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Business Update

AUTUMN 2003

UK 200 Group news

Have you recently updated your corporate design? It's surprising how important visual identity has become in conveying the style and character of a business and what it stands for, and how often it needs updating to reflect dynamic change within the environment you operate in and its market place.

Research by the UK 200 Group last year made the point quite forcefully that the group's logo definitely needed refreshing. It had served its purpose for 17 years and it was time for change! So designers started work on creating a unified image and a new corporate identity has been launched. The new image will help to project the UK 200 Group as a modern, dynamic and proactive network organisation capable of providing the support required by member firms to successfully meet the marketing challenges facing the profession and their clients.

First and foremost, the UK 200 Group's new logo will continue to be a symbol of recognition and a mark of quality and high standards that our clients expect of UK 200 member firms.

Consult ... Consult ... Consult

It is a feature of the current government that any significant changes in tax rules are subject to a lengthy and detailed consultation process before implementation. This is certainly one of the reasons why we seem to find fewer surprises these days in the Chancellor's annual Budget.

One of the major areas currently subject to this process is the taxation of pensions. The government issued a green paper in December 2002 proposing fundamental changes to the rules and suggesting a start date of April 2004. The consensus was that this was a somewhat optimistic start date in view of the significant changes proposed. Responses from across the pensions industry agreed, with the consequence that the proposed start date has been put back to April 2005. Further consultation is planned during the autumn and we will of course keep you up to date with the government's plans.

One further area where the consultation process is in progress is the taxation of employer provided vans. The company car regime was fundamentally revised in 2002 and now it is the turn of vans. Currently the maximum amount chargeable on an employee provided with a van is £500. The consultation paper suggests retention of a scale charge but with a lower charge for those with minimal actual private use. This will include those who have to keep the van at home but have no other private use of it and those who have vans fitted with tools and equipment that makes the vans unsuitable for private use. It is also planned to introduce a discount for fuel-efficient vans and a separate fuel benefit charge where fuel is provided for private use. We will let you know when the final rules are announced.

Please give us a call if this, or any of the articles in our autumn newsletter, strikes a chord with you.

In This Issue

UK200Group

Beating the National Insurance increases - some suggestions

In April, national insurance (NI) rates were increased for employers, employees and the self-employed. For employers, the rate has been increased to 12.8% from 11.8% and for employees and the self-employed there is an extra 1% charge on all earnings or profits without limit.

An employee earning £30,000 faces an additional NI charge of over £250 in 2003/04 and someone on £60,000 will see the annual cost rise by over £600. On top of this the employer will be paying an extra 1% on all earnings above £89 per week paid to employees. No wonder employers and employees might be looking at ways of reorganising remuneration packages to save some NI. One way of doing this is to consider some form of salary sacrifice scheme. The idea behind this is that the employee agrees to a cut in gross pay (the salary sacrifice) and the employer then uses the sacrificed sum to provide a more NI efficient alternative. Here are some ideas to consider.

Pension contributions paid by the employer to an occupational pension scheme or direct to the employee's personal pension scheme will avoid an NI charge and indeed income tax.

Think about taking additional benefits in kind rather than salary. The employer will still have to pay NI on the majority of these but the employee will suffer only an income tax charge and no NI. In the case of employer provided mobile telephones or home computer equipment within certain monetary limits even the income tax charge is avoided.

The government is keen to encourage employees to take shares in their employer company. If an employee receives unquoted shares that are not readily convertible into cash there is no NI liability on their value. Better still shares received via an Inland Revenue approved share scheme may give tax advantages as well as NI savings.

Having said all of this the Inland Revenue as you might imagine is not terribly keen on salary sacrifice schemes. Consequently it is important to get the paperwork right so that the scheme is effective. In simple terms, only future salary can be sacrificed. The sacrifice is achieved by varying the employee's terms and conditions of employment so that there is an entitlement to a lower level of cash remuneration and a non-cash benefit.

