Business Focus

Lawrence Grant,
Chartered Accountants

37 Stanmore Hill
Stanmore
Middlesex
HA7 3DS
United Kingdom
Telephone +44
(0)20 8954 7636
Fax +44
(0)20 8954 8489
Email lgmail@
lawrencegrant.co.uk

www.lawrencegrant.co.uk

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Helping you throughout your business lifetime

Just as our own circumstances and priorities change as we progress through life, so your business has its own 'lifetime'. Sound financial planning is vital at all stages in the life of your business. Whatever stage your business is at now, we can help you adopt the best strategies for achieving your short, medium and long term business goals.

The birth of the business

Starting a new business always involves risk, and making the right decisions before your business opens its doors can make the difference between ultimate success or failure.

You need to select the best trading structure for your business – such as sole trader/practitioner, partnership or limited company. You may need to raise capital to start the business. In order to support a loan application (and as a vital start to the financial planning for your business in its first months and years), you should draw up a business plan. This must include projections of income and outgoings, as well as a clear picture of how and why your business will succeed.

You will also need to consider the reporting systems and procedures that will enable you to monitor, control and evaluate your company's performance. How many of these procedures can you take on yourself, and how many should be outsourced?

We can help you with all of these vital elements, and many more, at the birth of your business.

The early years

Many young and growing businesses fail because the owner is too close to the action to step back once in a while and objectively review how the business is doing. How does its performance measure up to your expectations and compare with your business plan?

Use the information provided by your financial and management information systems to monitor your performance and update your business plan.

Time for expansion

Your business is established, sales are at a satisfactory level. Now is the time to decide how your enterprise is to go forward.

If you want your business to expand both the top and bottom lines, you need to consider the detail of your business plan. Should it be 'more of the same' or do you need to re-evaluate its purpose and direction? How should the new direction complement the old? Are there opportunities for mergers or for acquisitions?

Planning for your exit

Perhaps you already know that when you retire your children will take over, or your partners will continue the business when you leave. Your exit should be planned to be as smooth as possible, allowing you to depart on a financially stable basis, and the business to continue in safe hands.

If you are planning to move on to a new venture you need to think not only about your exit from one business, but also about starting up the next, so beginning the process all over again.

We can help you at all the stages in the development of your business. No matter where you think you are in your working 'lifetime', or where you think you are going, we are here to give you advice and ensure that you enjoy a successful business life. Contact us today.

Inside this issue

The new Construction Industry Scheme

The new Construction Industry Scheme (CIS), which starts on 6 April 2007, will be significantly different to the existing scheme, so thorough planning is required to prepare for its introduction. CIS cards, certificates, and annual returns are all to be scrapped. That might sound like good news, but the drawback is that all this paperwork is to be replaced by a set of monthly tasks for every contractor.

Task 1: Identification

With no CIS card, other means will be required to identify potential workers. Individuals will need to carry documents to prove their identity details, such as name, tax reference number, and NI number. You will have to judge if those documents belong to the person carrying them and whether they are genuine.

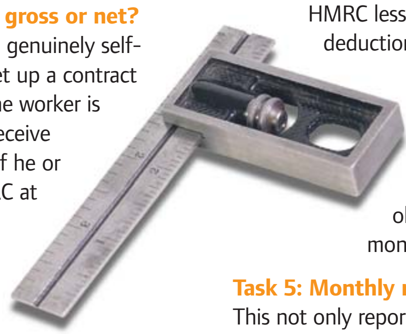
Task 2: Self-employed or employee?

You must decide whether the subcontractor is genuinely self-employed or should be paid through the payroll as an employee. This decision depends on the terms under which the subcontractor will be working; the more control you have over the way the worker does the job, the more likely the worker should be treated as an employee. It is irrelevant whether or not the subcontractor previously held a CIS card. Any subcontractor can be self-employed for jobs where he works fairly independently, and correctly treated as an employee for other jobs where he is subject to more control.

HM Revenue and Customs (HMRC) leaflets provide guidance on how to test whether a contractor should be treated as self-employed, or you can use the online testing system, the Employment Status Indicator tool (ESI), available at www.hmrc.gov.uk/calcs/esi.htm. For help with this complex area please talk to us.

Task 3: Verification: pay gross or net?

Where the subcontractor is genuinely self-employed you must first set up a contract and then check whether the worker is registered with HMRC to receive payments gross or net, or if he or she is registered with HMRC at all. This check is called 'verification,' and can be achieved by phoning HMRC on 0845 366 7899, or online via www.hmrc.gov.uk/new-cis.



Once you have verified a subcontractor you will not have to repeat this check for the same subcontractor for the next two tax years. Also, if you have paid a CIS registered contractor in the last two years and have seen the registration card or certificate (expiring after April 2007) you will not have to verify him before you pay him under the new CIS.

