness and Kirkwall.

Manfred Bog v The Vatman

Could all takeaway food become zero rated for VAT? This German VAT case could potentially have far reaching consequences in this country.

The Manfred Bog Case ruling relates to "food and meals which have been prepared for immediate consumption by boiling, grilling, roasting, baking or other means". This ruling could result in all takeaway food being zero rated in the UK with the possibility of retrospective claims going back four years with the government forced to pay out millions of pounds in light of this EU ruling.

While it's unlikely that HMRC will decide overnight that the current VAT zero-rating rules are too narrow and change them, it is only a matter of time before a major player in the industry decides to take a case against HMRC.

Some "experts " consider that this will have little or no impact in this country but others have set up to fight for this cause and seem to think that they have a strong case.

We will need to let people with deeper pockets fight this one out with HMRC but it might be worth submitting protective claims so that if the VAT becomes repayable, the 4 year time limit does not get in the way of a larger refund.

Born Dull

We are indebted to Accounting Web for keeping us up to date with the latest in accounting publications.

Top of our list of course, and a must read for any double entry newbies must be **Cash Control for Dummies** by Hans Intils. This is an informative and at times rewarding read although the benefits can sometimes be short lived.

If you still need something more to help you sleep at night, try **Internal Control Weaknesses** by Kermit Fraud or if you have to undergo an annual audit, get some valuable insights in the recent publication **How Not To Panic At Year End** by Wendy Orditors-Cumming.

You'll never have trouble sleeping again.

Income Tax and NIC Systems to be aligned

The Chancellor announced that there will be a consultation on one of the major conclusions highlighted by the recently formed Office of Tax Simplification (OTS), namely the complexity of operating income tax and National Insurance contributions and whether they could be combined.

There will be a consultation on how the two regimes could be merged operationally – however it looks as though a formal merger between the two is not on the agenda, which is not surprising given that this would be fraught with political problems. Also, nothing has been said about employers NIC (really a tax on jobs) which is unlikely to be scrapped as it brings in some £50 billion a year. This is a major issue and will take some time to formulate.

The OTS has also looked at IR35 and suggested that it should be abolished or revised. HMRC however, have decided that IR35 is staying for now. HMRC are to provide some additional guidance and "assistance". However, the merger of NIC and tax could make IR35 obsolete.

Collection of Class 2 NIC

This will be collected on 31 July and 31 January in the future. Although these are the same dates for payments under self assessment they will be collected separately. This appears to be the start of the merger as surely they will be added to the SA collections eventually.

Capital Allowances

Tax relief on the equipment for electricity generation under the Feed in Tariff scheme and the Renewable Heat Incentives will be looked at with measures being introduced in the 2012 finance bill. This will be of interest to many businesses that we deal with so we will have to wait and see how these proposals impact on various renewable projects in our area.

Also, from 5 April 2011 the Writing Down Allowances will be reduced to 18% and the Annual Investment Allowance reduced to £25,000. Remember, this does not affect the total allowances that you can claim, it just means that the tax relief is claimed over a longer period.

As you know we always say that you should "never" buy equipment to save tax. The tax relief is just a bonus if you need to buy that equipment to increase your profits. If you need the equipment, let's see how you can maximise the allowances available but if you buy equipment that you do not really need, you will lose money - spend £1 on equipment to save 28p or 40p in tax? You bank balance just went down by more "net" that the tax saved and you potentially have an under used depreciating asset.

PAYE - New Security May be Demanded

Unbelievable as it seems, according to HMRC there are employers who dutifully deduct PAYE and NIC from their employees' pay-packets every pay day, but somehow or other the money never reaches HMRC. The employer either uses the money to pay for other things (such as creditors) or goes bankrupt for so much that the money goes unpaid.

To stop this happening, new provisions will allow HMRC to demand an upfront security payment from employers it thinks run a serious risk of non-payment; failure to come up with the security will be a criminal offence carrying a £5,000 fine. The cash security payment will be held by HMRC or paid into a joint HMRC/taxpayer interest bearing bank account, or be in some form of third party guarantee provided by a bank where withdrawals can only be made if HMRC allows.

A Statutory Residence Test - At Last!

A consultation document is to be issued with regard to a statutory residence test. This is hoped to be in place for April 2012. This follows confusion and controversy with various court cases which all seem to be about airline pilots. Sorry guys, but if you fly for Loganair this is unlikely to affect you.