Whilst such a scheme can be very attractive to both employer and employee, the employee faced with a possible salary sacrifice may wish to consider the effect on:

- their future right to the original (higher) cash salary
- any pension scheme being contributed to
- entitlement to Working Tax Credit or Child Tax Credit
- entitlement to State Pension or other benefits such as Statutory Maternity Pay.

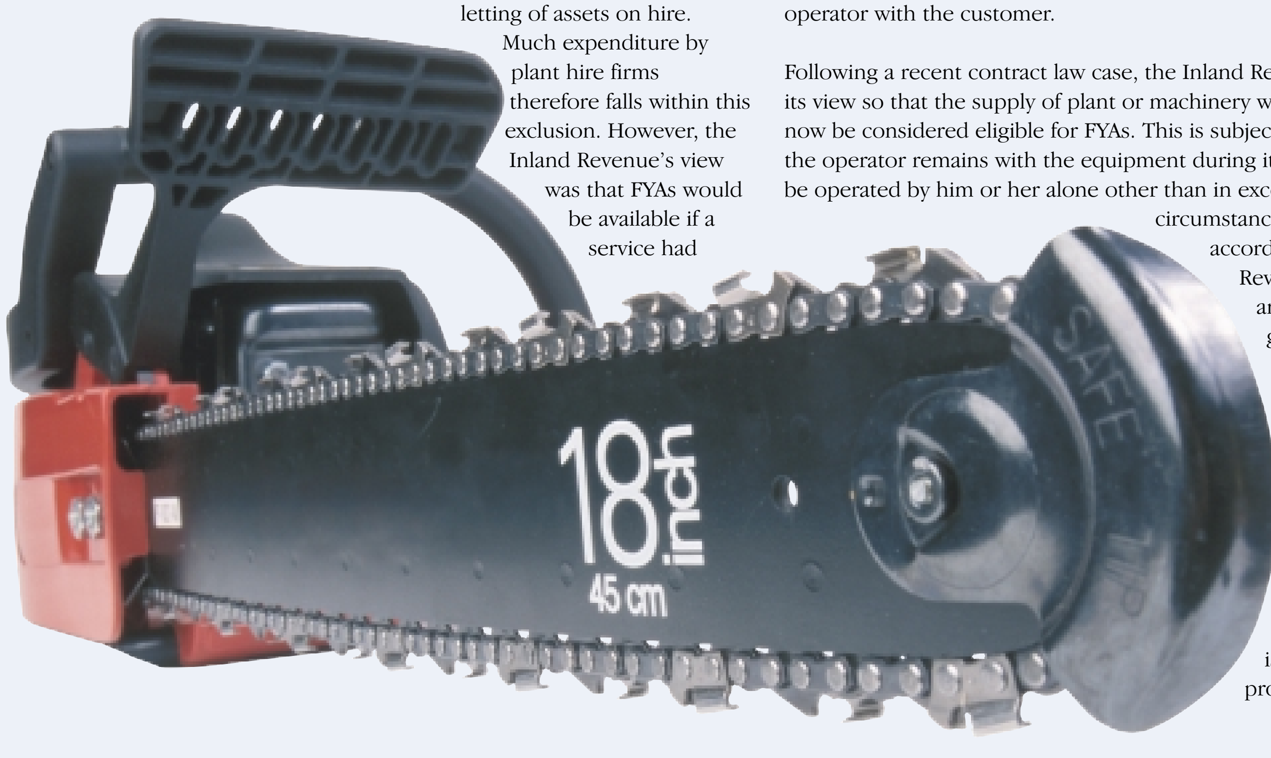
A salary sacrifice should not reduce an employee's cash pay to below the National Minimum Wage.

If you are an employer contemplating a salary sacrifice scheme or an employee wishing to consider the implications of such a scheme please talk to us. The sooner a scheme is in place the sooner you can start to benefit from NI savings.

