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Business Update

SUMMER 2003

UK 200 Group news

One of the strengths of the UK 200 Group is that in the present uncertain business climate member firms like ours, because of their size, location and commitment - and often long-established relationships - can respond faster to clients' needs than larger, more distant firms of advisers. With ever more complex taxes and regulations, clients need all the help and support available and UK 200 Group members pride themselves on quality service and standards.

One way in which both are assured is by sharing specialist skills and accessing the most authoritative experts on a variety of topical issues. In March, for example, the Group held a training day for members specialising in healthcare and a conference on Fraud and Financial Crime, in collaboration with the Police. In April, member firms of the UK 200 Legal Group attended a specialist training day in Birmingham to be updated on relevant recent changes. This was followed by the group's annual one-day conference in London on Building Business Success.

With such expertise at our fingertips and continual on-going training, clients can be assured of receiving effective and relevant advice in all areas, at all times.

As we go to print the dust is just beginning to settle on the contents of this year's Budget. It may have seemed modest and low key but there are a number of measures which may be of interest and which we highlight briefly for you below.

The good news

Much was made of the new Child Trust Fund which will provide funds for every child born from September 2002.

100% capital allowances continue to be available to small businesses on expenditure on computer equipment until 31 March 2004.

From April 2004 more investment properties will qualify for the higher rate of business asset taper relief for capital gains tax purposes.

No further increases to either national insurance or stamp duty rates were announced both of which were suggested as possible sources of additional revenue for the government.

....and some bad news

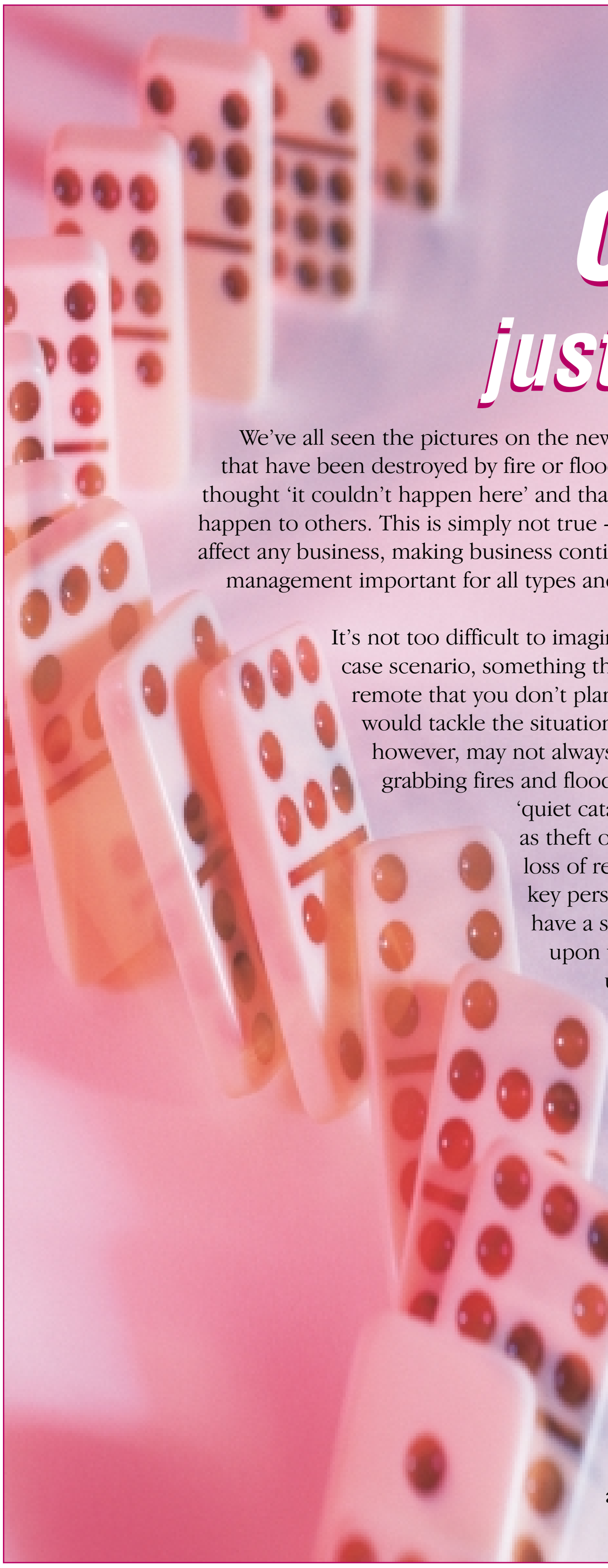
Buried away in the detail and certainly not mentioned in the Budget speech, the Personal Service Company rules have been extended to cover nannies and other domestic workers who were previously exempt.

