

VAT - the Cash Accounting Scheme

The Government has confirmed that with effect from 1 April 2007, the threshold under which businesses may elect to use the cash accounting scheme (CAS) for VAT is to be raised to £1.35 million.

Broadly, the CAS is intended to permit qualifying businesses to account for VAT by reference to payments made and received, rather than the time when supplies are made and received.

Since April 2004, it has been available to businesses with annual taxable turnover up to £660,000. Once in the scheme, businesses can continue to use the scheme until their annual taxable turnover exceeds £825,000. This limit is to increase to £1.6 million. Unlike the annual accounting scheme, it is not necessary for businesses to have been trading for at least 12 months before applying to join the cash accounting scheme. It is possible for businesses to be in both schemes at the same time, provided they satisfy both schemes' conditions.

These changes are intended to help small-to-medium-sized companies cope with cash flow difficulties. It will affect many of our clients and if you are interested in switching to the CAS please give us a call as the transition is not entirely straightforward and your accounting software may need to be modified slightly to produce correct figures for future VAT returns.



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2007 Budget

Wednesday 21 March 2007 at 12.30pm

Good Friday 2007 PAYE procedures

As the 2007/08 tax year will commence on a Bank Holiday (Friday 6 April 2007 is Good Friday), HMRC have been asked to provide some guidance on the operation of PAYE and NIC where pay falls due on that day, but is paid earlier and so strictly falls into the 2006-07 tax year.

The general rule is that when a regular pay day falls on a non-banking day (Saturday, Sunday or Bank Holiday) and because of this the payment is made on the last working day before the regular pay day, the payment may be treated for PAYE and Class 1 NIC purposes as having been made on the regular payment day. For example, pay due on Bank Holiday Friday 6 April 2007 or Bank Holiday Monday 9 April 2007 (tax year 2007-08) but paid on Thursday 5 April 2007 (tax year 2006-07) may be treated for PAYE/NIC purposes as being paid on 6 April and 9 April respectively. Similarly, pay due on Saturday 6 January 2007 (tax month 10) but paid on Friday 5 January 2007 (tax month 9) may be treated for PAYE purposes as being paid on 6 January and pay due on Sunday 6 April 2008 (tax year 2008-09) but paid on Friday 4 April (tax year 2007-08) may be treated for PAYE and NIC purposes as being paid on 6 April.



straightforward

Like you, we're straightforward people. We give you straight advice, you take your business forward. No nonsense. Straightforward isn't it?

Winding up owner-managed businesses

Many lawyers and accountants will have client companies approaching the end of their useful existence. The initial reaction might be to appoint a liquidator. However, a possible alternative to the potential expense of a formal liquidation is for the business owners to undertake an informal winding up and to seek the application of one of HMRC's Extra Statutory Concessions, which allows a company's dissolution under Companies Act 1985 to be treated as a formal winding up for tax purposes. Some practical issues involving winding up family or owner-managed companies are considered below.



Transactions in securities

Capital distributions by companies to shareholders during any winding up are not treated as income payments, but as full or part disposals for the purposes of capital gains tax or corporation tax on chargeable gains. However, this tax treatment is subject to anti-avoidance legislation aimed at the cancellation of a 'tax advantage' obtained through transactions in securities. Capital receipts caught by this legislation are subject to income tax instead.

HMRC do not regard the 'ordinary' liquidation of a company as constituting a 'transaction in securities' if it involves the genuine winding-up of a company where the business ceases or is taken over and the new owners are unconnected with the previous ones. However, if the business is transferred to substantially the same owners as before, HMRC are likely to challenge the winding up as involving a transaction in securities, unless the business is transferred as part of a genuine company reconstruction.

There can be problems in situations where either:

- a company sale of or transfer of assets or business to another company with (some or all) common shareholders is followed by the liquidation of the transferring company or the sale of shares in either company; or
- there is a receipt of capital by shareholders of a company (or group) following a demerger or reconstruction from the sale or liquidation of one company, where the shareholders retain an interest via another company involved in the transactions.

Bona Vacantia

Advisers should ensure if possible that the business owners extract the company's assets before dissolution and striking off. When a company is dissolved, any remaining assets strictly pass to the Crown. This rule is known as 'bona vacantia'. If the dissolved company's registered office was in England or Wales (other than the Duchies of Lancaster or Cornwall), the Treasury Solicitor is the Crown's nominee for dealing with bona vacantia assets.

A company cannot normally make a distribution except out of profits available for distribution (Companies Act 1985, s 263), and therefore cannot distribute its share capital when it is struck off under Companies Act 1985. However, the Crown can disclaim its right to bona vacantia assets. By concession, if the company has been struck off, the Treasury Solicitor's Office will waive the right to recover an unauthorised distribution of share capital amounting to less than £4,000. For companies with a larger share capital, a formal liquidation is likely to be the most cost effective option.