Plant hire - a change of policy

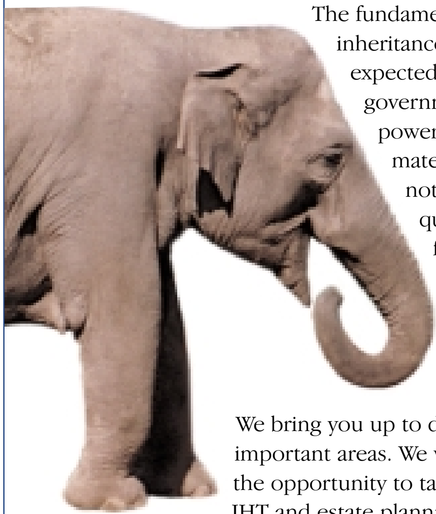
Expenditure incurred by small or medium-sized businesses on plant and machinery generally qualifies for a 40% first year allowance (FYA). However, there are a number of exceptions, one of which is that FYAs are not due where the equipment is acquired for the purposes of leasing. For these purposes, leasing includes the letting of assets on hire. Much expenditure by plant hire firms therefore falls within this exclusion. However, the Inland Revenue's view was that FYAs would be available if a service had been supplied rather than just straightforward hire. Their view was that this could only happen if the plant was hired together with an operator and the plant and operator remained under the control of the operator rather than the customer. In almost all plant hire contracts, standard terms of hire place responsibility for control of the plant and operator with the customer.

Following a recent contract law case, the Inland Revenue has changed its view so that the supply of plant or machinery with an operator will now be considered eligible for FYAs. This is subject to the proviso that the operator remains with the equipment during its use and that it will be operated by him or her alone other than in exceptional circumstances. For example, according to the Inland Revenue, the delivery and installation of a generator would not be regarded as the provision of a service but the supply of a digger with a driver would be. FYAs will also be due on scaffolding used by scaffolding companies where it is constructed by the providers.



Inheritance tax update

Farmhouses, elephants and Eversden!



The fundamental reform of inheritance tax (IHT) expected when the Labour government came to power has never materialised. That is not to say that life is quiet on the IHT front - far from it. The continuing stream of court cases is testament to that.

We bring you up to date with two important areas. We would welcome the opportunity to talk to you about IHT and estate planning. Please give us a call if this is an area of interest to you.

Farmhouses

An article in The Times in January this year suggested that the special IHT relief available to farmers - agricultural property relief (APR) - was under attack. The Inland Revenue denies this. Nevertheless it has recently taken three cases to the Special Commissioners on the somewhat vexed issue of what constitutes a farmhouse for APR purposes and plans three further cases before the end of the year. In order to qualify for APR a farmhouse must be shown to be 'of a character appropriate' to the agricultural land. In order to determine whether this is so in any given case a series of tests has been established.

1 Is the house appropriate by reference to its size, content and layout with the farm buildings and the particular land being farmed?

2 Is it proportionate in size and nature to the requirements of the farming activities conducted on the land?

3 Does it meet the 'elephant' test? Although it is difficult to describe a farmhouse you know one when you see one.

4 How would the 'educated rural layman' describe the property?

5 How long has the house been associated with the land in question and has there been a history of agricultural production?

Eversden - latest estate planning 'wheeze' is blocked

One of the downsides of making lifetime gifts of capital is the inability to continue to enjoy the income from the capital if the gift is to be effective for IHT. However, a scheme has been available based on the decision in a case called Eversden. This permitted continued enjoyment of the income so long as the capital was first passed by way of an IHT exempt gift to the individual's spouse.

Not surprisingly, the government has acted to block this perceived loophole with effect from 20 June 2003. However there are other planning opportunities that can be used to mitigate future IHT liabilities.

Research and development (R&D)

- improvements and issues

In 2000, an R&D tax credit was introduced for small and medium-sized companies (SMEs). SMEs can claim tax relief on 150% of qualifying R&D costs or, if the company is loss making, claim a cash refund equal to 24% of the expenditure (but capped at total PAYE and NIC payments made in the year). The scheme was extended to large companies in 2002 enabling them to claim relief on 125% of qualifying expenditure but not providing for a cash refund alternative. A number of beneficial changes have been made to the schemes in this year's Finance Act. These include:

- the annual threshold for expenditure to qualify is reduced to £10,000 (from £25,000) which should help in particular SMEs spending relatively modest amounts on R&D
- qualifying expenditure now includes the costs of workers paid through a third party which should help the IT industry where paying workers through an agency is very common
- the calculation of qualifying staff costs has been simplified.

