tlp - news

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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.

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Quotes

"What is alarm? The sight of blood. A phone call in the middle of the night. Shooting chest pains. Losing sight of your child in the crowd .... Alarm has a unique ability to compel people to do things they otherwise don't care to do, in order to avoid consequences. ....the more clearly a message points to consequences, the more urgently people focus on the message."

Sally Hogshead, author

Plenty to be scared about, don't you think? National debt, property slump, whole sectors of the economy in decline, banks not lending, businesses cannot develop.... Anyway, in the spirit of the season....***BOO!***

I am drawing from one of my favourite authors, Dan Kennedy, a "speak it like it is - professor of harsh reality". In his October newsletter he speaks about the two current issues, i.e. 1 - reality and 2 - the fear it engenders. Reality is just what it says. There are actions you can take to obtain some measure of safety or at least higher ground. However, the bigger of the two monsters is *FEAR*.

How do you escape the clutches of fear? Answer: the same way that you walk past a graveyard at midnight. You put one foot in front of the other, then the next and the next. You do your work, you influence what you can despite the heaviness of the gloom that surrounds us, because people are still buying the things that they want and what they want is not just the necessities. However bad it gets, or appears to get (the "fear") people still buy, trade still goes on, profits are still out there to be made. You just have to avoid the "fear" and get on with business, working intelligently, thinking about how to market your business and getting your share of the cake, while others stand looking on, paralysed by the "fear" and blaming the economy, the consumer for not spending, other businesses for not placing orders/contracts, etc.

We give power to all sorts of things far beyond their reality by our own fear. People around us, even in our own industries, and the media all work up this fear, but you have to remember what the media are doing, selling! You should not ignore information because to do that would be to put yourself at a disadvantage, but you must consider the sources of information and what each source is selling - and know that everybody is selling something. You must consider the information's personal relevance, immediate relevance, relative importance, actual influence over you and your ability to influence it.

The current economic turmoil is not the only fear inducing, performance paralysing enemy that people face. Some are paralysed by fear of criticism, of embarrassment, of failure of success, of illness, of injury. Many are so sensitive to others opinions that all it takes is one person to say "BOO" for them to reverse direction, abandon intent, surrender power.

You escape the clutches of fear by refusing to be in its clutches. Remember what your parents told you when you fell off your bike, get straight back on ... before the fear of trying again ferments inside you.

But, if someone claims to be entirely free of fear, they are most likely lying or psychotic. The entrepreneur or small business owner carries much responsibility and legitimately has much to fear - although respect for the dangers lurking all around, is a more constructive analysis.

Economic reality is what it is and you have little opportunity to influence it. You only have to listen to the politicians, the unions, the protestors trying to take action, trying to defend their own interests and the media all the time stirring up a frenzy of fear and foreboding. I know you have a vote but at the day to day level you have very little influence on what will happen in the wider economy or world at large in the next couple of years, except in your immediate environment where it is up to you how all these outside forces impact on you and your family, business, etc. Your choice!

So, there are things that you can influence and it is these that you need to focus your attention upon. In business you can still make yourself so relevant to somebody that he will spend with you, even if he spends with no-one else. Action is the key!

There are real monsters out there, but none of them are under your bed. Sleep tight, work smart, work hard, have fun, interest and intrigue and serve the clientele who can and do spend, and everything will be fine. Happy Halloween.

Avoiding Higher Rates

Here is a reminder of some of the ways that you can reduce your exposure to higher rates of Income Tax and the 28% CGT rate.

1. Pension contributions

Pension performance and complex rules for contributions to pensions can seem off-putting but this can still be a useful way of mitigating higher rate tax on income and capital gains. Personal pension contributions or additional voluntary contribution (AVC) is paid net of basic rate tax and any additional tax relief is achieved by extending the basic rate band, so taking income or capital gains out of the higher rate regime.

2. Gift Aid

Gift Aid contributions also extend the basic rate band but have the advantage that the payment can be made in the following tax year, i.e. before the tax return is filed , and related back to the previous year.

3. Losses

Recent changes mean that there is now more scope for planning to maximise the use of capital losses that may have been made on a disposal of assets sometime in the past. If this is relevant to your own particular circumstances, you should come and speak to us about the options open to you.

