A.C.MOLE & SONS CHARTERED ACCOUNTANTS

proactive

SUMMER 2007

Gerald Morris

Sadly we have to report that Gerald Morris died in May. Gerry joined the firm in 1955 as an articled clerk. His “articles of clerkship” show that he was paid the princely sum of four pounds and ten shillings per month during his first year of articles, rising eventually to a staggering thirteen pounds per month. He qualified in 1961 and left the firm to work in Africa for Price Waterhouse before moving to BP, returning to Somerset in 1965. In 1966 he moved to Castle Cary to head A C Mole & Sons office there and in 1968 he was made a partner. He remained at Castle Cary until he retired in 2001. Between 1996 and 2001 he was the firm's senior partner.

Gerry was regarded with great affection by all who worked with him. Always precise, he was never one to accept a statement that had not been thought through. He was a true professional and an exceptional man. We will miss him.

We were also sad to hear that Nancy Boalch, another old colleague, died recently. Those of us who worked with Nancy will always remember her for her singing and for her irrepressible sense of fun.

Paul Aplin with Fiona Bruce, who presented the award

Award Winner

Paul Aplin was named tax personality of the year at the national Taxation awards in London on 24th May. In 2004 we won the award for best tax team in a small firm.

Paul's award recognises the central role he played in persuading the Government to reverse its proposal to bring forward the filing deadline for tax returns.

Paul says “Taxpayers up and down the country struggle to get everything done by 31st January and bringing the date back to November was unworkable. A coalition of eight tax and accounting bodies emerged and I was asked to lead the negotiations. The result was a victory for common sense.”

Paul was also elected Chairman of the Tax Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW) on 18th April. The Faculty speaks for the ICAEW's 128,000 members on tax matters.

The role regularly takes Paul behind the doors of the Revenue's head office in Whitehall and H M Treasury and also involves helping to brief politicians on tax issues. “Trying to influence the shape of new legislation is as important as dealing with the effects of existing tax law” Paul says: “Tax affects every one of our clients and it is critical to get a practical point of view across to policy makers.”

Paul remains based at our Taunton office. “It is business as usual,” he says “I have been Tax Faculty Vice Chairman and then Deputy Chairman over the past four years so I'm into the routine now. My client list remains unchanged and I'm still very much here.”

The Equity Gap

When a business needs more money for its plans than can be provided by bank finance and by existing shareholder's funds, it has an "equity gap".

This is particularly relevant when embarking on a new phase of growth or entering a new market. There may be a need to fund an increase in the workforce, in systems or in marketing expense. Some can be funded by cash in the business, some by bank debt, but what of the rest?

The first option has always been friends and family, people who already know and trust you and your business. This option keeps the equity close and makes dilution easier to manage, but it can only go so far. Thereafter there are broadly three choices:

Business Angels

These are private individuals, generally successful businessmen in their own right, who have money and experience to invest in small growing businesses. Think "Dragons' Den". Business angels will often operate as a syndicate to be able to invest enough cash collectively to make a difference. Their level of involvement will vary from requiring monthly reports to daily briefings and attendance at all key meetings.

Venture Capital

An increasingly rare breed, as capital funds are now increasingly wrapped up as Venture Capital Trusts and have shareholders to satisfy. As such they tend to eschew risk and concentrate on relatively safe buyouts. They will however invest more than an angel if they can see prospects for growth, and especially if they can see their way out.

Government backed funds

Regional Venture Capital Funds and Enterprise Capital Funds exist to work in conjunction with business angels and venture capital and aim to assist private investment by sharing the risk. They come with stringent criteria to qualify and the process can seem much like venture capital investment.

To attract external investment you must have a clear strategy, expressed in a properly written business plan. You must also have a clear understanding of what the money is for, and the future profits and cash that will be generated. Importantly, you must understand that you are surrendering part control of your business, and the implications of that. You must be confident that you will be able to work with your new investors; their aims will not necessarily be the same as yours.