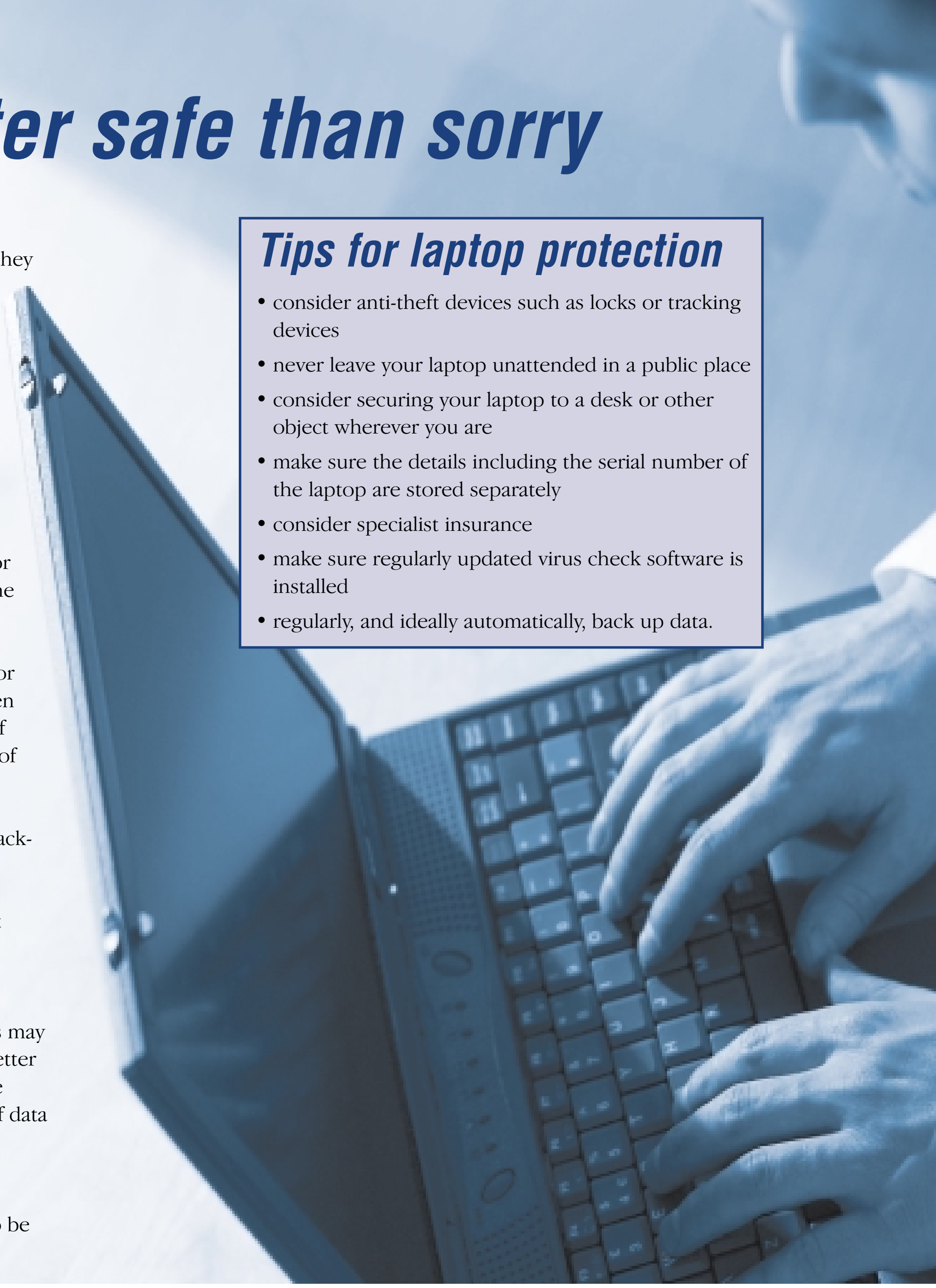
However, the most difficult aspect of the schemes is often determining what expenditure qualifies. That which does is limited to:

- staff costs - so long as they are directly and actively involved in the R&D
- costs of 'consumable stores' - ie material and equipment used in the R&D
- certain sub-contracting costs if the business retains the right to the knowledge that is produced.