....and the future

We can also expect changes in the future in other areas. The fundamental reform of pensions is already the subject of a consultation process and the proposals are outlined elsewhere in this newsletter. Corporation tax and the Construction Industry Scheme are also under review with plans to reform. As ever we will keep you up to date with the changes that affect you, your business and your family. We would love to hear from you if you have any questions or comments.

In This Issue

The UK 200 Group
PRACTISING CHARTERED ACCOUNTANTS



A quiet catastrophe
just waiting to happen

We've all seen the pictures on the news - businesses that have been destroyed by fire or flood and perhaps thought 'it couldn't happen here' and that crises only happen to others. This is simply not true - disaster can affect any business, making business continuity management important for all types and size of business.

It's not too difficult to imagine your worst-case scenario, something that may seem so remote that you don't plan for how you would tackle the situation. Disasters, however, may not always be headline grabbing fires and floods. They may be 'quiet catastrophes' such as theft or fraud leading to loss of records, data or key personnel. These can have a serious impact upon your business unless you have procedures in place to deal with them.

Business Continuity Management (BCM)

BCM begins by identifying the risks that a business may face and then looks to develop and implement an agreed response to these. The existence and knowledge of these plans may make all the difference in an emergency situation when you need to react immediately.

To develop a continuity plan, start with some 'what if' scenarios and consider how they would affect your people, processes, premises and providers, for example:

- What if we were denied access to our premises? This will cover a range of eventualities such as fire and flood or more temporary losses of power or communications.
- What if staff could not travel into work? Problems with public transport could cause issues here. Equally, you might be responsible for providing transport for a significant number of staff yourself.
- What if I was taken ill in emergency circumstances? Could specialist or technical knowledge be denied to the business?
- What if a key supplier could no longer supply? Could an alternative supply be sourced quickly?

Consideration of these factors will give rise to a number of individual problems that would have to be faced under the circumstances. The next stage is to rank the problems and then plan how these could be overcome quickly and efficiently. Your reputation may well depend upon plans drawn up at this stage. How quickly could you reassure your customers that you are calm and in control of the situation?

For any plan to work it must be practical and informative, be agreed, distributed and kept up to date so that everyone involved is aware of what they should do if a disaster strikes. You should also consider putting it to the test. It might just save your business one day.

VAT repayments - an update

We reported in an earlier newsletter on the long running dispute between Marks and Spencer and Customs concerning VAT repayments going back to the introduction of the tax in 1973. Customs had argued that any repayment must be limited to three years by virtue of the capping provision introduced in 1996. However, the European Court of Justice decided that the introduction of the three year cap whilst lawful should not have been retrospective. The consequence is that some businesses may now be entitled to further VAT repayments. The deadline for such claims was originally 31 March 2003 but has been extended to **30 June 2003** and Customs is inviting claims where:

- claims were made before 30 June 1997 which were capped or
- claims made before 30 June 1997 were fully repaid but Customs later clawed part of it back or
- no claim was made but an error was 'discovered' before 30 June 1997 and
- **in all cases** the overpayments were made before 4 December 1996.