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Twelve steps to a successful merger

A merger with another business can be fraught with pitfalls and many companies fail to invest the time and effort in what can be a make or break move for all concerned. Without careful planning, the tie-up can present a huge burden which can take years to resolve - reducing the business advantages of the merger and sapping the strength of the new, combined operation. Here we list a dozen key steps to achieving a successful merger:



- Spend a lot of time identifying and researching potential business partners - don't just go with the first proposal that presents itself.
- Make sure there is a good 'cultural' fit as well as a sound commercial one.
- Ensure you appoint respected and experienced professional advisers to represent you.
- Involve your bank or institutional funder as early as possible.
- Be prepared to dedicate a lot of time to negotiations with the management team of the other business and their advisers. Ensure you have sufficient information about them on which to agree terms for the deal.
- Following negotiations, heads of terms will be drawn up. As well as recording the fundamentals of the deal, these will probably grant each party a period of exclusivity to undertake financial and legal due diligence. Use this period wisely. Establish exactly what you are intending to achieve - is it as sound a commercial move as you expected and are those magical 'synergies' really going to appear in an acceptable time frame.
- Check your bank is still supportive. If they are, ask them to specify their terms.
- Examine the continuity of suppliers and transferability of any contracts affected by the merger.
- Check whether key staff will remain committed after the deal has been done - keep them well and carefully informed to avoid confusion about the deal.
- Don't neglect your existing business during the merger process - the corporate graveyard is littered with sound businesses that fell apart because management took their eyes off the ball.
- Don't forget that you may need the approval of your shareholders in order to complete the deal.
- If you've reached this point and are satisfied that all relevant areas have been addressed satisfactorily, completion can take place. Congratulations!

A final word of warning - don't underestimate the time, resources, energy, enthusiasm and commitment that will be needed after completion of the merger to successfully integrate the businesses. A merger is, after all, not unlike a marriage!

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Taxman set for house price windfall

The average house price in 236 postcode districts in England and Wales is now above the inheritance tax (“IHT”) threshold compared to just 117 five years ago, according to recent research which estimates that the number of owner occupied properties in the UK valued at more than the 2007/08 IHT threshold, of £300,000, now stands at 2.3 million, or 12% of all owner-occupied properties.



The survey shows that since 1995/96 house prices across the UK have increased by 199%, more than double the increase in the IHT threshold. If the threshold had increased in line with house price inflation, it would be now be at £460,000.

Last year IHT revenue raised a record £3.5 billion, up £375 million on 2005. The government's own projections are for annual IHT revenues to reach £4.1 billion in the next tax year. The simplest way to avoid inheritance tax (IHT) is to make gifts while you are still alive.

Every tax year you can give away £3,000 of assets and they will not count towards your estate for IHT. If you do not use up the full exemption in one year you can carry it forward, but for one year only. Gifts of up to £250 a person are also tax-exempt, but you cannot combine the two exemptions.

You can also give £5,000 to your children as a wedding gift. Grandparents can hand over £2,500, and anyone else can give £1,000.

Gifts between husbands and wives are always IHT-free, as are donations to charities and political parties. If a gift is regular, made out of income and does not affect your standard of living, any amount of money can be given away and ignored for IHT. However, you should take advice from us before you make regular gifts to ensure they will be acceptable to the HM Revenue & Customs.

You can make other tax-free gifts, called potentially exempt transfers, as long as you survive for another seven years. If you die within the seven years and the total value of the gifts is more than the £285,000 threshold, you can apply taper relief to any tax you owe. The tax on the gift reduces on a sliding scale if it was made between three and seven years before. If you cannot apply taper relief you add the gifts to your other assets and pay 40% tax on the sum above the £285,000 threshold.

For example, if a gift is worth £185,000 after applying any exemptions, and the rest of your estate is valued at £500,000, you pay 40% tax on £400,000. If you are worried that you won't survive for seven years, you can set up a decreasing-term insurance policy that will cover any IHT bill.

The government has cracked down on more complex tax-avoidance schemes. Many trusts now attract inheritance tax, so it is a good idea to seek professional help if you want to set up a trust.

Sandwich fine spells warning for business drivers

Extensions to the Road Safety Act, which came into force on 27 February, mean that eating behind the wheel is now punishable with the same severity as talking on mobile phone. Recently, a Manchester salesman was fined for eating a sandwich while driving.



Publicity surrounding the extension of the Road Safety Act has so far concentrated on penalties for mobile phone users with the potential of fines for other infringements of the act overlooked. Reading maps, business documents and drinking are also included under the Road Safety Act penalty system, and could land drivers with three points and a £60 fine.

The only way to prevent drivers receiving multiple penalties is for businesses and fleet managers to encourage an overall ban on eating, drinking and reading whilst behind the wheel.

Good to see the nanny state thriving and yet more red tape isn't it?

Anywhere but the Dragons' Den?



