

tlp - news

October 2008

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

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Quote

"Wise men talk because they have something to say; fools, because they have to say something."

Plato, Philosopher

October Dates:

**Tue/Wed every week -
Alan & Helen in
Thurso**

**TBA Alan in
Westray**

**31 Paper return filing
deadline (but we file
all our client's returns
online!)**

October 27th 2008 will be a big day for us. On that day we will be joined by the first member of our team to be based full time at our new office in Thurso. Why is that such a big event? Well, up until now the office has only really been open when Alan or Helen have been there, which makes it hard for anyone to drop in or to deliver or collect anything. The new member of our team is Wendy. More about her another time.

We expect to be taking on other staff in Thurso in the near future to cope with the ever increasing work load we are experiencing in Caithness.

Is Caithness the new "Orkney"? Do you sense a new spirit in Caithness. For years people have spoken with envy about how successful Orkney has been in developing tourism and in marketing its products. Now there seems to be a change. There seems to be a mood that demands action and less speaking, a desire to copy and outperform Orkney. This is a good time to be in Caithness and the way we do business fits perfectly with this new spirit of optimism. We expect our office in Thurso to develop quickly but as always you will be the first to know. Ok, there is a "credit crunch" and the end of the world as we know it is at hand, but setting that aside for a moment, we still have to get on and "do" and make a living the best we can, and we are all in the same boat. The world will not come to an end. Business will get harder, but in any difficult situation there are opportunities as well as risks and dangers. Here is a quote for you -

"Inaction breeds doubt and fear. Action breeds confidence and courage. If you want to conquer fear, do not sit home and think about it. Go out and get busy." -- Dale Carnegie, Author

The business world belongs to the brave. Those who are prepared to take a chance. Speaking of which, there is a local hero, spoken about with affection on both sides of the Pentland Firth. A real latter day Rob Roy,

(or Robin Hood if you had the misfortune to be born south of the border) Starting from virtually nothing, he has built up a successful business, probably on a shoe string, to rival (and outdo) a state sponsored heavily subsidised competitor. We are of course talking about Andrew "Rob Roy" Banks and the ferry service he has built from nothing between St Margaret's Hope and Gills Bay. No grants to build fancy new terminals. No subsidies to disguise the trading losses. Just plain good old fashioned hard work and dare we say it, "guts". Perhaps he should be put in charge of The Bank of Scotland or The Royal Bank! Would he need £37 billion, we don't think so.

The North Highland Regeneration Fund seems to be a breath of fresh air in the development of Caithness and Sutherland. Time will tell, but there seems to be a real sense of helping true entrepreneurs in the area both quickly and with a minimum of bureaucracy. Here are people determined to get the area ticking and making sure that people with good businesses can prosper and by doing so, lift the whole economy.

They seem to recognise that you have to make some profits first. That way you know there is a business. Once there is a business you can sort out the systems properly. Nobody else will make profits for you, that is your job. But at least NHRF help you along the way. And what is there in Orkney....?

We seem to be on a bit of a self help platform this month, but isn't that just the way it is. If you do not go and "do" for yourself, nobody else is going to "do" it for you. You have to "do". You must act. Action is the key. If you take action, you may fail, but at least you tried, and in trying, you learn, so next time, and there must always be a next time, you do it better.

So, how do you go about taking action? "Start by doing what's necessary; then do what's possible; and suddenly you are doing the impossible." - St. Francis of Assisi. You see, it is not a modern idea, it's been around for a while, you just forgot! Now go and **do**.....

Alan, Helen and the team at TLP

Late paper filers

HMRC are making life easier for late filers of paper-based tax returns. This will potentially benefit those unable to file online after the 31 October deadline for paper filing and who thus have to send in a late paper tax return. Instead of being landed with an automatic late filing penalty, where they have a 'reasonable excuse' for being late with their return (perhaps because of a software failure), taxpayers or their tax adviser can submit a 'reasonable excuse claim' with their tax return.

