

March 2010

Bullimores Chartered Accountants & Business Advisors

PRE-ELECTION CATASTROPHE

The Government's budget is held in order to be able to maintain their finances for the ensuing year, and in particular, the period from April to June when the salaries of civil servants could not be paid without parliamentary approval.

The real budget will be in June or early July with the new administration, be it a hung Parliament or a minority Government, or possibly a small overall majority. Whichever party comes into power drastic action must be taken to deal with the runaway Government expenditure, which essentially means that the state salary bill and the pension liability will have to be cut. This can only be done in the early stages of a new Government so that everybody gets used to the new circumstances, and discontentment strikes are out of the way before the next election, five years hence. It is almost certain that a new Government will reduce rates of corporation tax, since we are significantly out of line with Europe with our rates being far higher than Ireland and Germany. However, it will not be at all surprising to see an announcement that corporation tax rates would reduce over a period of years to much nearer 20% than the current 28% for large companies, the idea being that we encourage large companies to stay in Britain rather than to emigrate with the consequent beneficial effect on employment.

On the other hand, there is almost bound to be further pain for the individual with increases in VAT, Capital Gains Tax and Excise Duty.

Words fail us to describe our Chancellor and current Prime Minister, but the mess they have left us all in speaks for itself. The British public may swallow chicanery, but the financial markets will not. Without proper action to address the economy we can expect further depreciation of sterling, higher interest rates and significant inflation. Hopefully, someone will be brave enough to give us a strategy and tell us the truth!

The words to the Marseillaise could be on our website.

Tax Tables, Budgets, Pre-Budgets and Commentaries

We usually send out a comment on the pre-budget report in December, together with the tax tables for the year to come by way of a newsletter.

The 2009 pre-budget report was something of a damp squib and we decided that there were not enough proposals to make a full mailshot worthwhile and published the commentary and tables on our website.

This year could be messy with an election before the approval of the full Budget, so we will wait and see whether it is worth sending a complete report in March. Please check our website for caustic comments!

Increases in National Insurance Contributions

The pre-budget report in December 2009 tried to disguise a hefty rise in National Insurance Contributions. All classes of National Insurance will rise by 1% in April 2011 (despite the headlines announcing 0.5%) since a rise had already been announced in the April 2009 budget.

The main rate of employer's National Insurance has now risen from 10% in 1997/98 to 13.8% in 2011/12 and for employees the main rate has risen by 2% in the same period. There are of course banding changes to consider, but there can no longer be any doubt that this is a hidden tax and a real discouragement for employers, especially when one adds the new and proposed pension requirements.

Self employed contributions also rise by 1% in April 2011.



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Tax rate of 50% and loss of personal allowances

The higher rate of income tax for anyone earning in excess of £150,000 will rise to 50% from 6th April 2010 and those with an income of over £100,000 will lose £1 of their personal allowance for every £2 they earn in excess of £100,000. This was announced in the pre-budget report and means that the rates are quite a lot higher at just over £100,000 and £150,000, as below.

a. Bringing income forward

Anyone with an income likely to exceed £100,000 in the tax year should could try and bring their income forward to pay tax at 40%. Most commentators will be saying £150,000 but the loss of personal tax allowances for income over £100,000 can mean paying tax at a marginal rate of 60% on that slice of income.

However, this will mean the tax liability is due earlier, so be aware! Also, by increasing your income you may jeopardise your pension allowability. A possible Catch 22, so come and talk to us.

This is easier to achieve where an individual receives a dividend payment, as the dividend can be paid in 2009/2010 rather than 2010/11. It is unlikely that the Government will try to prevent this happening as they will get the tax benefit a year sooner, but we would suggest paying the dividend as soon as possible, and before 1st April, to avoid the Easter Bank Holidays.

If you believe the tabloids, the Chelsea football team will be receiving inflated payments in 2009/2010 then just the basic salary in 2010/11, saving income tax. It is doubtful many other clubs or employers can afford to follow suit!

b. Transferring assets between spouses and civil partners

Where one spouse pays income tax at a higher rate than another, it can make sense to transfer income generating assets.

