

tlp - news

October 2009

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

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Quote

"Create a definite plan for carrying out your desire and begin at once, whether you ready or not, to put this plan into action."

-- Napoleon Hill,
Motivational Writer

Dates in October

6 Presentation to
Community Energy
Scotland in Dingwall.

21/22 Alan course in
Manchester

What is the worst thing that can happen to an accountant? I can already imagine some of the answers that I would get to that question and I suspect that some of these answers would not be appropriate to repeat here. The true answer, certainly in our case, is that my trusty laptop has died. This laptop has travelled many thousands of miles and provided you with many of the insights into the operation of my favourite ferry company. Of course, I do not really believe that it was their agents who sabotaged my laptop, but you never know.

Anyway, I will shortly have a replacement having spent many happy hours poring over websites and working my way through all the techno-gobbledygook that we have come to know and love.

Speaking of my favourite ferry, I received a telling off last week from someone who thought that I was being harsh with my criticism. I do not see it as criticism, merely subtle observations on the operation of a profit earning company. At the risk of being chastised once again I will share one more observation with you and this relates to the provision of customer service. Now, you have to remember that these are the customers that are the lifeblood of any business and whose money goes to pay the wages of the employees of that business, so it is in everybody's interests to encourage customers to return again and again and to continue paying the wages of the employees. On a recent trip on my favourite ferry, and not a particularly comfortable crossing, I had occasion to buy some tea and coffee and also a little cheese and biscuits. There being no plates as far as I could see I asked a passing steward if I can get a plate. The answer came back "plates are over there" with a vague gesturing with the arm in the general direction of another counter. Having explored this other counter I discovered the plates and, of course, was therefore quite satisfied that the information I received was indeed correct. Is this customer service? I do not think so.

We can all be guilty of such chance remarks from time to time, And I do not think that there is anybody who could put their hand on their heart and say that they have not been guilty of this particular offence. However, we must all be on our guard against such poor customer service, whoever we are because, our customers are the lifeblood of our businesses.

These are difficult trading conditions for many people but it is also a time of great opportunity for those who can and are prepared to take advantage. You just have to look at the number of new shops opening with the demise of Woolworths. That is not to say that I am not without sympathy for those run over by the steamroller of economic change. But, I understand that slow rabbits must be eaten or the entire "Circle of Life" collapses. I know that's when there is this sort of cosmic readjustment, it is very important to be a predator, not a food item on the menu. That starts with optimism. What do you call a pessimistic predator? Hungry, very hungry!

I recently came across the following:

"Every morning Africa, a gazelle wakes up knowing it must run faster than the fastest lion or be killed. Every morning a lion wakes up knowing it must outwit and out run at least the slowest gazelle or it will starve to death. It doesn't matter whether you are a lion or a gazelle. When the sun comes up, you'd better start running."

Let the races begin.....

The next few years are going to be interesting for those of us who are involved in tax and tax planning. The unpredictability of the present government (and probably the next one as well) means that we will have to be quick footed and on top of our game. There are a significant number of people who are going to end up paying 40%, 50%, 60% and higher in tax and it is going to be our role to ensure that (in the words of former client of mine in the Highlands) Prince Charles needs his shilling, but nothing more.

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

Local Development Trusts

What is the typical "Group" structure?

Parent company – The Development Trust, normally a charity with the aim of supporting and developing the local community. Generally a company limited by guarantee.

Trading subsidiary – Commercial profit generating machine, making hard commercial decisions. Generally a company limited by shares

Shares in the subsidiary are usually wholly owned by the Development Trust (the parent company) but there can be other shareholders.

There is a mis-match in corporate style. Between these two and you cannot successfully wear these two hats at once.

Both parent and subsidiary are independent legal persons separate from the members and directors / trustees AND independent legal persons from each other.

Trading by Charities

Reasons for Using a Trading Subsidiary?

