tlp - news

May 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

"If you don't like the situation you're in, you don't have to settle for it."

-- Macy Gray, Singer

"The ability to summon positive emotions during periods of intense stress lies at the heart of effective leadership."

-- Jim Loehr, psychologist

"The most important single ingredient in the formula of success is knowing how to get along with people."

-- Theodore Roosevelt, 26th U.S. president

Stranded! But actually in a very nice place, Stronsay. For those of you who are not familiar with Stronsay, it is one of the Islands of Orkney. I came here to give an evening presentation and should have returned by plane next morning. The fog had other ideas and by the time the airline called me to say the plane was delayed, the morning boat had gone and I was "trapped". I say trapped but it is sometimes quite nice to be marooned where my mobile phone does not work, and I cannot access my emails, etc. But don't worry because I had my laptop with me and got a whole day's work done. It was like going back to the way we used to work before emails and mobile phones. Nice for a change but not for too long.

The islands are coming alive. Community wind turbines will pump money into island developments and the next few years will see these islands moving forward at a pace. However, the lack of good communications is going to hold them back and so we can only hope that government and councils alike appreciate the importance of such communication links and actually do something about it. If places like Stronsay had the level of communication that Inverness currently enjoys, what could they not achieve.

Speaking of communications, did you know that HMRC are now on YouTube? I am sure that various members of their staff are probably there in a different capacity but HMRC itself has entered the social media stage.

HMRC has opened a YouTube channel featuring educational videos.

The HMRC YouTube channel has been running for several months as part of its Learning Together programme and currently features two 10-minute films explaining the workings of the new penalties for inaccuracies regime. Now, next time you are tempted to go onto YouTube be sure to look these up. They must be riveting.

On the subject of HMRC, does anyone still believe that Time to Pay arrangements still exist? Officially, the percentage of Time to Pay requests refused during the first quarter of 2011 was 9.3%, compared with 2009 and 2010 when the refusal rate was just 2.7% and 6% respectively. That is the official line but many accountants seem to think that the actual refusal rate is significantly higher and in our case I would say that amongst the people I have spoken to recently, it is 100%. It could be that the official refusals are the ones that make it as far as an official application while most are turned away at the first phone call and probably never make it into the official statistics. Whatever the truth, it seems to have had its day. HMRC seem to be more concerned with "getting their pound of flesh" as soon as possible and not about preserving good businesses to take advantage as the economy improves. Surely this attitude will make things worse. How much worse? I would not like to estimate.

On a cheerier note, isn't it nice to have some good weather at last just in time for payroll year ends and the P11D season.

However, in common with many of you, the good weather seems to be the call to start scheming and planning the development and evolution of our own business, while actively helping and advising clients on their own developments.

To this end we learn from each other and there are always new ideas to absorb and experiences to share. Taking an idea or experience from one sector or industry and applying it in another, can yield considerable advantages, particularly if you are the first and it makes you stand out from the crowd. This is what we do and why we share what we do. Steal our ideas and use them for yourself! Watch what we and others do, look at the results, and if the results are good, see if you can emulate them. Copy the people who actually come up with the goods. If the "crowd" only get mediocre results, don't follow them. If you think it is appropriate, follow us. You don't need to re-invent the wheel. Watch what other people in your industry are doing. Analyse what they do and copy the "good bits". But you also have to put your own stamp on your business to make it stand out and be your customers' first choice.

Accountants yearn for four-day week (Source Accountingweb)

It seems that finance professionals are getting a taste for a more balanced lifestyle after the recent spate of bank holiday weekends. According to a recent survey, two-thirds of accountants would be happy to give up some of their salary to enjoy a four-day working week.

A survey of 2,882 finance professionals conducted by recruiter Marks Sattin found that 66% of respondents were more attracted by the prospect of a four-day working week and would be willing to sacrifice up to £11,000 a year to achieve a better work-life balance.

Only 6% said they are less attracted to a four day week than this time last year, while just over a quarter of respondents said they felt no differently.

It was interesting to read the posts following the article. Some suggested the accountants in question must be aged 50+. Others questioned what planet this guy is on.

Could it be that the accountants who are up for the challenge posed by the current economic climate or who relish the chance to grow their own business, were just too busy and focused to respond to the survey.

We generally bin all surveys. What does that say about us?

Absenteeism

A recent study by accountants PWC revealed significant differences in absenteeism levels between different industries.

