Mr & Mrs...

Last year the House of Lords ruled that a married couple were entitled to split the ownership of a business between them and enjoy the tax benefit of paying dividends to both, even though one was much more involved in the business than the other. Celebrations for everyone who has been worrying about this since the Revenue first took up the argument in 2003…

…except that the Revenue haven't given up. They have put out for extended "consultation" a new set of rules which would cancel what they see as the unacceptable benefit of this tax planning, which they call "income shifting". We hope that they really mean to consult and take people's comments into account, because the proposals would create a great deal of difficulty – as well as higher tax bills – for small businesses. The idea is that income that one person could have reasonably expected to receive on a commercial basis, which is diverted to someone else by using a company or partnership, will be taxed on the person who could have received it in the first place.

The Revenue do not seem to recognise that this is not clear cut, and as a result it will be very difficult to say how much – if any – income should be subject to the rules. Where a business is run by two people together they will almost always make different contributions which may be hard to value. How can you say for certain what each person deserves, when a business is being jointly run?

Although it is not yet known when the new rules will be announced, they will be coming into effect in April 2009, which may not leave a great deal of time for any responses to the consultation to be taken into account. Maybe that tells us something. Meanwhile, if you are running a business jointly with someone you are close to (they have now gone beyond just husbands and wives), you will need to keep an eye on how this might affect you. We will be ready to advise you – when the Chancellor tells us what the rules will be!

May contain nuts!

VAT on food is a great mystery. "Confectionery" is supposed to carry VAT, but what exactly does that mean? Then again, cakes and biscuits – apart from chocolate biscuits – are VAT-free. There are regular arguments in court about cereal bars, which HMRC think should be VATable – and they generally are.

A recent case considered whether a cereal bar was like a flapjack, because since 1973 Customs have had a policy that flapjacks are zero-rated. Yes, Customs have a policy on flapjacks… and they argued that this was a generous concession that they couldn't justify but didn't want to take away. They wanted to apply the letter of the law to cereal bars, which weren't around in 1973 so they weren't covered by the policy.

The Tribunal chairman confessed that he couldn't see much sense in all this, but Customs were right – cereal bars are VATable.

Capital Ideas

Remember that the rules on capital allowances are changing significantly on 1 April (for companies) and 6 April (for income tax traders). Small businesses will be able to get 100% relief on £50,000 a year of expenditure on plant, but writing down allowances will fall from 25% to 20%. As the first year allowance is currently 50% for small businesses, you are better off under the new rules if you spend up to £100,000 on plant.

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Ask Questions Later

At the moment, if HMRC want to ask you a question about your tax return, they have to start their enquiry within 12 months of the due filing date. It makes no difference whether you filed your 2006/07 return on 10 April 2007 or on 31 January 2008, they get until 31 January 2009 to decide whether they want to poke and pry.

This is changing for the better – for 2008/09 personal returns, and company returns for periods ending after 31 March 2008, they get 12 months from the day they receive the return. At last there is a real advantage in filing early (apart from making your accountant's life easier!).

At the same time, they are bringing forward the last filing date for paper returns to 31 October – there's a stick as well as a carrot. Returns for 2007/08 can still be filed over the internet up to 31 January 2009, but a paper return after Halloween will be penalised.

Take Cover

With HMRC now investigating more companies than ever before, and one in ten firms being made subject to a tax investigation, it's worthwhile insuring yourself against the potential professional fees that this could entail. We have teamed up with insurance experts HLI (UK) Ltd to offer you cover for up to £100,000 of fees, for as little as £49 for private clients, £90 for sole traders, £135 for partnerships, and £160 for a limited company (which includes cover for all the directors). Call us to ask for an application form – our group renewal date is 1 May 2008.

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The articles contained in this newsletter are of a general nature and should not be acted upon without specific advice relevant to your circumstances.

Seasonalnews
SPRING 2008

A Site for Sore Eyes

Spring is almost upon us – a time for review, renewal and revival. So what better time for us to announce the launch of The Paris Partnership's new, improved, interactive website! When you visit

www.parispartnership.com

in addition to finding details of the many services we offer (some of which you may not have previously been aware of), you will also discover lots of fantastic online resources – from factsheets, to mortgage calculators, to HMRC and Companies House forms, to the latest market data and financial headlines. And if you click through to our Gallery, you'll also see some familiar faces!…

As always, we'd love to hear what you think of it – so please take a few minutes to log on and scroll through. We hope it will be a site you'll bookmark and come back to again and again.

Meanwhile, we hope you enjoy the contents of our Spring newsletter. We are, as ever, at the end of a phone if there are any specific topics which you would like to discuss with us.

Wishing you a bountiful Spring,

The Paris Partnership

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Also in this issue...

Mr & Mrs...
A look at tax changes to split ownership of businesses.

Capital Gains Tax
Winners and Losers.

Anything to Declare?
Remittance Basis changes...are you affected?

Winter of Discontent
Alasdair Darling's first budget.

Winter of Discontent

Poor Alasdair Darling. Promoted to Chancellor and immediately hit by a large (Northern) Rock – and running into a firestorm of criticism for his attempt to simplify Capital Gains Tax in his first Pre-Budget Report. All he needs now is the discovery of an enterprising trader at a British bank who has been competing with the French in the financial markets…

During all this turbulence, the Chancellor was also busy preparing for his first proper Budget. Some of the contents were no surprise because Gordon Brown had told us about them last year – a 2% cut in the basic rate of income tax, and corporation tax for small businesses going down by 1%.

