

## HMRC target buy to let landlords

Over recent months many media outlets have reported that HMRC are intending to target landlords who let property.

HMRC's concern appears to be two-fold. The buy to let market has expanded massively over the past ten years and many landlords who buy to let property attempt to sort out their tax position themselves, which can lead to misunderstandings and errors in a complex area.

Particularly common problem areas with buy to let properties include:

- claiming too much tax relief for expenses against property income
- failing to declare the amount of rent received from the let property
- failing to declare a capital gain on the sale of let property.

However, HMRC have responded with a press release; stating that they were not planning a tax crackdown but that:

'HMRC is planning to take a concerted approach to helping landlords of all descriptions (not just in the buy to let market) to understand and comply with their tax obligations in what they recognise to be a complex area ... to ensure that the correct amount is paid.'

Crackdown or not ... we'll let you decide! If you are a buy to let landlord and need advice or assistance with your tax return contact Sarah Nickols in Coventry on 024 7655 4310 or Jan Hornby in Solihull on 0121 711 2468.

# Prime Review

- helping your business work for you

## Sales up by 40 per cent for Coventry bathroom fitting company



Prime partner, Jamie Skelding with Dornbracht sales and marketing director Mark Booth and marketing assistant Merryn O'Connor.

A Coventry-based supplier of bathroom fittings to the rich and famous is on target for a 40 per cent growth in sales this year, with help from Prime.

Dornbracht UK, whose German parent company manufactures high-quality design fittings, accessories and interiors for bathrooms and kitchens worldwide, is the fastest growing of Dornbracht's European subsidiaries.

With sales already standing at £1.7 million for the first quarter of this year, the company is well on target for a £6 million turnover, more than 40 per cent higher than last year's total of £4.2 million, which itself was 24 per cent up on the previous 12 months.

Sales and marketing director Mark Booth said: "Our growth has made us the Number 1 Dornbracht sales operation in Europe (outside of Germany) and we are still the fastest growing, selling through a network of more than 160 'partners' (exclusive bathroom and kitchen showrooms) throughout the UK."

Catering for the top end of the market, Dornbracht's products are used in the luxury homes – and luxurious yachts – of some of the world's richest businessmen and most famous celebrities.

Their fittings are also used in top London hotels, such as the Ritz Carlton and Dorchester, as well as exclusive London apartment blocks where a unit sells for more than £4 million.

Dornbracht products also feature in prestigious offices, such as the O2 headquarters and the Allied Irish Bank in Dublin.

Mr Booth originally set up the UK business for Dornbracht in 2002. It began as a very small operation but had grown sufficiently by September 2005 to necessitate the German parent company looking to appoint a firm of business advisers and accountants.

One of their prime concerns was to unravel the UK's corporate laws and they approached a number of accountancy firms in the region before selecting Prime in Coventry, who had experience of working for other European companies and organisations with subsidiaries in the UK.

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## PARTNERS



Morgan Davies



Kevin Johns



John McDonald



Laurence Moore



John Osborne



Jamie Skelding

# Lords rule in favour of husband and wife businesses

The long running case of Jones v Garnett (commonly called 'Arctic Systems') which began in 2003, has finally been resolved in favour of the taxpayer. This is good news for the thousands of husband and wife businesses that have faced years of uncertainty.

## Background

Geoff and Diana Jones own and run an IT consultancy called Arctic Systems. Like thousands of other couples with similar enterprises, the structure of the business is such that both parties have shares and responsibilities in the company, with one major fee earner (in this case Geoff) and the other partner offering administrative support. Dividends are paid according to their shareholdings.

The case centred on the issue of whether Mr Jones' salary was set at an artificially low level, and whether the dividends received by Diana should have been treated for income tax purposes as those of Geoff, a higher rate taxpayer. HMRC had used an old piece of legislation to argue that the dividends paid to one spouse were really earned by and belonged to the major fee earning partner. This meant a retrospective tax bill of £42,000.

The uncertainty over the case has left thousands of similar businesses concerned that they too could face large and potentially crippling tax demands.



There have been many twists and turns, with the case going through the Special Commissioners and the High Court (with the couple losing in both) and then the Court of Appeal, where HMRC lost in a unanimous ruling

before finally appealing to the House of Lords. The Lords' ruling is now final as no further appeals are possible under UK law.

## Implications

Although the government has not said that Arctic Systems will be a test case, in practice it will be difficult for the lower courts to ignore the Lords' judgment. Similar husband and wife businesses are therefore highly unlikely to be hit with retrospective tax bills like the ones originally issued in this case.

However, it seems probable that the government will now act to bring in new legislation to close what it considers to be a tax 'loophole'. Arrangements like the Arctic Systems structure may therefore soon become a thing of the past.

We will stay abreast of the legislation and, as your accountants, we can advise you on all your tax planning needs, including the most appropriate structure for your business. Contact your Prime partner in Coventry or Solihull for advice on your particular circumstances.

## Forecasting (sales and) success

Making predictions for future growth should not be limited to those starting up in business. While substantiating the case for finance may be the initial reason for preparing a sales forecast, annually updating your original plans can reap many rewards.