4. Enterprise investment scheme investments

EIS deferral relief is once again more important. Since the reduction in the CGT rate to only 18% the maximum tax relief into an EIS investment has only been 38% (20% income tax plus 18% CGT). The recent changes mean that the maximum relief is now 48% on an EIS investment which makes it more attractive.

5. Other reliefs

As entrepreneurs relief will not be available if there is no disposal of the whole or part of the business, Rollover Relief and Hold Over Relief will once again become more important for gains incurred in the course of trading for a partnership or sole trader disposing of assets.

The Big (NIC) Holiday

AKA - The Regional Employer National Insurance Contributions Holiday for New Businesses Scheme.

It is unlikely that this relief will be as valuable as the headlines and spin associated with its launch would have suggested. Nevertheless, some small businesses will be able to benefit from the scheme and, as they say, "every little helps".

The scheme commences on 6 September 2010 and runs for three years from the date. For any qualifying new business, the NIC holiday relief is available for each of the first 10 employees taken on in the first year of the business, or in the first year after the first employee was hired, if earlier. The relief is for up to £5000 of Employers Class 1 National Insurance Contributions incurred in the first 12 months of each employees employment. There is no relief for Class 1A, Class 1B and Employee Class 1 contributions, only the Employers Class 1.

For businesses that commenced on or after 22 June 2010 the relief applies to the first 10 employees taken on in the first 12 months from the actual start date. However, the 12 months relief cannot start until 6 September 2010 but can then run up to the full 12 months from that date.

Because the scheme ends on 6 September 2013, any new business commencing in the last 12 months of the scheme will only be able to claim until 6 September 2013.

The legislation authorising the NIC Holiday is not expected to receive Royal Assent until early next year so that, if anything happens and the NIC Holiday is never enacted, any relief already obtained will be repayable as extra Class 1 NICs by 19 April 2011.

The new business can be a sole trader, partnership, or company, etc but it must be a genuinely new business and not situated in an excluded region, which is basically the South of England. Only trading, professional, or vocational, etc organisations qualify (including charities carrying on a trade) and this includes property and investment businesses. Public bodies and non trading charities are excluded.

The NIC holiday is to be administered as "de minimus" state aid for which there is an overall entitlement of €200,000 over three years. Any new business which is getting other such state aid will have their NIC holiday capped, if necessary, to ensure that the €200,000 limit is not exceeded. Lower de minimus state aid limits apply to agriculture (€7500), fisheries and aquaculture (€30,000), and road transport (€100,000). Certain industries such as coal are completely excluded.

Managed service companies cannot benefit nor can IR35 companies as regards "deemed payments". Any regular salary paid month by month by an IR35 company would, however be eligible for relief.

It is only the first 10 employees that qualify and this includes directors (paid or unpaid) as well as any employees earning below the earnings threshold, for which there will be no NIC payable anyway. If you subsequently take on an 11th employee who would qualify for the NIC holiday, they cannot be substituted in place of one of the first 10. Part-time and full-time employees qualify and there is no minimum hours condition. If an employee leaves, their replacement will not qualify if you have used your 10 places.

There are anti-avoidance rules as to the meaning of a new business, and a business claiming the holiday that is then taken over or sold will cease to be eligible immediately.

An existing business taken over by a new owner is not a new business for the purpose of the scheme. The business already exists, and it is just a change of owner. The business will also not be a new business if, at any time within the previous six months the person applying for the NIC Holiday has carried on another business consisting of most of the activities of the "new" business. This, for example, means that you cannot transfer a sole trader into a company, even if run by a spouse and qualify for the holiday. Similarly the division of an existing business into two separate parts, e.g. on dissolution of the partnership, will not qualify.

The relief is not compulsory and businesses will need to apply. Most businesses can apply online and for further information go to:

www.hmrc.gov.uk/paye/intro/nics-holiday/how-to-apply.htm

Mitigating CGT on Non Business Assets

In his first budget, George Osborne introduced a new higher rate tax on the disposal of assets not qualifying for entrepreneurs relief. This new rate is effective from 23 June 2010. It was accompanied by an increase in a lifetime threshold for entrepreneurs relief to £5 million. The new higher rate is 28% but there were few other changes to the tax, presumably because time did not allow for further modifications. There is likely to be more to come.

From 23 June 2010 entrepreneurs relief has its own tax rate of 10% with the result that there are now two separate tax regimes, one of business assets and the second for non-business assets.

