

Spring 2010

prime review

helping your business work for you

On the way out

Additional tax relief

Many businesses already obtain 100% relief on plant and machinery expenditure but there are situations when the Annual Investment Allowance of £50,000 is simply insufficient. In recognition of this and to encourage investment in the current economic climate, an extra temporary first year allowance (FYA) of 40% is currently available instead of the normal 20% annual allowance.

The temporary FYA can be claimed on qualifying expenditure incurred in the 12 month period ending 31 March 2010 for a company or 5 April 2010 for individuals and partnerships.

The FYA will not apply for expenditure on integral features, cars, long life assets and assets for leasing. However it is available to any size or type of business entity so take advantage before it disappears.

And on the way in

PAYE penalties for late payment

Penalties are to be introduced for PAYE from 6 April 2010 where payment is late. The liability to a penalty will be based on a totting up procedure depending on the number of defaults during a tax year. A penalty will not be levied for the first default and may then be charged depending on the number of defaults on a rising scale from 1 to 4%.

Further, any tax which is still unpaid six months after the due date, may incur a further penalty of 5% and a further 5% can be levied after 12 months.

Please contact the Director who normally handles your affairs if you require further advice on these matters.

Prime provides fully outsourced finance solution to Warwickshire's 2nd largest tourist attraction.

Warwickshire-based Hatton Country World has made some significant cost savings by appointing Prime Chartered Accountants to take over its entire accounting function, leaving the management team and staff to focus their efforts on growing the business and making a real name for itself as one of the Midlands' outstanding tourist attractions.

The multi million pound business employs up to 170 staff, many on a seasonal basis, to provide a fun day out for the whole family down on the Farm Village with many exciting activities planned throughout the year. In addition, Hatton is home to its very own Shopping Village, where several local businesses rent premises and sell their wares.

The management team at Hatton Country World relies solely on the skills of an experienced and qualified Prime team to manage their accounts function for them, as if they were employed within the business. Not only does the Prime team carry out the traditional book-keeping and accounting duties, it deals with all of Hatton's accounts-related post, operates a dedicated accounts telephone line for suppliers to call with queries, and makes payments to suppliers on behalf of the client via their accredited BACS bureau.

Prime has also helped Hatton with its environmental credentials by automating the entire invoice authorisation process, making them paper-free. Instead of hundreds of pieces of paper in circulation, the Hatton team receives an email notifying them that there is an invoice awaiting authorisation, with a link straight to an authorisation point.

"We have seen substantial savings in terms of staff hours and our overall accountancy costs since we appointed Prime, said David Blower, Operations Director at Hatton. "It has improved our efficiency and, instead of hours being spent administering our accounts, we can focus more on running the business."

Backed by the International Association of Accountants Innovation and Technology Consultants (IAAITC), Prime is the only firm of accountants in the region to be able to offer such a cost-effective solution to small and medium sized businesses.

"We are delighted to be providing such a solution to Hatton," said Kevin Johns, Relationship Director at Prime. "The team now has access to better, more timely financial information at their fingertips, for a fraction of the cost."



Kevin Johns, Prime with David Blower, Hatton Country World

prime
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Facilitating Funding

In the Pre-Budget Report of 9 December 2009, the Chancellor announced an extension to the Enterprise Finance Guarantee scheme (EFG) which was originally due to end on 31 March 2010. The announcement stated that a further £500 million of new bank lending is to be guaranteed between 1 April 2010 and 31 March 2011.

How does it work?

The scheme aims to facilitate bank lending to viable businesses which are generally otherwise unable to secure funding, due to the lack of a track record or collateral. Guarantees are provided by the government to commercial lenders who participate in the scheme, to the extent of 75% of the loan. Loan amounts can range between £1,000 and £1 million and there are now more than 35 participating lenders.

Who is eligible?

The scheme is aimed at small businesses with the definition of small being generously defined as enterprises with up to £25 million annual turnover.

Most sectors of business are eligible although there are restrictions in certain sectors including agriculture, banking, insurance, finance and transport.

What can it cover?

The guarantee aims to cover the following types of lending:

- new term loans (with terms of between three and ten years)
- refinancing existing term loans, where the loan is at risk due to the deteriorating value of security or where for cash flow reasons, the borrower is struggling to meet existing loan repayments
- conversion of an existing overdraft into a term loan to meet working capital requirements
- guarantee on invoice finance facilities to support an agreed additional advance on a SME's debtor book. This will supplement the invoice finance facility already in place.
- guarantee on new or increased overdraft borrowing for the SMEs experiencing short term cash flow difficulties.

What does it cost?

In addition to regular capital and interest payments to your lender, and any arrangement fees which they may charge, a premium is payable to the Department for Business, Innovation and Skills.

The premium is equivalent to two per cent per annum on the outstanding balance of the loan, assessed and collected quarterly in advance throughout the life of the loan.

For further information please contact us or visit www.berr.gov.uk/whatwedo/enterprise/finance/efg/page37607.html. The site includes a list of lenders and restricted business sector areas.

A light at the end of the tunnel

In the current climate there will be a number of individuals faced with a potential loss of capital on private company shares. This may occur because they have had to sell at a low price or, as is more likely, the company is being wound up following cessation of the trade. So what relief is available?

A loss on a disposal of shares is generally an allowable capital loss for tax purposes. Whilst this is reassuring to know, this often means that there is no immediate relief if an individual currently has no chargeable gains. This is because a capital loss can normally only be relieved against current or future gains.

Relief against income

However, certain losses on shares can be relieved against general income rather than capital. This alternative treatment may provide tax relief more immediately and is also likely to generate a more substantial tax saving. This is because in 2009/10 both the income tax basic rate of 20% and the higher rate of 40% exceed the 18% capital gains tax rate. Further if the loss is triggered in 2010/11, it could even save 50% income tax.

The taxpayer has the choice to relieve any such qualifying loss against income in either the same tax year (for when the loss is established) or the preceding tax year or both.

The conditions which must apply for the shares to qualify in such circumstances are:

- the individual must have subscribed for the shares when issued and
- the shares must be in an unquoted qualifying trading company.

Certain trades are excluded and include leasing, legal or accountancy services, property development, farming and operating or managing hotels or nursing homes.

What about irrecoverable loans?

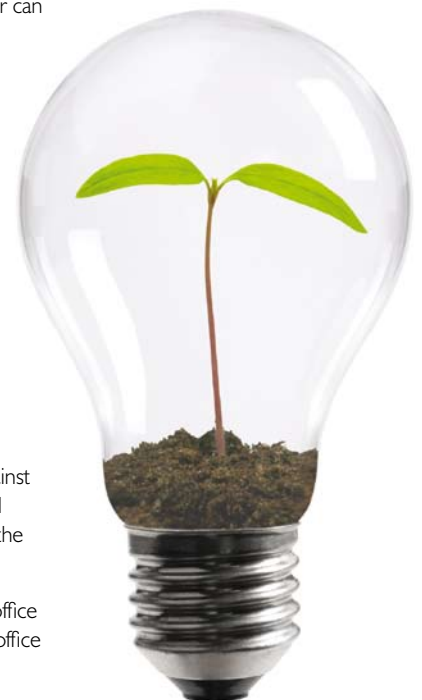
Provisions also apply so that an individual lender can make a claim for a capital loss where:

- an individual lends money (not between spouses/civil partners) and
- the borrower is UK resident and
- the borrower uses the monies wholly for the purposes of a trade and
- that loan subsequently becomes irrecoverable.

Similar rules apply to payments made under a guarantee.

The loss relief is not as advantageous because it can only qualify as a capital loss. This means that once established, it may only be set off against capital gains realised by the individual or carried forward until such time as gains are realised in the future.

Please contact Sarah Nickols in our Coventry office on 024 7622 0208 or Ian Frost in our Solihull office on 0121 711 2468 to review your position if you consider such claims may be available to you.



Nifty footwork proves a winning Dance

Now that the recent series of Strictly Come Dancing has ended, memories still remain of those celebrities who managed to get all the steps wrong. Nifty footwork is the real key to success as demonstrated by an advocate in a recent case which has left HMRC in a spin.

