

Business Matters

News & Information from **Hammonds** Chartered Accountants and Business Advisers

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Hammonds

Chartered Accountants and Business Advisers

The euro and your business

Although Chancellor Gordon Brown announced earlier in the year that Britain is not yet ready to join the European single currency, many commentators believe that the UK's eventual membership of the eurozone is inevitable.

The economic and political debates over whether adopting the euro would be in Britain's best interest continues. But whichever side you stand on, pro or anti-euro, you need to start thinking about what the practical implications for your business will be, should Britain decide to say goodbye to the pound sterling. Here are some of the issues you may need to consider:

Your systems

Financial and accounting systems, tills, vending machines, credit card machines and IT equipment will need to be able to deal with making and receiving payments in euros. If your systems are due for a periodical update, you may want to make sure that your software can deal with multi-currency transactions. Staff might need to be trained to deal with conversion rates and to recognise counterfeit currency.

Company literature

Company documentation, including sales literature, catalogues and invoicing documents will need to be brought up to date to reflect new markets and revised pricing systems.

Your sales and marketing strategies

The single currency allows customers to easily compare prices across the eurozone. You should explore the export opportunities offered by a hugely expanded market, and keep an eye on what your competitors are doing. If handled in good time, the changeover could be used as an opportunity to increase your market share.

Customers and suppliers

Customers will need to be informed about any new procedures. You should also liaise with your suppliers. With the euro they might make savings on imports: make sure they are passing these savings on to you. If they are not, consider shopping around.

Tax and legal issues

Considering the above measures now will help to stand you in good stead should 'not yet' become 'yes', but be sure to seek professional advice about any legal implications that may arise in the event of Britain joining the eurozone.

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Registered to carry on audit work
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Accountants in England
and Wales

We like to help your business look ahead. We would be pleased to advise you on any tax or financial implications, if and when the time comes. Be sure to call us when you need advice.

OUR SERVICES

As trusted and experienced advisers we can help you in a wide range of areas, including:

- Strategies for improving your planning and business profitability
- Raising finance to fund investment and expansion
- How to protect your business from financial disaster
- How careful timing of transactions can reduce the tax bill
- How to maximise the price you get for your business, and how to minimise the tax
- Tax efficient investment
- Pension strategies, and how pension planning can work for you, family members and your business
- Strategies to crystallise capital gains and losses
- Using your annual exemptions to redistribute wealth within the family and make more use of tax breaks
- Reducing the inheritance tax on your estate, and strategies to cover any remaining liability

Putting together a plan and putting that plan into practice will ensure a clear financial future for yourself, your family and your business. Why not call us now?

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Section 660A: The Attack on Husband and Wife Businesses?

A potential new threat to one of the most common means of tax planning is currently on the horizon, as the Inland Revenue is showing increasing interest in situations where husbands and wives are both owners of a business – either as shareholders or partners – but one spouse is considerably less active within the business than the other.

The taxman's weapon is the settlements legislation. In general, this can apply where an individual (the settlor) enters into an arrangement to divert income to someone else and in the process tax is saved. There has to be an element of bounty (ie 'something for nothing').

The legislation is not new, but was originally enacted in the 1930s and brought up to date in the 1990s. Section 660A of the Taxes Act applies to arrangements where the settlor or the settlor's spouse retain an interest in the settlement (such as the right to some of the income). It is this part of the legislation that has been brought into the public eye recently.

On the face of it, all transfers between husbands and wives could potentially be settlements. However, there is a statutory exemption where property passed to a spouse is an outright gift, unless: the gift does not carry the right to the whole of the income arising (i.e. income could still be payable to either spouse); or a gift between spouses is wholly or substantially a right to income.

Here are some of the situations where the Inland Revenue has said it will consider applying the settlements legislation:

- where the main earner draws a low (non-commercial) salary leading to enhanced profits from which dividends can be paid to shareholders who are friends or family members
- where differing classes of shares enable dividends to be paid only to shareholders paying lower rates of tax
- where dividends are waived so that higher dividends can be paid to shareholders paying lower rates of tax
- where dividends are paid on shares that carry only restricted rights.

The settlements legislation will not apply, however, if the shares have considerable capital value or if the main earner draws a commercial salary before dividends are declared.

The effect of the settlement legislation is that the income of the lower taxpayer is taxed as income of the donor of the gift (the settlor).

