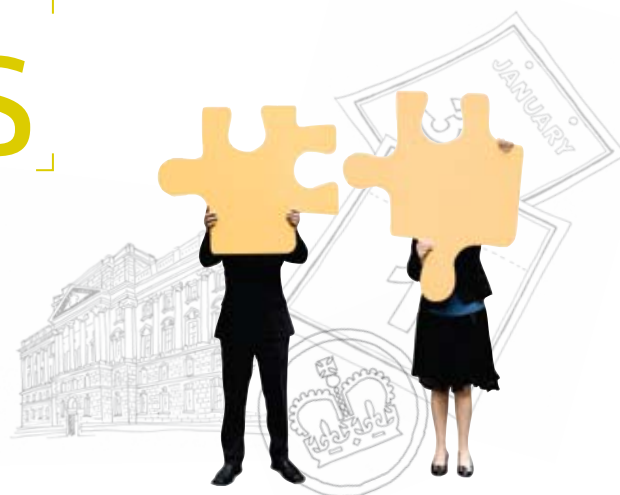




Face Facts

Issue 22 / Summer 2010



A changing outlook



The Coalition Government's first Budget announcement has received a largely positive response, giving reassurance to UK businesses and aiming to avoid a double dip recession.

Capital Gains Tax (CGT) was top of many commentators' agendas. With threats of an increase to 40% or 50%, the actual rise in the top rate from 18% to 28% was not quite as severe as had been predicted.

However, the change is still significant, and the new regime makes no allowance for how long a non-business asset has been held. There therefore continues to be no difference in the tax rate between a quick profit and a long term investment.

There was some good news for entrepreneurs - with an increase in the lifetime limit for Entrepreneurs' Relief (ER) from £2m to £5m over which a 10%

rate will continue to apply - but the majority of taxpayers with gains will unfortunately be worse-off.

Patrick King, Tax Principal, comments: "The immediate increase in CGT for "non-business" assets (such as second homes or share portfolios) will leave those who are holding assets pregnant with gains with a larger tax bill on their disposal."

For those who do not qualify for ER, the new limit of £5m means it becomes more important than ever to ensure qualification where possible. Patrick explains: "On a £5m gain, the saving in tax could be £900,000 (previously £160,000), and where a spouse

has a qualifying holding the saving could be £1.8m on a combined gain of £10m."

Selling a business

A word of warning for entrepreneurs considering selling their business though, as a change in the way it works can cause problems. "It is comparatively rare on the sale of a trading company for the proceeds to be paid as a single lump sum" says Patrick.

"Some or all of the amount is generally paid over a period of time - often several years. To date, ER has operated with the 18% CGT rate applied to the qualifying gain after it had been reduced by $\frac{4}{9}$ ths. This resulted in an effective rate of 10% on the full gain. The new rule replaces the $\frac{4}{9}$ ths reduction with a new 10% rate for qualifying gains. This could give rise to problems when entrepreneurs look to sell their business and some of the gains are taken in the form of loan notes which will not qualify for ER when ultimately cashed in."

Inheritance issues

Extreme care also needs to be taken when dealing with an inheritance. "When an individual dies and assets are sold by his or her executors, any uplift in the value of those assets between death and sale will be liable to CGT" explains Patrick. "If the executors make the sale, they have a CGT exemption

for the year of death and the next two tax years. However, any excess will be liable to the new 28% CGT rate. This could leave basic rate-paying beneficiaries, with unused CGT exemptions, seriously out of pocket."

Finally, the proposal for the creation of an independent office for tax simplification is a major step forward in making the tax system more user-friendly. However, time will tell whether any real changes are achieved.

For further advice, please contact your local office.

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Going for growth



As businesses start planning for the upturn in the economy, many business owners will be thinking about expansion to stay ahead of their competitors - either within their current market or moving into new ones.

