

# UPDATE

Autumn / Winter 2005

## GREAT YEAR FOR CLARKE NICKLIN

It is just 12 months since **Steve Humphries** and **Andrew Baggott** joined us as partners and the result has been a great year for the practice.

Since October 2004, fee income has increased by a third, staff levels have increased by a third and to cater for all of this, we have expanded our offices by taking over a third floor at Grove House. Says partner, Andrew Baggott: "What a great 12 months. Much of the new business has come

from expanding our offering in specialist tax advice, business planning and corporate finance, all of which dovetail neatly into the existing range of accountancy and business advisory services already offered to our clients." He continued: "It is very gratifying to

see that our practice formula of providing clients with an unbeatable range of services, linked to our desire to be an integral part of their success, is working. We intend to build even further on this approach and anticipate continued growth in the year ahead."



CHARTERED  
an  
ACCOUNTANTS

integral

BUSINESS

part of

ADVISORS

your

TAX

success

CONSULTANTS



Some of the new team members with Steve and Andrew. (l to r) Bryan Jackson, Avi Ashraf, Andrew Baggott, Andrew Lavin, Kerry Hinks, Gareth Jones, Gemma Dowell, Paul Mellor and Steve Humphries.

# A - DAY

## PENSION CHANGES

6 April 2006 – called 'A-day', for some reason – brings in a new regime for pension savings in the UK. Rule changes come and go, but this is a big one and it will affect anyone who has a pension policy - not least because the new rules will be applied to old products, rather than just to plans sold after the new beginning.

Many of the features of pensions will remain the same. During your working life, you will try to save up a pot of money and then draw on it while you have retired. Policies that you have contributed to in the past are likely to operate much as you have expected them to since you signed up to them. But there are plenty of new opportunities and a few traps, in the details: what the pot of money can be invested in; how much you can put in each year; how much you can put in altogether and what happens if you go over the limits.

### Free Pension Review

However, whatever your situation, no matter what size of pension or level of contribution you make or even if you currently do not have a pension, you need to review your situation to see if beneficial actions should be taken before or after 'A-Day'.

To arrange your free pension review, please contact our pension expert Scott Herbert or speak to your normal partner contact.

## Pre-Budget Report Highlights

Most of the headlines following the 5 December Pre-Budget Report focused on the economy, with Chancellor Gordon Brown cutting his forecast of UK growth to 1.75% - compared to the prediction of 3-3.5% growth he made in the March Budget. However, the Report did include a number of significant measures and tax changes, including those summarised below.

### Taxation of small companies and small businesses

To end the perceived abuse of the 'zero percent' starting rate of corporation tax, the Chancellor announced that the starting rate will be increased to 19%. In consequence of this change, the complex rules on non-corporate dividends will become redundant.

To continue to encourage investment by small businesses, the rate of first-year capital allowances will increase from 40% to 50% from April 2006.

### Value Added Tax

To assist more small traders with their cashflow, the threshold for the VAT Annual Accounting Scheme turnover will be doubled to £1,350,000 from April 2006. Application has been made to the European Commission to have the rules amended to allow the Cash Accounting Scheme turnover threshold to be increased to the same level.

### 'A-Day' pension simplification

One of the greatest headline features of the 'A-Day' pension simplification was the very wide expansion of items which can be held in Self Invested Personal Pensions (SIPPs), in particular residential property and certain other assets such as fine wines.

Measures will be introduced to ensure that tax relief for all such self-directed pensions is given only to those whose purpose in making the contribution is to provide themselves with retirement income. This will stop individuals claiming tax relief for pension contributions used to fund purchases of holiday and second homes for their or their family's personal use.

### Planning-gain supplement

Announcing a period of consultation, the Chancellor gave some indications of the Government's proposals for a form of taxation on increases in property value arising from the obtaining of planning consent.

It is proposed that a planning-gain supplement (PGS) will:

- be introduced some time after 2007,
- be calculated on the difference between the current value of the land and its value with full planning permission,
- apply to both residential and non-residential land.

The Chancellor stated that PGS revenues will be dedicated to the provision of infrastructure in local communities.

Please contact Steve Humphries or Tony Jakara for specific advice about how these announcements might affect you or your business.