The controversy

This is a largely untested application of the legislation, and it throws up a number of anomalies. For example:

- settlements by husbands on wives (and vice versa) are subject to rules which do not apply to settlements with other relatives or friends. It is therefore discriminatory against married couples
- unlike the view taken by divorce courts, the Inland Revenue's stated approach completely ignores the sacrifices that may be made by the 'non-working' spouse in enabling the business to function at all, for instance agreement to personal (matrimonial) assets being pledged as security for the purposes of the family business, as well as looking after the home and children and so on
- the approach contrasts with the freedom to married couples in transferring assets between themselves without any capital gains or inheritance tax liabilities
- although shares transferred to a spouse may be considered to be substantially a right to income in the early days of a company, a successful company may well grow so that eventually the capital value of the shares may greatly outweigh the dividends received.

Prevention

Here are some measures that might protect you from Section 660A:

- a stronger position is created if husband and wife both subscribe for shares when the company is formed and both are directors from the outset
- make sure all shares carry voting and capital rights
- there is an argument for husband and wife receiving equal directors' fees rather than salaries and therefore not being employees, particularly if this is evidenced by a commercial agreement
- the position is also strengthened if husband and wife receive equal dividends
- aim to have the 'non-earning' spouse involved in the business as much as is practical, thereby giving full value for any money received
- a company with substantial assets which generate income, or retained profits, is not so likely to be caught
- consider holding shares jointly with beneficial ownership entirely for the husband; tax rules deem dividend income to be taxed 50:50 even if it is paid into the husband's bank account!

This area of tax law is currently under much scrutiny. If there are any issues that you wish to discuss, please contact us and we will be glad to help.

The Ebb and Flow of Our Taxes

Did you know that this year the Government's tax take will exceed £1 billion a day? Now standing at a record £428 billion, taxes have increased by almost 25% in just four years. The Treasury expects the income tax and national insurance we pay to be over £500 million daily, an increase of over 35% in the same four years, since 1999. With Treasury forecasts showing that expenditure will exceed revenues by £28 billion, the nation's debt and interest costs are set to rise again.

How we contribute to the national housekeeping budget

	£bn
£428 billion income, including	
Income tax	122
National insurance	75
VAT	67
Excise duties	38
Corporation tax	31
£456 billion expenditure, including	
Social protection	133
NHS	72
Education	59
Defence	26
Debt interest	22



Are you Still on Track for Retirement?

Most of us can remember the day we left school or university to begin our working life.

However, today you may be closer to retirement than to the day you began your first job.

Throughout the 1980s and 90s we became accustomed to thinking of building savings through pension plans and individual pension policies as the key to providing an income in retirement. During those years you may have heard commentators warning that we weren't investing adequately for retirement. So what is the state of retirement planning today?

Over the last five years, what some have termed the 'pensions crisis' has resulted in something of a conundrum, with many people either not knowing the extent of their retirement income shortfall or not knowing how to address the problem.

Your pension plan may not seem to merit your urgent attention. However, with warnings that people are currently saving £27 billion a year too little towards retirement and that 80% of people under 34 are apparently not concerned about their retirement income, the challenge is evident. Action is necessary if the state pension, currently worth just over £6,400, is not to be the major (and wholly inadequate) source of income.

Consider these Key Drivers:

Inadequate state pension

The charity Age Concern reports that 86% of people consider that improving the basic state pension is the key to solving the pensions crisis. Its report highlighted that the current pension is worth 15% of average earnings and that this will erode to the point that a 20-year-old starting in employment this year will receive a pension worth just 7% of average earnings by the time their retirement beckons.

Falling stock markets

A recent report highlighted the fact that payouts from pension policies have fallen by nearly 50% in the last six years, this coinciding with a fall of around 40% in UK stock markets since their peak in 1999. Remember that pension forecasts have historically taken into account a compounding return and so markets need to do more than just recover lost ground if pension plans are ever to achieve their forecast returns.

Living longer is now a habit

The Government projects that life expectancy will continue to increase. It is expected to rise from 75.8 years in 2002 to 79.5 years in 2033 for males, and from 80.3 years to 83.7 years for females.



Reducing annuity rates

Falling interest rates have been accompanied by inevitable reductions in annuity rates. In January 1997 a pension fund of £100,000 would have bought a man aged 65 an annuity of over £11,000. Today, that annuity will have fallen by approximately 32% to less than £7,300.

1997 tax increases

In his 1997 Budget, Gordon Brown removed the right for pension funds to reclaim the dividend tax credit. This cost pension funds £5 billion per year.

When will you retire?

During the last 20 years there has been a trend toward early retirement, fuelled by the momentum of the stock markets. That trend looks set to be reversed during the next 20 years.

