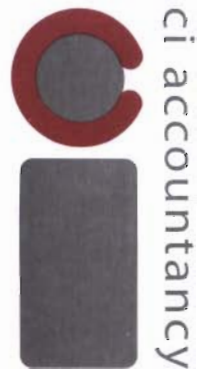


CI Accountancy Ltd

Newsletter

October 2008

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It would be difficult to send a newsletter this month without referring to the current economic chaos, talk of recession, the credit crunch. So our lead article this month offers a few tax ideas that may help businesses use tax strategies to ease their cash flow – pay less tax!

We have also offered an explanation of the tax consequences when a director borrows money from their company. On 2nd September the Chancellor announced a relaxation to the stamp duty rules – we have included a note of the detailed changes.

Finally if you are eligible and keen to hang up your boots, you might like to read the closing article which explains the practical, and surprising effects, of an immediately vested pension contribution.

Our next newsletter will be published on Wednesday 5th November 2008.

Meet the CI Accountancy Team – Alison Lambie – Accounts Senior	Tax Return Deadline
Client of the Month – October – Calvert Trust Kielder	Barclays – Open for business
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Overdrawn directors' loan accounts	Stamp Duty holiday
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Meet the CI Accountancy Team – Alison Lambie – Accounts Senior

Alison has spent the last eight years with a top 4 accountancy firm specialising in accounts production before joining CI Accountancy Limited in September 2008. She has experience of working with a variety of different types of trusts, mainly providing bookkeeping and accounts preparation services.

Alison was attracted by the firm's strong commitment to clients and flexible approach. She is looking to expand her knowledge of all areas of accountancy and is looking forward to new challenges and continuing to work closely with clients.

She is half way through her ACCA studies and hopes to qualify in 2010. She is enjoying her training and welcomes the opportunity to apply her knowledge in practice.

In her spare time she enjoys gardening and cycling.

Tax Return Deadline

We are approaching our busy season with the 31st January tax filing deadline starting to loom. If you are one of our clients for whom we prepare and file a tax return for that deadline, we would ask that you ensure that you get your paperwork and figures into us as soon as you possibly can to try to avoid any last minute rush.

Inevitably, if we receive the bulk of this work in during the latter part of December and January, it stretches our resources, and will generally mean that those whose records we receive last will almost certainly be filed with estimated figures if additional accounting work is required. Whilst this will avoid penalties and interest, it means extra correspondence with HMRC once we have been able to complete the accounting, which will lead to additional cost.

Client of the Month – October – Calvert Trust Kielder

Calvert Trust Kielder was founded on a vision for society where disability is not a barrier to opportunity and fulfillment. The difference is that society places significantly more barriers in the path of people with disabilities as they set out on their journey of self-development.

Our centre at Kielder was set up 25 years ago in response to those barriers. It was designed to provide for adults and children with disabilities, a secure but challenging environment; an environment in which they could enjoy experiences from which they were normally barred, and develop the confidence to continue their personal journey.

At Kielder we always place a great emphasis on enjoyment. For many we offer an almost unique opportunity to share the pleasure of a holiday in the countryside; an opportunity which able-bodied people take for granted. Our mission is to enable people with disabilities, together with their family and friends, to achieve their potential through the challenge of outdoor adventure.

Can't is a 'four letter word' at the Calvert Trust. Our aim is to promote a 'can do' attitude and surprise our visitors with what they CAN do and accomplish. Saying 'I can't' means that some people miss personally momentous experiences and the subsequent opportunities that follow. To this end, the activities we offer are: sailing, canoeing, cruising, climbing, abseiling, orienteering, archery and swimming. The benefits the guests receive include growth in self-confidence, a sense of personal achievement and fulfillment, increased interpersonal and social skills, as well as the practical skills required to be able to participate in the activities. These outcomes spill over into daily life acting as a catalyst for change and growth.

We now have over 5,000 guests visiting our centre each year; a combination of families, disability organizations, special needs schools and independent disabled adults requiring respite care. We meet the needs of people covering the full range of physical, learning and sensory disabilities, and we are one of only three outdoor centres in the UK that has its own full time care staff to provide 24 hour personal care.

We believe that disabled children and adults ought to have the opportunity to participate in adventure activity; to be able to take risks and push their boundaries, to leave their wheelchair and feel free and independent, to learn about their own abilities and what CAN be achieved.

CI Accountancy has proved an invaluable help during a transition period for us this year, when we had a change of staff in our finance department. We required assistance with the inputting of salaries and they were able to introduce our new staff member to the intricacies of payroll within Sage, to the point where she is now fully competent. It is very reassuring for us to know that, should we need any help or advice, we just need to pick up the phone.

If you would like any further information about Calvert Trust Kielder, please telephone Catherine Little on 01434 250232 or email catherine.little@calvert-kielder.com

Barclays – Open for business

It's all doom and gloom! House prices are falling, mortgage rates are rising, oil prices are at record levels, inflation is on an upward curve and the threat of widespread industrial action hangs over the country. Well at least that's according to the media, and if this was the only view point we relied on the nation may as well pull up its collective duvet and hibernate until the good times come again.