Task 4: Deduct and pay over the tax

When you pay subcontractors with tax deducted, you must supply a summary of the amounts paid and the tax deducted, a bit like a payslip. This tax deducted from subcontractors must be paid over to HMRC by the 19th of each month, or 22nd if you pay electronically. As announced in the December Pre-Budget Report, the standard deduction rate for registered subcontractors is 20%, while the higher deduction rate for unregistered subcontractors is 30%.

If you also run a payroll the PAYE deducted from employees can be paid over in a single payment with the CIS tax. If you normally pay HMRC less than £1,500 in total deductions per month you can ask to make your payments quarterly instead of monthly. However this quarterly option does not remove your obligation to make a monthly contractor return.

Task 5: Monthly return

This not only reports all the payments you have made in the month but also asks you to confirm that you have checked the CIS registered status of all the subcontractors, and that each of those subcontractors has been correctly classified as self-employed.

HMRC will fill in the details of all the subcontractors you have used in the previous three months, plus those who you have 'verified' (see Task 3) in the last month, which will make it a bit easier to complete, but it will still be an onerous task.

You can submit the monthly return on paper or over the internet. HMRC is encouraging contractors to sign up to use the online method, as it should be quicker. Speed will be important as the submission deadline for the return will be the 19th of the following month and there will be fines imposed if the return is late. If you are late even once with submitting your monthly returns, or paying over PAYE and CIS tax deductions your gross payment status as a subcontractor may be removed. It is therefore recommended that you put a system in place for submitting these returns promptly.

More information about the new CIS, and numerous guidance leaflets are available at www.hmrc.gov.uk/new-cis. For further advice, please contact us.

Rewarding faithful employees

When your employees achieve one of those milestones of service, perhaps 30 or even 45 years, you may want to acknowledge their loyalty. You can do this with a tax-free long service award worth up to £50 for each year of service, but the gift must not be cash or vouchers that can be converted into cash.

Long service awards

To qualify for a tax-free award, the employee must have served at least 20 years with the same employer, and must not have received another long service award in the previous 10 years. So you can make tax-free long service awards at say 20 years, 35 years and 45 years. As long as there is at least 10 years between each award they will all be tax-free. A gift made after 45 years of service could be worth up to £2,250.

HMRC is clear that a gift to an employee cannot be tax-free if it is explicitly given as a reward connected with employment, such as for 'employee of the month', or for long service (outside of the time limits above). A gift marking ten years of service is still taxable if the employee is picked out for special treatment based on his or her work or time served.

Age discrimination

Since 1 October 2006 it has been illegal to discriminate or favour someone on the basis of their age, and awards based on length of service could be indirectly based on the employee's age. When making any long service award or bonus (taxable or tax free) for a period of service of 5 years or more, make a note of your business reasons for giving the award, such as that it is necessary to retain and motivate staff.

Small gifts

HMRC's internal guidance says that 'small gifts' made in recognition of a particular event, such as a marriage or birth of a child, are not taxable. Remember to record the value of the gift and reason for the presentation, such as a birthday, wedding, etc. If you are asked you can show that each gift was considered to be small and was not made solely in recognition of the employee's service.

There is no firm guidance on what HMRC considers to be a 'small' value, although the measure must be made per employee, and not on the basis of the total cost to the employer. For example if you give a £15 turkey to each of your 20 employees at Christmas this should be a small gift and be tax-free, although the total cost to you is £300.

Contact us for more information about tax-efficient ways of rewarding staff for their loyalty to your business.

Minimising the cost of divorce

Sadly, divorce is a fact of life. According to the Office for National Statistics, there are over 167,000 divorces in the UK annually. Big money divorce settlements, such as that involving Paul McCartney and Heather Mills, have been in the news lately, but divorce is difficult for everyone, whatever the size of the court settlement. Although no one plans to get divorced, you can limit the financial damage if you take tax advice early on.

Children and tax credits

The first tax-related date is the time when you separate from your spouse. This is regarded as the day you start living as two separate households in circumstances that are likely to be permanent. From this point any tax credit award you have for your children becomes invalid, as the family has split into two units. You must inform the tax credit office within three months of the date of separation, and the parent who has care of the children should make a fresh claim. If the children spend some time living with both parents, each parent can make a tax credit claim. It is important that all tax credit claims are reconciled and any over or underpayments dealt with equitably as part of the overall financial settlement on divorce.

Capital gains tax

The separation date is also key for avoiding capital gains tax (CGT). Where valuable assets such as let property or shares are exchanged before 6 April following the date of separation there will be no CGT to pay as the separated couple are still regarded as one married unit for that period.

Often it is not possible to agree how to split jointly owned properties in such a short period, and properties may have to be swapped at a later date. This may create CGT charges.

