business UPDATE

Spring 2008

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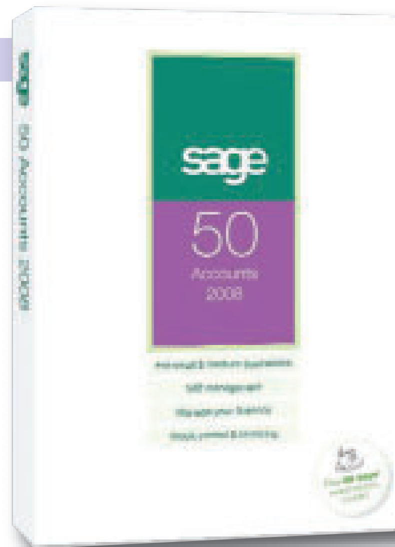
Sage 50 Accounts 2008



The recent launch of the latest version of the UK's leading Business Management software brings a new name and new features that will help existing and new users manage their business more effectively.

The product has been re-branded, Sage 50 Accounts, Accounts Plus and Accounts Professional, replacing the previously named Line 50 range. New software released, especially those that happen as an annual event, can sometimes be no more than a facelift. The Sage 50 2008 range definitely has some really useful additions this time around, some of which are highlighted below:

- Take card payments over the phone
- View the figures that matter –drill down and month by month reporting
- Submit your VAT return online
- Make the most of deposits and discounts
- Speed up your invoices and orders

If you require any further information on the new range of software, whether an existing user or if you are new to Sage, please do not hesitate to call me on 01709 828400 or 01302 349218 for a free demonstration.

Ian Reddish
IT Consultant

Capital Gains Tax Strategies

There are only a few weeks left to benefit from capital gains tax (CGT) taper relief for business assets.

From 6 April 2008, only the sale of assets that amount to the whole or part of a business will be taxed at 10% – the current maximum rate for business assets that the seller has owned for at least two years.

The new relief, to be called entrepreneurs' relief, will apply to business sales by sole traders or members of partnerships, and to sales of shares in a trading company by a director or employee who holds at least 5%. Only the first £1 million of lifetime gains will qualify. All other gains by individuals and trustees will be taxed at 18%.

Taper relief will be lost entirely. This includes taper relief on gains that were rolled over or deferred, for example, when a taxpayer has replaced a business asset with another one or reinvested a gain in shares under the enterprise investment scheme.

If you are thinking of selling a business asset, you could save tax by making the sale before 6 April 2008. A sale takes place for CGT when the parties have entered into an unconditional contract. It does not matter if completion and payment come later, which is common with sales of land and buildings. For all transactions before 6 April 2008, the CGT is payable on 31 January 2009.

Assets that qualify for business taper relief but almost certainly not for the new entrepreneurs' relief include land and buildings, and other assets that you use in your business (unless associated with a business sale), and many company shares – the rules are complex. Let commercial property can also qualify for taper relief.

Remember when accelerating the sale of any business assets that the purchaser may take advantage of the deadline to negotiate a better price – early in the process or even at the last moment.

If you previously sold a business and received loan notes in return, you might be able to sell or redeem them before 6 April 2008. This would release the deferred gain, which will qualify for taper relief based on the business you originally sold. If you dispose of the loan notes after 5 April 2008, you will lose the associated taper relief.

If you do not want to sell assets or cannot do so before 6 April 2008, there are other ways of crystallising a gain, eg you could transfer assets to a family trust. Yet such arrangements could accelerate the tax liability and may involve other costs. Good professional advice is essential.

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An End to Income Shifting?

The government has promised to crack down on 'income shifting'. This is where someone can reduce their tax liability on business earnings by paying dividends or partnership profits to a non-working spouse or civil partner.

Details of the proposed new rules were announced on 6 December 2007. This leaves a window of opportunity to save tax by paying dividends before 6 April 2008, because the new rules will not take effect until the tax year 2008/09. HM Revenue & Customs (HMRC) had challenged income shifting under existing anti-avoidance legislation in the Arctic Systems tax case. But in this case, the House of Lords rejected the attempt to tax the husband on dividends paid to his wife, even though the husband's work generated most of the company's income.

Since the Lords' ruling in the summer, HMRC has issued guidance which confirms that where a non-working spouse holds ordinary shares with rights to the company's capital, dividends can only be taxed as the income of the spouse to whom they are paid.

You can therefore save tax by paying a dividend before 6 April 2008 up to the limit of a non-working spouse's basic rate income tax threshold. Remember though that you have to count as income the 10% tax credit as well as the cash dividend itself. You can even give your spouse shares shortly before paying the dividend, provided you make an unconditional gift of ordinary shares with full voting rights.