An unconditional gift of the asset and the income arising from it between spouses does not currently attract capital gains tax. The words **unconditional** are very important since there is no right to get the asset back, so it really is a gift.

Restricting relief on pension contributions for high earners

If there is one subject guaranteed to make a tax adviser weep it is the anti forestalling legislation on pension contributions. Just the words 'anti forestalling' suggest that things are about to get complicated!

In a nutshell, the Government decided that from 2011 people with incomes over £150,000 a year will no longer receive higher rate tax relief on their pension contributions. So far it seems simple.

But to stop those likely to be affected circumventing the new rules by making significant contributions this year, they then introduced the anti forestalling legislation to apply from the Budget date for those with incomes over £150,000, which was then changed to £130,000, and dependent on the previous two years' earnings!

To explain the rules in detail in this newsletter to cover everybody's circumstances would be impossible, so if you have income over £130,000 and you are thinking of making a pension contribution you should contact your adviser and especially if your annual contributions exceed £20,000.

New Company Pensions

As if businesses in general didn't have enough to worry about, the costs of the new pensions' regime for all companies and businesses comes into force in respect of employees from 2014 - it was going to be 2012 but has been delayed.

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It sounds a long way ahead but large businesses will have to contribute in respect of every employee from 2014 onwards, a minimum of 3% of their salaries into a pension scheme. You will no doubt remember the problems caused by the previous introduction of stakeholder pensions but these did not encompass compulsory contributions and were effectively left to the employee to initiate a pension contribution. This is not the case with the new personal accounts, where the employer is statutorily required to set up a personal account for each employee and include a minimum of 1% into that fund for each employee, rising to 3% in 2016.

It is possible that an incoming Conservative Government might repeal this legislation and additional regulations, but one has got to assume that the legislation, which is already on the statute book, will be brought into force in due course with the attendant fines.

It is our intention in the future to hold seminars for our clients explaining in general terms what is needed so that you are at least forewarned to a certain extent about the requirements and the overall costs.

Value Added Tax (VAT)

HMRC have announced that from 1st April 2010 payments of VAT by cheque must reach them in sufficient time for the cheque to clear the bank by the due date, otherwise a late payment charge will be applied.

This provision will only affect existing VAT registered businesses with a turnover of £100,000 or less. All other VAT registered businesses (including newly registered ones, whatever their turnover) will have to file their VAT returns and pay any amount due electronically – they are allowed an extra seven calendar days from the filing date for their payment to reach the HMRC account (but allowance must be made for your banks clearing period).

It would seem that HMRC no longer wish to process cheques and given the vagaries of the postal system, the best option for all may be to pay electronically. So much for HMRC facilitating small businesses!

On line filing requirements

It will be compulsory for all businesses with a turnover of £100,000 or more and any new business to file VAT returns on line with effect from 1st April 2010. There will also be a requirement to pay on line. If you want help with registering please give us a ring as we now know our way around the screens!

Bank account change

The banking details for HM Revenue & Customs (VAT only) has now changed:

Account name: HMRC VAT
Sort Code: 08 32 00
Account number: 11963155

The new bankers for HMRC are Citi and Royal Bank of Scotland. We hope that they are getting a good deal on bank charges!

Change back to 17.5%

The change back to 17.5% on 1st January 2010 was bound to cause confusion and perhaps even some dubious invoicing practices. HMRC have made it clear that they will be very strict on avoidance and there is a wide range of anti avoidance legislation. Oh joy!



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Overseas sales and place of supply

There is a fairly fundamental change to the rules of overseas sales of services which was the result of the EU Finance Ministers' meeting last year.

There will be a general presumption that a UK service provider supplying an overseas business customer will supply the service in the country where the customer is based. The business customer will account for VAT under the reverse charge mechanism.

Services to an overseas non business customer will generally be supplied in the country where the supplier is based.

There will be a new requirement for service providers to complete an EC Sales list within 14 days of the quarter end, or 21 days if completed electronically.

If you supply goods or services overseas it is essential that you look at the new rules and make sure that your software can cope with the new requirements.

