

UPDATE

Autumn / Winter 2004

Welcome To Two New Partners



We are delighted to announce the appointment of two new partners. Steve Humphries and Andrew Baggott (l to r) have both moved from Manchester-based accounting firm Ford Campbell to join the practice.

Steve specialises in providing business and tax advice to entrepreneurs and owner managed businesses. He trained and qualified with Pomfret Rushton in Preston before joining Deloitte in Manchester. Prior to Ford Campbell, he was the tax partner at Allens in Stockport for many years.

Andrew trained and qualified with Coopers & Lybrand (now part of Price Waterhouse Coopers). After a period with Joseph Crossley & Sons, he spent the last eight years with Ford Campbell advising clients

on business planning and development and assisting with finance needs and issues.

Partner Graham Clarke says: "Attracting Steve and Andrew to Clarke Nicklin is a great coup for us. More and more clients are looking for specialist taxation, finance and business advice. Having Steve and Andrew on board with their successful track record in these areas means that we can provide positive solutions based on years of practical experience."



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Capital Gains Efficiency

Capital gains arise when you dispose of (sell, transfer or give away) a capital asset, such as a building, shares in a company, a work of art or a business. Before you dispose of any asset that would incur Capital Gains Tax (CGT), you need to consider the tax position. Consider the following points.

1. Do you own the asset in the most tax-efficient way? For example, if you transfer an asset to your husband or wife before you sell it to a third party, this might save tax.
2. Business assets that you hold for at least a year might have their taxable gain reduced.
3. Delay selling assets until the next tax year so that you can defer any tax payments by up to 12 months.
4. If you carefully plan how you use the proceeds from disposing of the asset, you can invoke 'holdover' or 'rollover' provisions to defer the CGT.
5. There are also more imaginative ways to mitigate CGT in certain circumstances, particularly for larger transactions.

Contact Steve Humphries before you dispose of a capital asset so that we can review your tax position.

Buying A Property Abroad

More and more clients are considering buying a second home either within the UK or abroad, maybe as an investment or as a second or holiday home. Below are some of the factors you need to consider before making such a purchase.

Ownership

You need to consider the legal ownership of the property. You could own it in your own name, jointly with your husband or wife, through a limited company or perhaps jointly with business partners or friends. Ownership will affect any capital tax liability due when the property is sold and the tax due on any rental income received.

Local Tax Rules

If you are buying a property abroad, you must consider the foreign tax rules as they may differ from UK tax rules. You need to understand the laws that apply in whichever country you are buying a property, such as sales taxes on the purchase.

Pension Schemes

From 6 April 2006 the Government is considering allowing registered pension schemes to own domestic properties, which could mean significant tax savings since the pension fund will not pay tax on any rental income or capital gain. At present they are only allowed to own business premises.

Rental Income

If you are a UK resident, any rental income you get from letting out a property, in this country or abroad, will be subject to UK tax. This includes rental income you receive from family members and friends. Any rental income you receive from a property abroad might also be subject to tax in that country, as well as here in the UK, unless there is a tax treaty between that country and the UK that prevents the income from being taxed twice.

Running Costs

Maintenance costs for the property (such as letting agent's fees, electricity and gas) are tax-deductible. You might also get tax relief for repairs and renewals to the property, though the rules are complex and each case would be judged on its merits. The good news is that you can normally use interest paid on loans to buy a property to reduce the taxable rental income.

A Word or Two of Caution

When buying a foreign property you must take the advice of legal and tax professionals, both in the UK and the country where the property is located. A small extra cost now could save significant amounts later. Still keen? We will be pleased to advise you on the tax implications of buying a second or investment property.

Small Company Tax

Until April 2004, a small company with no associates and annual profits below £10,000 did not have to pay Corporation Tax on those profits. However, the Chancellor changed this in his 2004 Budget.

Shareholders did not have to pay basic rate tax on any dividends paid out of those profits because the tax is deemed to have been paid by the company.

The Chancellor has plugged this gap as it meant that small companies and their shareholders were not paying tax on their profits.

The new rule has not changed the tax treatment of dividends paid to shareholders. Basic rate tax is still deemed to have been paid and, if income

tax is due at the higher rates, the taxpayer will normally pay it in January and July.

However, if a company with profits below £10,000 pays any dividend to a non-corporate shareholder (an individual, not a company), it has to pay tax at 19% on the profits represented by that dividend. The example shown here compares a small company's tax situation under the old and new rules. The situation is further complicated by events such as:

- the company making a loss;

- when the year end is not 31 March;
- dividends being paid to corporate shareholders; and
- where the company has associates or is a member of a group.

Example comparing the old and new rules

A small company, X Limited, makes a taxable annual profit of £10,000 and pays a net dividend of £8,000.

Under the old rules, there would be no tax to pay on the £10,000 profit because, for a small company, the first £10,000 is not taxed. For a basic rate taxpayer, there would be no tax to pay on the £8,000 dividend.

Under the new rules, because £8,000 is paid out as a

dividend, the company will pay tax of 19% on £8,000, which is £1,520. The tax implications are the same for the shareholder as under the old rules but overall, between the company and the shareholder, the tax paid is now £1,520 not nil.

If you own a small company, we will be pleased to advise you on how the new rules might affect you.

There is a range of tax-efficient packages that employers can use, including salaries, benefits in kind, salary 'sacrifices' and share schemes for key employees or directors. Please contact Tony Jakara for more details.

Sole Traders and Partnerships - Save Interest On Your Mortgage

Offset Banking for businesses that operate either as a sole trader or a simple partnership is now available from some high street banks.

Quite simply, you offset the balances in your business current and savings accounts against the balance on your personal mortgage.

This could help you to pay less interest on the money you owe and you could therefore pay off your mortgage that bit earlier.