But there are some restrictions. The company must have enough accumulated income out of which to pay the dividend to all shareholders, or to all holders of shares of the same class. (Most family companies have only one class of share.) HMRC is likely to succeed in a challenge under the present rules where the working spouse, who holds shares, foregoes a dividend so that a larger dividend can be paid to a non-working spouse.

This could be your last chance to save tax in this way. We can advise you on making the best use of current rules and on whether you should change the way your business is set up for the future. The new rules for income shifting, together with changes to tax rates for individuals and companies, start in April 2008.

Tax Penalty for Non-Domiciliaries

Non-UK domiciled individuals who have lived in the UK for a long time will have to decide whether it is worthwhile continuing to claim the remittance basis of tax.

From 6 April 2008, an individual who has been resident in the UK for at least seven years out of the previous ten will have to pay a £30,000 charge for each tax year they wish to use the remittance basis. Periods before April 2008 will count, so if you have already been resident in the UK for seven years, the change will affect you in the 2008/09 tax year.

Under the remittance basis, you pay UK tax on income arising overseas only when you bring it into the UK. Individuals who are not domiciled in the UK are currently taxed on the remittance basis on most types of income. The remittance basis also covers some income of individuals who are not ordinarily resident in the UK, and the new rules will also affect them.

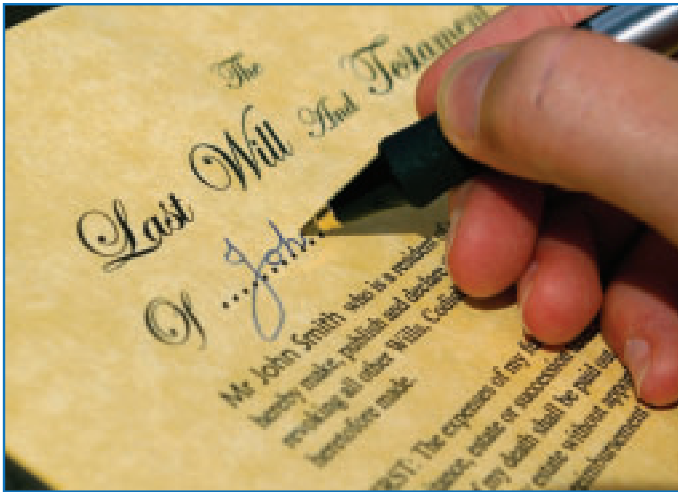
If you have been resident in the UK for seven years and do not pay the charge, you will be subject to UK tax on all your worldwide income and capital gains as they arise. If you have no overseas capital gains, paying the charge will only be worthwhile if your unremitted income is more than £75,000.

Broad details of how the annual charge is likely to operate were announced in a consultation document on 6 December 2007.

As part of the reform, people who use the remittance basis will lose entitlement to personal tax allowances, the annual capital gains tax exemption and some other reliefs. It will be possible to opt in and out of the remittance basis year by year.

You might be able to prepare for the new regime by rearranging your financial affairs, although the government has also promised to make it more difficult to avoid tax by using offshore trusts and companies. If you decide to give up the remittance basis, you will only be taxed on income and gains arising from 6 April 2008. You could therefore avoid UK tax by disposing of overseas assets before that date, provided you leave the proceeds overseas. Tax planning for non-domiciliaries can be complex and other changes in the rules are being made, so professional advice is essential.

Inheritance Tax



Married couples and civil partners should review their wills to take advantage of the new inheritance tax (IHT) rules for transferring their unused nil-rate band.

Before 9 October 2007, the standard tax planning advice was to use the nil-rate band, currently £300,000, on the first death by leaving assets up to that amount to beneficiaries other than your spouse or civil partner. Now, leaving everything to your partner will often save more tax and give the survivor more flexibility.

The change stems from the announcement in the 2007 Pre-Budget Report. When a person has died, any unused nil-rate band can be transferred to the estate of a surviving spouse or civil partner who dies after 8 October 2007. It doesn't matter when the first death occurred. On the second death, the nil-rate band in force at that time is increased by an amount calculated by the proportion of the nil-rate band that was left unused when the first partner died. The effect is to uplift the first partner's unused nil-rate band to its value at the second partner's death.

For example, suppose Mr Jones died in autumn 2002 when the nil-rate band was £250,000 and his will left £100,000 to his children and the remainder of his estate to his wife. Transfers to a spouse are free of IHT so £150,000 – 60% – of his nil-rate band was unused.
If Mrs Jones dies at a time when the nil-rate band is £400,000 say, her nil-rate band will be uplifted by 60% of £400,000 – an increase of £240,000, compared to the £150,000 unused at Mr Jones's death.

