

proactive

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SUMMER 2008

Be Prepared

If you are expecting a VAT or PAYE visit from HM Revenue and Customs, it may be tempting to let the visit go ahead in the hope that all will be well. Talking to us beforehand, however, will prepare you for the day, highlight any risk areas and save stress - and potentially money - in the long run.

The HMRC team will be professional and experienced. Their job is to satisfy themselves that VAT or PAYE is being dealt with correctly and if not, to assess the tax underpaid. You should be careful to give clear factual replies to questions and if you are unsure about the facts - or the implications - to say so.

If you use self employed sub contractors or have pool cars then you will need to be particularly careful. Questions are not always as innocent as they might seem and after the visit has taken place it can be very difficult to persuade HMRC that the answers they obtained were incorrect or incomplete. This is where the costs of challenging a demand can mount up, especially where several years are involved.

Fee protection cover - which we offer - can be very useful in dealing with the costs, but thorough preparation before the visit is vital.



A Summer Celebration

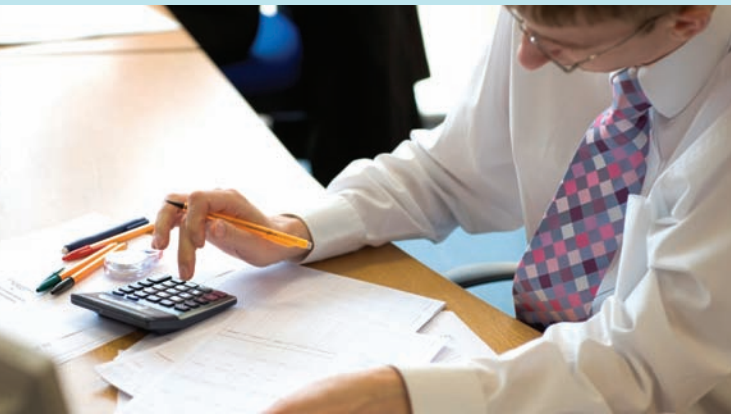
On 19th June, we held a reception to mark Christine Gimblett's retirement from the firm.

Christine joined A C Mole & Sons in 1959 as a secretary and in 1994 transferred to the tax department, where she continued to work until earlier this year. Back in 1959, A C Mole's sons Edgar and Horace were still partners and over the years Christine witnessed some major changes: the opening of our Bridgwater office, two mergers, the transition from typewriters, through word processors to computer generated accounts and tax returns and

the move from the centre of Taunton to our purpose built offices at Blackbrook.

Colleagues from the past 49 years came along to the celebration, held by kind permission of Julian Stainton, chief executive of WPA in the stunning glass atrium of WPA's Blackbrook headquarters, just a few yards from our Taunton office. There were no formal speeches - just a toast to a truly irreplaceable colleague.

Flattening your VAT bill



We may not have a recession but we certainly have a credit crunch and almost every business is concerned about cashflow. Tax – particularly VAT – can be an important element in this and there are a number of ways of easing its effect, especially for smaller businesses.

If your annual turnover is less than £1.35 million you may be eligible to use the Annual Accounting Scheme. This allows you to submit just one VAT return each year and to pay your VAT in equal installments over the year, smoothing the impact on cash flow. This can be particularly useful to seasonal businesses. You also get an extra month to prepare the VAT return and to make any balancing payment due.

The Cash Accounting Scheme is also open to businesses with annual turnover of less than £1.35 million. Under this scheme you do not have to pay the VAT on sales over to HM Revenue and Customs until your customers have paid you. This can be a significant benefit if your customers pay slowly. The downside is that you can only reclaim VAT on purchases when you have paid your supplier rather than when you receive the invoice.

Businesses with annual turnover of less than £150,000 excluding VAT or £187,500 including VAT should look at the

Flat Rate Scheme. This involves you charging your customers VAT at 17.5% but paying HMRC a lower percentage of your VAT inclusive turnover (rather than the conventional method which subtracts VAT suffered on purchases from VAT due on sales). The percentage varies according to the type of business – from 2% for post offices to 13.5% for labour only building or construction services. Some businesses can achieve substantial savings while others may be worse off. Accounting is simpler and new businesses get a 1% reduction in the flat rate percentage in their first year. There are special rules for capital expenditure – such as vans or equipment – so that if the VAT on the purchase of a single capital item exceeds £2,000 it can be reclaimed; smaller amounts are effectively “lost” in the flat rate percentage.

In these difficult economic times it is worth checking your position; even the tax man can be an ally in easing cash flow.

What if...?

Crystal balls are hard to come by but with a slowing economy, every business needs to be planning ahead. If you haven't already done so it would be prudent to look at how your profits and cashflow would be affected both by factors you can't control and by factors that you can, for example:

- An increase in interest rates of 1%, 2% or even 3%
- An increase in energy costs of 5%, 10% or 15%
- An increase in general inflation of 1%, 2% or 3%
- An increase in wages costs to keep pace with inflation
- A fall in sales of 5%, 10% or 15%

Even the smallest businesses can use a simple spreadsheet for this basic “what if” modelling (though if you find the prospect daunting, we can of course do it for you and talk you through the results). Looking at the effect of these factors is only part of the exercise; deciding what to do in response is equally important.

You may need to consider:

- Whether costs can be cut by changing suppliers or renegotiating prices
- Whether staff cuts are necessary
- Whether the bank facility is adequate and where alternative funding may come from
- Whether it would be a good time to consider selling or restructuring the business or to consider buying out a competitor
- Whether cash control and debt management procedures can be improved; do you for example ask for payment in advance, on presentation of invoice or after thirty days? Do you actively chase debts?

The threats and options will vary from business to business, but some basic “what if...?” modelling can highlight potential problems before they arise and give you the time to take action in a controlled way.