Establishing a sales and marketing plan is the key to setting a sales forecast. Your knowledge of the marketplace or outcomes of market research will help to identify the opportunities for your products and services. Focusing on a 12 to 18 month period, detailed documents can prove unnecessary; often a simple list of realistic key objectives can suffice. Always remember the obvious: customers have to want to buy your products, you wanting to sell them is never enough! The process of recording the sales plan forces you to evaluate the impact of future events on projected sales. Gathering input from the whole team may lead to initiatives and ideas for product development, pricing strategies, or marketing campaigns to your most profitable customers or for your most profitable products. Many businesses use a SWOT (strengths, weaknesses, opportunities and threats) analysis approach to kick-start their thinking.

The next stage is to add numbers to the assumptions in your plan. Calculating monthly sales volumes and values should not prove difficult once a vision for sales has been recorded. Whether a simple spreadsheet or a specialist forecasting package is required will depend on the size and complexity of your business and product mix. Building in 'what if' scenarios is not difficult to do with today's spreadsheets and can provide a clear picture of how different results will be dependent on actions taken. The sales forecast can provide the backbone for a full financial forecast or a cash flow statement where these are required.

Regular monitoring of actual performance in comparison to the forecast enables trends and sales shortfalls to be proactively addressed. Many businesses review their monthly performance and formally revise their sales forecast on a quarterly basis. By the final quarter, your initial predictions can look questionable, so regular reviewing and revising is always recommended.

Don't miss out on the opportunity to use the sales forecast to set targets to incentivise your team. Establishing creative reward schemes can make all the difference between failing, achieving or exceeding your forecast. This can also assist with performance reviews for your team.

The familiar expression 'you cannot manage what you don't measure' is certainly true where sales are concerned. Forecasting can play a key part in measuring your success and helping you to drive the performance of your business. Can you visualise your sales pipeline for the next 12 months? If your plans are not as clear as you would like them to be, we can help. Contact your Prime partner to arrange a business planning session.



# Making the most of the flat rate VAT scheme

The flat rate VAT scheme can be a very good deal for some small businesses, but not for others. Whether you make or lose money on the scheme largely depends on how unusual your business is compared to others in your trade sector, but there are some other strategies that can be employed.

The flat rate VAT scheme is designed to eliminate the need to record the VAT paid on all your purchases. Under the scheme you simply multiply the total of all supplies made by the business (including the VAT charged to customers) by a flat rate, set according to your main business activity. This is the amount of VAT payable to HMRC. If this calculation produces a lower figure than would result when you subtract the VAT paid on purchases from the VAT charged to customers (the normal quarterly VAT calculation), then you are a flat rate VAT winner. However, to check if you are a winner or loser, you have to keep track of the VAT you pay on purchases, which is what the flat rate scheme was supposed to avoid!

To win with the flat rate scheme you also need to have a relatively low flat rate percentage to apply. The percentage is determined by the trade sector for your business; for example Restaurants must use 12%, while Pubs use 5.5%. If your costs are low compared to an average business in

your trade sector, then you are likely to be a flat rate winner.

If your business falls into two or more trade sectors, such as a pub with food sales, you must use the flat rate that relates to the sector which represents the largest part of your business. When joining the scheme, and on each anniversary, you must estimate the mix of sales from your various trade categories for the next year. If you think the mix will change you must adjust the flat rate used accordingly.

In your first year of VAT registration you are entitled to take one percentage point off the flat rate used. If you do not use the flat rate scheme immediately on registration, you will not benefit from the full advantage of the 1% discount. However, many new businesses should hold off using the flat rate scheme for at least one quarter so they can reclaim the VAT incurred on all the one-off start-up costs. It is also worth noting once you have entered the scheme you can still reclaim the VAT you have been charged on single purchases of capital expenditure goods where the amount of the purchase, including VAT, is £2,000 or more.

As you can see this is a complex area. If you have any questions contact Colette White in Coventry on 024 7655 4311 or John Osborne in Solihull on 0121 711 2468.

# 28 days holiday on the horizon

Earlier this year the government proposed to increase the minimum statutory holiday entitlement from the current 20 days (including bank holidays) to 28 days (bank holidays inclusive). The 28 days equates to 5.6 weeks for an employee working a normal five day week.

Following consultation with interested parties some amendments have been made to the original proposals. The main change is delaying when employees will be entitled to the full amount of additional leave.

The initial increase from 4 to 4.8 weeks, or 20 to 24 days for an employee who works a five day week, will come into effect on 1 October 2007, as originally suggested.

The second part of the increase, which was due to take effect from 1 October 2008, is delayed to 1 April 2009. This increase will be from 4.8 to 5.6 weeks. This will increase the holiday entitlement of an employee who works a five day week, from 24 days to 28 days leave.

The government has also amended the proposals to enable employers to pay employees for the additional holiday entitlement (the additional 0.8 weeks or 4 days) until 1 April 2009. This is a temporary measure to ease the transition.