However, poorly planned growth can lead to missed opportunities. Follow our tips below to make the most of your growth plans:

- To maximise your competitive edge, explore and research your options fully and identify the 'five forces': barriers to entry, existing competition, substitutes, customers and suppliers.
- Put the right corporate structure in place (e.g. company, LLP or joint venture) and take advantage of the tax reliefs available to maximise wealth retention.
- Have a well structured strategic plan to reflect your aspirations. Are they suitable, acceptable and feasible? This will also be crucial if you are looking to attract investors to fund your expansion or to achieve your exit strategy.
- Ensure your business has sufficient resources for any expansion e.g. labour, capacity, supply chain matters.
- Communicate plans to your employees and ensure they

are trained and prepared to embrace growth rather than being a barrier to it.

Mike Bird, Managing Director of Breathe Group - a specialist commercial design & build, furniture and workplace services provider, has first hand experience of planning effectively for growth: "We started off as a Cambridge based business but our growth strategy was always focussed on having a London presence. We are very much a family business so it was important to take the time to find an acquisition prospect with similar values to us. After searching for the right company, we acquired a London based business (Asset Interiors) in November 2009. The addition of Asset Interiors to the Breathe Group significantly increased our turnover and strengthened our expertise; taking our staff levels from approximately 40 to 55. MacIntyre Hudson assisted us throughout the process with pro-active, professional and creative advice. This included putting the most efficient corporate structure in place and advising on integration issues."

Impact of changes to auditing standards – related parties

Auditing standards are changing – for accounting periods ending on or after 15 December 2010, UK auditors must work to the revised "Clarity" auditing standards.

The auditing standard covering related parties has become more onerous, reflecting that most of the recent big name company failures involved unusual/fraudulent related party transactions. Auditors will be required to understand the company's related party relationships and transactions and to be alert for related party information during the course of the audit. A broad definition of related parties, which applies to most financial reporting frameworks includes:

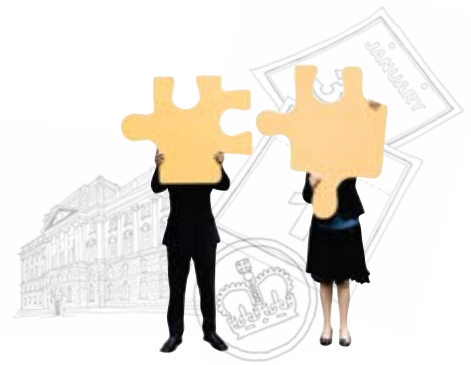
- entities which are directly, or indirectly, controlled by another company
- associates
- joint ventures
- key management personnel
- key management personnel of its parent company
- close family members of key management of the company or its parent
- retirement benefit schemes

for the company or group's employees.

As a company, there is the need for further record keeping and also the need to keep the records up to date. Have you identified the key management personnel of your company? Under the standards, for most companies, this definition is wider than the directors registered at Companies House. Do you know your parent company's key management and their close family members? To assist your auditors, and prevent you being asked too many personal questions, we would suggest that you prepare a list of related parties. This list should be updated regularly, at least on an annual basis.

Preparing lists of related party transactions will also help your auditors and may include printing intra-group nominal ledger codes and directors loan accounts movements. If your financial statements disclose the fact that transactions with related parties are conducted at arms length values, you will have to provide evidence to support this disclosure.

"The auditing standard covering related parties has become more onerous, reflecting that most of the recent big name company failures involved unusual/fraudulent related party transactions."



Reducing waste

“Waste reduction can be one of the most effective ways of increasing profitability and cash flow by reducing costs and removing inefficiencies.”

Waste in a business is defined as any activity which does not add value to the client.

Waste reduction can be one of the most effective ways of increasing profitability and cash flow by reducing costs and removing inefficiencies. In most cases, around 20% of costs can be attributed to waste. This is inherent in processes and procedures that have often built up over many years.

Identifying waste is not always easy as they are usually hidden costs, often missed when practices undertake cost reviews. However, when the stakes involved include cash flow, profitability and long term survival, can you really afford to overlook this area?

