

# proactive

Inside:  
Autumn Statement

WINTER 2011

## In the press

Our farming survey generated a good deal of press interest and made the headlines in newspapers across the South West. Rob Selley from our farming team was quoted in the West Briton, The Somerset County Gazette and the Western Morning News while Chris Loveluck was interviewed with A C Mole & Sons client John Lucas on BBC TV. We have also been quoted extensively on tax issues, including the Chancellor's Autumn Statement, over the past few months both in the press and on BBC radio.

## It's a scam

Fraudsters continue to target individuals with emails purporting to be from HMRC promising tax refunds. The emails look very convincing but HMRC will never contact you by email regarding a personal tax refund and if you receive one you should simply hit the "delete" button.

## New tax penalties

Any 2010/11 self-assessment tax return filed after 31 January 2012 will automatically attract a penalty of £100 even if there is no tax due. If the return is not filed by 30 April then penalties of £10 per day will accrue for 90 days. A second penalty of up to £300 will then be levied with a further £300 six months later. A delay of a year could cost £1,600 in penalties. Also, from April 2012 all VAT returns will have to be completed online with penalties for those who fail to comply.

## Christmas cards

We have decided to retire Mr Mole, who has graced our Christmas cards for the last ten years and instead to make a donation to charity. We wish our clients and friends a merry Christmas and happy and healthy 2012.



# Farming

## some light amid the gloom?

Despite the general economic gloom our farming survey, conducted at the end of the summer, revealed some encouraging trends.

Two thirds of farmers with children said that their farms would stay in the family for at least another generation, which has to say something about the way they view the future prospects for the industry. Only 2% said they were planning to give up agriculture altogether. Turning to finance, almost three quarters said that their bank was as supportive as - or more supportive than - a year ago. Only 27% said that their bank was less supportive.

Nearly 40% reported that they had diversified into new business areas or were thinking of doing so. Tourism and energy generation were the most popular choices, especially amongst arable farmers.

Asked what points they would most like to make to government, the main concerns

were to be paid a fair price for food and milk production and for a solution to be found to the problem of bovine TB. Reducing red tape was also high on the wish list. Overall, the findings on bank finance, diversification and succession show that even with the current state of the UK economy the farming community remains remarkably resilient.

Whatever business you are in, we would like to know what you think about the current trading environment and you can take part in our "2012: prospects for business" survey on line at [www.acmole.co.uk/survey](http://www.acmole.co.uk/survey). One entry chosen at random will win a bottle of champagne to help the winner see in the New Year.

# The Chancellor's Autumn Statement: paying our way

The Chancellor's Autumn Statement on 29th November was delivered against a grim economic backdrop.

The UK's borrowings now stand at around £1000 billion and the borrowings will continue to rise by a further £137 billion in the current year, £127 billion in 2012, £120 billion in 2013, £100 billion in 2014, £79 billion in 2015 and 53 billion in 2016. UK growth for the current year has been revised downwards from 1.7% to 0.9% and for next year from 2.5% down to 0.7%. Inflation stands at 5.2%. We are at least not in recession, although the Chancellor warned that "if the rest of Europe heads into recession, it may be hard to avoid one here".

The good economic news was limited, but the UK still has its coveted AAA debt rating and as a consequence can at least still borrow at acceptable rates. The Chancellor noted that Italy's current cost of borrowing was 7.2% - almost three times the rate at which the UK is currently borrowing.

## Businesses

Mr Osborne was clear on the way forward: a revival of the economy has to be driven by business and the government "must help businesses to grow and succeed". The important thing, he said, is "to get credit flowing to Britain's small businesses". To that end he announced a number of measures.

Firstly, he unveiled a £6.3 billion national infrastructure plan with over 500 projects, which should provide a much needed boost to the construction sector. Secondly he announced the introduction of a National Loan Guarantee Scheme with up to £20 billion of government guarantees to enable banks to offer loans at a (slightly) reduced rate to smaller businesses with turnover up to £50 million.

Thirdly the Business Finance Partnership will make available a further £1 billion for investment in smaller and mid-sized businesses in the UK through non-bank channels. The Enterprise Finance Guarantee will also be extended from January 2012 to businesses with annual turnover of up to £44 million.

There will be relaxations to the Enterprise Investment Scheme and a new Seed Enterprise Investment Scheme (SEIS) will be launched, allowing small companies to raise up to £150,000 from private investors. The individual investors will be able to subscribe up to £100,000 for shares in these companies in the 2012/13 tax year, obtain 50% tax relief (whatever rate of tax they pay) and claim exemption from capital gains realised in 2012/13 and invested that year into a SEIS company.

The Chancellor confirmed the planned reduction in the main corporation tax rate to 25% from 1 April 2012, ultimately falling to 23%. The small companies' rate will remain at 20%.

## Individuals

The only direct tax measure affecting individuals was the freezing of the annual capital gains tax exemption (in order to pay for the CGT relief on SEIS investments). There was good news in the form of the deferral of the 3 pence per litre road fuel duty increase planned for January, the uprating of the State pension next year by 5.2% and the £50 reduction in water rates bills for customers of Wessex Water.

## Last words

Perhaps the last words should go to the Chancellor himself: "we are showing a world sceptical that democratic western governments can take tough decisions that Britain will pay its way in the world". Our economic credibility, our AAA debt rating and our prospects depend on that. The stakes could hardly be higher.