Around 500 people gathered outside seminar room one at Birmingham's NEC recently. "There are only 200 seats so most people have no chance" proclaimed a security official as people continued to arrive. Who had the crowds come to see? An international pop star? The winner of the latest series of the 'X Factor'? No, it was a businessman. Entrepreneur Peter Jones to be precise. Four years ago such adulation would have been unheard of. The over subscription to a seminar given by a business owner was something the press would have been unlikely to have been reporting on. But in 2004 Jones was persuaded to appear on a new TV show and a one hour pilot was produced. The show proved successful and a six programme run was commissioned. The first series received viewing figures of around 1.4 million, pretty high for BBC2. Three years on, apart from the recent episode of 'Top Gear' featuring footage of the Richard Hammond crash, 'Dragons' Den' is the channel's most successful programme, achieving regular viewing figures of five million. So what is it that is getting people excited about going it alone?

Well, what many of the dragons, investors, panellists or whatever else they are called, have in common is how they've overcome adversity or failure to achieve monumental success. Delivering his speech to the transfixed Birmingham audience, Peter Jones related how at age 16 he set up his own tennis academy, while by the age of 28 he was running a thriving computer business which allowed him to own an expensive house and two sports cars. A year later, however, Jones lost everything. He admitted that getting carried away by his own success was the driver behind his collapse. Choosing not to take out credit insurance before several clients went bust ultimately led to his firm's demise. That is all very much behind him given that Jones is now the boss of a group of companies worth around £150m.

Of course, very few entrepreneurs will achieve the success of Peter Jones, Duncan Bannatyne or Theo Paphitis but millions are giving it a go. The most recent government figures show there were around 4.3 million business enterprises in the UK at the beginning of 2005, an increase of 59,000 on the year before. Of all the firms, 99.3% were small businesses employing less than 50 employees. Despite all the bullishness about the start-up market, not all in the enterprise garden is rosy. As well as Peter Jones' inspiring seminar at Business Startup, there were sessions warning of the struggles faces by entrepreneurs looking for finance, while others warned that fifth of companies fail to make it to their sixth birthday.

That's where the government comes in. Television shows can provide the inspiration - and some cash for the lucky few - but it's the authorities that need to provide the ongoing support. Ministers have finally admitted that the flagship Small Business Service has failed to deliver on its aims and a streamlining of the department is currently in progress with the many thousands of confusing business support services being cut to hundreds. Although things may be changing within the corridors of power, thousands of entrepreneurs are still missing out on success because they simply don't know about the various funding schemes that are available. The likes of Peter Jones can provide the inspiration but it's the government that should be grabbing the opportunity to exploit the UK's renewed interest in enterprise.

Small businesses risk penalties on fire regulations



Up to a million small firms are still not adhering to new fire safety laws that were introduced in 2006 and are facing possible fines of up to £10,000. The new rules made employers responsible for protecting themselves and their employees, as well as taking preventative measures against the outbreak of fire. This involves carrying out a fire risk assessment. It also means that the old fire certificates are now obsolete.

Since the introduction of the new regulations, insurers have seen a 36% drop in the number of claims for fire, but believe many small businesses are still not complying with the regulations. For many small businesses, health and safety is their biggest burden, but an alarming 80% of small companies cease trading within a year of suffering a fire. It is in your interest to set aside some time to make sure you are protected - it could save you livelihood, and even your life.

Hairdressers' health and safety scare

Nearly half of Britain's hairdressers are suffering from a debilitating and career-threatening skin disease brought about by the chemicals used in their trade. The condition, dermatitis, is affecting approximately 50,000 hairdressers and barbers across the UK, due to widespread flouting of safety regulations by salon employers.



Staff are contracting dermatitis through regular exposure to products containing large quantities of chemicals, such as peroxides, soaps and shampoos.

The condition develops when hairdressers are routinely engaged in "wet working" - washing hair or applying chemicals and dyes to a succession of customers. Problems can be avoided if hairdressers use synthetic gloves made of vinyl or nitrile whenever they wash hair or use chemical products. As a result of cases fairly well publicised within the industry, employers can no longer plead ignorance to the dangers of latex gloves. The only place latex should be found in hairdressing establishments now is in "something for the weekend"!

On more serious note, anyone involved in businesses where there is regular exposure to chemicals should consider carefully whether they are taking appropriate precautions to safeguard the health and safety of their workforce.

Tax savings before 5 April 2007

With the 31 January tax return deadline now past, our thoughts have turned toward the next major deadline - 5 April. There is still time and there may be opportunities to reduce your January and July 2008 payments to HM Revenue & Customs. Our Year End Tax Planning Guide is a good starting point. Here you will find an overview of:

- making the most of tax-free saving opportunities
- keeping tax rates as low as possible across the family
- developing a plan for tax-efficient profit extraction from your company
- keeping business taxes to a minimum
- minimising the tax on the sale of your business
- a tax-efficient remuneration package
- reducing national insurance costs
- reducing the tax cost of company cars

With the burden of taxation having increased during the last ten years, our tax saving advice is more important than ever before. While we work with our clients at all times to help you plan to minimise your tax liabilities, if you would like to schedule a tax planning meeting before 5 April 2007 please do contact us today.



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Newsletter Content

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.

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