Further details can be found in Business Briefs 22/02 and 27/02 which can be found at www.hmce.gov.uk

Taper relief

All you ever wanted to know but were afraid to ask…

Capital gains tax (CGT) taper relief has been in force now for over five years. During that time the rules, particularly for business assets, have been revised and improved. The sale of a business asset at a gain after just two years of ownership will mean that taper relief at 75% is available. Only 25% of the gain is taxable which gives an effective tax rate of 10% for a higher rate taxpayer. Is it really as simple as all that?

We set out below the answers to some frequently asked questions. If you would like to discuss any of the points raised further then, as ever, we are only a phone call away.

Q: I have heard that shares only qualify for the higher level of business asset taper if the company in question is a trading company. Is this correct?

A: Certainly when taper relief was first introduced, shares qualified for business asset taper only if the company was a trading company. However, the rules have been relaxed since, so that shareholdings in non-trading companies now qualify so long as you are employed (on a full or part-time basis) by the company and do not (together with your relatives) own more than 10% of the company.

Q: I have shares in a trading company but the company also has some investments. Does this cause a taper relief problem?

A: This is a difficult one! Basically the Inland Revenue's view is that a trading company needs to be at least 80% trading. Up to 20% can consist of non-trading or investment activities without creating a taper relief problem. The issue of course is 20% of what? A number of different measures could be appropriate including turnover and the asset base of the company. A common difficulty relates to significant surplus cash which the Inland Revenue may seek to treat as part of the non-trading activities of the company.

Q: I have owned a 3% shareholding in my family trading company for many years. I plan to sell the holding sometime during 2003. Will I get 75% taper relief?

A: The answer here is very simple but probably not the one you were hoping for. No! Although your shares count as a business asset now, 75% taper requires that they have been a business asset ever since 1998 when taper relief was introduced. Between 1998 and 2000 a valid business asset required a holding of at least 25% of the voting rights in a company or, failing that, at least 5% together with full-time employment. Since April 2000 all shareholdings in unquoted trading companies have qualified for business asset taper. The effect of the change in the rules is to restrict your taper relief when you sell your shares. Your rate of taper relief will depend upon the precise date of sale but will be approximately 55% rather than 75%.

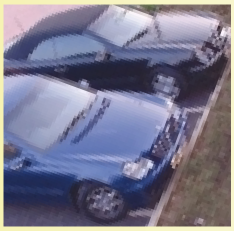
Q: I am employed by a quoted company in which I own some shares. I plan to retire soon but retain my shareholding. If I sell my shares at some point in the future what is my taper relief position?

A: Unless you have at least 5% of the voting rights in the company the effect of continuing to hold them after retirement will be gradually to reduce or 'dilute' your rate of taper relief over time.

Whilst the taper relief regime is undoubtedly generous, there are a number of possible problems and pitfalls. Solutions may be found but generally these require advance planning. Don't delay; talk to us soon!

Don't forget that the taper relief regime only applies to individuals (and trustees and personal representatives). Disposals by companies continue to be subject to a different regime.

Personalised number plates



Imagine that your company has kindly provided a very expensive personalised number plate along with your brand new company car. The possible tax treatment of the number plate is unlikely to be the first thing on your mind…. and yet…..

The tax treatment of the company car itself is well known both for the employer and the employee and is not the subject of further consideration in this article. But what of the number plate itself?

As far as the individual is concerned there will be no additional tax charge just because the company car comes with a personalised plate. The normal charge under the company car rules is deemed to cover everything except a chauffeur.

For the company itself will there be any tax deduction for the cost of the plate? Where the company has paid a significant sum of money for a plate it is buying the number itself rather than a piece of metal or plastic and this counts as an 'intangible' asset. Capital allowances are not given on intangible assets. However, a new regime introduced in April 2002 may help. The new rules may allow a tax deduction (albeit spread over a number of years which may be as many as 25) for the cost of the plate but only where it was acquired after 31 March 2002. To get a tax deduction the company will need to show that the plate is held for a business or other commercial purpose. This is likely to be easier where the number plate bears the initials of the company itself but may be more difficult if it is the initials of, say, an individual director. The new rules only apply to companies so if you run your business as a sole trader or partnership then no tax relief will be available.

