


# Seasonal news

## The rich tapestry of life

 The government may have its yearly calendar firmly set out for us accountants and tax advisors, with each “season” clearly defined – P35s and P60s in Spring; tax returns in the New Year, and so on.

But at The Paris Partnership, we know that life doesn't always follow Inland Revenue deadlines. Despite our best intentions, circumstances beyond our personal control can often mean our mental, financial and emotional resources are diverted elsewhere, resulting in panic and anxiety when official cut-off dates suddenly loom large. The Paris Partnership understands this – so let us help. If you are going through an unsettling or potentially life-changing time, let us know, so that we can help you plan ahead for any possible outcome.

We know that life isn't just about facts and figures – it's also about people, and their hopes and aspirations. So let The Paris Partnership bring the personal touch to your finances.

Wishing you a great summer,

*The Paris Partnership*



## I Thee Endow?

Divorce is a costly business, particularly if a richer partner finds that their other half claims... well, the other half. A prenuptial agreement is not very romantic – “I love you forever, but just in case we break up...” – but it could make sure that the marriage is for love, not money.

The question is, do they work? In a recent case, the wife argued in court that she had not known about the full extent of her husband's assets when she signed the agreement, so she should be allowed to ignore it. The judge saw no reason to do so: she had enough money to provide for herself, and it appeared that she had willingly signed it knowing what it was. She had agreed to walk away with what she had brought to the marriage, and that was that. The Court of Appeal agreed.

## Looking for Inspiration?

If you're not already receiving our newsletter, sign up now and you'll get updates on business and accounting news, inspiration, advice and a fresh perspective on how to realise the full potential of your business.

Simply email your name and company name to [office@parispartnership.com](mailto:office@parispartnership.com).

### Do you like what we do?

Email us your comments, feedback and suggestions at:

[newsletter@parispartnership.com](mailto:newsletter@parispartnership.com)

and, if you like how we do things, feel free to recommend us to your friends and colleagues.



**The Paris Partnership**  
Russell House, 140 High Street  
Edgware, Middlesex HA8 7LW  
t 020 8951 5522  
f 020 8951 3377  
e [office@parispartnership.com](mailto:office@parispartnership.com)  
w [www.parispartnership.com](http://www.parispartnership.com)

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



**The Paris Partnership**  
Russell House, 140 High Street  
Edgware, Middlesex HA8 7LW  
t 020 8951 5522  
f 020 8951 3377  
e [office@parispartnership.com](mailto:office@parispartnership.com)  
w [www.parispartnership.com](http://www.parispartnership.com)

### Also in this issue...

**After “U” Gordon?**  
Keep up with the twists and turns

**Nowhere to hide**  
The limitations of going limited

**Papers in order**  
Deferring CGT charges

**It ain't necessarily so**  
Putting it on expenses

## Nowhere to Hide

Doing business through a limited company is supposed to protect you financially when things go wrong. The company goes bust but you don't. That's the theory, but it has limitations. Lenders and landlords often take personal guarantees from the directors or shareholders; and the law doesn't look kindly on people who risk other people's money from the safety of their company.

In a recent case, a director signed a contract committing his company to pay for goods when he knew the company was insolvent. One judge said he could be sued for damages on the grounds of deceit, but the Court of Appeal ruled that he was personally liable on the contracts. He knew what he was doing and he knew that it was wrong, and he could not walk away.

It's a reminder that directors need to think realistically about their company's ability to pay, and to make sure they have up-to-date and reliable information to help them make good decisions.

## What a Relief!

Most investors benefit this year from a cut in the rate of CGT from their top income tax rate to just 18%. The “taper relief” that has been around for 10 years, and has just been abolished, reduced the tax rate – but most people still paid more than 18% on gains.

The main losers are those who enjoyed “business assets taper relief” (BATR) and could therefore pay as little as 10% on gains. Mr Darling has allowed for some of those people so they can still pay 10% on up to £1m of gains: Entrepreneurs' Relief (ER) is available for disposals after 5 April 2008, and it has the effect of reducing gains by 4/9ths. The remaining 5/9ths is taxed at 18% – so the charge is 10% of the number you first thought of. Simplifying CGT is never easy!

It's important to appreciate that ER does not apply to everything that enjoyed BATR. You get it if you sell a trading business or part of a trading business – that's much the same. But it's different for shares: BATR was available for shareholding employees of any sort of company, and outside investors with any level of shareholding in an unquoted trading company, but you can only benefit from ER on a sale of shares if you own at least 5% of the company, it carries on a trade, and you work for it.