## Never too early: Junior ISAs & CTFs

It is never too early to start tax planning.

The government recently launched Junior ISAs. These enable up to £3,600 a year to be invested for a child under 18 in an account that is exempt from both income tax and capital gains tax. The child must not be eligible for a Child Trust Fund (CTF) account and the money cannot be taken out until the child is 18. Two types of Junior ISA are available: cash ISAs and stocks and shares ISAs.

Although CTFs are not available for children born on or after 2 January 2011, parents, family and friends of children who already have a CTF can now contribute up to £3,600 a year to the account, aligning the limit with that for Junior ISAs.

Another tax efficient long term savings vehicle is the stakeholder pension. A contribution of up to £2,880 a year is topped up by the government by 25 pence for every £1. Again, there is no lower age limit and while the fund cannot be touched until retirement, it will grow tax free in the interim. The longer the period over which savings are accumulated in an ISA, CTF or stakeholder pension, the greater the ultimate benefit.

ISAs are also attractive to older taxpayers. The limit for ISAs held by those over 18 now stands at £10,680 for the current tax year rising to £11,280 from 6 April 2012.



## When the bank says 'no'... the tax man might say 'yes'

The Enterprise Investment Scheme (EIS) has been around for many years, but with banks continuing to be cautious in their lending, it has recently seen a revival of interest from companies seeking start up finance or funds for expansion.

The practical advantage for a company is the opening up of a new line of funding: the potential drawback is that issuing EIS shares means partial sharing of ownership of the business.

The attraction for investors is in the form of some very generous tax breaks. Firstly, there is income tax relief of 30% on qualifying investments of up to £500,000 in a tax year (rising to £1 million from 6 April 2012). Secondly, a disposal of the shares (as long as they have been held for at least three years) is free of capital gains tax. Thirdly, after two years, the shares escape inheritance tax. Fourthly, if the company fails and the shares become worthless, relief for the capital loss can be claimed either against other capital gains or against income tax (up to and including the 50% rate). And fifthly, if the investor has made a capital gain on the disposal of any asset in the three years

before or one year after making the EIS the investment, they can "defer" payment of some or all of the capital gains tax for as long as they hold the EIS company shares.

Only small private companies can use the scheme. Up to £2 million (£10 million from 6 April 2012) can be raised by a company through EIS each year. Not all businesses qualify (farming, property development and the provision of legal services, for example, are excluded) but we have helped businesses as diverse as manufacturers, pubs, publishers, film production and even golf courses use EIS. You can read one client's story on page 4.

**There are some very complex rules to navigate but if the bank says "no" EIS may be the answer.**

# DUKW to water

A few years ago, A C Mole & Sons client Howard Slater set out to give an iconic World War 2 military vehicle, the DUKW, a new lease of life.



The prototype DUKW was built in 1942, but the military top brass did not like it and the project was on the point of

higher horsepower, energy-efficient engines which meet the latest environmental standards. On the water a jet drive propulsion unit, providing both power and steering, replaces the old propeller drive system. This quantum leap in design enhances speed, manoeuvrability, safety and reliability. Optimum efficiency is achieved with bespoke electrical and electronic systems. SeaHorse, complies with the most stringent certification requirements, whilst retaining the iconic amphibious characteristics and shape of the original DUKW.

cancellation when an order for 2,000 was received ahead of the D-day landings. The generals remained unenthusiastic, but at the final trial a Coast Guard boat ran aground 1/4 mile offshore in a 60-knot wind. No rescue could be mounted through the heavy surf. In desperation a DUKW headed for the stranded vehicle and in just six minutes rescued the Coast Guard crew. Two days later the US Secretary of State for War recommended that DUKWs should be built for the D-day landing and the rest is history. DUKWs landed about a third of all men and materials on the D-day beaches and continued to play a significant role throughout the Pacific and Asian campaigns of World War 2. When manufacture ceased in 1946 nearly 23,500 had been built and commissioned.



Creating the SeaHorse required years of hard work perfecting the design, achieving certification and finding customers. It also required funds. Howard's company, Porcellio, was faced with a situation familiar to many

small businesses: a great idea but one with clear financial risks. When the bank said no, the Enterprise Investment Scheme (EIS) – described on page 3 – provided the way forward, attracting private finance to fund the development. In the words of one investor, Jennifer Cloke: *“Investing in a small private company is a risk, no matter how good the business looks. Howard had a great idea, but would he find a market for the vehicles once they had been developed? That was a very real risk and the tax breaks available through EIS turned it from a risk I couldn't have taken to one that I felt I could.”* Howard added *“Cash flow is critical to a project like this - EIS unlocked the crucial funds.”*

Howard's ambition was to create a new version of the DUKW employing modern technology and materials. Over the past fifteen years, he has overseen the conversion, design and manufacture of around two dozen machines. Initially this involved conversion of original DUKWs but more recently the focus has been on developing a new version called SeaHorse. The new hull, deck and canopy are built with glass reinforced plastic instead of steel, substantially reducing maintenance costs. Both road and water drive systems are powered by

**You can see a SeaHorse in action at [www.dukwforsale.com/](http://www.dukwforsale.com/)**

SeaHorse is a reality thanks to Howard's vision and determination and to the support of the company's investors. And even the tax system played a part in returning this particular DUKW to water.