



Bulletin

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Chartered Accountants

Ballard | Dale | Syree | Watson

for practical solutions



EDITORIAL

Mervyn King recently said "The NICE (Non Inflationary Constant Expansion) decade is behind us". And those of us with property certainly had the feel good factor when our houses trebled in value over the decade and yet inflation was supposed to be around 2% p.a. Well I am afraid I never believed the figures then, but it is quite obvious now, that massive inflationary pressures were building up and suddenly over the last 12 months inflation has exploded and it appears the government quite understandably is floundering. I never bought into the "best Chancellor since Domesday" line and whilst I never thought the previous Chancellor necessarily had much to do with the stability of the last ten years, I certainly think the present Chancellor has very limited options.



We are in a global economy and it is global inflationary pressures that are influencing us now. I don't think any of us believe Gordon Brown can persuade OPEC to release more oil for example (at least King Canute realised the extent of his powers).

So how do we react to all of this? I would suggest we need to do our homework and make out a real case to our customers to try and pass on those increases in costs where we possibly can. We, of course, can always review our own costs to see if there are ways of reducing them. I am afraid unemployment will inevitably increase. But we are going to have to be very aware of all the changes and remain a step ahead wherever we can and persuade our customers to accept those price increases.

It looks as though running a business in the next 10 years is going to be more demanding than the last ten years.

- Bill Ballard

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Bank Reviews



'Our Independent Consultant, David Barker, recommends regular review of the competitiveness of current Business banking arrangements, including Bank current account transaction charges and interest rates applicable to borrowing and deposits.

When David has approached the Banks on behalf of businesses in the past, to improve the package available, for the most part he has received, a positive response. His knowledge of the market place and the offers available does obviously help in his discussions. Only on rare occasions has a move of Bank been necessary, and often in those circumstances, it was because service levels had fallen short of expectations, and the business concerned preferred to move.

Additionally David can advise on the best terms available for most Commercial borrowing needs whether it be property/business purchase, development finance or debtor financing and his close links with as many as 50 funders, again helps in this regard.

If you would like David to help please contact your respective partner at **Ballard Dale Syree Watson LLP**.



Companies House FILING DEADLINES

For accounting periods starting on or after 6 April 2008 the Companies Act 2006 has changed the filing deadlines for company accounts. A private company now has to file accounts at Companies House nine months after the year end, a month earlier than before, and public companies have to file six months after the year end, which is also a month sooner. In addition, where the year end date is a month end, the filing deadline is now always the last day of the relevant month.

A business asset you can enjoy

The Holiday Property Bond was established over 25 years ago by a small group of businessmen. Instead of each investor buying their own holiday property, they would combine their resources to give each of them access to a wider range of holiday accommodation, rent-free at any time of the year, whilst retaining a shared financial interest.

The Bond continues to enjoy remarkable success. Today there are over 37,000 investors mainly from professional and business backgrounds, over 1200 carefully selected and developed properties, and a fund with a net asset value of over £250 million, (as at 31.12.07).

A company, (or charity) can also invest in the Bond, securing rent-free holidays year after year, for directors, or as a reward for high-performing members of staff, and of course their family. The additional costs for each holiday can also be less through the Bond because of the benefits in kind rules:

RENTING A COTTAGE OUT OF PERSONAL INCOME

Accommodation cost	£1,500
Income Tax at 40%	£1,000
GROSS SALARY REQUIRED TO PAY RENT	£2,500

USING A CORPORATE HPB

PIID Declaration of 15,000 Holiday Points at 3%	£450
PIID Declaration on £300 User Charge paid by Company	£300
Total benefit in kind	£750
Tax payable at 40%	£300
TOTAL COST FROM GROSS SALARY	£500

This example is for illustration only and the agreement of HMRC on which it is based is subject to review at any time.

Remember the Limited Company has to make the £15000 investment.

As this constitutes investment advice, for further information please contact Jackie Baker of The Holiday Property Bond who can be contacted via your respective partner.



