



# ELMAN WALL

CHARTERED ACCOUNTANTS • BUSINESS & TAXATION ADVISORS

# INSIGHT

December 2006

## Welcome



I can't believe that 2006 is drawing to a close already. When you get to my age (a tad over 40 - never looks it, you say!), all years seem to go quickly, but this year just seems to have shot by.

Like all small(ish) business, we have our ups and downs, but this year has been good to us. I very much believe that we make our own luck, but sometimes need a little help along the way!!

Over the last few years, we have invested heavily in building an excellent professional and support team, in our technology and systems, and in our premises. This seems to have translated into keeping the vast majority of our clients more than satisfied, and in winning high quality new clients, often from firms far bigger than ourselves.

A recent achievement, of which we are very proud, was being appointed as auditors and tax advisors to one of the very largest private companies in the UK.

However, like many of our clients, we can't afford to be complacent. We are stimulated by the technical and professional challenges that all our clients, new or existing, bring and are always looking to improve our expertise and service levels.

It just leaves me on behalf of everyone at Elman Wall, to wish you 'Happy Holidays' and hope you have a healthy, wealthy, happy and successful 2007. As always, please don't hesitate to call me or email me ([jonw@elmanwall.co.uk](mailto:jonw@elmanwall.co.uk)) if you want to talk to me at any time.

Jonathan Wall

## Spend an hour on your business for free!

Many of our clients went into business so that they could control their own destiny. But, do they?

We have recently licenced software that takes a business owner on a high level evaluation of what their personal and business aspirations are, and how close they are to achieving them. Jonathan facilitates the session and guides you through the review.

The session takes an hour and is fun, stimulating, thought provoking, and best of all free to all of our clients.

Some things can be for nothing and we invite you to call us to schedule your complimentary "Business Energiser" Review.



## Seasons Greetings

You won't get a card from us, but you do get a present.

For many years, we have not sent out Christmas cards to our clients and friends. Instead, we make a direct donation to a number of charities. This year we will make a donation to The Sick Children's Trust, which provides accommodation and support to parents with children in Great Ormond Street, and other fantastic kids hospitals.

We hope you get great use from our gift to you, enclosed with this newsletter.

We wanted to show that we are there to help our clients when things go wrong, and found the perfect partner in Yellowtag to demonstrate this.

The key fob belies some serious technology that allows you to be reunited with your keys within minutes of someone finding them... but you have to register first at [www.yellowtag.com](http://www.yellowtag.com) in order to activate it. Do this now! We have paid the first years subscription for you. We hope that you'll never need to rely on this service, but if you are unfortunate enough to lose your keys, you'll be extremely grateful that you had it. Full instructions are enclosed in the box and on the Yellowtag website.

Please enjoy this with our seasonal compliments and we thank you for your friendship and business this year.

# Preserving the inheritance

In recent months, appeals have come from both ends of the political spectrum for an abolition of inheritance tax (IHT) or, at least, some exemption or relief for a person's main residence.

The increasing clamour for change has been fuelled largely by the rise in house prices which have outstripped the nil rate band for IHT, currently £285,000. This amount is roughly the same as the average price of a detached house in England and, in 10% of towns surveyed by Halifax, the average price of all house types is above this amount.

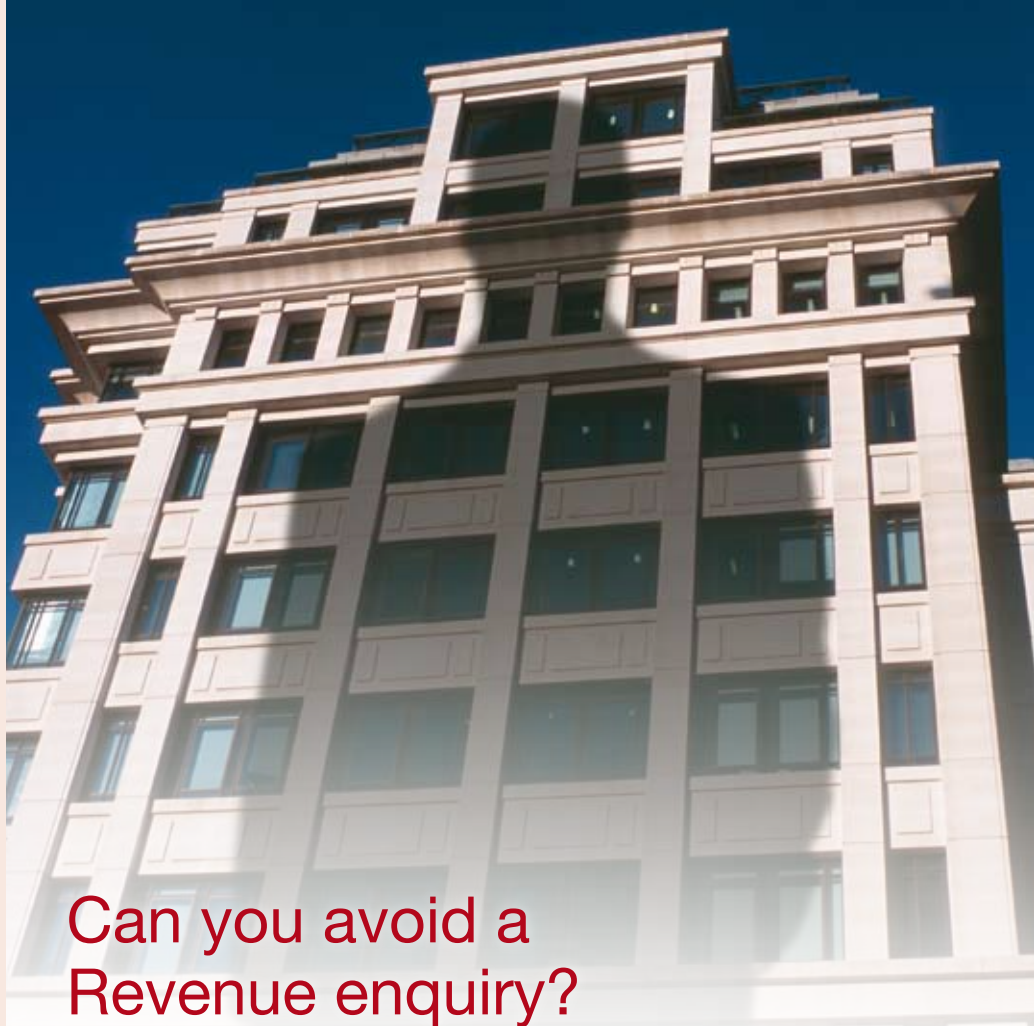
Planning to minimise IHT is something that many put off until it is too late and early attention to this tax is almost always worthwhile. For example a gift made more than seven years before death will never attract any IHT, so that the nil rate band could be given away every seven years without any tax arising.

Without reviewing all the complexities of IHT planning, there are some basic points that everyone could benefit from.

- Ensure that couples can each make use of the nil rate band. This makes it worthwhile for estates to be equalised and because transfers between husband and wife or civil partners are exempt, there is no barrier to achieving this.
- Where funds are limited, discretionary will trusts may enable utilisation of the nil rate band on each spouse's death and, where the family home is the main asset, it may still be possible to achieve this provided that the ownership of the property is as tenants in common rather than as joint tenants. This is a complex area and we can help with this planning process.
- Making regular use of the lifetime exemptions can also help to pass on significant sums free of IHT. Individuals may give away up to £3,000 per annum and, in addition, make small gifts of up to £250 per donee.
- Another valuable exemption is gifts out of income. Put simply, normal expenditure out of current income (not savings or accumulated income) and which does not leave the donor unable to maintain their standard of living will usually be exempt.

Please talk to us for further advice on these and other IHT planning steps.

Our Tax Team can explain more – contact Russell Eisen or email him at [Russell.Eisen@elmanwall.co.uk](mailto:Russell.Eisen@elmanwall.co.uk).



## Can you avoid a Revenue enquiry?

The Revenue has always used their enquiry powers to question business tax returns, including corporation tax, PAYE and VAT. However, increasingly, we are seeing enquiries commenced into personal tax returns where there are no such business elements.

These enquires tend to be concentrated on certain areas. For example, if you have rental income the enquiry may examine the deduction of expenses. Where there are capital gains in the year, the enquiry may consider any appropriate claims for relief made. However whilst therefore potentially limited in aspect, nonetheless the tax result can be significant, if not the hassle and professional costs in dealing with such an enquiry.

So how can you protect yourself from an enquiry into your Self-Assessment tax return?

There can never be any guarantee the Revenue will not enquire into your return. This is because a certain percentage of returns are subject to random selection for enquiry. In these cases even if the submitted return is 100% correct, then the enquiry process still needs to be complied with. For this reason we offer all our clients an insurance scheme to cover professional costs in dealing with enquiries Renewal or joining letters will be sent shortly, as our policies all expire on 31 January 2007.

Beyond random selection, there are steps that can be taken to ensure the risk of enquiry is minimised. For example, many tax return enquires commence due to errors in reporting bank

interest. The Revenue already have reports from the banking institutions, so any discrepancies in returns will lead to an enquiry commencing. For this reason, particularly given that we are in the middle of tax return season, it is important always to provide the bank interest certificates to prepare your return to ensure no mistakes can be made.

Similarly in dealing with dividends, it is not simply a case of reporting income received during the year. Movements in shareholdings should also be considered, particularly if gains have been realised on share disposals. Having dividend vouchers available to review will help this process. In the case of overseas dividends, it is even more important as where foreign tax is deducted, differing treatments will apply, depending on which country the dividends are paid from.

Finally, and following on from recent Revenue victories in the Courts, one of the most important points to consider is "white spaces" on the returns. Additional information should be provided where there is doubt about the tax treatment of an entry or where this would simply allow the Revenue to understand circumstances better without the need for opening an enquiry.

Having your tax return prepared in the right way, and using the correct information, will go a long way to ensuring you are not subject to a Revenue enquiry.

Our Tax Team can explain more – contact Russell Eisen or email him at [Russell.Eisen@elmanwall.co.uk](mailto:Russell.Eisen@elmanwall.co.uk).

# Tax Efficient Investing

*Adrian Ware, of our sister firm Cavendish Ware, independent financial consultants, looks at some of the most tax efficient investment options currently available.*

There is an old saying in the investment industry – “never let the tax tail wag the investment dog”. Having a clear strategy that takes into consideration your goals, financial planning objectives and tolerance to investment risk must come first.

The taxation of investments is clearly a very important issue, nevertheless, and there are a number of vehicles that continue to offer significant tax advantages. I therefore want to look at five of these, covering different taxes and risk profiles.

- **Pension Plans** - provide tax relief on contributions at your highest marginal tax rate. A £60 contribution becomes £100 for a higher rate tax payer, an investment risk free return of 66.6%. The underlying investment within the pension then has the opportunity to grow in a highly tax benevolent environment, and 25% of the total fund value can be taken as tax free cash on retirement. Placed in conjunction with other, more accessible and flexible investments, pensions still provide one of the most tax advantageous vehicles and should not be overlooked. The use of Self-Invested structures now allows us, in conjunction with our clients, to construct highly tailored portfolios within each pension plan and has certainly helped to improve people's perception of pensions.
- **ISAs** – with an annual investment limit of £7,000 per person, these vehicles attract no capital gains tax, nor income tax apart from the dividend tax paid at source by UK equities. They also provide direct access to capital and are a very valuable way of building up medium to long term investments. Used as part of a larger portfolio to hold Gilt and Fixed Interest investments, ISAs can become completely tax free,
- **Venture Capital Trusts** – were introduced to encourage private investment into smaller companies,

and offer significant tax benefits. You benefit from up to 30% income tax relief on the investment, and there is no liability to either income tax on dividends or capital gains tax on profits. To qualify, the investment must be made for a minimum of 5 years, and the underlying investments are, by their very nature, of a higher risk. However, most VCTs invest into a diversified portfolio of established businesses, not start-up enterprises as is often thought.

- **AIM portfolios** – fall outside of an estate after only 2 years for Inheritance Tax purposes. This gives an extremely valuable option to older clients, where perhaps the ability to make gifts of capital and survive 7 years, or those for whom continued access and control is important.
- **Film Partnerships** – offer the possibility of claiming back all or some of both income and capital gains taxes paid, often in relation to both the current year and previous years. On the face of it, they look very attractive, but a number are merely tax deferral schemes, and have been attacked by the Revenue in recent years. However, the right schemes, structured within the spirit as well as the letter of the legislation, can still prove highly attractive to higher rate tax payers.

Cavendish Ware has built up a strong reputation as an investment adviser. The experience gained from our Private Banking background has enabled us to bring sophisticated techniques to both investment and pension clients, combined with a highly personalised, friendly and accessible approach. We work very closely with Elman Wall, sharing offices as well as knowledge, and many clients find this co-ordinated approach very valuable.

*Cavendish Ware have designed a range of useful help sheets on some of these investments, and are very happy to discuss with you these and other tax orientated investments. If you would like to know more, please contact Adrian and his team on 020 7493 6363, or simply e-mail to: [Adrian.ware@cavendishware.co.uk](mailto:Adrian.ware@cavendishware.co.uk).*

## Cash, Cash, Cash

We have negotiated agreements with major private banks to give very attractive interest rates to our client on favourable terms.

Companies can earn interest on deposits at a gross rate of 5.15% on balances less than £100,000. For balances between £100,000 and £499,999 the rate is 5.20% and 5.30% for balances over £500,000. This is a 30 day notice reserve account, with one free withdrawal per annum which means that you could take all your money out of the account at once without loss of interest.

Individuals can earn 5.63% on a Money Market

Tracker with a minimum of a £100,000 deposit and 30 day notice. There is also an account based on a 1 year notice period, and for amounts over £25,000 paying 5.32%.

These rates are correct as at 20 November 2006, and are subject to terms and conditions.

We think these are excellent rates and are happy to provide you with full information and an application form.

Take the Elman Wall challenge – what interest rate are you currently earning on your cash?

## Elman Wall Travel Team

Anyone with an interest in our travel services should have received our first electronic Travel Newsletter sent by email at the end of October. If you didn't receive this, and would like to in future, please email [audrey.kearney@elmanwall.co.uk](mailto:audrey.kearney@elmanwall.co.uk).

In that newsletter we commented that the real issues affecting the industry over “what is a package”, which continues to cause confusion, would not be whether a holiday provided the consumer with financial protection or not, but whether a travel arranger would have a liability to the user, especially for accommodation only sales.

Little did we know that the tragedy of the two young children who died of carbon monoxide poisoning in the Louis Corcyra Beach Hotel in Corfu would occur the following day.

Apart from the horrific loss of life, there are serious industry issues that will arise from this case, and it has certainly made those, who thought that they could offer holidays without any responsibility to their customer, think again.

Our general advice remains the same – don't do anything to change the way you currently operate without taking detailed advice first, and make sure you think through all the possible consequences. Be a follower, not a leader on this one.

As we go to print, the CAA have just announced that they have interpreted the Court of Appeal ruling to mean that all holidays in which a flight is involved, however put together by a supplier, should be covered by an ATOL licence.

We think this whole mess will finally get resolved in Brussels, with a rewrite of the Package Travel Regulations, but this is not a speedy process.

Our hope for 2007 – clarity of regulations and an even handed approach impacting on all travel businesses equally. Didn't we say the same last year!!