Please talk to us if this is an area of interest for you.

Business angels

The National Business Angels Network (BAN) and the British Venture Capital Association has produced a new directory, 'Business Angel Finance 2002-2003'. This is a detailed guide to angel finance for growing businesses. According to BAN, about 20,000 individuals offer angel finance in the UK investing more than £500m in about 3,000 businesses each year. BAN's members fixed 291 deals in 266 companies in the 18 months to December 2001. The total transaction value was £44m.

The book is available free of charge from BAN at info@bestmatch.co.uk or by writing to 40-42 Cannon Street, London EC4N 6JJ.

Property update - repair or improvement

If you incur expenditure on let property, it can be deducted from the rental income if it constitutes a repair but not if it is an improvement. Improvement expenditure is treated as capital expenditure and will usually be deductible on the sale of the property so reducing any capital gains tax liability. However, the sale of the property may not be for some considerable time.

It can sometimes be difficult to determine which category particular expenditure falls into. An example may help. Imagine you replace a fitted kitchen with a similar standard kitchen. This will be treated as a repair and is allowable even though the 'repairs' are substantial. However, if you add additional equipment then this counts as an improvement and that element will not be allowed. If the whole kitchen is substantially upgraded then the whole cost is likely to be disallowed. In the past there may have been some relief for 'notional repairs' that is the notional cost of the repairs that would otherwise have had to be carried out. This is no longer possible.

The Inland Revenue makes it clear that what may be treated as a repair will change over time to reflect technological improvements. A good example of this is double-glazing. In the past the Revenue took the view that replacing single-glazed windows with double-glazed windows was an improvement and not allowable. Times have changed and building standards have improved so that replacing single-glazed windows with double-glazed equivalents is now treated as a repair and is allowable.

If you are planning major works on your let properties talk to us so that we can review your plans and advise you of the likely tax effect.

Deadline looming - Child Tax Credit

On 6 April this year, the new 'Child Tax Credit' replaced the old 'Children's Tax Credit'. The new credit may be available to you if you have responsibility for one or more children. If you have not yet made a claim, time is running out. Claims made after 5 July 2003 will mean that some of the current year's credit is lost because only a limited period of backdating is possible.

Even where there is uncertainty as to final income levels in 2003/04, and therefore availability of the credit, a protective claim should be considered.

Further information can be found at www.taxcredits.inlandrevenue.gov.uk

Pensions reform

In December last year, the government produced its long awaited Pensions Simplification Green Paper and the Inland Revenue announced proposals to simplify the taxation of pensions. The government has an ambitious planned start date of April 2004 for the reforms. The proposals include a 'lifetime limit' on the tax advantaged amount that can be saved. This is likely to be set at £1.4m for 2004 and indexed thereafter. The idea of a normal retirement date will be abolished but tax relief on contributions and the opportunity for a 25% tax-free lump sum are retained.

Annual personal contributions will be restricted to the higher of £3,600 or 100% of earnings. In addition an overall annual limit of £200,000 will be imposed on the total contributions (or 'inflows') that can be paid into a pension by both individuals and employers. For a defined contribution arrangement, inflows will be the total of all employer and employee contributions. For a defined benefit scheme, the inflows will need to be assessed by applying an actuarial factor to the level of the benefit increase. Schemes will be required to provide members with an annual statement.

Fundamentally the government wants to simplify pension provision in the UK and encourage people to make better provision for their retirement. However, market confidence continues to be knocked by 'scandals', investment returns and annuity rates have dropped substantially and defined benefit schemes are failing to live up to expectations. Against this background, the government has a tough job on its hands. Having said all of this, the single biggest challenge facing the government is that the average individual in this country is either not contributing to a pension at all or contributing too little too late.

We have only given you a very brief flavour of what is in store. Please talk to us if you have any questions.