Additionally, expenditure will only qualify if the primary objective of the research activities is innovative or creative in the fields of science or technology undertaken to extend knowledge. The application for a patent for a new product is always helpful in this regard. Furthermore the project must be undertaken in a systematic way and there must be demonstrable technological or scientific uncertainties as to its outcome. For example, the Inland Revenue accepts design, construction and testing of a pre-production prototype as typical of qualifying research whilst market research will not qualify.

Deciding what does and does not qualify is never easy. It may be easier in certain sectors than others; for example the pharmaceutical industry tends to experience fewer problems with the relief than the computer software industry. The Inland Revenue is aware of these difficulties and is looking at ways of clarifying the definition of qualifying R&D. In the meantime please talk to us if you are planning a new R&D project so that we can help you to maximise the available relief.

Laptops - better safe than sorry



For many people today a laptop is vital for communication, wherever you happen to be. But they are a prime target for thieves and therefore physical security is important. Insurance may seem a sensible place to start but research suggests that 90% of the five million laptops in circulation in the UK are not properly insured because they are not covered when they are taken off the business premises, even if only for use at home.

Specialist insurance may help by providing comprehensive cover for accidental damage, loss or theft. However insurance can do little to protect the valuable data stored on the machine. According to figures from the Computer Security Institute/FBI Computer Crime and Security Surveys, estimates for the average value of data held on each lost or stolen laptop was £36,000 in 2001 and £54,000 in 2002. Of course data is not only susceptible to loss or theft of the computer but also to virus attack or accidental erasing of stored data. Firewalls and virus check software can help with the former whilst regular back-ups of data give comfort with the latter.

Businesses large enough to have an IT department probably already have security measures in place. Smaller businesses may not. Installing virus check software is just the beginning of the process. It is important to keep the software up to date and this may not happen if it is left to the end-user. It may be better to subscribe to an online service. Providers include McAfee, Panda, Symantec and Trend. Backing up of data can be done manually on an ad hoc basis or an automated system could be considered.

Read our summary of tips. Remember it's better to be safe than sorry!

Tips for laptop protection

- consider anti-theft devices such as locks or tracking devices
- never leave your laptop unattended in a public place
- consider securing your laptop to a desk or other object wherever you are
- make sure the details including the serial number of the laptop are stored separately
- consider specialist insurance
- make sure regularly updated virus check software is installed
- regularly, and ideally automatically, back up data.

Advance notice for employers

By 2010, all employers will be required to file their end of year returns (forms P35 and P14) electronically either via the internet, using electronic data exchange or by using an intermediary such as a payroll bureau or agent.

Electronic filing will only be compulsory initially for the largest employers - those with at least 250 employees. They will have to file electronically from 2004/05. At the other end of the scale employers with fewer than 50 employees will not have to comply until 2009/10. However to encourage smaller employers to embrace the new system sooner rather than later, those with fewer than 50 employees choosing to file electronically from 2004/05 could be in line for financial incentives of over £800 in the five year period from 2004/05 to 2008/09.

Please give us a call if you would like any further information on this.

Charitable giving

The government continues to amend the rules on charitable giving to encourage us to do more of it. We provide a brief summary of the recent and forthcoming changes.

Payroll giving

The government's 10% supplement has been extended for one further year to 5 April 2004.

Gift Aid

Higher rate taxpayers can now get the benefit of higher rate relief a year earlier by electing to carry the donation back to the previous tax year.

Unwanted tax repayments

From April 2004 it will be possible to redirect certain tax repayments to a charity. Perhaps not likely to be the most popular initiative ever!