tlp - news

September 2009 **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 on:

01856 878600

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Quote

"Always dream and shoot higher than you know you can do. Don't bother just to be better than your contemporaries or predecessors. Try to be better than yourself."
-- William Faulkner,

Author

Dates in September

4-6 CIOT Tax Conference

15-16 Alan & Helen in Longhope

The summer is drawing to an end, the harvest will soon be over for another year and thoughts start to turn to the winter routine. Harvest Homes, coal fires and the inevitable progression towards Christmas. Well, that's for the rest of you. Our thoughts are turning to…...Tax Returns! It is almost that time of year again when our focus is on getting tax returns submitted on time.

Of course, this year is going to be different because we changed our terms of trading to give discounts to anyone putting their accounting records in within 5 months of their year end for accounts and by 5 September for tax returns. If you missed out this year, remember it next time. Combined with the prompt payment discount that means you pay over 20% less than someone who is not quite so well organised.

One of the reasons why many people do not like sending us their records is because it is a bit like being back at school and handing in their homework for marking. We understand this. It has led to a trend where more and more people ask us to do everything so no homework to get marked! Often this is combined with a fixed price agreement and a monthly payment. This is becoming the norm and fewer and fewer people want a single bill from us. The fixed price agreement is what it says - it is fixed and there are no extras unless we price them in advance. It also includes free ad hoc advice on any business or tax subject during the course of the year. If that interests you, get in touch.

And what, I hear you ask, is the latest on my least favourite ferry. Not much this month as they have been surpassed by some truly amazing antics by my least favourite bank(s). We deal with them all and have accounts for various purposes with them, and we could write a book about what we are seeing.

What banks are working properly at the moment? On the ground we see some excellent local staff fighting with centralised control to look after their customers. Customers that the higher management seem to have forgotten about. When will this change? Your guess is as good as mine but the sooner they get themselves sorted out the better for all of us.

Anyway, what is the hot gossip in the tax world at the moment? Impending tax rises! They seem inevitable but what can you do to reduce the impact. The smart money is on incorporation and income splitting, preferably both at the same time, but it has to be done properly and right, or it will not work. So, speak to us about what needs to be done.

Partnerships can bring in spouses and companies can have husband and wife director/shareholders. If you wait for the rates to change, you will have had another year of trading and those profits may get caught by the new tax rates.

Also, make sure you get your entitlement to Tax Credits. Precautionary claims should be considered because, if you have a bad year, it will be too late to make a claim if you wait for the results of your accounts. We recently heard of a solicitor (not in Scotland) who went from profits over £130000 to making a loss, but claimed £8000 in tax credits because he had put in a precautionary claim. But as claims can only be backdated 3 months, if he had waited for his accounts, he would have been too late and £8000 poorer. £8k for 10 minutes work...solicitors!

And finally, let's end this month on a happy note. The new penalty regimes at HMRC.

The penalties at HMRC are now much more painful and in part can reflect the standard of your bookkeeping. So, if your books are not as good as HMRC think they should be, it may cost you if you have an investigation (and our fee protection policy will not cover these penalties).

Is it time to speak to us about reducing the risks from poor books. The saving in penalties (and stress) could outweigh the cost of getting us to do your books. Food for thought.

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

Five ways to keep customers loyal

Finding new customers or clients can be hard, so how can you look after the ones you already have?

Under promise, over deliver

It's one thing to present a great offer to a new client and win their business, but then you have to deliver. If you can demonstrate that you really look after your clients and give them a great experience, they are likely to come back repeatedly.

Stay in touch

People like to know what is going on so keep them informed. Tell the client or customer immediately if there is any issue at all with the service and take full responsibility for dealing with it.

Go online

The way clients shop for products and services is changing, so you have to change with them. Be flexible and go multi-channel. Ensure that your website provides a suitable 'shop window' for your business and use social networking sites like Facebook and Twitter.

Personalise

Look for every opportunity to personalise your service by displaying pictures of individuals and their contact details. The internet can be impersonal, so you need to communicate that your business is run by human beings who care about their customers.