Technology companies had the lowest rates at an average of 7.6 days, followed by banking and finance at 7.8 days.

The public sector experienced the highest rates with 12.2 days but does that surprise anyone. Retail and leisure were next with 11.5 days.

Despite the perceived US work culture of long hours and short holidays, which could be expected to lead to higher stress levels and sickness rates, absenteeism was lower so, in the UK, that cannot be the reason. More likely to be the attitudes peddled on Breakfast TV and the like.

New style Enterprise Investment Scheme Relief – An Overview

EIS relief is available at a fixed rate of 30% (20% to 5 April 2011) on a maximum of £1 million per tax year (£500,000 to 5 April 2011) in respect of new equity investment in unquoted trading companies. So, invest £10,000, get £3,000 back in tax relief.

The purpose of the scheme is to encourage investment in ordinary shares with the incentive including both income tax relief and also the opportunity to defer Capital Gains Tax on capital gains. These gains may have provided the funds for the EIS investment but it is not necessary. The funds could have come from anywhere.

The tax advantages:

- EIS income tax relief at 30%
- After 3 years no claw-back of the EIS relief
- After 3 years a sale at a profit is tax-free
- A loss on sale of the shares at anytime gives rise to an income tax relief claim against income of the same tax year or preceding tax year, net of the EIS relief received.
- After 2 years the shares qualify for IHT business property relief
- Possible deferral of a CGT liability arising on disposal of any chargeable asset

Nevertheless, you cannot escape the risk element and lack of control over potentially substantial sums of your money, but you get a 30% discount on your investment, if you have the tax liability to set against it.

The investor must be an individual liable to income tax who is not connected with the company at any time in the period from two years before to three years after the share issue (or date trading commenced if later).

Connected means being an employee or director or anyone owning 30% of the company although there are some detailed rules, so take advice. Business Angels can invest and then become a director, but again there are detailed “dos and don’ts”.

The shares must be new ordinary shares which do not carry any preferential rights. That is, you must share the same risks as the other ordinary shareholders. No other type of share or security qualifies for EIS relief. In addition no relief can be claimed if arrangements already exist for the investor to exit, e.g. pre-arranged sale of the EIS shares.

The company must be an unquoted trading company but certain trades are excluded (including accountants, hotels and farmers). All the funds raised must be wholly used within two years of the share issue or commencement of trading.

The company must have gross assets of no more than £15 million immediately before the EIS issue (£7 million to 5 April 2012) and no more than £25 million afterwards (£8 million to 5 April 2012). The company cannot raise more than £10 million (£2 million to 5 April 2012) in any EIS scheme in the 12 months up to the date of the investment.

EIS shares can be transferred between spouses with no tax consequences as the income tax relief continues to be attributable to the shares. The tax treatment on disposal by the new owner is the same as if he/she had been the investor.

EIS investment can be made through an investment fund rather than as a direct investment. This allows money pooled by several investors to be subscribed for in a range of companies selected by the fund manager.

Claiming the income tax relief

The company issues the shares and within two years from the end of the tax year of issue (or two years from the end of the initial four months of trading) it submits form EIS 1 to the company’s tax office. If the tax office is satisfied that the conditions for qualifying investors to claim EIS relief are met, it sends the company form EIS 2 which authorises it to issue certificates EIS 3 to the investors. This cannot take place until the qualifying activity (trading) has been carried on for at least four months.

The investor must claim the relief within five years after the 31 January following the tax year to which the claim relates.

Ordinarily the claim is made in the tax return. If the return has already been filed, the claim can be made by completing the claim section of EIS 3 and sending it to the tax office of the investor. A claim can also be made in this way before the tax return is filed.

So, what can EIS be used for?

Small commercial wind farm developments frequently need to raise equity capital to bridge the gap between the cost and the amount a bank is willing to lend. EIS can be used to attract outside private investors. Do you have a wind farm of other project that could benefit under EIS? If so, get in touch and let’s discuss your options.

Incorporation is back on the Agenda

For a while it looked as if the gap in the rates of tax between companies and individuals was closing. There has always been an ebb and flow in the relative merits of trading as a company or not, but the tide now seems to be swinging back to incorporation. The reduction in the lowest rate of Corporation Tax to 20% and the hike in National Insurance for individuals has widened the gap again.