## MORTGAGES

### There are reports that banks are getting fed up with people saving money by remortgaging every few years.

It seems that they are looking at increasing the charges for getting out of one deal and starting up another. It's a reminder that you can save a worthwhile amount of money, without much trouble, by reviewing your mortgage. The banks don't like it, but as long as there's a competitive market with someone else prepared to offer a better deal, there's not much they can do. They rely on most people thinking that it would be too much effort and staying put. Sometimes it can be difficult to be sure that you will save money, particularly if there are costs involved in swapping. But sometimes it's really easy.

If you haven't looked at your mortgage for a while, there's a chance you could make a good saving – before the banks put the costs up too much. If you are not clear how the numbers work, Scott Herbert or your normal partner contact can advise you.

### 'Loan Wash' For Additional Tax Relief

It may be possible to restructure loans, mortgages included, to obtain additional tax relief.

The idea is to repay a loan where no tax relief is obtained on the interest payable, for example a mortgage on your own home, and then to take out a loan for a similar amount where tax relief is obtained on the interest payable.

This can work where, for example, you have an investment property which is rented out or where you have made a loan to a limited company or where you have monies tied up in a trading partnership.

If you think you may be able to restructure your loans to make them more tax efficient, please contact Steve Humphries.

## R&D TAX RELIEF

**A few years ago, the Government decided to encourage British companies to innovate by offering a 'research and development tax credit'. This means that, if you spend money on the right sort of activity, you can deduct 150% of the expenditure when you work out your taxable profit.**

That's a complicated way of giving you a grant to subsidise the expenditure – you could make a real profit and pay no tax on it, because the uplift in the expenditure would wipe out your tax charge. The relief is supposed to be available to companies – not sole traders and partnerships – which spend at least £10,000 a year on the right sort of thing.

The problem is knowing what is 'the right sort of thing'. It's supposed to be something innovative that advances scientific knowledge, or uses such knowledge to improve something significantly. It's difficult to know what that is and a company was found earlier this year to have claimed R&D incorrectly on software that it was writing. Since that case, it seems that the Revenue have started asking far more questions about R&D claims, leaving many companies wondering whether it's worth the hassle to claim them.

**R&D is a difficult area. If you think that you might be eligible for the extra tax relief, Steve Humphries will be happy to discuss it with you.**



# CIVIL PARTNERSHIP ACT 2004

This Act, which takes effect from **5 December this year**, paves the way for changes to all existing tax legislation, so that civil partners (registered same sex couples) formed as a result of the Civil Partnership Act 2004 will be treated the same as married couples for tax purposes.

## Current Law and Proposed Revisions

Married and unmarried couples are usually treated differently for tax purposes. For example a husband and wife are protected from tax charges that might otherwise arise if they transfer assets between them. This protection is not available to unmarried couples. On the other hand, there are situations where husband or wives can be taxed on certain benefits that are provided for their spouse but if the persons concerned are unmarried that is not the case.

This Act creates an entirely new legal status of civil partner, giving same-sex couples in the UK the opportunity of acquiring a legal status for their relationship. Couples who enter into a civil partnership will gain a package of rights and responsibilities reflecting those already available to a married couple.

For tax purposes, the Government has announced that civil partners will be treated the same as married couples. Areas affected include: Inheritance Tax, Capital Gains Tax, anti-avoidance legislation and many other areas.

**For advice in this area, please contact Tony Jakara.**

## CORPORATE FINANCE - A COMPLETE PACKAGE

We are delighted that the Corporate Finance services offered by the firm have continued to prove popular with both existing and new clients.

As well as a number of fund raising assignments, involving assisting in structuring and sourcing funding for businesses, we have advised on three acquisitions in the last two months.

All these involved reviewing the financial and commercial information on the proposed deals, recommending how they should be structured, assisting with negotiations, introducing and helping brief solicitors, advising on funding structures and issues, and project managing the deals to completion.

In addition to this mainstream Corporate Finance advice, we have also been able to offer other complementary services both pre and post completion, including:

- Tax planning
- Tax compliance
- Companies House compliance
- Accounting systems advice and set up
- Payroll services
- Management accounts preparation
- Statutory accounts compliance

This ability to provide a complete corporate finance package all under one roof, taking away the hassle, stress and uncertainty of such a situation, is one of our strengths that has been extremely well received by our clients.

**If you require any further information on the above services, please contact Andrew Baggott.**

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This firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide.