

# INSIGHT

## Welcome...to our Winter 2007 newsletter



I am writing this from my hotel balcony watching the sun go down

over the Tenerife coastline, realising how lucky I am to do this as part of my working life. I am reflecting back on 2007 which I think has been of fundamental importance to Elman Wall.

We continued to grow the firm in many ways; Revenue is 28% up from 2006; we have attracted both high quality

clients and high quality employees and have undertaken ever more complex work across audit, tax and advisory sectors.

As importantly, we looked within, and resolved a number of internal challenges, that were blocking our future path. The lesson I personally learned this year was to confront my demons and to come out the other side smiling. So, we leave 2007 in a far better place than

when we came in to it. We have great clients, great staff, great assignments and great fun. We look forward to simply doing more of the same, but better, in 2008. As M.D., you can't ask more than that, can you?

### Seasons Greetings

Everyone at Elman Wall sends their best wishes to all of our clients, contacts and friends for a Happy Christmas and a healthy, wealthy and

successful 2008. Instead of sending Christmas Cards we always make a donation and this year we will be supporting The Warwickshire Firefighters Families Fund. We were all terribly upset watching the recent pictures on television and our hearts go out to the families of the brave fallen at this most festive time of year.

JONATHAN WALL

## What is happening to CGT?

The big surprise in the Pre-Budget Report was the new 18% rate of capital gains tax (CGT) and the removal of taper relief. Nearly ten years ago, Gordon Brown invented taper relief but his successor has abolished it for gains arising on or after 6 April 2008.

If you hold business assets, including unquoted shares and land and buildings used by a trade, for at least two years, the capital gain which arises on their sale may be discounted by 75%. That works out at just 10% tax for a higher rate taxpayer or 5% for a basic rate taxpayer.

Indexation allowance for individuals and trustees (but not for companies) is also to be abolished from 6 April 2008. This will simplify capital gains calculations, but it does not hide the fact that the potential 10% tax rate payable on the sale of business assets will jump to 18% from 6 April 2008.

If you are planning to sell your business you may save at least 8% tax if you sell before 6 April 2008. The exact calculation of the tax due on the sale will depend on how the business asset has been owned or how the property has been used throughout the last ten years, so ask us to check the potential tax bill for you.

The new flat rate of CGT will be good news for most people selling a non-business asset, such as a buy to let property, or quoted shares. At present the maximum a gain can be reduced by taper relief on non-business assets is 40%, which works out at 24% for higher rate taxpayers and 12% for basic rate taxpayers. If you expect to make a gain on a non-business property, it may be better to sell on or after 6 April 2008 to save at least 6% on your tax rate, possibly more.

However if you acquired investment properties well before 1998 you need to consider the effect of the loss of indexation allowance from 6 April 2008. Its effect is to uplift the cost of the asset to reflect general inflation from the date of acquisition to April 1998. An asset purchased in September 1988, for example, would qualify for a 50% uplift in cost if sold before April 2008. So if you have an investment property with a relatively high base cost,

indexation allowance may reduce your effective rate to below the 18% rate.

The annual capital gains exemption (currently £9,200) will be retained as will other capital gains reliefs such as hold-over, roll-over and the deferral of gains using the Enterprise Investment Scheme. So when you make relatively small gains in a single tax year they will normally be tax free. However, this allowance is not transferable between spouses, so putting property into joint names before a sale can still save tax.

Since the PBR announcement, there have been mixed reactions, and led by the CBI, calls for modification to the proposals. Nothing further is certain, but for example there is now a possibility to reintroduce a measure of retirement relief. We are continuing to monitor the situation.

Please contact Russell Eisen or our tax team if you have any questions.





## Buying or leasing business equipment

If you are planning to buy or lease some new business equipment over the next year, you should consider the changes to the tax reliefs known as capital allowances, which are due to take effect from April 2008.

### First the good news

All items that qualify as plant or machinery, including fixtures in buildings and vans, will be eligible for the new Annual Investment Allowance (AIA) of £50,000 if purchased on or after 1 April 2008 for companies, and from 6 April 2008 for unincorporated businesses. The allowance will give immediate tax relief for the cost of equipment within the annual limit of £50,000, which is much better than the spreading of tax relief over several years, which applies to equipment purchased before April 2008.

Where your accounting year does not start on 1 April or 6 April the first AIA limit will be proportionally reduced.

If a company year runs from 1 January 2008 to 31 December 2008 it will get nine months' worth of the AIA (£37,500) for purchases made between 1 April 2008 and 31 December 2008. Purchases made before 1 April 2008 will qualify for the existing First Year Allowances of 50% for small businesses and 40% for medium sized businesses.

### Now the not so good news

The writing down allowances for plant and machinery are being reduced from 25% to 20% and this will affect all equipment that has already been purchased and not fully relieved for tax purposes.

This means it will take longer to achieve full tax relief for any equipment purchased before 1 or 6 April 2008, or

bought after that date if it is not covered by the AIA limit of £50,000 per year. This adds some complications, so we will need to do some calculations to see if you should purchase your new equipment before or after 1 or 6 April 2008, or before your current year end. Please talk to us before you buy.

Another change will affect the tax deduction for the cost of certain fixtures in buildings (referred to as integral fixtures). Currently many such fixtures qualify for a 25% writing down allowance but for purchases on or after 1 or 6 April 2008 the rate of the allowance will only be 10% (if not covered by the AIA). We don't know exactly which assets will be classified as integral fixtures, but if you are considering buying a building

containing a lot of fixtures, it may be worthwhile sealing the deal before 1 or 6 April 2008.

### Is it better to lease?

If you lease equipment you can claim the capital allowances on the effective capital cost of the asset if the agreement is a hire purchase contract. Otherwise the capital allowances will normally be claimed by the lessor, unless special rules apply. If you lease a car the lease rentals you can set against tax are restricted where the car costs over £12,000.

If you are planning to incur capital expenditure or to take on a lease of plant over the next few months please talk to us before you do so. We can help you with the calculations.

## VAT on home computers

In 1999 the government introduced an exemption which allowed employers to lend a computer to their employees tax free even if there was only private use of the computer. In 2004, the government launched the Home Computing Initiative (HCI), which encouraged employers and employees to take advantage of the exemption.

HMRC considered the VAT position at that time and, although there would generally be some private use of the computer under HCI agreements, agreed that as long as there was some business use, any VAT incurred could be deducted in full.

The income tax exemption was withdrawn for new HCI agreements entered into from 6 April 2006 onwards and HMRC have now reviewed the VAT position. From 13 August 2007 onwards, HMRC's previous policy to allow full VAT recovery without any adjustment for

private use was withdrawn (subject to some transitional provisions for existing arrangements).

Does this mean that businesses cannot recover the full amount of VAT? They may still be able to do so but they must consider why the computer is being provided to the employee. Businesses will be able to make a full VAT reclaim where the computer is necessary for the employee to carry out their duties and any private use is insignificant. In these circumstances HMRC's view is that it is 'unlikely that any private use will be significant when compared with the business need for providing the computer in the first place'. This is in line with the approach taken for income tax.

Businesses that cannot demonstrate that it is necessary to provide an employee with a computer in order to carry out their job will only be able to reclaim a reasonable proportion of the VAT incurred.



## Do you have double the nil-rate band?

Inheritance tax (IHT) worries a lot of people because the IHT threshold, known as the nil-rate band, has not been increased in line with house prices over recent years. On death, all your wealth, including the value of your house, is taxed at 40% on all amounts above the nil-rate band, which is currently £300,000.

If your house is jointly owned the actual wealth in your name may be less than the £300,000 threshold. When the first spouse or civil partner dies and leaves everything to the surviving spouse or civil partner there is no IHT to pay, as the bequest is exempt from IHT for transfers between spouses and civil partners. However, when the surviving spouse or civil partner dies there may be a large IHT bill as all the wealth previously owned by the couple is now in the hands of one person, with only one nil-rate band to use.

The Chancellor has tried to solve this problem by allowing any unused nil-rate band on the death of the first spouse or civil partner to be transferred to the surviving partner who dies on or after 9 October 2007. That may give a total IHT exemption for a surviving spouse or civil partner of £600,000 (for 2007/08) rising to £700,000 for the tax year 2010/11.

Say Fred, a widower, died on 1 October 2007 with an estate worth £500,000. His executors will be required to pay IHT at 40% on £200,000 (£500,000 – £300,000) amounting to £80,000. If Fred dies on 1 November 2007, and his wife did not use her nil-rate band when she died, his estate has the benefit of two nil-rate bands totalling £600,000. Now Fred's executors will pay no IHT at all on his estate of £500,000.

The effect of transferring the nil-rate band could be achieved before this IHT change with the use of a discretionary Will trust. If your Will contains such a trust the Will does not necessarily have to be rewritten. If the only reason for the trust was to use each spouse's or civil partner's nil-rate band there may be little point in creating such a trust. However, there can still be advantages in creating a trust:

- a person may want to direct who the ultimate beneficiaries of the assets will be rather than leaving that decision to the surviving spouse or civil partner
- assets put into the trust on the first death may grow at a faster rate than the increase in the nil-rate band. That growth is not included in the surviving spouse's or civil partner's estate.

The inheritance tax change does not help couples who are not married or not in a registered civil partnership.

Please contact Russell Eisen or our tax team if you have any questions.

best way of dealing with this issue as the tax charge may leave a nasty taste. Would you want to pay tax on a gift?

Alternatively the employer can pay the tax on the gift using a PAYE settlement agreement.

However, there are in fact little known instructions to Inspectors not to collect tax on 'trivial benefits'. What is trivial is up to each Inspector's discretion. We though know about this and in raising this matter with the Revenue on behalf of clients, we normally manage to ensure no tax is charged, by getting their agreement that seasonal gifts are trivial.

Therefore if you or your employees want to save tax on gifts this year do get in touch and we can tell you more about this.

## Seasonal Gifts

So you want to give your employees a present to reward them for their hard work. You were thinking of a bottle of something, some chocolates or even a turkey. Are there any tax implications?

HMRC allow you to give minor gifts to employees, for example flowers to an employee who is in hospital, without having to report this as a perk of the employee's job through the benefits in kind system.

However, generally where all employees are receiving a gift it is appropriate for the employer to report the gifts. This can be done in one of two ways. If the form P11D is used, which reports employees' benefits, the employees will end up paying tax on the value of the gift. This may not be the

## Elman Wall Travel Team

I've just come out of a Masterclass at the ABTA conference in Tenerife run by Messrs Moesli, Cohen and Froome of the CAA on the new CPC-aka the £1 levy. They are adamant that the charge will come into being on 1 April 2008 and that bond obligations will be released for most (new entrants and those considered a financial risk being the exceptions) early in April and that the entire exercise will be fairly pain free for licence holders.

My personal view is that the CAA have not been given much time to deliver the biggest alteration to ATOL's in 30 years and there is massive change being undertaken there. I think that the switch to the £1 levy is beneficial to the industry but on time and seamless-not convinced!! Like others, I am also intrigued as to how the insurance market will react.

I was also talking to Richard Jackson who is the ATOL supremo at the recent AiTO conference in Lisbon (it's a hard life sometimes!!) and was delighted by his confirmation (repeated under questioning at ABTA) that the CAA will not just police licence holders but will step up action, including prosecutions, against those that operate outside the law.

This has always been a bugbear of ours. We know how expensive it is for our clients to be compliant and we get so annoyed when we frequently see businesses operating illegally.