The increased leave entitlement includes bank holidays, so employees who already receive four weeks leave plus bank holidays will not be automatically entitled to an increase.

Increases from October 2007 and April 2009 will be calculated proportionally depending on when the employee's leave year starts. The Department for Business, Enterprise and Regulatory Reform (DBERR) propose to make an online calculator available to assist employers in calculating entitlement.

In the meantime an example of how the increase in entitlement should be calculated has already been issued by the DBERR:

'If your leave year started in April, you work a 5 day week and you currently receive 20 days including bank and public holidays, you will be entitled to 2 additional days from October 2007 to March 2008.'

These proposals relate to England, Wales and Scotland. The Department for Employment and Learning in Northern Ireland is in the process of making proposals for Northern Ireland.

## Changes to the advisory fuel rates

The advisory fuel rates allow employers to reimburse employees who drive company cars for their business mileage, tax free. For all journeys undertaken on or after 1 August 2007 the rates will increase.

Engine size	Petrol	Diesel	LPG
1400cc or less	10p (9p)	10p (9p)	6p (6p)
1401cc – 2000cc	13p (11p)	10p (9p)	8p (7p)
Over 2000cc	18p (16p)	13p (12p)	10p (10p)

Other points to note about the advisory fuel rates:

- Employers do not need a dispensation to use these rates.
- Employees driving company cars are not entitled to use them to claim a deduction if employers reimburse them at lower rates. Such claims should continue to be based on actual costs incurred.
- The advisory rates are not binding where an employer can demonstrate that the cost of business travel in company cars is higher than the guideline mileage rates.

If you would like to discuss your company car policy contact Sarah Nickols in Coventry on 024 7655 4310 or Jan Hornby in Solihull on 0121 711 2468.



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Jamie Skelding, a partner with Prime, said: "They were looking for a firm capable of setting up their whole



UK accounting system and then administering it, including controlling the BACS payments and wages. But, most importantly, they wanted a firm who could quickly turnaround sales data and prepare detailed monthly management accounts for Germany. This information is extremely time-sensitive and we work very closely with the Germans on the preparation of monthly reports."

With the business now well structured, sales grew at such a pace that by January last year Dornbracht UK needed to move into new offices on the Bow Court business park in Coventry. Then, with continued rapid growth, it became necessary in March this year to double their office space.

"We have now established a major presence here in the UK, and the up-market and niche bathroom and kitchen companies we supply like that," said Mr Booth. "They like the fact that there is a team here with expert product knowledge that they can talk to – and who will listen to them. We put more area sales managers on the road and then began grading our partners into 'premium studio', 'studio' and 'authorised dealer'. We closed 41 accounts last year and it was the best thing we did because it showed we were serious and it made the other partners get behind our product more.

"We are still very new, but we are launching additional products in September at the 100% Design Exhibition at Earls Court in London and we opened a training centre in July to train our partners in product knowledge."

## Disclosures in the tax 'amnesty' - a success?

The tax 'amnesty' for those who had an offshore bank account and had not previously declared it does not seem to have been as successful as HMRC had hoped. Just before the deadline for registering a disclosure on 22 June 2007, HMRC's Director General Dave Hartnett said "I'm expecting a last minute rush".

HMRC are reported to have obtained 400,000 account details from the banks that were targeted. Far fewer people asked for the offshore disclosure packs and even fewer seem to have made a disclosure.

However, it appears that HMRC will not be limited in their search for offshore bank accounts to the five

large banks that were initially required to provide information. HMRC are intending to target another 550 banks in the UK.

If you would like to discuss this issue in more detail contact Sarah Nickols in Coventry on 024 7655 4310 or Jan Hornby in Solihull on 0121 711 2468.

## Local Football League Company Looks to Europe

A Warwickshire-based Internet sports company says Prime partnership has helped them expand into Europe.

Leisureleagues.net, the UK's largest provider of five- and six-a-side football leagues, which recently moved its headquarters to a new 5,000 sq ft office location between Solihull and Warwick, runs more than 400 indoor leagues in England and Wales, involving 25,000 players each week.

Coventry-born senior executive Sunny Mahal said the company was now planning to expand its leagues into Scotland within the next 12 months, and then to move into Europe, most probably beginning with France and Italy.

Mr Mahal was working as a manager of a Shropshire sports centre in the late Nineties when he and three managers from other sports centres saw the opportunity for organised indoor leagues.

"We started contacting other sports centres offering to organise the leagues for them, with us providing all the

logistical support, even the referees," said Mr Mahal, whose company has more than 1,000 referees on its books.

"We began by sending our brochures to referees who then handed them on to players, but when the numbers got so big we decided to operate through the Internet."

It was then, as the business really began to take off, that he spoke to Laurence Moore, who is now chairman of Prime Chartered Accountants Group, and advises many Internet-based companies.

"They were absolutely fantastic and helped us with everything we needed. Not only did they help us with business advice and handling our finances, but their IT division also helped us to get our website off the ground (which has 5,000 hits a day) and to move our IT to the new offices. It has been a real partnership."



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