Until now, the taxpayer had to claim a reasonable excuse after HMRC issued a late filing penalty. The advance claim procedure will enable HMRC to suppress many penalty notices and save time.

Moira Stuart: 'Saviour of HMRC'

Making the leap from *Headlines to deadlines* newsreader Moira Stuart has been officially unveiled as the new face of HMRC's Self Assessment TV advertising campaign.

The new TV ads, which begin next week, feature Moira "popping up in unexpected places" to remind people of the deadline dates – the first will run in October (deadline for paper returns - 31 October), with the second following in January. Moira will also be appearing on billboards and posters, and in press and online ads, encouraging people to beat the deadlines and file on time.

A new video podcast, launched by HMRC, features Moira talking about her new role, the October TV ad, and help and advice on filling in your tax return. It's available free from HMRC's podcast pages at www.hmrc.gov.uk/podcasts or the campaign website at www.businesslink.gov.uk/selfassessment or from YouTube at <http://uk.youtube.com>.

Who would you nominate to for this role, and why? Let us know and we will publish the results.

Our nomination - a dalek!

Your family - Planning Points.....

Have you made a will? Have you updated it recently? And is it IHT efficient?

Tip: There are many compelling reasons for writing a will. For example, without one it could be up to the courts to decide who will be the guardians of your children and you may also have to pay thousands of pounds in unnecessary tax and legal costs. Why make things even worse for your loved ones? **Make a will now!**

Tip: If you are having a will drawn up it may be worth considering having a Power of Attorney drafted at the same time, to save costs. This enables you to nominate a trusted individual to deal with your affairs in the unfortunate event that you cannot deal with them yourself.

What happens to your family and business if you are ill or die? Do you have life assurance, permanent health insurance and critical illness cover? Have you reviewed your policies recently? Are they still the best policies for you?

If you give money to charity, have you made sure that the Taxman makes your donation even bigger by using, for example, Gift Aid and payroll giving?

If you are planning on moving home, have you explored the possibility of taking a business loan instead of a mortgage?

Tip: Business loans can get up to 40% tax relief, whereas mortgages no longer get any tax relief. What this means is that, for a £100,000 loan with 6% interest, the 40% tax relief could save you £2,400 a year - i.e. saving you £60,000 over 25 years! What could you buy with that sort of money?! There are many issues involved in doing this – so professional advice is essential.

Have you considered changing your mortgage?

Tip: Some banks and building societies offer subsidies to people switching mortgage, where some are increasing their rates. What price are you paying for inertia? Professional advice should be taken, as many deals may not be as good as they look.

As there is no tax relief on mortgages, have you considered reducing your mortgage, or using a flexible or offset mortgage?

Tip: If the net interest rate you earn on your savings is less than the interest rate you are paying on your mortgage, then you will save money by using your savings to pay off some or your entire mortgage.

Have you made full use of the fact that each of your children can earn up to £5,435 a year as income and £9,600 a year in capital gains from 6th April 2008 - completely tax free?

Tip: Grandparents can be the key here, since it is not as simple as parents putting money in their children's names. So you will need professional advice.

If your estate is large have you considered -

- Inheritance tax planning

- Taking out an insurance policy that will pay your inheritance tax bills when you die?

- Using lifetime gifts to avoid paying inheritance tax altogether?

Tip: 40% of everything you have worked so hard to build up and earn may be handed over to the Taxman. The truth is that, by acting early enough, most people can prevent the Taxman getting as much. There are many issues involved in getting all this right – so professional advice is essential.

Have you used the legitimate ways to reduce your tax bills by transferring income from a spouse paying tax at higher rates to a spouse paying tax at lower rates?

Tip: At very least you should aim to make sure that neither spouse wastes their £5,435 tax free allowance – but early professional advice is essential. In particular, care needs to be taken not to divert income deriving from a spouse's company if that spouse substantially performs the work.