Seven key areas to monitor:

- **Overproduction** – duplication or work produced with no guarantee of billing.
- **Waiting** – time tied up waiting for the next step. Consider the time spent waiting for client instructions or on excessive travelling to/from clients.
- **Transporting** – movement of people and information. Poor workflow systems and inefficient communication mediums can all create wastage.
- **Inappropriate processing** – is the right tool, process and person being used for the job?

Consider the grade of staff allocated to undertake the work.

- **Unnecessary inventory** – for many firms work in progress (WIP) remains a key issue, with cash being tied up in unbilled time. Regular and prompt billing, accurate charging and advanced fee negotiation can all play a role in reducing WIP build up.
- **Unnecessary motions** – simple areas such as poor office layout, stop/start mentalities and disorganisation all create waste.
- **Defects** – these may result in additional time/costs being incurred. Do you have sufficient levels and quality of training? Are briefings clear? Is your database accurate?

Eliminating waste

Commitment to a structured waste reduction programme has been proven to achieve a return on investment of at least three to one.

The Waste Reduction Programme (WRP), developed by MacIntyre Hudson's Business Strategy Group, identifies waste, resulting in improved profitability and cash flow. It evaluates processes and procedures objectively - giving you control, protection and cost savings while liberating your own resources to focus on core business priorities.

Find out more about how you can reduce the waste in your firm by contacting our Business Strategy Group on strategicplanning@mhllp.co.uk



Overseas VAT issues

1 January 2010 was a key date for businesses with EU activities. An EC Sales List (ESL) must now be completed if you are VAT registered in the UK and sell services to an EU business customer without charging VAT. Another important change is that any claim for a refund of VAT paid in another EU country is dealt with by an electronic claims system.

EC sales lists

The ESL needs to be submitted on a quarterly basis. If you submit the return online you get an extra seven days to file it, so it is due within 21 days of the end of the quarter.

The details to be given on the return are:

- the value of sales to each customer for the period covered by the return
- their VAT registration number
- their country code.

A code 3 entry confirms that a sale relates to services, not goods. You must contact HM Revenue & Customs (HMRC) if you need to complete an ESL.

EU VAT refunds

A UK VAT registered business is entitled to reclaim much of the VAT it pays in other EU countries. So if you pay VAT on exhibition space you hire in France, you can normally reclaim this VAT from the French tax authorities.

The new system since 1 January 2010 is based on electronic procedures:

- an electronic claim is submitted in the country where you are VAT registered, so for a UK company it is submitted to HMRC
- HMRC will then forward the claim (also by electronic means) to the country where the VAT was paid. The tax authority in that country then has four months to process it and a further ten days to make a repayment
- the return is mainly based on numbers, so language issues are no longer a major problem.

Before submitting a claim, it is important to check that the country in question does not have any block on claiming for certain categories of expenditure. For example, many countries do not allow claims to be made for travel or hotel related costs.

For further information, please call Alison Horner, VAT Director, on 01604 624 011, email alison.horner@mhllp.co.uk or contact your local office.

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Charitable giving

You can receive tax relief for charitable gifts under Gift Aid, the Give As You Earn scheme, or by using a scheme such as Charities Aid Foundation Account.

For Gift Aid you simply declare to the charity that you pay enough UK tax to cover the basic rate tax due on the gift, and the charity reclaims that tax from HMRC. For a gift of £80 you must pay at least £20 in UK tax. Any relief for higher or additional rate tax is obtained by making a claim on your tax return. You can also elect for the gift to be treated as paid in the previous tax year.

Gift Aid is also available to companies. However, donations are made gross and then deducted from profits when calculating the corporation tax liability.

The company must be profitable when it makes the gift, because the gift cannot be carried over to another accounting period, or added to a loss. The tax relief is restricted where the company, or a connected person, receives a benefit from the charity.

If your marginal income tax rate is higher than the rate paid by your company, it makes sense for you to make charitable gifts, rather than have your company make the donations.

For further information, please contact your local office.

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