Apparently as no one knows what a "package" is, another of my bugbears, the CAA have been unable to take action. We are eagerly awaiting the D BERR (formerly the DTI) guidance paper expected shortly, which will hopefully give much needed clarity. Bring it on!

Please don't hesitate to contact us if you receive any letters from the CAA that you would like advice on, or want a general chat.

Many of our travel clients are delighted that England failed so miserably at Euro qualifying-apart from those specialising in Austria and Switzerland! This means that British soccer fans will now book 2008 summer holidays.

Generally, it seems that holiday makers, having had one too many bad experience buying on blind trust from just about anybody with a website, are turning back to quality trusted brands and there remains much opportunity if your model is right.

Elman Wall have true expertise in all aspects of the travel industry. Please call me if you would like to discuss what we can do or do further for your business. Please watch out for our occasional travel industry e-newsletters.

JONATHAN

[www.travelaccountants.co.uk](http://www.travelaccountants.co.uk)

# Asset Finance

Following on from our article about changes to Capital Allowances rules on assets, we asked Jamie Garside from our asset finance partners, Eurolease (London) Ltd to set out a brief resume of what assets can be financed. This is what Jamie said:

"Asset Finance is an efficient and cost effective way of financing your capital expenditure leaving your cash flow and banking lines unaffected.

There are a number of products in the Asset Finance arena and naturally variations of each. Some of the most commonly used products are Hire Purchase, Finance Lease, Operating Leases and Contract Hire.

Funding is generally available for all capital equipment and purchases. The general principles of Asset Finance are that the goods are Durable, Identifiable and Movable such as Cars, Commercial Vehicles, Plant & Machinery, IT & Telecoms, Office Furniture & Equipment. However there are products in the asset finance market to assist with less tangible goods such as Computer Software & Services; Office Refurbishments and Shop Fittings, all of which can all be financed by way of an easily arranged commercial loan.

The benefits of Asset Finance over traditional bank funding are:

- As security provided by the asset being purchased is taken into account, you would normally be able to borrow much more than you would on an unsecured basis, sometimes up to 100% of asset value.
- There is generally no need for additional security such as personal guarantees or second charges on property.
- These are additional lines of credit, leaving your banking facilities unaffected.
- The debt repayment can be structured to match the depreciation of the asset or take into account any seasonality in your business.
- With Hire Purchase you have ownership of the assets once the debt has been repaid. However, with Operating Leases and Contract Hire, the finance company takes the risk of the future value and can rent the goods to you for a fixed period reducing your monthly outgoings."

*Through Elman Wall, Eurolease (London) Ltd can arrange specialist finance and provide excellent service for all the above, together with motor vehicles, aviation and marine finance. Please call us if you are looking for finance and we will introduce you to our expert partners.*



## Congratulations

Congratulations to Nick Welch who has completed his exams and articles and qualified as a Chartered Accountant. We invest heavily in training and have 5 other team members coming to the end of their professional qualifications.

## Credit Crunch

In this period of economic uncertainty, our excellent network of commercial and personal funding specialists can guide you around the "credit crunch" and help you obtain the best loans and mortgages. We also are helping a number of clients reassess their insurance and fixed and mobile telecoms needs. It can't hurt to get a quote from us.

Thank you to everyone who referred new clients to us in 2007. We are always looking for new opportunities, and generally, we make a positive difference to those who we begin to advise. Please keep referring us - we always say thank you!

Have you bookmarked [www.elmanwall.co.uk](http://www.elmanwall.co.uk)? We only issue technical briefings via our website. The latest are on PAYE impacts on Travel and Subsistence payments and on The Companies Act 2006.

We are proud to announce our Matched Giving Scheme starting on 1 January. We are delighted to annually match an amount up to £500 that any member of our team raises for charity or undertakes work in a voluntary capacity. We believe that it is important to put something back into the community.

Don't forget that we offer a full Wealth Management and Planning Service through our FSA regulated sister company, Cavendish Ware.