Refer a friend or contact who becomes a personal tax client, and we will provide you with a free TaxSure Fee Protection Policy. Call Russell on 020 7493 9595 for more information.

Everyone should pay their income tax with a smile. I tried it but they demanded cash.  
– Jackie Mason

The latest version of Sage has been released. With previous versions numbered 1 to 12, who would have guessed that the new version is called Sage 2007.

## Basic errors in VAT

Many registered businesses assume that they have a clean bill of health when it comes to VAT compliance. However, when the control officer comes calling, it is the same basic errors that lead to the recovery of most of the underpaid tax. It is worthwhile knowing what the most common mistakes are:

- if you buy fuel for a motor car which is put to private use, do not forget to add a fuel scale charge for each car to your output tax
- you may not claim the input tax on the purchase of a motor car except where there is 100% business use or, in the case of a taxi or driving school car, predominantly business use
- do not reclaim input tax on any form of entertaining
- if you take goods from your business you must account for output tax on their full sales value
- if you sell an asset used in your business you must account for output tax on this sale (there are special rules for cars)
- do not reclaim VAT on purchases of goods or services unless you have a valid VAT invoice
- do not reclaim VAT on purchases of goods or services for personal use, such as home telephone
- if you sell goods to private individuals or unregistered businesses in other EU countries you must charge VAT as normal
- if you have reason to use a rate of VAT on a sale of anything other than 17.5% make certain that this rate is correct.

Simple errors over long periods can lead to a substantial bill for undeclared VAT. Please contact us if you would be interested in a VAT health check for your business.

## Competition Corner

Congratulations to Marilyn Roberts at Jetline Travel Limited and to Pam Hersey at AiTO for winning our Queen anagram competition. They enjoyed dinner at Chez Gerard followed by tickets to "We Will Rock You" for their endeavours.

Even though this edition's competition has nothing to do with Queen, we are repeating the same fantastic prize.

Questions:

1. Why was Dr Who's 'Tardis' so called?
2. Who is Lady Creighton-Ward better known as?
3. What do the words 'almost' and 'biopsy' have in common?

Winner will be the first drawn out of the hat on 2 January 2007. Answers to [audrey.kearney@elmanwall.co.uk](mailto:audrey.kearney@elmanwall.co.uk).

For any advice regarding the articles in this issue, please don't hesitate to call.

Tel 020 7493 9595

## Client Profile

We thought it would be nice to highlight the achievements of some of our clients, and this issue, we have (nearly!) randomly chosen to profile one of our clients, Jo Chalker, founder of X Bar Limited, which runs dion bars.

The concept for dion came from Jo's observations and experiences. Her background as a chartered accountant, banker and headhunter revealed a 'gap' in the market for a unique service-driven bar with a welcoming and friendly atmosphere, usually found only in private members' clubs.

Since the bars at Leadenhall Street and St Paul's have opened, dion has introduced a new level of service to the City's bars – attention to detail is a priority along with providing the 'personal touch'. With its outstanding service, superior selection of drinks and food, and friendly atmosphere, dion is helping to change the face of London's nightlife scene – City workers no longer head off to the

West End in search of quality bars, instead they remain at dion where they can enjoy quality wine and champagne, great cocktails and fantastic entertainment. As well as a busy lunch time environment dion has a late-night feel with a live band, dancing and entertainment levels not often seen in a bar in the City.

Besides over 2,000 customers frequenting the bars per week, Jo's success was recognized last month in Growing Business magazine's highly competitive 'Young Guns' listing that recognizes the most spectacular emerging businesses the UK has to offer. And very recently dion has been short-listed in the bar industries prestigious CLASS awards for the 'Best Wine Offering' category. With plans for a third bar at Canary Wharf in the pipeline, there is still a lot more to look forward to from dion.

Elman Wall are proud to play a full role as auditors and tax advisors to X Bar Limited. We also advise Jo



Jo (left) with Valera, one of the dion managers

Chalker on the operations and business development of the dion bars, as well as on her own personal position.