Take responsibility

When a mistake happens, correct it at the highest level. This is not a job you can afford to delegate. A simple apology works wonders.

Remind everyone in your organisation that you are one company and that it is everyone's problem if the client is unhappy. Never let one staff member criticise another; clients will not be reassured.

Focus on beating your competitors, not your colleagues.

Invoice finance: What you need to know

Invoice finance helps by advancing funds against your invoices up to an agreed percentage of the invoice value.

Today's economy offers many challenges for business, not least making funds stretch further, paying suppliers and ensuring your debtors don't cause you a headache. Invoice finance helps by releasing money from your sales ledger by advancing funds against your invoices. This can improve the flow of working capital and, if you use a confidential invoice discounting product, your debtors won't know that the bank or an invoice finance provider is involved.

In a nutshell

Invoice finance is one of the most flexible and dynamic forms of finance available today for assisting businesses because, as your sales (and debtors) grow, the amount of cash available increases.

The good news is that invoice finance can release an agreed percentage of the invoice value (less charges) with the balance paid once payment has been collected from the debtor. Funds can be advanced against new invoices quickly, giving you greater power to negotiate discounts with suppliers and help release your working capital.

If you have limited physical assets but have sizeable invoice debts, you may find it hard to secure funding against the assets through traditional funding methods. Invoice finance specialises in this area, helping to support your ambitions and growth plans.

How does invoice finance work

1. A credit limit is agreed for each of your debtors.
2. After you have provided a debtor with goods and services, you send them an invoice as well as a copy to your invoice finance provider.
3. If it meets requirements and is approved, an agreed % of the invoice value is made available to you.
4. The provider takes on responsibility for the sales ledger management and credit control.
5. Payment is collected from the debtor and paid directly to the provider, who then updates the sales ledger.
6. Finally, they credit you with the remainder of the invoice value, less any charges.

Will it work for me?

It's ideal if you trade with other businesses and invoice them in arrears. It's particularly suited to industries and sectors with high values of outstanding invoices such as manufacturing, publishing, haulage and engineering.

It is not suitable for solicitors, retailers and accountants due to invoice structuring and payments.

For invoice finance to work for you, you should have a good spread of debtors and need to be selling goods or services on normal credit terms, with no stage payments or contractual sales. Invoicing is in sterling or euros. But, it is essential that your credit control system is computerised, with effective credit management. You have to be highly organised to operate the systems necessary for invoice financing.

Furnished holiday lettings to go!

Budget 2009 announced that from 6 April 2010 the special rules for FHLs were to go. Until then, the FHL rules will be extended to those qualifying furnished holiday lettings elsewhere in the European Economic Area. Do you let out an overseas property?

Where the relevant requirements are met, a FLL is statutorily defined as a trade, capital allowances are available on furniture and furnishings, the trading loss reliefs apply and roll-over, hold-over, and entrepreneurs' relief apply for capital gains tax.

What happens in April 2010? If all of the statutory rules relating to FHLs are repealed, then it will be necessary to consider whether or not the provision of FHL accommodation amounts to a trade under general principles. This will depend on what services are offered. The law previously drew a distinction between FHLs and hotels but with many hotels now offering room only, has this distinction now disappeared. Before then, make sure you buy anything on which you could claim capital allowances, and if it is appropriate, make property disposals before next 5 April.

Online Filing - Corporation Tax Developments

HMRC and Companies House have formalised a move towards a joint filing arrangement which will impact companies over the next two years. HMRC will require online filing of company tax returns and supporting data from 2011, but Companies House has now agreed to accept data in a similar format.

CT returns and related accounts and computations will need to be filed for accounting periods ending after 31 March 2010, so the first end of month accounting period that can be affected is 30 April 2010.

The mandatory online rule applies to returns delivered after 31 March 2011, so you can avoid mandatory online filing by submitting returns and accounts early.

For example, for the year ended 30 April 2010, the due filing date for the CT return is 30 April 2011, which would therefore be subject to mandatory online filing. However, if the return is filed early, i.e. before 31 March 2011, then it is not caught by the new online filing requirement.