If you're interested, contact Andrew Baggott.

New Appointments

We are pleased to welcome three new members of staff to our team. Robert Mowat and Catherine Young have joined us as accounts trainees and Shelley Middlemas is our new payroll clerk.

Does Your Business Need A Helping Hand?

A business can suffer financial problems for a variety of reasons. However, if you spot the problems early enough you can tackle them and help the business recover.

The seven golden rules to get paid

'A sale is not completed until the customer has paid' is as true today as it ever was. Tight credit control is therefore essential in any business. If your business offers credit, you must follow these minimum requirements.

1. Set credit limits for each customer that they must not exceed.
2. Run a credit check on all new customers (such as with on-line credit-check agencies or Companies House).
3. Send invoices out promptly as delays in invoicing mean delays in getting paid.
4. Prepare a list of debtors' balances daily, or at least weekly, so that you know exactly how much you are owed.
5. Send customer statements promptly at every month end.
6. Ring customers with overdue accounts and keep the pressure up until they have paid.
7. For long-overdue accounts, take legal action to recover the money owed.

Stock control is vital

Every time a business buys an item, which it intends to sell, costs are incurred. If that item is never sold it becomes an expense or if it takes a long time to sell it will tie up funds until the sale is made.

Tight stock control is therefore vital to both reduce costs and ensure funds are not tied up. The steps you should consider include:

1. Only buy goods when an order has been received from a customer.
2. Ensure you have more than one supplier for all the major items that you sell. This means you do not need to carry as much stock and you reduce the risk of your supplier being 'out of stock'.
3. Carry out regular stock counts so you can have accurate information of the stock levels to prevent excessive ordering.

4. Ensure slow moving items are sold off to at least generate some cash.

5. Use software to monitor both stock levels and ordering. This can be vital where a large number of stock lines are being maintained.

6. Keep stock in secure locations to reduce the risk of theft.

Steps an accountant might take to help a struggling business:

Step 1: Get some reliable accounting information about the current financial situation, such as recent accounts, cash-flow forecasts and budgets.

Step 2: Help the business generate some 'cash in the bank', which means reducing overdraft and borrowing requirements. You could do this by having a sale of slow-moving stock and unused assets, and chasing debtors.

Step 3: Review the marketing plans, including current customer orders. This review could lead to revamping the products or services, devising a sales plan and reviewing customer requirements.

Step 4: Review staffing levels. Sometimes this leads to redundancies, but it can often just be a matter of retraining current employees or reallocating tasks more efficiently.

Step 5: Restructure the company's finances to give long-term stability, such as arranging new overdraft facilities and reviewing leases, hire-purchase agreements, long-term loans and mortgages.

Step 6: Retraining current directors or even installing a new management team, to ensure the same mistakes are not repeated.

These are just some of the steps that accountants such as ourselves would take to help a struggling business. If your business is not performing as you would like, then please contact Andrew Baggott to discuss where we could help you.

Bits & Pieces

Employing a Student?

If you employ a student in full-time education (such as during the summer vacation), any payments you make to them will be tax-free if their income falls below £4,745 per tax year. The student will confirm their tax situation on a form P38(S). From 6 April 2004 employers do not need to send this form to the Inland Revenue but they must keep it for at least three years.

Tax Returns

The normal deadline of 31 January 2005 for submitting your 2003/04 tax return is looming. If you have not already submitted your tax details to us, please do so. This ensures that we can advise you of your exact tax liability.

One Plus One = One

The Government has confirmed that the Inland Revenue and Customs and Excise will gradually merge over the next few years. We can expect a change in documentation and approach as the merger takes place.

www.businesslink.gov.uk

The Government has set up this website for small and medium-sized businesses, which is a resource well worth visiting.

Did You Know?

From 6 April 2005, an employer can pay £50 a week, free of tax and National Insurance, to an approved childminder on behalf of their employee.

Bigger European Union

In May 2004 the European Union welcomed 10 new member countries. This affects VAT for businesses trading with these new members.

Goods and services sold to VAT-registered businesses in those countries, but not within the UK, may qualify for zero rating in a similar way to trading with existing EU members. For advice, visit www.hmce.gov.uk or call us.

Capital Allowances for Small and Medium-Sized Businesses

From 31 March 2004 the Chancellor has removed the 100% first-year allowance (FYA) on the cost of computers. However, to compensate for this, he increased the FYA on the purchase of all equipment (not just computers) from 40% to 50%, except for the purchase of cars and certain other assets.

Increased Access to Funding for Smaller Businesses

Many smaller businesses have struggled to obtain access to funding due to either lack of available security or lack of established track record.

In 1981 the DTI introduced a scheme which provides a guarantee to encourage banks and other financial institutions to lend where small firms are unable to raise conventional finance for viable projects or working capital. This scheme was the Small Firms Loan Guarantee Scheme.

Recent changes have significantly broadened the scope of the scheme thus increasing the number and range of businesses that are eligible to use it.

The main highlights of the scheme are that it is open to businesses performing eligible activities for eligible purposes, both of which are set out in the scheme rules. The loan is a maximum of £100,000 for businesses less than 2 years old and £250,000 for businesses over two years old. It can be repaid over a term of 2 to 10 years, with a potential capital repayment holiday of up to 2 years.

The main changes have been to increase the turnover limit for manufacturing businesses to £5m, with non-manufacturing businesses having a turnover limit of £3m. Additionally, the scope of eligible activities has been changed to include retailing, catering, beauty parlours, house and estate agents, motor vehicle service and repair, and travel agents amongst others. Both these changes open up the scheme to a large number of additional businesses and provide access to potential funding which can otherwise be very difficult to obtain.

To discuss the Small Firms Loan Guarantee Scheme further, or any other aspects of funding or finance, please contact Andrew Baggott.

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