- Where trading poses a significant risk to the assets of the charity – Trustees must always consider risk.
- Reducing tax liabilities – tax deductible gift aid payments from subsidiary to parent
- Organisational and financial clarity – clearly distinguishing a trading operation from the charity's main work by creating a separate administrative unit

Disadvantages of Using a Trading Subsidiary?

- costs
- personnel and additional responsibilities.
- do the tax savings actually warrant the additional costs
- Some funding sources may not be available to the trading subsidiary e.g. rate and stamp duty reliefs.

HMRC has lost the (building) plot : From an Article by Keith Gordon on Accountingweb

The HMRC document is headed 'False self-employment in construction: Taxation of workers'. That is 'when workers are treated as self-employed... despite the fact that the way in which the work is carried out ... demonstrates that there is an employment relationship'.

Under new HMRC proposals, self-employed workers will be classed as employees for tax and national insurance purposes, unless they can demonstrate that at least one statutory 'badge' of self employment is met. Are there plans to extend them to other types of worker in due course. Who knows?

The proposed statutory tests are:

- The worker provides plant and machinery for the purposes of the task being carried out, excluding such tools that it is normal for a person in the industry to provide for themselves
- The worker provides all the materials required to complete a job
- The worker provides at least one other worker to carry out operations under the contract and is responsible for paying them

As an afterthought, the document also suggests a further test that must be satisfied in addition to one of the above three - the worker must also be registered for VAT.

Of course if that were really the problem it could be tackled by throwing some resources to employment status officers so that they were properly trained to tackle cases where businesses have wrongly categorised their workers.

The problem

The proposals aren't necessarily tackling cases where someone is being falsely treated as self employed; but instead focuses on cases where the workers is actually self employed but where the arrangements do not fit into HMRC's own (but incorrect) criteria as to what amounts to self employment which is not necessarily correct.

The principal effect of the proposals is to determine whether or not an individual is to be treated as employed or self employed using a set of tick boxes arranged solely for HMRC's convenience.

There are plenty of instances where individuals have been held to be self employed and genuinely so and yet would be adversely affected by the proposed new test.

'The government hopes that the tax changes would also engender a more appropriate treatment of workers throughout the industry, leading to a culture of responsible employers applying employment rights and providing training opportunities.'

The government is possibly trying to say that it wants more workers in the construction industry to become employees, rather than be in business on their own account. If so, it is hard to square that with the comment made earlier in the document that 'the government recognises that a flexible labour supply is important to the industry and that the self-employed workers who are carrying on a business make an important contribution to this'.

The document states that the objective of the new rules is to provide a system that is 'fair, clear and can easily be applied'.yeah, right!

The real beneficiaries of the new rules

It is clear that both workers and their 'employers' will be worse off under the new rules, with no advantages available to compensate them for the additional cost. However, the Exchequer and HMRC will be clear winners.

First there will be additional revenues generated, no doubt the real driver behind the proposed changes. Secondly, when it is proposed that the new rules will be 'clear and easily applied' it is tempting to add 'so that even HMRC officers are capable of applying them'. We now have to face a deskilled department that trains its officers in a black-and-white world of checklists, a world that does not accommodate the greys or even the other colours of the real world.

Why only the construction industry? Will these principles be applied to other groups. Who knows but it is not tax law yet, so sleep easy for now.

VAT, Corporation Tax, PAYE - Compulsory deadlines for online filing

Over the next few years, HMRC are changing the way you have to manage and pay a number of taxes. For certain taxes, you will have to file some forms and returns online. The changes are being introduced in phases and, in some cases, you will already be filing online and paying electronically. The taxes that are moving to compulsory online filing are:

- end-of-year and in-year PAYE (Pay As You Earn) forms for employers
- VAT
- Corporation Tax

You can already manage all of these online. Timetables and targets have been set for when filing online will become the compulsory way to manage these taxes - so getting used to the systems now will make the transition smoother for you.

Deadlines for filing your Self Assessment tax return

If you wish to file a paper return, you must do so by 31 October. At TLP, as we file all returns online the deadline is 31 January.