From the date of compulsion, all files must be in iXBRL format. This new format is the subject of the agreement between Companies House and HMRC, as Companies House has now agreed to accept accounts in iXBRL as well. The idea is to allow companies to make a single filing which will meet both HMRC and Companies House requirements, thus saving companies time and effort. Work will continue towards this goal over the next two years, but joint filing will not be mandatory.

Companies House will introduce their full iXBRL service for unaudited full (not abbreviated) accounts by the summer of 2010 and will then continue to develop iXBRL for all of the most common sets of accounts that they receive.

One concern that there is with a single filing relates to the amount of information disclosed. While the information submitted to Companies House is a minimum that organisations would want to see in the public domain, the workings sent to HMRC are far more detailed. How will the system prevent the wrong information getting to the wrong destination.

The Revenue's vision of a digital Britain seems to be moving ahead full steam and undoubtedly this is driven by the prospect of cost savings and the possibility of shedding still more staff.

Stock Valuation in Accounts

Stock is generally valued at the lower of cost and net realisable value. This is accordance with the Accounting Standard governing stock and is often referred to as a 'boiler plate' policy. Work-in-progress, following the issuance of UITF 40 will only be applicable to those businesses that produce items of stock for sale or provide services to a broad range of customers, as opposed to specific customers.

If you provide services or make goods for specific customers or under a contract, market value should be used. Be careful of this because HMRC are particularly interested in companies that have large WIP balances in their accounts.

Company Accounts -Transactions with Directors and Related Parties

It is a commonly asked question whether or not dividends payable to directors who are also shareholders should be disclosed as a related party transaction. The answer to this is yes they should.

Before April 2007, directors' shareholdings were disclosed in the directors' report. It was therefore not difficult to calculate the amount of dividend per share that each director would have received in their capacity as shareholder.

Since the requirement to show directors shareholdings has now been repealed, dividends are now required to be disclosed as a related party transaction. The major UK accounting bodies have confirmed that this is the correct treatment.

Company Accounts - Authorised Share Capital

From 6 April 2008 the concept of authorised share capital is repealed. For accounting periods commencing before 6 April 2008, the authorised share capital should still be disclosed but, after that, you will not need to show it in your company accounts.

HMRC issues information orders to 300 banks

Over 300 banks have been ordered to surrender information about customers with offshore accounts.

Under Schedule 36 of the Finance Act (which came into force recently), HMRC has the power to issue information notices to banks, forcing them to provide data on clients with UK addresses holding offshore investments.

"It is wrong that some people evade paying their fair share of tax by hiding assets in offshore accounts. Today's ruling represents real progress in creating a level playing field for all taxpayers", said Treasury secretary Stephen Timms.

"I urge any of them who have unpaid tax liabilities connected to these accounts now or in the past to come forward and make a full disclosure….We will use the information provided by the 300 banks to pursue those people who continue to flout the UK's tax laws", warned Dave Hartnett, HMRC permanent secretary for tax.

New rules for registering as self employed

HMRC have announced that they will no longer register an individual as self-employed unless they can provide an NI number. This may be a problem for those trying to register at the last minute to avoid a late notification penalty (you must register with HMRC within three months from the end of the month in which you start trading). National Insurance numbers are handed out by the Department of Work and Pensions (DWP) and can be obtained by contacting your local Jobcentre Plus.

Those who have lost their NI number should contact HMRC's National Insurance office:

National Insurance Contributions Office

Longbenton
Newcastle upon Tyne
NE98 1ZZ
Telephone: 0191 213 5000

Tax Planning Tips and Tricks

P11D expenses paid by employers

Should the cost of a train ticket purchased by the employer to enable an employee to travel to a business event be shown on the form P11D. After all, the money has not gone through the employee's hands. The guidance given in HMRC's 480 guide covering expenses and benefits and also their A to Z of expenses and benefits included on their website clearly indicates that such expenses are considered to be reportable on form P11D. To the extent that these expenses are incurred 'wholly, exclusively and necessarily' in the performance of the employee's duties, the employee will be able to make a claim within their tax return. There is likely to be no income tax or Class 1A National Insurance contribution payable.