Strategies to minimise the tax on non business assets

1. **Fragmentation and Asset Splitting**

It is once again beneficial to make gains regularly rather than infrequently to maximise the benefits of each years annual exemption and basic rate bands. Realising small gains annually is preferable to letting all the gain arise in one year. Fragmentation is realising a gain over more than one year, and asset splitting is spreading ownership to more people, using more annual exemptions and basic rate bands (typically your spouse).

Many types of property, including private company shares, can be gifted in stages but this type of planning only works if there is no binding contract for any subsequent gifts to take place and each must be an entirely separate transaction. There are also special rules that can mean that the whole series is treated as a single gift, so care is required.

"Bed-and-breakfasting" is where shares are sold and bought back in order to uplift the base cost and utilise annual exemptions. These transactions have not been permitted for many years, although it is still possible to buy back shares in the same company after 30 days or for the shares can be bought back by a spouse or your ISA. The increase in the ISA limits last year, together with the new CGT rate of 28% makes this approach and ISAs generally more attractive.

It is also important to maximise advantage of the annual exemption (currently £10,100) and basic rate band's (£37,400) of both spouses. Presale transfers should therefore be considered, especially where the spouse owning the assets will pay tax at 28% but the other spouse will pay at 18%. There is also the possible question of legal fees and so the net benefit will depend on the scale of the tax being saved by the presale transfer. The maximum benefit in any event that can be achieved in this way is approximately £6500.

HMRC will only look to dispute the presale transfer of an asset if it is clear that the recipient spouse never had a beneficial interest in the asset but, if you do everything correctly and make sure all the paperwork is in place, there should be no problems. Despite this, it is still prudent not to leave such transfers too late in the day and special care is certainly required where, on a transfer of shares, the transferor qualifies for entrepreneurs relief but the recipient may not. In such a case the transfer may not be beneficial at all.

2. **Personal representatives**

The executors or personal representatives of a deceased person are now subject to the highest CGT rate of 28% and so it may be beneficial to first transfer assets to beneficiaries prior to sale in order to qualify for their lower rate of CGT and utilise their annual exemption.

3. **Minimising other income or profits for the year**

The net chargeable gains over the annual exemption are now once again chargeable to CGT as if the gains were the next slice of income for that tax year. The opportunity should be taken to reduce other income or taxable profits in the year in which a gain has been made in order to minimise the exposure of the capital gains to the 28% rate. Examples include the purchase of assets qualifying for AIA or other allowances, and if you work through a company, timing your dividends to fall outwith that year.

The Sales Prevention Department

More stories from our own experiences of organisations that want profits, want our money but, when it came to it, just did not deliver the expected level of service.

This month, as so often happens, we are spoilt for choice. What does that tell you about the state of so many businesses?

1st The Cafeteria

Went in to a self service cafeteria that I frequent fairly regularly. Went to the coffee machine for a latte. A voice from the other side of the room from a girl who appeared to be connected umbilically to the till, "it's not working, you'll need to go through to the bar to get a coffee."

My reply to the officious sounding "young lady"... "The bar is not open". The third time that I said this she stopped speaking over me and asked someone else what time the bar opened. Now, this "young lady" has been working at this establishment for several years .... But obviously not in a responsible position behind the till.

I organised a different variety of coffee from another machine and went to pay. She took my money, not looking at me, and having given me my change, immediately seemed to be able to magically break the umbilical chord attaching her to the till and walked off, while I was still sorting myself out.

The rest of the staff at this establishment have been really good recently so I put it down to "her" and not the cafeteria. Nevertheless, you wonder what the manager(s) were doing letting someone so customer unfriendly into the customer area.

And where, I hear you ask, was this establishment. My favourite ferry of course!

2nd The Bank

Recently I had occasion to email a bank manager. Out of office reply "for a week". Not a problem. Emailed the next in line at the same branch. Out of office reply "for 2 weeks" but I could contact someone I did not know at a branch over 100 miles away. If this had been a new business referral, they would have lost it. I thought they were open for business and looking for customers. Perhaps not. Which bank? Not ours thankfully!

Tax tips and tricks .....

Doctors and dentists

HMRC have been carrying out tax compliance campaigns and some information about the results has been shared with professional bodies. Taxpayers have been given the opportunity to "come clean" and to settle up on favourable terms with a reduced penalty.