The exact savings from incorporation will depend on your particular circumstances. A small company will pay tax at 20% and the profits can be extracted in a tax efficient manner by using dividends. The same profits will suffer tax and NIC in the hands of an individual of at least 29% (20% plus 9% Class 4 NIC). You can see immediately that you will pay 9% more tax as a sole trader or partnership. This differential rises to 22% once you are a 40% tax payer, and more at 50% or 60%.

As always, it is not as straightforward as that, but you get the picture. A sole trader with profits of £40,000 might pay tax of £9,585 whereas the same profits in a company could be £6,586, nearly £3,000 less. As we go up the profit scale, the savings improve, although there can be exceptions so you need to take advice in your particular circumstances. However, if you are paying tax at 50% or 60% the savings can reach as much as nearly £14,000 in certain circumstances. Maybe that is why we are seeing so many accountants and lawyers incorporating. Let me know if you want to see their accounts.

If you need to extract funds from a company, dividends are generally the most efficient route but this could mean higher rate tax. However, if you can live on dividends that only use up your basic rate band (about £35,000 each), the balance of your profits can stay within the company, having suffered tax at only 20%, to be used by the company or extracted through a company pension scheme.

If you need a company, it can take as little as an hour. But, it should take a lot longer to consider all the pros and cons and decide if a company is right for you.

The saving in tax is just one factor. So, if the biggest advantage is the tax saving, what are the disadvantages?

1. Business motoring

Running a car through a company is not good. The benefit in kind charges make this an expensive option unless you want to go for a very fuel efficient car (less than 110g/km emissions). The alternative (and the one we use) is to keep the car outside the company and charge 45p per mile for all business journeys. But then there is the record keeping - every business journey should be logged.

2. Administrative burden

The accounts and tax returns for companies are more complex and likely to cost you more. Company Secretarial matters must be dealt with - documents must be filed at Companies House for all change in directors, etc and an Annual Return also needs to be filed. Dividends must be properly declared and documented. Compulsory electronic filing of Corporation Tax Returns has added to the complexity of working through companies. However, we will look after all this for you.

3. Bank Lending

Existing bank debt could prevent any planned incorporation. The bank may be unwilling to lend to a limited company even if you are willing to provide personal guarantees. The rates being charged to a company may also be higher.

4. Public Record

As a sole trader or partnership, there are few people or organisations that need or want to see your accounts. Once you are a limited company, your accounts will be on public record for anyone to see. The accounts that they can see are not the full accounts but there is enough information for them to hazard a guess at you turnover and profits. It only takes a few minutes to look up any limited company's latest accounts, and I have done this with many clients as we researched their competition. Anyone can certainly see your balance sheet, so if there is information you don't want others to see (e.g. assets) you need to find an alternative solution.

We are a company but you will not find our accounts at Companies House. That is because we are an unlimited company and we are not required to file accounts with Companies House annually. It also gives us a bit more time, if we need it, to prepare our accounts. "No filing" means we cannot be late and therefore no late filing penalties. This is the best of both worlds - tax advantages without publishing accounts. Speak to us if this appeals to you.

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.

You can tell that we have been diligently working, closeted in our offices, because no-one has had the chance to deliver poor service. So, I am going to draw inspiration this month from our recent experiences of HM Revenue & Customs. You know, the ones paid from our taxes to operate a fair and equitable tax system. The ones who get paid on the nail every month and never have to worry about finding customers, making sales, and all the hassles and frustrations that anyone running a small business must face day in and day out. These people could not run a small business but they are happy to tell others what they are doing wrong.

There are few enough people who are willing to take up the challenge of running their own business, creating employment and opportunities for others. Our Government should not be forcing them out of business.

I wonder how many businesses HMRC have forced into bankruptcy that were still making profits and providing employment but did not have the cash flow to pay some of their taxes at that time. HMRC suggest that anyone who does not pay their taxes and on time is in some way not fulfilling their obligation to society. I thought it was cash flow.

I find it very difficult to reconcile the government's stated intention to encourage business growth when their own servants are doing the opposite. Surely this sort of behaviour is going to lead to disengagement of many people in business from any obligation to government and therefore society at large and people will look to cheat the system just to stay in business.

I cannot help but think that HMRC's present attitude will also make many seasoned business people give up early and deter others from trying their luck amongst the ranks of the self employed.

Main residence relief and inter-spouse transfers

It is commonly believed that inter-spouse transfers will not give rise to any tax charge. However, they can give rise to both planning opportunities and pitfalls and so as always, if this applies to you, get in touch for more specific advice.