Whether you are just starting out in the workplace or close to retirement, you are, like all of us, facing the need to reckon for the future. You may be apprehensive about this aspect of your future or, as some surveys suggest, not focused on the

challenge. Perhaps you have heard the call to invest more but it has not been at the top of your agenda. Some business people are planning to be financially independent of their business by the time they are 55, thus leaving themselves free to retire or continue in business as they choose.

Never too late – or too early

More and more people are realising that while it is never too late to act, nor is it ever too early to begin putting pension and retirement planning in order. Whatever your situation, we would welcome the opportunity to discuss this essential aspect of your future with you, helping you to plan in such a way that you do not experience a pension crisis.

BUSINESS BRIEF

Retirement at 70?

Government proposals to counter ageism in the workplace could result in radical reforms to UK employment law.

Proposals put forward in a consultation document would make it illegal for employers to set age limits in job advertisements, and could ban them from restricting training schemes to their younger workers.

The document also recommends the scrapping of mandatory retirement ages, except where these are proved to be justifiable. The Government is to consider introducing a default retirement age of 70.

Suggested changes in legislation would mean that workers could claim unfair dismissal on the grounds of age discrimination, which could result in a huge surge in employment tribunals.

New legislation on ageism, which would bring the UK in line with the European Employment Directive, is set to come into force in 2006.

You can estimate your post-retirement living expenses at roughly 60-80% of your current living expenses. Studies comparing people aged 45-54 and those aged 65 or more have shown that the average reduction is as follows:

Personal care, heat, light and food	35%
Housing and furnishing	39%
Entertainment	50%
Clothing	56%
Insurance	85%
Education	88%

Changes to the national minimum wage

Following the introduction of a new law, employers are now liable to make back-payments to former employees who have not received their full minimum wage entitlement.

A loophole in the 1998 minimum wage legislation led to an appeal tribunal ruling that enforcement officers could not issue notices on behalf of former employees in order to help them claim salary arrears.

However, under the National Minimum Wage (Enforcement Notices) Act, the Inland Revenue now has the power to make companies pay backdated wages to their previous employees.

The minimum wage is currently £4.20 an hour for workers over the age of 22, and £3.60 for those aged between 18 and 21.

From October 2003 these figures increase to £4.50 and £3.80 respectively.



We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

Don't panic! How to survive a PAYE / NIC inspection

However confident you are that your records are complete and well maintained, a PAYE/NIC inspection might still catch you unawares. Here are some pointers to help you:

- Your records must provide details of all relevant benefits for the tax year to 5 April, and not for your accounting period.
 - Even if you are registered for VAT, your P11D records have to be VAT inclusive.
 - You must include travel, subsistence, and entertaining in the information you enter on annual forms P11D, even if incurred for business purposes (unless you have an official Revenue dispensation).
 - The Inland Revenue is likely to challenge all doubtful claims on the business mileage limit. Keep full mileage logs for every vehicle, whether owned privately or by the company – an inspection team would ask for evidence of business mileage.
 - Keep separate figures for each car where there is a change during the year, or where more than one vehicle is available to a director/employee.
 - The fuel scale charge is an 'all or nothing' benefit, so if the business pays for any private fuel and is not fully reimbursed by the employee, the employee must accept the corresponding private fuel benefit and you must report it on a P11D.
 - For all categories of expense/benefit, pay careful attention to anything incurred in the name of an individual director/employee, but paid or reimbursed by the business. NIC problems will arise if you do not treat this properly.
 - You are required to retain all records and information relating to payroll, benefits, etc. for three years after the tax year end . . . but keep them for at least six years, the period for which the Revenue has powers to investigate your business accounts.
- Don't leave your records vulnerable to the risk of PAYE/NIC liabilities, penalties, and problems – sort them out now. If you need any help, contact us.**



REMINDERS FOR YOUR DIARY

September 2003

- 30** Deadline for submission of the 2003 tax return if you wish the Inland Revenue to calculate the tax, or, if you are an employee, you wish to have a 2002/03 balancing payment of less than £2,000 collected through your 2004/05 PAYE code

End of CT61 quarterly period

October

- 1** Due date for payment of Corporation Tax for period ended 31 December 2002
- 5** Individuals/trustees must notify the Revenue of new sources of income/chargeability in 2002/03 if a tax return has not been received
- 14** Due date for income tax for the CT61 quarter to 30 September 2003
- 19** Quarter 2 2002/03 PAYE remittance due

November

- 1** Please ensure you are retaining your documents for the 2004 tax return
- 2** Last day for notifying car changes in quarter to 5 October – P46 (car)