To incorporate or not to incorporate that is the question.

There are three main ways that you can operate your business:

- As a company or
- As a sole trader / partnership or
- As a limited liability partnership

Company

Companies benefit from a lower rate of tax paying just 21% tax on their first £300,000 profit for the year ended 31 March 2009. The company shareholders have the advantage of limited liability; if a claim is made by a creditor this is made against the company assets and not against the personal assets of the shareholders unless personal guarantees have been given.

A second tax charge is made on the shareholder when funds are extracted from the company. Income can be taken as dividends or as salary. A tax efficient way of drawing income from the company is to take a salary up to the NIC threshold and to take the balance as dividends. If a dividend is covered by the shareholder's basic rate tax band they pay no personal income tax on this. If the dividend is taxed at higher rates then tax of 25% of the net dividend is payable.

Sole Trader / Partnership

As a sole trader / partner you do not have the advantage of limited liability. You pay tax on your share of business profits as these are made and not when you extract them from your business. If you have no other income you pay tax and national insurance at a rate of 41% on profits over £40,835.

Limited Liability Partnership

With a limited liability partnership you are taxed as if you were a partnership but now have a measure of limited liability protection.

TIP : Incorporating your business can lead to substantial savings to the tax you pay on your profits. The level of saving depends on the particular circumstances of each case and there are other considerations to take into account. Please telephone your contact partner if you require further information or to arrange a review of your circumstances.



Pension contributions

- individual verses company

An individual can make pension contributions of up to 100% of his earned income (or £235,000 if lower) with 20% tax relief given when the payment is made and higher rate tax relief given through self assessment.

With a company contribution the payment is made gross and the company claims tax relief for the contribution against its profits. The cap is still £235,000 but there is now no limitation by reference to earned income.

The most tax efficient way of making the pension contribution depends on the level of the contribution made and whether the company will qualify for tax relief in full on this.

Where the company qualifies for full tax relief the net cost of the contribution tends to be lower for company contributions.

To qualify for full tax relief it is necessary for the company contribution to be made wholly and exclusively for the benefit of the business. There should be no difficulty satisfying this when pension contributions are made for the workforce but there could be problems where large contributions are made for the owners of the company or their family members. In these circumstances the overall salary package should be at a commercial level – the salary and pension contribution are at the same level as would be paid to an unconnected third party carrying out the same duties.

TIP : A pension contribution needs to be paid before the end of the accounting period if it is to be set against that years profit for tax and planning should be carried out well in advance of the year end.

Use of trusts to transfer assets down to children

Often taxpayers wish to make lifetime gifts of assets to their children thus reducing future inheritance tax charges but are prevented from doing so as a taxable capital gain will arise when the gift is made.

The combination of the new capital gains tax regime and changes to the way that trusts are taxed provide a way to pass assets down generations but defer the capital gains tax charge until the asset is eventually sold.

When an asset is transferred into a trust set up after March 2006 the owner is treated as selling the asset at open market value for capital gains tax but can elect to hold over the gain made provided the trust is not settlor interested (the beneficiaries of the trust do not include the spouse or minor children of the person setting up the trust).

Similarly when an asset is transferred out of a post March 2006 trust to the children the trustees are treated as selling the asset for open market value but can elect to hold over the gain made. The transfer out of the trust cannot be made within the first three months after the trust is set up if the gain is to be held over and it would be preferable for there to be a longer delay to counter any 'tax avoidance' objections by the Revenue.

The children hold the asset and take over the capital gains tax base cost of their parent. The gain has been deferred until the asset is sold by the children.

With capital gains tax payable at a flat rate of 18% the amount of tax payable on the deferred gain remains the same.

The transfer to the trust is a chargeable lifetime transfer which means that lifetime inheritance tax will be due if the value of assets transferred to the trust exceeds the unused nil rate inheritance tax band of the settlor. The nil rate band is currently £312,000.