Of course other factors will come into play. In the period between the deaths, the value of the couple's assets could grow at a faster rate than the nil-rate band. If the estate is worth more than the combined nil-rate bands, this growth could result in a higher IHT liability than if the nil-rate band had been used on the first death. However, the survivor could avoid this problem by making lifetime gifts, a much more flexible option than the discretionary trust structures currently in many couples' wills.

The rules are more complicated where the survivor remarries and there are many other things to think about.
If you would like us to look at IHT planning for your own circumstances, please get in touch.

Capital Gains Tax Changes for Investments and Property

Many investors have welcomed the proposed replacement of capital gains tax taper relief by a flat tax rate of 18% from 6 April 2008.

Taper relief, now given only on disposals up to 5 April 2008, reduces tax according to how long you have owned the asset. But even with the maximum taper relief for non-business assets – on property and other investments owned since before 17 March 1998 – a higher rate taxpayer currently still pays tax at 24%.

However, the change would leave many basic rate taxpayers worse off. As long as you have owned investments for at least five years, your effective tax rate after taper relief is currently less than 18%. You might want to sell such investments before 6 April 2008, especially assets you have held since before 17 March 1998, on which your tax rate after taper relief is currently only 12%.

Another group that would lose out from the changes in April 2008 are people who acquired valuable investments a long time ago. This is because indexation allowance is also due to be abolished. Indexation allowance increased the cost of an asset by reference to inflation from 1982 until 1998, when it was replaced by taper relief. The indexation allowance accumulated up to 1998 was frozen and more than doubles the cost of assets acquired in April 1982 or earlier.

For example, if you sell a property that you bought in 1981 for £30,000, you can deduct the cost plus £31,410 in calculating your capital gain. Even this frozen indexation allowance is set to be abolished for disposals from 6 April 2008 – another reason to think about selling assets before then.

If you are married or in a civil partnership, you might be able to preserve the frozen indexation allowance by transferring assets from one partner to the other. You would not have to pay any tax on the transfer but your partner would acquire the asset at a 'cost' that includes the indexation allowance. This 'acquired' indexation would not be lost.
There is some uncertainty about whether this strategy will work for assets originally acquired before 1 April 1982, but we expect this to be resolved soon.

law LINES

New Corporate Manslaughter Rules

UK companies and other organisations can be convicted of a new offence under the Corporate Manslaughter and Corporate Homicide Act 2007, which comes into force on 6 April 2008.

The new Act does not create new duties in law, but will make prosecutions easier. Companies and other organisations across the public and private sectors could be found guilty of the offence of corporate manslaughter (or corporate homicide in Scotland) if the way in which their activities are managed or organised causes a death and amounts to a gross breach of a duty of care to the deceased.

In the past, prosecutions have generally only succeeded against companies where the director and the company have essentially been the same. The new Act aims to focus on the way in which an organisation's activities are managed and controlled; and prosecutions will not have to rely on an individual being found guilty of gross negligence. The courts will be able to consider the wider picture by looking collectively at the actions and failings of the organisation's senior management.

A duty of care exists, for example, in relation to the safety of equipment used by employees, the condition of worksites and the products and services supplied to customers.

If an offence is committed under the new Act, the penalty is an unlimited fine. In addition, the court can make a publicity order requiring the organisation to publish details of its conviction and fine.

business MATTERS

Look After Your Data

Breaches of data security can have huge repercussions, as HM Revenue & Customs found out when two disks containing the entire child benefit database went missing last autumn.

The incident serves as a reminder of the measures all businesses should take to reduce the risks. Lapses not only damage your business's reputation but also contravene data protection legislation. These are some of the things you and your staff can do to protect your business data:

- Protect computers and data with passwords that are kept secure, not shared and changed regularly.
- Store confidential papers securely and shred all confidential waste before disposal.
- Position computer screens away from windows to prevent accidental disclosure of information.
- Encrypt information being taken out of the office or transferred electronically. All portable devices that store information should be protected with approved encryption software.
- Carry out identity checks before giving out information over the telephone and limit the amount of information given that way. Make sure staff are alert to callers who could trick them into disclosing confidential data.
- Take steps to prevent virus and spyware attacks on your computer systems.
- Collect only the personal information about customers and others that you really need and delete anything you no longer need.
- Make sure that employees working away from the office, whether at home or on the move, can access your business computer network only with secure passwords.
- Where employees work at home, their home computers should be equipped with firewalls and regularly updated virus protection software.
- Special care should be taken when using laptops in a public place where they could be overlooked.

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice as at January 2008.