The facts can be summarised as follows - Mr Dance owned three farms which he ran as a sole trader. He transferred one whole farm and part of another to trustees as an inheritance tax (IHT) planning exercise and claimed Business Property Relief (BPR) of 100% on the transfer. HMRC argued that the legislation states that to qualify for BPR a whole business must be transferred and not simply certain assets of the business and as Mr Dance continued to run the farm business there could be no relief.

This is where counsel for the trustees worked some show stopping magic. He reminded the court that a transfer for IHT purposes is measured

by the loss to the donor's estate so it is necessary to value the whole estate before and after the transfer. Mr Dance's estate before the transfer included the farm and in valuing that, account had to be taken of the value of the farmland. Similarly after the transfer, his estate still included the value of the business but now with less land, so the value of the estate had been reduced. The only reason for the loss in value was the reduction in the value of the business and so BPR must be due. Big finish – take a bow. No Goodmansque 'seven!' from the judge but a resounding 'ten'. Fab – u – lous.

The decision is of real significance to anyone running an unincorporated business who wants to transfer some of the assets, most notably land, to reduce their IHT burden. Care needs to be taken because there are some dangers if the donor dies within seven years as this may trigger a possible clawback of BPR. Please contact the Director who normally handles your affairs for further advice if planning in this area is of interest to you.



As the holiday comes to an end.... What gain?

The tax treatment of Furnished Holiday Lettings (FHL) has been advantageous for many years but the rules are set to end in April 2010.

What are FHL?

The FHL rules essentially cover the commercial short term letting of residential holiday accommodation in both the UK and the European Economic Area. Until now, a FHL business has broadly qualified as a trade (providing qualifying conditions are met). This is generally more beneficial for tax purposes compared to the tax treatment of an ordinary property investment business. This will not apply from 6 April 2010 for individuals (1 April 2010 for companies).

The changes will impact in two key areas:

- the calculation of the taxable income from the continuing property letting business and
- the treatment of any capital gains arising on the disposal of the FHL business.

This article only considers the main capital gains tax aspects but please do contact us if you need further information or wish to discuss the impact on taxable income.

Capital gains tax reliefs for the individual

When an individual disposes of a qualifying FHL business, the gain may be eligible for Entrepreneurs' Relief (ER). Where the conditions

for ER are met, the relief reduces gains up to £1 million, per individual, per lifetime, so that only 5/9th of the gain is chargeable to tax. This relief does not apply to disposals made by companies but may apply to shares in companies.

The FHL business will be treated as ceasing on 5 April 2010 and will be treated as a property business. This means that generally from 6 April 2010 a FHL business will no longer qualify for ER. However, the relief will still be available on the sale of any assets comprised in the business provided:

- the asset was used in a FHL business in the 12 months to 5 April 2010 and
- the disposal (for example by sale) occurs before 6 April 2013.

Example

In June 2009 Edward sold a FHL business which consisted of a Welsh holiday cottage for a gain of £72,000. He has not previously used any of his ER entitlement so the gain is reduced by 4/9th to £40,000.

If instead, the property was not sold until June 2011, but continued to be let after 5 April 2010 as furnished rental accommodation, the subsequent gain would still be eligible for ER.

What about deferring any gains?

Another CGT relief which applies to trading assets is replacement of business assets, known as rollover relief. This is available to companies and

individuals. This allows a gain to be postponed, where on the disposal of a trading asset such as a property, the proceeds are reinvested in certain replacement trading assets. The relief is available whether the replacement asset is for use in the same trade or a different trade, provided the person carrying on the trade is the same. It is particularly useful for company disposals which do not qualify for ER.

When FHL cease to be a trade on 5 April 2010 (31 March 2010 for companies) then subsequent acquisitions and disposals of properties used in such businesses will no longer generally qualify for this relief. However, as the assets are trading assets until that time, any gains on disposals from the 6 April 2010 (or 1 April for companies) may be partly eligible for relief.