Display of the company name

Every company must display its company name at the registered office unless it has always been dormant.

Unfortunately, this means that if you have an office at home and the registered office at the same address, you will need a name plaque or similar. Obviously, nobody really wants a company nameplate outside their home and once the council realise this they might try to levy business rates.

We are happy to offer a registered address service for companies at our offices and these will be on display and updated on a regular basis.

Tax dodgers to be named and shamed from 1st April

It has been confirmed that tax 'dodging' committed on or after 1st April 2010 will be made public knowledge. This follows a policy that has been in place in Ireland.

The Treasury are, of course, keen on this idea, and although there is a right to appeal there must be concerns that people will be defamed.

The first publishing is unlikely to be before 2011.

Internet Bank Fraud

More and more people are using the internet to pay creditors and to access banking services, which has led to a considerable increase in bank fraud.

The Finance Director of one of our larger clients, who we would consider is highly proficient and cautious using internet services, has recently been scammed.

Even though he had daily anti-virus updates a hacker managed to get past his security. This resulted finally in Barclays Bank advising him to completely wipe his PC and reload everything from the source documentation.

His admission that he was not quite as savvy as he thought when it comes to being duped, has a familiar ring. So this is his advice - **IF ANYTHING AT ALL CHANGES IN THE WAY IN WHICH YOU LOG IN, RING THE FINANCIAL INSTITUTION AND DO NOT GO ANY FURTHER.**



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When he was entering the site, the PIN sentry apparently told him that there was a wrong response and needed re-calibrating, but he was actually on the Barclays https site. The re-calibration process asks you for a number of entries and numbers to be put into the systems, which were in fact instructions to make the fraudulent payments. So if anything changes from your normal log-in, don't go any further and ring the bank to check the system.

**If the Revenue send you an email saying you've got a refund, it isn't true!
They never correspond with tax payers by email.**

Intestate i.e. dying without a will

If you are married and die without a will, under current law your spouse, wife or husband or civil partner might expect to inherit the entire estate, but to many peoples' surprise this is not the case. The estate is actually shared out between the deceased's parents and brothers and sisters and/or their offspring with a share going to the spouse.

If the deceased left a spouse plus children, things are even more complicated and the surviving spouse may not be properly provided for and expensive trusts come into play.

If you lived together without being married prior to the death, you are entitled to virtually nothing on the death. It is remotely possible that a court action might result in some financial provision, but it is by no means certain and can be very expensive.

The Law Commission has been asked to propose amendments to statute to tidy up these matters, but when and if ever this will make it on to the Statutory Book is by no means certain. The strong advice must be please make a will.

Powers of Attorney

The Lasting Power of Attorney form, introduced about 18 months ago, was extremely complicated and ran to 26 pages of confusing and difficult text. What was worse was that one incomplete answer or tick in the wrong box meant the whole application was rejected, which was both costly and time consuming.

A new form has been prepared, which is now 11 pages long (long enough) but this should make it a lot easier to fill in and to register.

Again, if you haven't got an Enduring Power of Attorney (the old Power of Attorney) we would strongly suggest you put in place one of the new Lasting Powers of Attorney.

Marriage

Perhaps you should consider a pre-nuptial agreement.

The Courts have in the past rejected pre-nuptial agreements in favour of the Court's own jurisdiction. However, in the case of Radmacher v Granatino, the Court of Appeal upheld the terms of the pre-nuptial agreement.

A Law Commission is now sitting with a view to reporting in 2012 on whether it is desirable for pre-nuptial agreements to be enforceable. Until then agreements will be drawn up with potential disputes on the boundaries of the guidance. But to be cynical about it, lawyers make much more money when things are uncertain - so uncertainty is the order of the day!



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Trust Changes

The Perpetuities and Accumulations Act will come into force sometime in 2010 and will extend the life of trusts from 80 to 125 years set up after its enactment.

If you have a trust in your existing will, you should probably reconsider your will and almost certainly bring in the new period by executing a codicil after the Act comes into force, but check with your solicitor first.

Sign in **BLACK** for Companies House!