Although the UK income tax rules revolve round residence, ordinary residence and domicile, there are no definitions of the terms. The system is governed by a mix of case law dating from the 19th century and HMRC practice. The 'Calman' proposals, now in the Scotland Bill 2011, to introduce a Scottish rate of income tax, make a statutory residence rule even more important because the definition of a Scottish taxpayer starts from a person being a UK resident taxpayer. If English tax is lower, I claim duel residence (Is there going to be a double tax treaty with England?).

Enterprise Investment Scheme - rules more favourable

From 6 April 2012, the size of company which qualifies will be increased to include those which have no more than £15m gross assets before the investment. This represents a considerable increase over the current limit of £7m and will return the size limit to that last applying in April 2006.

The proposals will also increase the number of employees the company may have from 50 to 250.

The annual amount which a company can raise through both EIS and VCTs in any 12 month period will be increased from £2m to £10m.

With effect from 6 April 2011, EIS relief for investors will go up from 20% to 30% of the cost of the shares in a qualifying company. The relief is set against the individual's income tax liability for the tax year in which the investment was made.

There has to be a minimum investment of £500 worth of shares in any one company in any one tax year. Relief can be claimed currently on up to a maximum of £500,000 invested in such shares. The proposal will increase this limit to £1m from 6 April 2012.

Note that if you have received income tax relief on the cost of the shares and the shares are disposed of after they have been held for 3 years, any gain is free from Capital Gains Tax.

This is likely to have be a major boost for anyone seeking to establish a new capital intensive project such as a new privately owned windfarm. It will not impact on investments already made but new share issues will see a significant boost. It should encourage more individuals in the local area to invest in locally developed projects given that they will now get 30% tax relief and have the possibility of deferring existing Capital Gains liabilities.

We have also seen projects that have struggled to keep within the limits for annual EIS share issues and capital values of the company. The increases in both of these limits will mean that most 5 turbine developments will now be able to maximise the benefit of EIS for their shareholders and access more local funds. Local developers will therefore be less dependent on bank finance.

We always know of EIS projects coming up in the area, so if you are interested we can put you on our mailing list and keep you informed of opportunities that might be coming available. Alternatively, if you have a project that you think might benefit from EIS, get in touch.

VAT

The rates of VAT are unchanged but seeing that the main rate only went up on 4 January to 20% that is not surprising.

The taxable turnover threshold, which determines whether a person must be registered for VAT, will be increased from £70,000 to £73,000. The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £68,000 to £71,000.

The registration and deregistration threshold for relevant acquisitions from other EU Member States will also be increased from £70,000 to £73,000.

As a knock-on effect, the simplified reporting requirement (three line accounts) for the income tax self-assessment return will continue to be aligned with the VAT registration threshold.

Revised VAT fuel scale charges will apply from April. Let us know if you need help with this.

VAT: compulsory online registration and online filing

Following the Minister for the Cabinet Office's statement of 23 November 2010 on the "Digital Agenda", subject to consultation on the detail it appears that all new applications for VAT registration will have to be made online. We do this as a matter of course anyway because it is quicker, so if you need help, contact us.

The government will also put forward regulations which, subject to consultation, will require all remaining VAT "customers" to file their VAT returns online and pay electronically from 1 April 2012. The government says that the online VAT system is now generally running quite smoothly, provided that you use a computer. If not, let us use one of ours - we have a few!

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.

I know that many of you like to hear about my experiences on one ferry or another but when it comes to sales prevention, most stories presently come from one bank or another.

I don't think that I would like to be a banker just now. You know, they are the ones walking down the street with paper bags over their heads.

We cannot speak about specific cases but it appears that most (suggests there is much of a choice anymore) banks seem to be going through a period of restructuring their client base based on some sort of economic model developed by a "suit" sitting at a "desk" in a vault in Edinburgh or worse.

This is leading to a general sense of animosity amongst our contacts, and a sense that any bank other than their own must be better. There is a lot of hype and flannel out there at the moment and because of our experiences we can see through it. I am sure that most other professionals would have a similar view, or maybe not. In our view, it is only a matter of time before everyone understands what is happening and that their bank is not necessarily on their side.

However, that is the current state of play and what will another year bring. Either the existing in situ banks need to change their approach or we need new banks to come in to this market. Then there will truly be a market for lending and banking services and many of the present practices will have to go.

If you want more evidence that banks do not understand their own market, you just have to look at the matter of bonuses. Now, don't get me wrong, I think performance related bonuses are good and they have an important role to play in almost any organisation. But just at the moment, given the feeling amongst their own customers and potential customers about bonuses, the bank still decided to pay them. I rest my case.

Tax Tips and Tricks ....

Corporation Tax

The main rate of Corporation Tax is reduced to 26 per cent for the Financial Year commencing 1 April 2011 and then will be a further reduced each year of 1% .