But life goes on. People are still going to work, they are still visiting the shops, it's just that we don't feel quite as confident as we did in the bloom years. There's no doubt that a fear of the credit crunch and its likely fallout for British SMEs has been filtering through. But is the situation as bad as it's painted or is it more to do with our perception of the situation?

In reality, Barclays is very much "open for business" and we have not changed our criteria for successful credit applications. What we have seen, especially in the second half of 2007 was a steady decline in the number of loan applications as businesses have become more concerned about the economic environment.

The first half of 2008 has shown some resilience with more new loans than in the same period of 2007 as other areas of finance, notably equity release, have become more difficult.

During the last 12 months our loan applications success rates have held broadly stable. Typically for smaller firms about 75 per cent of applications are successful and even higher for medium sized firms (circa to 90 per cent).

The resilience in lending and the success rate of borrowers in securing the lending should be reassuring for SMEs. The other good news is that the borrowing we can offer is flexible and can match the needs of the business, part of the reason why we won Business Moneyfacts Commercial Mortgage Lender 2008, the second time in two years. For instance although we have a basic commercial mortgage that's suits many, we do offer a flexible version built to the customers requirements, offering benefits such as a three year capital repayment holiday. In difficult times flexibility is often the key to continuing success.

Clearly the rest of 2008/9 will be a more difficult trading period for most firms but even in such times a significant minority of firms have spotted a market opportunity and have a business plan that can support new borrowing –these firms shouldn't be overly influenced by what they read in the press and can approach their local business manager with confidence.

Barclays Local Business Team in Tynedale aim to champion small and medium sized companies by providing extensive localised knowledge and award winning products and services to help people start up and grow a business.

With over 50 years combined banking experience the local team of Helen Gunn, Graeme Watson and Mark Yates are happy to discuss all aspects of your business banking needs.

To contact them, please call 01434 655819.

Tynedale Business Network - Launch

Tynedale Business Network is a group of like-minded business owners and individuals from the Tynedale area who meet once a week to discuss business ideas, network with each other, sharing experiences.

It is run by its membership and each member is actively seeking referrals for the other members. It is like having an extra sales force, looking and listening for business opportunities to refer to each other. All our members are active within the group and are encouraged to participate in presentations and discussions to give other members an insight into their own business.

This helps the group fully understand your business and gives them confidence when they talk to others about what you do.

Tynedale Business Network are having a launch night at the Exchange Café, Queens Hall, Hexham on Wednesday 15th October between 5pm and 7.45pm which will be a free event with food and refreshments provided. All members are able to take guests, if you would be interested in coming along with C I Accountancy, please get in touch with Jane at Jane@citrustees.com or telephone 01434 609645.

Beating recession and the credit crunch

We seem to be coming to a break point in a long, sustained period of growth in the UK. It's as if somebody had pushed a button and notched up the incline on the running machine – all of a sudden more effort is required to sustain forward momentum. We need to get financially fitter!

Part of this fitness regime needs to be a fresh look at the tax and VAT strategies that are available to slow down payments to the taxman.

It's beyond the scope of this article to give detailed advice, as each business will have different needs. What we have done is outline in general terms some of the strategies that are available – if we have not reviewed your tax affairs recently do call and make an appointment.

VAT

The legislation that sets out the way in which you calculate the VAT to pay each quarter offers a number of opportunities to ease cash flow.

- **Cash Accounting** – if your VATable turnover is under £1.35m and you are not using cash accounting, now would be a good time to switch. A few companies will not benefit, especially if you are paid for the goods or services you sell at point of sale, a retailer for instance. If you sell goods on credit and you are usually owed more than you owe (to suppliers etc) cash accounting would probably reduce at least the first payment you make when you join the scheme. Essentially you only pay VAT when it is collected from customers. Outputs and inputs are based on monies received and paid, rather than amounts invoiced.
- **Flat rate scheme** – another of the special schemes offered to small businesses is the flat rate scheme. If your turnover is under £150,000 and you have small amounts of input tax to reclaim each month, this scheme may increase your retained profits. Each business sector suffers a different rate of VAT so the only way to see if this scheme would be beneficial is to crunch the numbers.

Even if you don't qualify for a special scheme, don't forget to claim bad debt relief. Any debt that is over 6 months old qualifies as a bad debt and you can reclaim the output tax you will have paid. (Note: the flip side also applies. If you have invoices unpaid from your suppliers more than 6 months old, you should repay any input tax you have claimed!)

It is also worth filing your VAT return online. You are given an extra 7 days to file the return and if you pay your VAT by direct debit the payment will not appear on your bank account for a further three days.

Making losses, or less profit.

One of the more obvious effects of recession is a downward trend in profit creation, and if your business is badly affected, making losses. The notes that follow set out a few ideas for capitalising on the tax planning opportunities this affords.