There have also been some very important changes affecting capital allowances, foreign domiciled people, a new single rate for CGT, and proposals for "husband-and-wife" businesses – all of which we'll go into further on in this newsletter. In one of his first public statements Mr Darling said, "We must continue to simplify the tax system further wherever we can". Some people will take this as a good sign – perhaps he will make it easier to comply with a British citizen's many taxpaying duties. But the words "continue" and "further" are worrying – if he really believes that Gordon Brown has simplified anything in the last 10 years, he may not be up to the job. However Budget Day affected you, we will be ready to help you, whether your tax becomes simpler or more complex.

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CAPITAL GAINS TAX

WINNERS

Last October Mr Darling announced that he would simplify CGT by bringing in a flat rate of 18% and abolishing taper relief and indexation. This is good news for the people who would have paid at more than 18% anyway – higher rate income-tax payers who don't have investments they have owned since before April 1998 (so they won't lose indexation allowance) and who don't have "business assets" for taper relief (on which the rate of CGT was generally 10% after two years).

For example, if you have owned a buy-to-let property since May 1999, on 5 April 2008 your CGT rate on a gain would probably be 28%. On 6 April you will pay tax on the same gain at 18%. And the rules for dealing with investments in shares will become much simpler to operate.

At least he has announced one "sweetener" for some of those who would have lost out – the 10% rate will be retained for £1m of gains for people selling a business that they have been running. The so-called "entrepreneur's relief" will be available after the business has been owned for one year, and there will be no minimum age limit on the sale – but the £1m is a limit for your lifetime, not for each successive sale. So those people could be better off, or no worse off, under the new rules.

LOSERS

The problem with Mr Darling's CGT proposals is that many people will pay more CGT as a result. They are a mixed bunch: basic rate taxpayers who could have paid less than 18% with taper relief after 5 years' ownership of an investment; employee-shareholders of quoted companies who would have paid 10% after two years; venture capitalists who qualified for the 10% rate on the companies they invested in. As well as those who benefited from taper relief, there are others who had a high base cost a long time ago who will lose out because they enjoy some adjustment for inflation up to April 1998.

Anything to Declare?

Foreign domiciled people – usually those with a non-UK parent and continuing foreign connections – didn't have to pay tax in the UK on the income or gains they made abroad, as long as they left the money overseas. They paid tax on "remittances" of income or gains into the UK, which meant they could choose when and how much tax they paid. Usually they didn't pay very much at all because there were many cunning plans to exploit the rules.

As announced in the Pre-Budget Report, new rules will come into force in 2008/09 to make the remittance basis much less attractive. There will be a number of detailed changes, but the eye-catching headline affects anyone who wants to use the remittance basis after being resident in the UK for seven of the last ten years – they will have to pay a flat charge of £30,000 for the privilege. It won't matter whether the unremitted income and gains are £10,000 or £10m – £30,000 to HMRC will cover it. The only exception will be for those whose unremitted foreign income and gains for the year are less than £2,000.

If you have in the past enjoyed the benefits of the remittance basis, you will need to consider how the new rules will affect you. We will be happy to help.

Dates for your Diary

06.07.08	forms P11D to Inland Revenue; copies to employees
18.07.08	Class 1A NIC due on benefits (as the 19th is a Saturday)
31.07.08	Payment of 2nd instalment of 2007/08 Self-Assessment due Further 5% penalty on any tax outstanding for 2006/07
31.10.08	NEW earlier filing deadline for *PAPER* Tax Returns for 2007/08. (Online filing can still be done up to 31 January 2009)

Signed, Sealed, Delivered?

Last April the Royal Mail introduced a new pricing structure which has left a lot of us scratching our heads and reaching for our rulers!

Please note that any envelopes larger than C5 (i.e. A4 folded in half) are categorised as "large letters" and therefore require more postage – otherwise they risk going permanently astray within the postal system! A "large letter" weighing up to 100g. will need a 48p stamp rather than 34p.

If you are sending potentially heavier correspondence to us, we would advise you to get it weighed and stamped at the Post Office, to be on the safe side.

Irreplaceable You

A "key man insurance policy" is sometimes taken out by a business to cover the risk of a crucial employee falling under a bus. Companies have had arguments with the taxman about the two obvious questions – are the premiums a valid business expense, and are the proceeds taxable if the policy pays out?

The answer is "it depends". If the purpose of the policy is to benefit the company – to keep the business going through the difficult times while the key employee is replaced, or to make up for the dip in profits that will be suffered because of their loss – then the premiums should be deductible and the proceeds taxable. If the purpose is to protect the shareholders – for example, if they have guaranteed the company's borrowings, and the policy will pay off that debt – then it's likely that the insurance won't be treated as part of the business.

It's worth thinking about it if you have one of these policies. Of course, you hope that your key man doesn't die – but if he does, the Revenue will take your deduction of the premiums as strong evidence that the proceeds will be taxable. If it's really not a trading matter, it should be treated as something outside the business from the outset.

If you want to discuss the treatment of your insurance policies, we will be happy to help.