The Companies Act 2006 requires that all forms submitted under the new Act, including signatures on sets of accounts, are signed only in black.

If the signatures are in another colour the accounts might be rejected, which can prove rather expensive. This is contrary to the rules in some other countries that don't allow signatures in black!

BT telephone call scam

The latest attempt by criminals to access your credit card details involves a call, purportedly from a BT representative, threatening to disconnect your telephone because of an unpaid bill. You will be asked for immediate credit card payment and told that non-compliance will result in a subsequent £118 re-connection fee.

If the veracity of the caller's story is challenged, he will offer to prove he is a legitimate BT engineer by disconnecting your phone. He will ask you to hang up and try to make a phone call - but your phone will appear to be dead, with no ring tone. He achieves this very simply - because the person to initiate a call is the only one who can end it, he just stays on the line using the mute button so you can't dial out, but he can hear you attempting to. When you stop trying he terminates the call and immediately rings you back. It is simple but convincing and could certainly deceive many.

A useful tip, although by no means foolproof, for verifying the identity of any supposedly official representative is to ask them to confirm your postcode - in a scam your number will probably have been chosen at random and they will have no idea of exactly where you are, whereas a bona fide caller from your bank, credit card company or utilities' suppliers will definitely have that information to hand. If in doubt always ring them back at the head office.

When the chips are down...

We help to look after the affairs of an elderly client who is now rather frail and has a carer with her from early morning every day. Recently, one of our partners received an urgent call late in the afternoon from the carer saying that there had been a power cut in the local area for several hours and could he find out if anything was being done to resolve this situation. Not being able to do much (since he was on holiday in Portugal!) the partner telephoned the office asking the staff to find out what was happening. A call to the Electricity Board was followed by one to the client to reassure her that the power cut was being dealt with, but also to enquire if there was anything else we could do to help. With no power for several hours neither of these ladies had had any hot food since breakfast, and when the client was asked what she would like she replied, "Fish and chips"! A local taxi firm was contacted, met with at the High Street chip shop and dispatched to deliver the meal to the two ladies in the hinterland of Surrey.

Beat that for service Big Four! (Or would they even want to compete?)



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No more sick notes!

The old style sick notes provided by doctors are changing on 6th April 2010. The full details can be found at www.dwp.gov.uk/fitnote/.

The new statements, commonly known as 'fit notes', will mean that doctors are now required to assess whether an employee may be fit for work with appropriate support.

This does seem a pretty good initiative for employers in principle, although it is bound to cause doctors a considerable amount of problems in making their assessment. No doubt there will need to be a change in the coming years!

Help for retailers in the fight against crime

The Home Office recently announced a new £5 million fund to help small retailers buy security equipment in 50 priority areas. Small grants of up to £3,000 can be applied for by individual retailers to put towards devices like security shutters or alarms. There are also grants of up to £50,000 available to groups of retailers – for example, in a suburban shopping parade or complex. These can be put towards addressing problems that affect the whole community – as in improvements being made to street lighting. More information about the funding and how to apply is available on the GrantsAdmin website at www.grantsadmin.co.uk/smallretailerscapitalfund.

This parrot is deceased

A lady turns up at the vets with a rather dead looking parrot and asks him to examine the parrot to see whether he can prescribe some medicine. The vet says "I am terribly sorry but your parrot is dead". She collapses into tears and says "I must have a second opinion" so the vet says "I don't think there is any point, but I will get you a second opinion". He nips out the back and gets a labrador. The labrador pats the parrot a couple of times, shakes his head and walks out of the room. The vet says "I am afraid the labrador doesn't think your parrot is alive". The woman says "I want a third opinion. The vet says "Okay I will get a third opinion for you". He goes out the back again and this time gets a cat. The cat pats the parrot a couple of times, and again there is no reaction. The cat shrugs his shoulders and walks off. The woman says "I am convinced now. How much will it cost to bury the parrot?" The vet says "£160". Outraged, the woman says "How much? You must be joking. Why is that?" The vet says "it would have been a lot cheaper, but you had a lab report and a cat scan!"



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