The small profits rate of Corporation Tax reduces to 20 per cent from the Financial Year commencing 1 April 2011.

If you need equipment or you have repairs needing to get done, you should consider maximising the tax relief by advancing the expenditure into an earlier period to benefit from the higher rate of tax relief available. Likewise contributions to company pension schemes.

With this reduction in rates and the narrowing of the margin between the full and small profit rates, will both rates survive and if not, which one will go, and when? We will have to wait and see.

Don't forget that there are actually 3 rates of Corporation Tax. Most of you with profits up to £300,000 will be subject to the small profits rate of 21%/20% but remember that if you have 2 trading companies, the limit is divided by 2, for 3 companies, by 3, and so on. If you have 4 trading companies all under common control, the highest rate of Corporation tax kicks in at just £75,000.

Highest rate?

Yes, the highest rate of Corporation Tax in 2011/12 will be 27.5%. This is because the benefit of the small profits rate is lost progressively as profits rise above £300,000 until at £1.5M the rate of tax is 26% on ALL profits. Remember to divide the £300,000 and £1.5M by the number of companies under your control.

So, if you find yourself in the marginal band you would get tax relief at 27.5% when you claim capital allowances on equipment purchases, or revenue costs (e.g. repairs) or contributions to the company pension scheme.

If you think this might apply to your company, let's get together to discuss your options.

Under 18 ISAs

ISA's for under 18's are to be introduced from autumn 2011. It is not clear if there will be a restriction on these as to the source of the funds, in terms of parental gifts, as there are with the usual investments for minor children. We await the details.

All these children will benefit from a personal allowance of £8,105 so would pay no tax anyway unless they have substantial other income so that it would be worth investing capital into the ISA to avoid tax on the interest, etc.

Approved Mileage Rates

The approved mileage allowance payment rate will increase by 5p per mile from April. That means that the first 10,000 miles claimed is at 45p with 25p thereafter.

That is £500 of tax free mileage for high mileage drivers.

However, remember that if you are employed and the rate your employer pays for you to use your own car is less than this rate, you can claim tax relief on the difference through your tax return.

If you do not complete a tax return, get in touch and we will tell you what to do, or we can submit a claim for you. Do you need to claim for previous years?

Gift Aid small donations scheme

From April 2013, the Government will introduce a new scheme to allow charities to claim Gift Aid on up to £5,000 of small donations without the need for Gift Aid declarations. This promises to be a significant step forward, particularly for smaller charities.

Many small charities have struggled with the bureaucracy and form filling required to obtain repayment of small gift aid donations. This will be a major boost to the cash flow of many small charities in our area.

But as the system is rolled out, donees will have an expectation that you will be making these claims and so it will be important that all small charities make the best use of this facility. You may also find that some sources of funding become a little harder to access, because there might be a feeling that you have just received a significant tax boost to your cash flow. The main point here is that you can gain an immediate cash boost, but you also have some new marketing material courtesy of HMRC to use to lever more donations.

There will also be a new online filing system for Gift Aid claims - A first step will be the publication of intelligent online forms. The Government aims to have the online system fully operational by 2013.

After that there will definitely be no excuse for not reclaiming Gift Aid on any donations.

Other Charitable Changes

There is to be an increased limit for 'thank you' gifts - The Gift Aid rules will be changed to ensure that the benefit limit for 'thank you' gifts from charities is increased from £500 to £2,500 from April and Government will publish new guidance to clarify what counts as a "benefit".

There will be a reduction in the rate of inheritance tax by 10% moving from 40% to 36% for estates that leave 10% or more of the estate to charity - This will be a potentially significant benefit to those charities that benefit from legacy income, but if you don't, maybe this is a way that you could encourage such donations.

Increase in payments to volunteer drivers to 45p per mile (25p after the first 10,000 miles). The passenger allowance of 5p per mile will be extended to volunteers (it is currently available to business).

The Community Investment Tax Relief (CITR) is to be retained to stimulate the growth of the social investment market and to channel much needed investment into deprived communities.

Importing Vehicles from Abroad

VAT fraud on imported road vehicles has been identified as a long-term problem and hence this joint HMRC-DVLA initiative - so if you are planning an import, beware.

From 2013 vehicles entering the country for permanent use on UK roads will have to be notified to HMRC online before the vehicle is registered with the DVLA.

Individuals and non-VAT registered businesses will be required to pay the VAT at the time of notification. VAT registered customers will continue to make payment through their VAT return.

HMRC will assess whether the payment of the VAT on the vehicle is secure, and vehicle registration and licensing could be refused by DVLA.