We advise on all aspects of tax planning, just get in touch and arrange a meeting.

First impressions of Sage 50 2009: the credit crunch edition

During the past week, Sage users have been receiving CDs of the latest upgrade to the company's flagship accounting program, Sage 50 2009 Accounts. With the economy looking bleak, the company has tailored the new version to match the market's mood, with improvements focused on keeping your head down and getting on with collecting the cash.

New cash management features

Several of the program's new ingredients tie into credit management and cash flow control.

However, the most obvious addition to Sage 50's left hand task pane is a new Diary module, which looks very much like a stripped down version of the Microsoft Outlook Calendar. Like Outlook, the Sage 50 Diary lets you create tasks with automatic reminders that can be compiled into a To Do list. The tasks can be linked to specific customer or supplier contact details.

The Sage 50 Diary is said to integrate with Microsoft Outlook for both tasks and contact details. There is a new Office import/export wizard option,

Error correction

The new version makes it easier to fix basic mistakes. The routine is claimed by Sage to be a single mouse-click operation.

Bank reconciliation

When you open the Bank Reconciliation routine and enter a statement date, all the unmatched transactions up to that date are displayed in the upper half of the screen. The previous balance appears in the lower window and as you reconcile each statement entry, it moves to the bottom window. Up and down arrows allow you to move the transactions around to match the bank statement order and you can group several transactions into one item (or ungroup them later).

By changing the period dates, you can also go back and do a retrospective bank rec. The application also has an e-Reconcile option that can download electronic bank statements and carry out automatic reconciliations.

Advanced budget management

Sage 50 will now let you create a budget chart of accounts, with the ability to edit the structure so you only budget against those accounts that you want to track. You can choose to view budgets by department, or by nominal code activity to track your performance. The budget structure can be automatically replicated for the successive financial year.

Enhancements to existing features

These include:

- ◆ Improvements to the VAT module
- ◆ Extensions to Excel Integrated Reporting and a new import/export wizard
- ◆ More discount and offer management options within the Invoicing module
- ◆ Enhanced batch payment facilities, including an option to link into the Sage Payment Solutions system, so you can take credit card payments immediately over the phone or via the internet.
- ◆ A new reserve stock feature within the order module that will also automatically record that the stock has been issued
- ◆ Batch reports facilities to help you run off regular reporting packages.
- ◆ Multicurrency capabilities includes foreign currency price lists.

Integrated help and practice data system

Once you get into the application, the introductory screens are clear, comprehensive and easily accessible. The assistance facilities include a library of videos to guide you through different tasks and a practice feature where you can try new features out on an example company.

What's the verdict?

With each new release, Sage 50 is taking on more and more of the innovations found within multi-company, mid-range products such as Access Dimensions and IRIS Exchequer. As the application becomes more powerful and fully featured, it also becomes more intimidating for smaller company users.

Do you get the feeling that there is a real need for accounting applications that will make life easier, and not more complex, for small businesses and start-ups?

More Software - it is simple to use and FREE to all our clients.

Tax policy for freelancers as useless as...

Despite little evidence of anything of the sort in the tax system the government is going to continue to be a "rock of stability and fairness" according to Gordon Brown, prime minister at this week's Labour party conference.

In fact, the PM mentioned "fairness" over forty times in his speech, and whilst apologizing for messing up the 10% tax band apparently forgot all about the 0% company tax rate debacle and the successive u-turns that have crucified any real fairness in the tax system over the last fifteen years.

All this over-egging finally proved too much for the Professional Contractors Group (PCG). Still licking their wounds after losing their recently backed appeal in the Dragonfly IR35 employment status case, they presented Brown with a **chocolate teapot - to represent the usefulness of Government action to date in addressing the needs of Britain's freelancing community.**

John Brazier, managing director of PCG said:

"Gordon Brown repeatedly mentioned fairness in his speech and we would certainly like to see some fairness shown to freelancers, particularly on tax issues. There are 1.4 million freelancers contributing hugely to UK plc and the Government continues to ignore them."