Example

Bounce Ltd sells a property which had always been fully used in a FHL business on 1 September 2010. It had been owned for 10 years. All the proceeds are reinvested in a property for its main catering trade. The gain is £50,000. The asset is treated as non trading for the last 6 months of the 10 year ownership which represents 5% of the gain but the remaining 95% may still be eligible for relief.

To ensure that any reliefs still available can be maximised, it will be essential to consider the timing of disposals and that all other qualifying conditions are met. Therefore please contact us to discuss how we can assist you on these business changes.

Look after the pennies...

In these austere times and with tax rises on the way, any tax or national insurance contribution (NIC) saving is a good one. One particularly useful way of mitigating tax and/or NIC is by using what is called a 'salary sacrifice' arrangement.

What is salary sacrifice?

Salary sacrifice arrangements involve a contractual right to cash pay being reduced. For that to happen two conditions have to be met:

- the potential future remuneration must be given up and
- the true construction of the revised contractual arrangements between employer and employee must be that the employee is entitled to lower cash remuneration and a benefit instead.

If that benefit happens to be tax and/or NIC efficient, then both employer and employee are happy!

When is salary sacrifice not effective?

A salary sacrifice is not effective if, in practice, the arrangement enables the employee to continue to be entitled to the higher level of cash remuneration, for example, they have merely asked the employer to apply part of that cash remuneration on their behalf.

What information does an employer need to provide to HMRC?

Whilst employers do not need to confirm anything with HMRC, some businesses might like the comfort of knowing that HMRC agree the new position. In order for HMRC to decide whether a salary sacrifice is effective or not, the employer should provide full details of the scheme and of the new contractual arrangements and satisfy HMRC that:

- the employee's entitlement to cash pay has been reduced and
- a non-cash benefit has been provided by the employer and
- the employer is not simply meeting the employee's own financial commitments.

What sorts of benefits are tax and/or NI efficient?

The list is long and varied but some more mainstream options are included below.

Qualifying beneficial loans

Certain low interest/interest free loans where all the interest is eligible for tax relief are fully exempt from any income tax charges. In addition a loan for any purpose is tax free, provided the total does not exceed £5,000 at any time during the tax year. In such qualifying situations the employer does not have to report the loans on form P11D and employees do not have to claim the corresponding tax relief.

Car parking spaces

The provision of a car parking space at or near the employee's normal place of work - this often includes 'park and ride' schemes.

Bicycles

The provision of bicycles and associated safety equipment for mainly home to work travel.

Employer pension contributions

Contributions to HMRC registered pension schemes.

Mobile phones

One private use tax free phone per employee which could be used to provide a phone to a member of the employee's family or household.

Childcare costs

Employer contracted childcare and employer provided childcare vouchers of £55 per (tax) week.

Training costs

Employer provided training costs.

What do employees need to consider?

When entering a salary sacrifice arrangement to replace part of cash pay with a benefit that is tax and/or NI free, it is essential that employees understand what the sacrifice will mean in practical terms and consider carefully the effect, or potential effect, that a reduction in their pay may have on:

- their future right to the original (higher) cash salary
- any pension scheme being contributed to
- entitlement to Working Tax Credit (WTC) or Child Tax Credit (CTC)
- entitlement to State Pension or other benefits such as Statutory Maternity Pay (SMP)
- proof of earnings for mortgage purposes.

If you have an interest in salary sacrifice, please contact the Director who normally handles your affairs so that we can discuss matters further.

Prime team enters Stratford Dragon Boat race

Prime directors and staff have risen to the challenge and will be participating in a Dragon Boat Race in Stratford upon Avon to raise funds for the Anthony Nolan Trust in May of this year.

The 'Prime Paddlers' will be racing head to head against the other teams in a 30ft Hong Kong style Dragon Boat, with a drummer beating the rhythm for the paddlers.

All monies raised from the event will go to the Anthony Nolan Trust, helping them to support people with leukaemia. If you would like to donate some money and help the 'Prime Paddlers' raise as much money as possible for this worthwhile cause, simply contact Wendy Tipler on 024 7622 0208.



Meet our directors...



Laurence Moore



Kevin Johns



John McDonald



Jamie Shelding



John Osborne



Morgan Davies



John Barrett



Ruth Chapman

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