Online filing for employers' PAYE forms

If you are an employer with 50 or more employees, you already have to file your end of year forms (P14 and P35) online. From April 2009, you have to file in-year forms (P45, P46 and the new P46 (Pen)) online too.

If you are a smaller employer with fewer than 50 employees, you have more time to get used to the systems. You will have to file end of year forms online by April 2010 at the latest and filing in-year forms online will become compulsory from April 2011 onwards. At TLP we already file these forms online so get in touch if you need any help or are not sure what to do.

Forthcoming changes to VAT and Corporation Tax

You can already manage both your VAT and Corporation Tax affairs online.

The VAT Online service enables VAT returns to be filed quickly and make electronic payments. VAT management will be switching to online filing and electronic payment only from **April 2010**.

If your turnover is more than £100,000, you will have to file your VAT return online for accounting periods that start on or after 1 April 2010. Or if you register for VAT on or after April 1 2010, you will have to file online regardless of your turnover.

We can help with this by filing returns online and, if necessary, by organising and assisting with online payments. Just pick up the phone and give us a call to start the process.

The main change to managing your Corporation Tax will be that, for returns due after 31 March 2011, you will need to supply your Company Tax Return and supporting documentation in Extensible Business Reporting Language (XBRL). You will need to make sure your software can do this ahead of the deadline dates. But don't worry. If we prepare your Corporation Tax Returns, our software is already compliant and we will file your returns online. Nothing for you to worry about!

Voluntary organisations - help customers meet the timetable

If you're working with a voluntary organisation helping people to fill in their returns HMRC have resources to help. Go to: <http://www.hmrc.gov.uk/carter/voluntary.htm>

We are here to help

At TLP we have already fully embraced online filing and so we know exactly what is required and we have the software and the knowhow to keep you right. Even if you do not use a computer for your business, we can step in and help you comply with all the new regulations.

Alternatively, why not ask us for a quote for doing your bookkeeping, PAYE, VAT etc . Using our fee calculator programme and setting up a Fixed Price Agreement, you can be sure that , not only are your records well maintained and up to date, but everything will get filed online and properly, leaving you to get on and make sales and earn higher profits.

Give us a call right now to discuss how we can help you make more profits..

Mega Renewable Investments Will you get a slice of the cake?

LONDON (Reuters) - "Britain expects around 100 billion pounds (\$159 billion) of investment in a third round of offshore wind projects by 2020 and about 5 billion in its **Pentland Firth marine energy scheme**, the agency in charge of the coastal seabed said.

The Crown Estate said on Wednesday that the figures included 60-70 billion pounds to be spent for wind turbines, 10-20 billion for power transmission systems and a further 10-20 billion for other items including the supply chain.

Rob Hastings, director of the estate, which owns the seabed 12 nautical miles off the British coast, told reporters that Round 3 leases were aimed at installing up to 25 gigawatts of offshore wind farms in addition to the 8 gigawatts from Rounds 1 and 2 which are now under way.

To meet its target of cutting carbon emissions by 80 percent by 2050 compared with 1990, Britain has launched a program to expand its offshore wind farms, already the world's biggest at around 1 gigawatt (GW), to around 33-40 gigawatts by 2020.

Roger Bright, the Crown Estate's chief executive, said that by 2020 about a third of Britain's electricity was expected to be generated by marine renewable sources, including offshore wind as well as wave and tidal energy like that to be generated by the Pentland Firth project off northern Scotland.

Britain now has total generating capacity of about 75 GW.

Hastings said the Estate would announce winning groups to develop the Round 3 offshore wind projects, which are divided into nine zones, by end-2009. It expected the first turbine for the Round 3 projects to be in the water in 2014.

He said the Pentland Firth development, the first commercial project to harness energy from wave or tide, was likely to deliver 1 gigawatt (GW) -- more than the 700 megawatts (MW) initially envisaged -- by 2020."