Joint businesses

When you have been in business together it is often not possible to continue to work with your estranged spouse, so the business structure may need to be rearranged. Some thought about exactly when and how a business partnership should legally come to an end can save tax and make the best use of any losses.

Contact us for more tax and financial planning advice.

Is a second company car tax-efficient?

Company cars are now widely perceived to be subject to heavy taxation – and indeed that can be true, particularly if you drive an expensive car with high CO_2 emissions. So you might assume that taking on a second company car, perhaps for your spouse or children to drive, would leave you liable to a huge tax cost. However, this might not be the case.

Years ago, when the taxable benefit on a company car was based on the number of business miles you drove, the tax charge arising from a second company car could be three times that for the first car. This rule was abolished in 2002.

Now there is no penalty for having a second, third or even fourth company car for one employee or director. The taxable benefit of each car is calculated as a percentage of its cost when new, based on its official CO_2 emissions.

If you persuade the company to lease a small car for your partner, the extra cost to you could be a lot less than you would have to fund out of your own pocket for the same vehicle.

For example, suppose the small car costs £10,000 in the showroom and has a petrol engine with CO_2 emissions of 160g/km. The taxable benefit added to your salary would be £1,900 (19% x £10,000). As a higher rate taxpayer you would pay an additional £760 per year in tax for this second car. For this relatively small cost to you the company would pay for not only the lease, but all the servicing, repairs, insurance and road tax. If the company provided free fuel for the car that would be an extra tax charge, and it is not normally tax-efficient to take free fuel for private use.

The lower the CO_2 rating of the car, the lower the tax charge – but you should be aware that the Chancellor has tended to raise the tax due on company cars every few years. The taxable benefit for a petrol car with CO_2 emissions of between 160g/km and 164g/km is 19% of its price for 2005/06 to 2006/07, but from April 2008 the same car will generate a taxable benefit of 20% of its price. But even if you budget ahead for tax increases, a second small company car could be surprisingly tax-efficient. Seek our advice before acting.

Business Round-up: The company disclosure regulations

Following the introduction of the Companies Act 2006, new regulations came into effect at the beginning of this year with the aim of reflecting the use of information technology and electronic communications in relation to company disclosure requirements.

The First Company Law Amendment Directive stipulates that all 'basic' documents can now be filed electronically with Companies House, and that these documents can also be accessed electronically by searchers. In addition to this, with effect from 1 January 2007 certain information about a company must be included on its websites and on its electronic letters and order forms.

Under the regulations, companies and limited liability partnerships must include their company name, place of registration and registered number, and their registered office address, on all business letters and order forms, whether in hard copy, electronic or other format, as well as on their websites. The details do not need to appear on every page of a company website, as long as they are placed somewhere on the site that can be easily accessed, such as the 'About us' page.

Failure to comply with the legislation could lead to fines of up to £1,000.

You should always take professional legal advice before acting.

New proposals for personal pension accounts

Details of the plans to introduce a new system of personal pension accounts have now been published, in the form of a Government White Paper.

Under the Government's proposed scheme, up to 10 million workers will be automatically enrolled into a system of personal accounts. Employees will contribute 4% of their salary to the scheme, while employers will pay a minimum contribution of 3%, and the Government will contribute a further 1% in the form of tax relief.

Business groups have welcomed the measures to boost savings levels and create a more secure pensions system for the UK, although there remains some concern over the likely impact on smaller businesses, and the possibility that employers with existing schemes might decide to cut their level of contributions.

Web *Watch*

Essential sites for business owners

Springwise
www.springwise.com *Information on promising new business trends and ventures from across the globe.*

Create
www.createproject.org.uk *Resource for people considering self-employment through franchising, direct selling, licensing and distribution.*

TrafficMap
www.trafficmap.co.uk *Real-time traffic information from the Highways Agency.*

DCLG
www.communities.gov.uk *New website of Communities and Local Government, the department responsible for planning and local government issues.*

Reminders for your **Spring** *diary*

March

31 *End of Corporation Tax financial year.*

End of CT61 quarterly period.

Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2006.

April

5 *Last day of 2006/07 tax year.*

Deadline for paying retirement annuity premiums to be carried back to 2005/06, retirement annuity and personal pension premiums for 2006/07, and for 2006/07 ISAs.

14 *Due date for income tax for the CT61 period to 31 March 2007.*

19/21 *Quarter 4 2006/07 PAYE remittance due.*

20 *Interest will begin to accrue on unpaid PAYE/NI for 2006/07.*

30 *Normal annual adjustment for VAT partial exemption calculations (monthly returns).*

May

3 *Last day for notifying car changes in quarter to 5 April – P46 (Car).*

19 *Last day for filing forms P14, P35, P38, and P38A – 2006/07 PAYE returns – without incurring penalties. Also last day for filing contractors' returns, including CIS36.*

31 *Last day to issue 2006/07 P60s to employees.*