There are also complex rules about selling assets that are used in a business on which you qualify for ER, but which you own separately. You can qualify on them as well, but there are extra conditions.

If you want to know your likely CGT position under the new regime, we will be happy to explain it. If you are thinking of selling a business, it's well worth taking advice first so you minimise the tax.

# After "U", Gordon?

When she was Prime Minister, Lady Thatcher was famously "not for turning". Now Gordon Brown has been forced to accept an astonishing U-turn, upsetting the headline-grabbing changes to income tax rates he made in his last Budget in 2007. Alistair Darling had to announce an increase in personal allowances to compensate those low earners who lost out as a result of the abolition of the 10% tax rate on 6 April 2008. The Chancellor had to tell Parliament, but it was Mr Brown who admitted he had made a mistake in failing to realise the impact of his changes on the very people his party have traditionally stood up for.

No-one can remember such a thing happening before. The personal allowance is usually an uncontroversial part of the Budget, and for it to be changed after the Revenue have sent everyone their notices of coding – after tax rate cards have been printed and despatched – is unprecedented. Although there will be a lot of extra paperwork to deal with it, it seems to be quite a simple move: the first £6,035 of income will be tax-free instead of £5,435, and higher rates of tax will start after another £34,800, instead of £36,000 on top of the £5,435. It won't affect those entitled to the higher age-related allowances, because those had been put up to allow for the rate changes anyway.

As Lady Thatcher would no doubt have argued, though, it's an unhappy precedent to set. Once you give in on something like that, where will it end? The foreign domiciled taxpayers who are now liable for a £30,000 flat rate tax on their foreign income may be looking at this with interest – if they have not already left.

Whichever way Messrs Brown and Darling twist and turn, we will do our best to keep you informed.



**parispartnership**  
chartered accountants and business advisors

**The Paris Partnership**  
Russell House, 140 High Street  
Edgware, Middlesex HA8 7LW  
t 020 8951 5522  
f 020 8951 3377  
e office@parispartnership.com  
w www.parispartnership.com

## Passing the Buck

Suppose someone does some work for you and claims to be self-employed. You pay them gross, and they – being honest and upstanding – declare it all under self-assessment. Then the Revenue inspect your books and argue that they ought to be within PAYE. What's the problem, when the money's already been taxed?

The first problem is that there might be more tax under PAYE – and more national insurance. So HMRC have a reason to be picky. The second problem is that until 6 April 2008 the law said they had to collect the money from the employer except in very restricted circumstances. If the employee had already paid the tax, the Revenue couldn't offset that against what the employer owed – it was something that had to be sorted out between the employer and the employee.

The rules have changed for the better. Where this sort of mistake is discovered after 6 April, even if it relates to an earlier year, the Revenue can issue a direction to offset the tax they already have against the employer's PAYE liability. The employer will still have to pay any excess, and can still suffer penalties based on the gross amount of the error, but at least the law no longer seems to give the taxman the money twice.

If you want to make sure you are operating PAYE correctly, or if you get into a dispute about it with the taxman, we will be happy to advise you.



## Papers in Order?

If you put new money into a company as share capital, you can claim Enterprise Investment Scheme relief and defer the charge on capital gains you have made. That's particularly important at the moment, as you get three years to make the investment – you could get back CGT you paid in the last three years at 40%, and carry it forward so you will eventually only pay at the new lower rate of 18%.

You can't claim EIS relief if shares are issued without new money going in. The Revenue are very fussy about the procedure, and it's worth getting it right. Recently a dispute arose because a man put £1.2m into his company without a formal letter of allotment or share application. The share register was written up later to show that he had subscribed for new shares, but the Revenue argued that this was in fact capitalising a loan – the money wasn't "new" when the entries were made in the books.

The Appeal Commissioner decided that the Revenue were right. The paperwork was not in order and he could not defer his capital gains. The High Court judge, hearing his appeal, took a more sympathetic line. It was clear that the money was intended to be share capital, so there was never any question that it was a loan. The lack of paperwork didn't change the facts.

Although that story had a happy ending, it's not ideal to have to go to the High Court to get there – if you want to defer CGT charges, we will be pleased to tell you how to do it so that the Revenue accept what you claim.