Recent surveys have shown that there is money in the market to invest, waiting for the right opportunity. As such the equity gap exists not so much as a shortage of available funding, but as a shortage of businesses that are "investment ready". If a succession of investors is saying No, then the chances are that the business is not ready.

This highlights the need for planning and an objective review of your proposal by someone you trust. As your advisers, we can challenge your assumptions, validate your projections, and advise you where to look for the money you need. If you are seeking funding, we have the expertise that you need.

Buy to Let Tax Crackdown?

The Times recently ran a story suggesting that HMRC were about to mount a crackdown on buy to let landlords. HMRC are not in fact embarking on a crackdown, they are simply planning to contact landlords to help ensure that they are correctly declaring their income and capital gains. If you receive a letter from HMRC, it does not mean that there is anything wrong with your tax affairs, or that you have been singled out.

If you are a landlord, you may be able to claim relief for interest on a loan of up to the full cost of the property you rent out, irrespective of the use to which the funds are put. We covered this often overlooked tax break in our Spring 2005 newsletter and if you would like to discuss the way the relief operates we would be pleased to explain. Let property represents a good and tax efficient investment for many people and the recent publicity does not change that.

Tax Efficient Funding

Cash is critical to new and growing businesses and tax planning can have a significant effect on cashflow. While some restrictions were placed on the Enterprise Investment Scheme (EIS) in the 2007 Budget, limiting it to companies with less than 50 employees and capping the annual amount raised at £2 million, it can still assist in raising cash. EIS investors in private trading companies get a 20% income tax rebate on the amount they invest, tax free gains if they dispose of their shares after three years, the ability to "defer" other capital gains bills, exemption from inheritance tax after two years and up to 40% relief against capital gains tax or income tax if the company fails. Up to £400,000 can be invested by an individual each year. These tax breaks are clearly very attractive.

Although some trades such as farming and property development are excluded, businesses as diverse as pubs, sports clubs, technology businesses, film production companies and publishers can qualify.

We have helped client companies to raise millions of pounds over the last few years using EIS, which can attract individuals who would not otherwise invest, opening up another source of funds. There is a similar relief - the Corporate Venturing Scheme (CVS) - for companies looking to invest in other companies. Structuring funding around EIS and CVS can often make excellent sense for new and expanding businesses.

Research & Development (R&D) tax relief can also have a significant effect on cash flow. The Chancellor made R&D tax relief more attractive in his last Budget by increasing the amount a small or medium sized enterprise can raise from 150% of the actual revenue expenditure to 175%. There is also a facility which allows firms to claim the relief in cash by way of refund of PAYE - this is useful to companies which make a loss and have no corporation tax to reclaim. Although this relief can be notoriously difficult to claim successfully we have an excellent track record in securing relief for clients in high tech sectors.

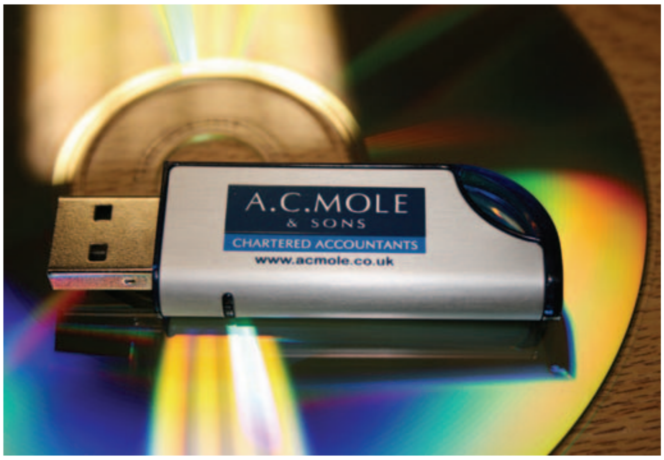
Back it up!

If you don't back up your data, you are courting disaster - how would you cope if you lost everything?

A large business may need to back up data daily whereas a smaller business may only need to back up weekly or even monthly. The question is, how much data could you afford to lose? It is prudent to keep a backup away from the business premises so that in the event of catastrophe such as a fire the data remains safe even if the computer and other records are destroyed.