A Changing Landscape

To many of us, farmland looks pretty much the same as it did fifteen years ago. From the tax man's perspective, however, it looks very different.

Actively farmed land is generally exempt from inheritance tax (IHT). From September 1995, this includes land let by the owner on a farm business tenancy (FBT), but only to the extent of its agricultural value; any excess “hope” value is likely to be subject to IHT as, potentially, is the farmhouse. The safest way to secure full IHT relief is either to farm the land directly, or to enter into a contract or share farming arrangement, but since 1995 the FBT has held some attraction.

The attraction increased significantly in April 2004 when FBT arrangements qualified as business assets for capital gains tax (CGT) attracting the low 10% tax rate. Then in April 2008 it all changed again, with the rate of CGT increasing from 10% to 18%. The new Entrepreneurs' Relief, which retains the 10% rate for gains on sales of businesses up to £1,000,000 will not – in most instances – apply to land let on FBTs. The CGT inflation allowance – which effectively doubled the CGT “cost” of land and buildings” was also withdrawn in April,

thereby increasing the gains potentially subject to tax, and land prices have of course been rising.

Against this background of ever changing legislation, higher land values and increased Revenue scrutiny, it is important that farming businesses and landowners consider their position; is there any intention to sell the whole or part of the business in the short term? Will HMRC accept that the farmhouse a genuine farmhouse? If there is an FBT in place, is it still appropriate? If there is a contract farming arrangement, is it a genuine risk-sharing arrangement? Is there an opportunity to rearrange things to minimise the tax burden? Is the main concern IHT or CGT? Is the law likely to change again?

Don't take the view from the farmhouse window for granted. More has changed than you may have realised and the tax at stake may be substantial.

Better never late

The Companies Act 2006 is the longest act ever to have been passed by Parliament and it has repealed and restated almost all of the previous Companies Acts. The provisions are so extensive that they are being implemented over a period of time. The four key dates for implementation are 1 October 2007, 6 April 2008, 1 October 2008 and 1 October 2009 on which date the new Act will have been fully implemented.

For accounting periods beginning on or after 6 April 2008, the Companies House filing deadline date for private companies reduces from 10 months to 9 months, and for public companies from 7 months to 6 months. Significantly increased penalties for late filing of accounts will come into force from 1 February 2009:

Length of period after due date	Private Companies	
	Current Penalty	Penalty (from 1 February 2009)
Not more than 1 month	£100	£150
More than 1 month but not more than 3 months	£100	£375
More than 3 months but not more than 6 months	£250	£750
More than 6 months	£500	£1500

There are even higher penalties for public companies.

In addition, if accounts are filed late for two successive years from 1 February 2009, then these penalties will be doubled. Company directors will need to plan ahead to ensure accounts are prepared, approved and submitted before the new shortened filing deadline dates.

The Act also imposes new obligations on directors, gives private companies the option of not having a company secretary and requires basic information – including the registered office address and company number – to appear on websites as well as on company stationery. We will be covering more of these changes in future editions of Proactive. If you are a company director, you need to know about the changes and more information can be found on the Companies House website.

Buying, selling, restructuring

Our corporate finance and tax teams have had a busy few months and despite the economic gloom we have dealt with a number of sales, acquisitions and reconstructions.

We acted for our audit clients Helston Garages, one of the West Country's largest car dealerships, in their acquisition of Tice & Son in Dorchester and L J Irvine in Bridgwater. These companies offered a perfect match to the group's existing well balanced portfolio of brands ranging from Porsche, Ferrari and BMW to Volvo, Volkswagen and Peugeot.



Norman Bell raises a glass of Big Lamp to celebrate a successful restructuring

We also advised the owners of the South West's leading poultry producer, Lloyd Maunder, on the sale of a substantial part of their business, offering tax and commercial advice on the structuring of the deal and working closely with the company's lawyers to effect a successful sale. Peter Maunder said 'The team at A C Mole & Sons navigated us through some difficult tax issues. They were there every step of the way with us, always available when we needed them.'

The sale of another business, Healthskills, involved a carefully structured "earn out" arrangement, which in the view of managing director Nigel Grinstead "neatly ensured that the shareholders would receive not just the value of their shares at the date of sale but further sums reflecting the company's subsequent performance – all wrapped up in a very tax efficient package"

Corporate deals are not exclusively centred on sales and acquisitions. Sometimes a restructuring is needed to separate different parts of a business or to allow owners to alter shareholdings in a tax efficient way. Petersen's Stainless Rigging is a case in point. Four years ago we advised on a demerger to separate out two distinct elements of the company's business and earlier this year we advised on a tax efficient repurchase by the company of shares from two major shareholders.

Petersen's have established themselves as one of the best and most innovative manufacturers of high quality stainless steel marine and architectural products in the world. At one stage the company - which was originally founded in Bergen, Norway during the early 1900's as an engineering blacksmiths serving the marine and agricultural industries and which relocated to England in 1978 - contained two very different businesses: steel shackle manufacturing and a bed and breakfast and brewery enterprise. These two elements were separated at no tax cost by way of an HMRC-approved demerger so that Petersen's Stainless continues to operate the engineering business and the bed and breakfast and brewery activities are carried on by a new company, Big Lamp Inns.

Managing director Norman Bell's verdict on the restructuring

"The shape of the deal altered several times – as these things do - and each time the tax advice was changed to deliver the result we needed. The relevant tax clearances were obtained from HMRC swiftly and when a potentially show-stopping issue arose they unearthed a statement from the Revenue dating from the 1970s that resolved the problem."

If you are looking to sell your business, to expand it or to restructure we have the commercial, financial and tax expertise you need – whether you are in the South West, North East or somewhere in between...