1. Self assessment payments on account – if your current years profit is likely to be lower than the previous year, you may be able to elect to reduce the payments on account for the current year. The claim should be based on realistic trading results.
2. Losses – if your business is currently making losses it may be possible to carry these losses back to previous years, when you may have paid significant tax. Any tax overpaid as a result can be reclaimed.
3. Change of accounting date – in some circumstances it may be beneficial to either extend or reduce a company's accounting period end to make use of a fall off in profitability. There are limitations to this type of planning so careful consideration of the facts is required.

Need more time to pay

Generally speaking if you are late paying your tax or VAT, interest and in some cases penalties will be applied. If you can justify the reasons for your inability to pay it is usually advisable to contact HMRC and agree a payment timetable that your cash flow can afford. Burying your head in the sand is not a useful strategy!

If your business is starting to feel the pinch, pressure on profits and cash flow, do keep in touch. As mentioned at the beginning of this article each business is unique and there are a number of strategies we have not had the space to showcase in this article. Please call if you need help.

Overdrawn directors' loan accounts

If you are a director it is contrary to the Companies Acts, except in specific circumstances, for you to borrow money from your company. Ironically there are no fines payable if you break this particular aspect of company law! However there are a number of tax consequences, two of which are outlined below.

Benefit in kind

If a director's loan is overdrawn by more than £5,000 (you owe the company money) you will be deemed to benefit from this arrangement and suffer a benefit in kind charge as a result. This charge can be avoided if you allow the company to charge you interest on the overdrawn position. The rate of interest charged needs to be at the official HMRC rate or higher. This will of course increase the amount you owe if simply charged to your loan account and will potentially increase the company's taxable profits.

Corporation tax

If the overdrawn position continues for more than 9 months after the end of a relevant accounting period your company's corporation tax bill will be increased by 25% of the loan amount. For instance if the company year end was 31 December 2007 and at that time the overdrawn director's loan amounted to £20,000, and this amount was still outstanding a 1 October 2008, you would have to pay over an extra £5,000 in corporation tax at that later date. This section 419 liability could be reclaimed if the loan was subsequently repaid – the tax paid would actually be repaid 9 months after the accounting year end, during which the loan repayment occurs.

Stamp duty holiday

In an attempt to arrest the price slide in the housing market the Chancellor announced measures on 2 September 2008 to ease the impact of Stamp Duty Land Tax. The details are:

For one year from 3 September 2008 stamp duty will not be charged on residential house purchases of £175,000 or less. Prior to this announcement residential property sales up to £125,000 were exempt.

If the sale proceeds exceed £175,000 the starting rate of stamp duty land tax, 1%, will apply to the total consideration, not the excess over £175,000.

The higher rates of stamp duty are unchanged. 3% for sales over £250,000 and 4% for sales over £500,000.

Immediately vested pension contributions

Qualifying pension contributions continue to attract tax relief for individuals at their highest rate, potentially 40%. Tax Relief of 20% is usually deducted from the payment you make to the pension company – they reclaim this from the Treasury. Any higher rate relief needs to be claimed via your tax return.

If you are of pensionable age, presently 55 or 50 if you were born before 6 April 1960, you can accelerate the tax and cash benefits of single, lump sum contributions by opting for an immediately vested investment.

What you do is:

(This illustration assumes that all of the qualifying contribution can be relieved at the 40% income tax rate)

- Make a payment to a pension provider of say £40,000
- Pension provider recovers the 20% tax deemed to have been deducted of £10,000
- You claim an additional 20% higher rate tax relief, £10,000
- You immediately vest the fund created (£40,000 + £10,000) after taking 25% or £12,500 as a cash free lump sum

Result:

- You have created a fund of £37,500 (£50,000 less lump sum £12,500). You could start to take an annuity or drawdown based on this fund. The amount of the drawdown or annuity will depend on current annuity rates.
- You have invested net funds of just £17,500 to do this. (£40,000 less higher rate tax relief £10,000 and cash lump sum £12,500)

Tax Diary October/November 2008

1 October 2008 – Due date for corporation tax due for the year ended 31 December 2007.

19 October 2008 – PAYE and NIC deductions due for month ended 5 October 2008. (IF you pay your tax electronically the due date is 22 October 2008)

19 October 2008 – Filing deadline for the CIS300 monthly return for the month ended 5 October 2008.

19 October 2008 - CIS tax deducted for the month ended 5 October 2008 is payable by today.

31 October 2008 – The deadline for filing your 2008 Self Assessment return in paper format.

1 November 2008 – Due date for corporation tax due for the year ended 31 January 2008.

19 November 2008 – PAYE and NIC deductions due for month ended 5 November 2008. (IF you pay your tax electronically the due date is 22 November 2008)

19 November 2008 – Filing deadline for the CIS300 monthly return for the month ended 5 November 2008.

19 November 2008 - CIS tax deducted for the month ended 5 November 2008 is payable by today.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this newsletter are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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Directors of the Company are members of the Association of International Accountants (AIA). This body has its headquarters in the UK and its rules of professional conduct can be obtained from its website.