Many people still use 3.5" floppy drives to back up critical accounts and payroll data. Floppy drives were good in their day but technology has moved on and they are simply not reliable enough, quick enough or big enough (in terms of storage capacity) any more. Over the years different backup devices have become available. CDs and DVDs are excellent for permanent storage but CDs are limited to around 700MB of data.

The latest storage medium is the USB Flash Drive. On a Windows XP / Vista machine the device plugs into the USB socket on the computer and acts as another drive. These drives are small, portable, re-usable, quick and reliable. A full backup of a company's data on Sage Line 50 2007 takes up about 60 MB of space. This would require over 40 floppy disks to back up! Alternatively, a 2GB USB drive would be able to hold over 30 backups this size. USB drives - like the one pictured - are also much faster.



If you would like to discuss your data backup routine, data storage options or any IT related issue including supply of a new PC or Laptop, sharing your broadband connection, wired and wireless networking then contact our IT Manager, Richard Graham or email rgraham@acmole.co.uk.

We are also Authorised Sage Resellers and IRIS Accounts Office Resellers and have experience of many other accounting packages. We can provide information and quotes for upgrading and installing your software.

Client Focus

Sonic Systems

Somerset based company Sonic Systems is a world leader in its field. Father and son team John and Rob Perkins design and manufacture ultrasonic equipment that is used around the globe. The high frequency ultrasound devices are used by the food processing and pharmaceutical industries for emulsification and dispersion and other industrial uses are constantly being explored. Ultrasound equipment is also used in surgery and by dentists.

Over recent years we have helped the business to make the transition from partnership to limited company and have been closely involved in its forward planning. On the tax planning front, we have successfully brought to bear the expertise we have built up in recent years to secure Research & Development tax relief for the company. This is a notoriously difficult area where H M Revenue & Customs use specialist teams to review claims and where they take a very narrow view of the scope of the relief. It is an area where there is no substitute for experience, careful analysis and clear presentation of the case.

Rob Perkins (director, Sonic Systems Limited) says of the relationship,

"As a growing business we have needed sound advice on a wide range of issues from tax to business strategy. We have always felt that we are in safe hands."

Wills and Inheritance Tax

A classic inheritance tax trap is for a married couple (or civil partners) to leave everything to the survivor when the first of them dies. This wastes one inheritance exemption of £300,000 resulting in additional tax of up to £120,000. The simplest way to avoid this trap has been to incorporate a nil rate band discretionary trust in each will. On the first death, an amount equivalent to the exemption is left to the trust - of which the survivor is a beneficiary - with the balance passing tax free to the survivor. This uses the £300,000 exemption of the first to die. Such arrangements often make use of an IOU secured on the family home to satisfy the £300,000 legacy to the trust.

A recent case - Phizackerley - has sounded a warning note. Dr Phizackerley and his wife owned their house jointly as tenants in common and they had both incorporated nil rate band discretionary trusts in their wills. The planning failed because Dr Phizackerley had provided virtually all of the wealth in the marriage. On Mrs Phizackerley's death her half share of the family home was left to the nil rate band discretionary trust. Dr Phizackerley agreed with the trustees that they would exchange the half share of the house for an IOU from him. HMRC successfully challenged the arrangement, saying that the IOU was in effect a loan in respect of property previously owned by Dr Phizackerley.

This does not mean that nil rate band trusts no longer work in IHT planning, though some modifications are now needed. One way around the Phizackerley problem is to use what is known as an immediate post death interest (or IPDI) interest in possession trust for the surviving spouse. Another alternative would be for the executors to assent the share of the house to the survivor but subject to a legal charge in favour of the nil rate band discretionary trust. In both instances it may be advisable for the surviving spouse not to be an executor.

The basic arrangement therefore still works - and can achieve very substantial tax savings - but you should discuss the Phizackerley point with your solicitor if you have a will incorporating a nil rate band trust or if you are considering making such a will. Failing to make a will at all can be a tax - and practical - disaster.

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