Tax Planning Tips and Tricks

IHT Mitigation

The basic fundamentals in any IHT mitigation strategy are:

- A tax efficient will
- Lifetime giving
- Transactions which remove future value from the donor's estate
- Holding tax favoured assets (property qualify for either agricultural property relief or business property relief)

Business property relief is a particularly valuable relief as it will exempt either 100% or 50% of the entire value of qualifying property whereas agricultural property relief only exempts the agricultural value. Come in and speak to us if you want to take a look at your IHT position and how you can mitigate this tax on your children.

Enterprise Investment Scheme

If you have incurred a capital gain prior to 6 April 2008 and been subject to 40% tax, there is still a window of opportunity to defer the game using an EIS investment. If you invest in an EIS company or investment fund, within 3 years of making a capital gain, you can defer that game for as long as the EIS investment is held. This means that when you sell your EIS shares the game will crystallise and the tax become payable but only at the current rates of tax on capital gains which is 18%. This is in addition to the other advantages of EIS investments including 20% tax relief immediately on any money invested in EIS shares.

If you do not know of any EIS investment opportunities at the present time and would like to find out more, either speak to your IFA or we can point you in the right direction.

Trading premises and companies

Over the last years it has been very common for businesses to become incorporated but for their trading premises to be retained by the former proprietors and not transferred to the company. There are a number of very good reasons for this. Under the old capital gains tax (taper relief) regime you could still get taper relief on the disposal of such premises. Under the new regime of entrepreneurs relief, associated disposal of for example trading premises, has some particularly restrictive requirements. You should not assume that you will get the same favourable tax treatment on the sale of these premises as you worked for the business generally. If you think it might affect you, come in and speak to us. A little better tax planning at an early stage could save you a lot of grief and significant amounts of tax in the future.

Links

Some useful links for charities-

HMRC – Charities Generally

<http://www.hmrc.gov.uk/charities/index.htm>

HMRC – Trading by Charities

<http://www.hmrc.gov.uk/charities/guidance-notes/annex4/sectiona.htm>

HMRC – References relating to Charities

<http://www.hmrc.gov.uk/charities/legislation.htm>

Relief from Stamp Duty Land Tax - Charities

The charity must intend to hold the chargeable interest:

for use in the furtherance of the charitable purposes of the charity, or as an investment, (profits applied to the charitable purposes), and the transaction is not for the purposes of avoiding stamp duty land tax by either the purchaser or any other person

“These restrictions are not meant to restrict the genuine use by charities of properties they purchase for charitable purposes and most charities will have no difficulty in fulfilling these conditions.” HMRC

Gift Aid - From Trading Sub to parent

Payment can be made in any form.

If a trading subsidiary is 100% owned by one or more charities - payment can be made at any time up to 9 months after the trading subsidiaries period end and be treated as tax deductible in that period

Otherwise payment must be paid before the end of the relevant period and interim management accounts/ projections will be required.

Do you own more than one company?

There are many people who have ended up owning more than one company. If you are one of them, have you considered how the ownership of these companies could influence your tax burden. There are situations when creating a group (1 company owning another or both being owned by a holding company) can result in some significant savings in corporation tax. For example, if you have a loss-making company and a profitable company then, if you have a group structure, the loss can be set off against the profits. To find out more about how this could influence your situation, come in and speak to us.

Vat, Wind Turbines and other Capital Projects.

Standard Accounting and Monthly Vat Returns will help you finance your project and help you manage your limited cash resources more effectively.

The key features of monthly vat returns are as follows:

- You must be an established repayment trader or be able to provide evidence of projected repayments over a period of time e.g. by cash flow forecasts for your project and a credible covering letter.
- It is a concession that may be granted and is not a statutory right.
- The concession will be withdrawn if any vat returns are submitted late.
- The decision to grant monthly vat returns will be reviewed after a set period of time.

If you get it right, you will get the vat refunded before you have to pay the invoice. If you can build this into your planning, you need less finance for the development phase of your project.

But it only works with Standard Accounting and Monthly Vat Returns. If you are on Cash Accounting speak to us about how to make the change.