HMRC has made it plain that it holds information, particularly in relation to doctors and dentists, that has not previously been disclosed. It has also highlighted that some disclosures have identified others who should have come forward but have failed to do so, e.g. other partners in the same medical practice. Cases are being passed to local compliance and HMRC will start investigations in earnest this autumn. There is no doubt that any medical practitioners who have something to disclose to HMRC must act now to sort things out.

HMRC has also recently received much of the information it requested from banks and this will give them further ammunition. People with something to declare can still come forward and avoid prosecution and get a reduced penalty under the usual rules for disclosure and cooperation, but would need to act quickly.

If you have any concerns that you may be affected or would like to discuss possible disclosures, you should contact us without delay and we can advise whether action disclosure is necessary.

Coding for the 50% Tax on multiple employment

The present PAYE system does not provide a method for deducting the flat 50% tax from second or subsequent employments or pensions for those earning £150,000 or more.

The rate can be satisfactorily dealt with under PAYE provided that there is a single source of employment or pension. Those with more than one source need to be reminded that they are likely to owe further tax at the end of the tax year. Even where a notice to file a tax return has not been received. If you think that you might be in this position, please get in touch and we will make the appropriate arrangements with HMRC to ensure that you do not fall foul of any interest or penalties for being late.

Child trust fund changes

These will be reduced and then stopped with no new vouchers issued from 1 January 2011.

Children born on or after 2 August 2010 will receive a reduced amount of £50 pounds or £100 depending on circumstances (Formally £250 and £500).

All government contributions will stop at age 7 for children who reach that age from one August 2010 onwards.

All government contributions to disabled children will stop with effect from April 2011.

IMPORTANT: Mandatory VAT E-filing from 2012! All businesses will now have to file VAT returns electronically for accounting periods starting on after 1 April 2012.

If this is a problem for you, we can file online for you and so just get in touch and we will sort it out for you.

VAT registration thresholds - exceptions and exemptions

Not every business that exceeds the VAT threshold must register for VAT. It is possible that the business could be given an exception or exemption by HMRC which means that it does not need to become registered even if taxable sales have exceeded the threshold, currently £70,000, in the last 12 months.

Exceptions: the business has exceeded the VAT registration limits in the past 12 months but can show to HMRC that its sales in the next 12 months will be less than the deregistration limit, currently £68,000, e.g. where there has been a one-off large sale.

Exemption: the business has exceeded the compulsory VAT registration limit and will continue to do so in the future, but can convince HMRC that its VAT returns, if it was registered, would produce a repayment in each case. This would normally apply if almost all sales made by the business were zero rated, e.g. Food or children's clothing. However, if you were regularly entitled to VAT repayments, and the amount was significant, it is unlikely that you would want to avail yourself of this exemption.

Tax credits - Income Disregard

If you are on tax credits and operate your business through a company, there are certain benefits in kind returnable on the P11D which are excluded from being treated as income for tax credit purposes.

These include the benefit value of living accommodation (e.g. If you live on the company premises), vans, and interest-free or low-interest loans from the company.

Tax credits - Free Vans paid for by HMRC

This is something we have mentioned before but is worth mentioning again as the rules are set to change.

The income disregard for tax credits is possibly the biggest planning opportunity, when combined with the 100% deduction for equipment purchases under the Annual Investment Allowance.

Example: a married sole trader with profits to 5 April 2010 of £25,000 with two children and spouse not working. Tax credits being paid in the year to 5 April 2011 are £2,499 based on their household income for the previous tax year . The trader buys equipment, e.g. a van, costing £20,000.

As a result, his profits for income tax purposes for 2010/11 reduce to £5000 (100% AIA). This will increase the tax credits for 2010/11 to £9745, an increase of £7246. The provisional award for 2011/12 is based on household income of the previous year, i.e. £5000 and so enhanced tax credits will continue be received in 2011/12. The income disregard for that year is £10,000 and so, if taxable trading profits for the year ended 5 April 2012 do not exceed £16,420, there will be no reclaim of tax credits received. In a case such as this, taking the additional tax credits and the income tax reliefs together, the van is completely paid for by the government in 2 years. The income disregard is steadily being reduced, so this may be your last chance to properly take advantage of this opportunity.