What's the answer - Apply for a dispensation.

It would be worth submitting an applications for a dispensation so that the P11D information required each year can be restricted only to taxable items. With one-man companies, HMRC may be reluctant to grant a dispensation if the sole director also deals with the checking and payment of expenses claims. You will need to satisfy HMRC that such claims are checked and dealt with by another officer or employee of the company. Let TLP do it for you (if we haven't done it already!)

Capital Gains Tax

There seems to be a feeling out there that the rate of Capital Gains Tax is a likely target for a tax rise. Might be worth advancing disposals (subject to market conditions). Along with the increase in rate could come amendments to the Entrepreneurs' relief rules, and they are unlikely to get more generous. You have been warned!

Tax Credits

Are you claiming your tax credits. A couple with two children can be earning over £60,000 and still get Tax Credits. If you are :

- Over 16
- Resident in the UK
- Work 30 hours a week (16 if you have a child)
- Have one of more children (but not essential)

…. and are not claiming Tax Credits, come and speak to us about whether you would qualify.

Remember, if you are self employed, Tax Credits could pay for your a new van or tractor worth £20000 in 3 years. Don't believe us, come along and we will explain how...and its all perfectly legal.

Tax Credits and Trading Losses

If you would not normally qualify for Tax Credits on the grounds of your income but are having a bad year, put in a claim now!

Then, when you know your results, you could be entitled to a substantial payment of Tax Credits. Claims can only be backdated 3 months so don't wait till you get your accounts. You've nothing to lose and potentially much to gain (and its tax free).

Monthly VAT Returns

If you expect to receive regular repayments of VAT, consider changing to monthly returns to help cash flow.

Tax on Company Vans

Employees pay tax on a company van if they or a member of their family or household make private use of it unless that use is insignificant. Private use is insignificant if it is very much the exception to the normal use, it is intermittent and irregular, and it lasts only for short periods of time on odd occasions during the year.

Examples include an employee who takes an old mattress or other rubbish to the tip once or twice a year, regularly makes a slight detour to drop off a child at school or stops at a newsagent on the way to work or calls at the dentist on the way home from work.

Examples of use which is not insignificant include an employee who regularly uses the van to do the supermarket shopping (have you looked in the Tesco car park on a Friday evening?), takes the van away on a week's holiday or uses the van outside of work for social activities.

Wonder how long it will be until a tax inspector goes around the local supermarket car parks with a camera.

Is it Worth Incorporating?

There are a number of changes taking place to income tax and corporation tax rates:

- From 6 April 2009 the personal allowance for tax increased to £6,475, Classes 1 & 4 National Insurance applies to incomes exceeding £5,715;
- The Small Company Rate for corporation tax increases to 22% from 1 April 2010;
- From 6 April 2010 the personal allowance will be phased out for those earning in excess £100,000 creating a marginal tax rate of 60% for income between £100,000 and £113,000.

In addition, a new higher rate of income tax of 50% will be applied to those earning in excess of £150,000.

Let's assume you take a salary equal to the personal allowance (£6,475 for 2009/10 and £6,635 for 2010/11) resulting in a Class 1 NIC liability of which the secondary amount is deductible by the company. However, where profits exceed £113,000 next year it is assumed that no salary will be withdrawn because of the phased withdrawal of the personal allowance for incomes exceeding £100,000 from 2010/11 onwards.

The potential tax savings on incorporation are as follows:

Income	2009/10	2010/11
£15,000	622	526
£20,000	972	826
£25,000	1,322	1,126
£30,000	1,672	1,426
£50,000	3,698	3,284
£100,000	3,823	3,215
£150,000	3,948	3,009
£200,000	4,073	5,426

So, it may not look as if there is less advantage than previously, unless you are subject to the new higher rates of tax up to 60% i.e. you earn over £100000. But, tax rates are likely to be going up and this could mean that incorporation is more advantageous. But, if you wait till the rates change you may miss out on at least ones years tax saving.

Tough call. Come in and discuss it with us.