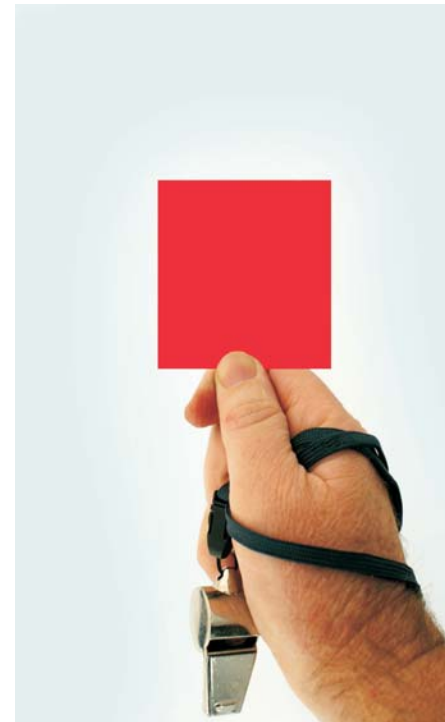
## It ain't necessarily so

"Getting something on expenses" is an important perk of an employee's life. The trouble is, it's often a taxable perk. You have to show that the expenditure was necessarily incurred in the performance of the duties in order to knock the cost off your salary for tax purposes. HM Revenue & Customs are notoriously sceptical about what an employee absolutely has to do.

For example, recently a professional rugby player claimed for the cost of extra food and dietary supplements he needed to maintain the physique of a prop forward. He consumed 4,500 calories a day, but the Appeal Commissioner ruled that eating was one step removed from doing the job – no deduction.

A trainee accountant had to pay for his own courses out of his taxed salary in order to gain his qualification. Even though it was a condition of his contract that he did his best to pass his exams, he wasn't doing the job while he was on courses – no deduction. If his employer had paid for his training directly, it would not have been taxable.

If you want to know what you can set against your taxable income and what you can't, and what you might arrange differently in order to save a little tax, we will be happy to advise you.



## Going, going, gone

If someone wants to become a tax exile, but still has some connection with the UK, they need to be sure that the Revenue can't still tax them. If you've taken everything you own and left, there isn't much doubt that you are no longer resident here – but what if you are a pilot who makes regular visits to the UK during your work and you keep a house here close to Gatwick Airport? Not surprisingly, HM Revenue & Customs argued in a recent case that the pilot remained chargeable to UK tax. Rather more surprisingly, the Appeal Commissioner said that the house was irrelevant and the pattern of the man's life, looked at in the round, suggested he was no longer UK resident.

If you are thinking about moving abroad, it's worth thinking about how your tax here will be affected. We can explain the rules and the Revenue's likely view of your plans.

## Death and Taxes

The Chancellor made a useful change to inheritance tax in October when he allowed married couples to benefit from two nil rate bands. That means that a couple can at present leave £624,000 to their children IHT-free.

That doesn't help if you aren't married or in a civil partnership. The usual plan is to give money away and try to survive seven years – but that's not ideal, because you may want to keep some security, and you may not have that long to live.

An alternative is to invest in something that qualifies for "business property relief", such as shares in an unquoted trading company. If

you own BPR assets for just two years, they don't count towards your IHT bill at all. Of course, unquoted shares can be risky – but they might save a great deal of tax.

A recent tax case highlighted the plan, but unfortunately in this case it didn't work. A woman had made a loan to an unquoted company – loans don't qualify. So the loan was replaced by share capital, but she died within two years – in fact, within two days. If the shares had been a rights issue, that would still have been all right – but the other shareholders had not subscribed in proportion. It was a last minute plan that didn't work.

It's worth reviewing your IHT exposure from time to time and thinking about what you want to do about it – the answer might be "nothing", but at least you won't be leaving decisions to the last minute. We'll 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 2nd installment of 2006/2007 Self-Assessment due. Further 5% penalty on any tax outstanding for 2006/2007.
- 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)

## Countdown

For a long time, private companies have had 10 months from the accounting date to get their accounts to Companies House. Now this is being shortened to 9 months for periods starting on or after 6 April 2008. The new rules also include a nasty catch: 9 months after 30 June is 30 March, not 31 March. So the last minute is a little earlier than you might think. They've put the late filing penalties up, as well.

Of course, we will be ready to meet these deadlines for any accounts we prepare – but please expect us to ask for the information a little earlier!