"The UK's freelance community is growing and it includes some of the country's most experienced and talented workers who make up a highly skilled, highly mobile and flexible 21st century workforce. It's about time Government acknowledged them, recognised them, helped them and stopped penalising them – that would be fair. A chocolate teapot represents the usefulness of Government action to date!"

Source - Accountingweb.co.uk

What would you present to Gordon Brown, and why? Let us know and we will publish the answers..... anonymously, of course!

Tax Planning Tips and Tricks....

Claiming AIA - Annual Investment Allowance

Businesses spending substantial amounts on new assets this year can claim up to £50,000 in AIA. For a sole trader this may present the danger of wasted personal allowances, so it is worth remembering that if the claimant chooses they may make a partial claim to AIA, and may also disclaim any WDA that also might be available. This will allow the preservation of personal allowances and thus maximise the benefit of the allowances available.

Tax credits and the AIA

For the self employed, the significant reduction in profits caused by claiming AIA on a major purchase will have scary knock on effects on any tax credit claim. For a sole trader with income and circumstances such that a tax credit award of more than the family element is in place the **tax relief on a major purchase could be as high as 106%**. This is made up of 39% in tax credits for the year of expenditure, and a further 39% awarded for the subsequent year. Although the income will be restored to its former level when year two is finalised, it is likely that the income disregard of £25,000 will leave the award untouched in year two.

Combined with 28% tax and NIC relief, some businesses will find that not only will **the government buy them a new van**, but will **also pay the tax and insurance** on it for the first year. This is a serious concern for those of who will be funding this expenditure for them through our tax revenues.

Practical implications – new businesses

The impact of the new allowance on new businesses is likely to be marked. Start up losses are likely to be very common, and may be more significant amounts than previously. Therefore you will need to consider how the losses might best be used, including which form of relief will give the best tax outcomes and the most speedy relief. This will also impact on considerations in relation to choice of accounting date as choosing a fiscal accounting date may allow the use of the losses earlier than would otherwise have applied. However, using a short accounting period for the first period of trade will restrict the amount of the AIA in the first period correspondingly, and thus the balance will need to be struck between the best outcome in terms of allowances and therefore quantum of loss, and the earliest possible relief.

Rent a Room Relief

Basically a taxpayer may claim rent a room relief where they let furnished residential accommodation to a lodger. If the gross receipts amount to £4,250 or less then the relief may be claimed and the rent is exempt from tax. Where the rent is a little over £4,250 a year, the taxpayer may elect to be taxed on the excess rather than work out the profit on a rent less expenses basis.

The £4,250 includes all payments made to the taxpayer, inclusive of meals, cleaning and laundry. Similarly the taxpayer must make the decision as to whether to make the claim, taking into account all direct expenses such as food, laundry and clearing, and a proportion of the household expenses such as mortgage interest, council tax, insurance and other items.

Where two people share ownership of the property the £4,250 exemption is divided between them. It should also be emphasised that the relief is given for 'furnished residential accommodation'. The bright idea of letting one room as an office will not work, whether it is to one's own company or a third party. The relief is available to taxpayers who rent a room in their own homes, as well as those who own them. It does not apply to trading companies or partnerships.

It should also be noted that the rent a room relief applies to the home where the taxpayer is resident, and this could be extended to a caravan or houseboat. Where the taxpayer owns more than one property, the question as to which is the residence is a matter of fact, and will not necessarily follow the 'private residence' rules of capital gains tax.

Are you paying your spouse a tax efficient salary?

The salary must be sensible and reflect the work done – and must actually be paid. HMRC forms may need to be completed and submitted especially if a state pension record is required. The usual salary paid is currently **£453 per month**

Ask us a question?

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Or email

enquiries@thelongpartnership.co.uk

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