Generally on a transfer between spouses, the acquiring spouse acquires their interest on the date of the transaction, but at the transferor spouse's base cost. Where this relates to their sole or main residence, there is an added twist in that it is specifically laid down that the recipient spouse's period of ownership is deemed to commence, at the date of the original acquisition by the transferor spouse and any period during which the property was the sole or main residence of the transferor spouse will also be deemed to be that of the transferee spouse. The transaction is effectively backdated. The spouses must be married and living together, and the property in which the interest is being transferred must be the couple's sole or main residence.

Rental of Main Residence

If you have a rental property which at some time will be your main residence, CGT could be payable on any sale of that property in the future, relating to the period when it was let. To get round this, the property could be bought in the name of one of the spouses and then transferred to the other just before it becomes their main residence. There is no tax on the transfer which is deemed to take place at the date of the transfer and is done on the normal no gain no loss basis. However, there is no backdating because, at the time of the transfer, the properly is not the couple's sole or main residence. However, on any future sale the entire capital gain is exempt because the house qualifies as the transferee spouse's sole or main residence throughout her period of ownership. A cunning plan!

Budget 2011 IHT rates and allowances

The nil rate band for the tax year ending 5 April 2012 will remain at £325,000 and is currently set to remain at that level until April 2015. IHT is payable at a rate of 40% on transfers of value in excess of this figure, while some lifetime gifts can attract a 20% IHT charge.

The Chancellor announced in the Budget 2011 that, from April 2012, the rate of IHT will be reduced to 36% for estates leaving 10% or more to charity.

Specifically, **from 6 April 2012**, where 10% or more of an estate is left to charity, the balance of the estate in excess of the nil rate band will be taxed at 36% rather than 40%. The way the relief is expected to work effectively removes the gifted assets from the charge to IHT, but any estates which give more than 10% will find their relief limited to 10%.

PAYE Update

Centralising PAYE Employer Work In Newcastle

From 1 April 2011 all employer work previously dealt with by 30 offices nationwide will be dealt with by the National Insurance Contributions and Employer Office (NIC&EO) in Newcastle. The contact number for Employer Helpline is:

08457 143 143

Inheritance Tax

The IHT nil rate band is being frozen at £325,000 and that may be until 2015. However, one of latest planning opportunities is the transferable nil rate band between spouses or civil partners. Some couples may be able to utilise four nil rate band allowances between them. This could actually remove the IHT liability for some couples.

Wills

Wills avoid intestacy rules and enable tax planning. But as your circumstances change, your Will should be kept under review. Is your choice of executors still appropriate, do any of the beneficiaries need to be added or removed, have you got married, or has the first grandchild just arrived?

Transferable nil rate bands

This provision will benefit couples where not all the nil rate band allowance was utilised on the first death, as the nil rate band available on the second death will be increased accordingly. The rule changes were set up so that they apply even if a widow or widower lost their spouse many years ago.

An individual, who has survived more than one spouse or civil partner, cannot claim more than two nil rate band allowances on their own death, but this does lead to some interesting planning points.

Where a widower marries a widow, then it would be possible for two nil rate bands to be used on each of their deaths, hence using **four allowances** between them. Utilising the two nil rate bands on the first death would be the key to maximising the reliefs.

To claim the unused nil rate band of the deceased on the death of the survivor must be made within 24 months of death of the second spouse. In addition a substantial amount of information is required, which may be difficult to obtain if the first death was many years ago.

Deeds of Variation

Even if someone dies intestate, it may be possible to vary the distribution of the estate using a Deed of Variation as it allows the original recipient to redirect assets to someone else as though they had never inherited under the will.

The deed of variation must be made within two years of death, only the free estate (as opposed to the settled estate) can be varied, no consideration must be given and the person making the variation must have the capacity to do so, i.e. not minor children. The consent of the original recipient will be required and the signatory must be at least 18 years old and of sound mind.

Paying HMRC from 1 April

HMRC have reminded taxpayers of a number of changes that came into play from 1 April 2011:

- Company tax returns must be filed online.
- All corporation tax and related payments including interest and penalties must be made electronically.
- Payments of Class 2 NICs become due on 31 July and 31 January.
- HMRC now issuing late payment penalty notices to taxpayers who paid their PAYE late in the 2010/11 tax year.
- Penalties will apply for VAT returns not submitted online for accounting periods ending on or after 31 March 2011.