

BRAVE NEW PENSION WORLD

pensions

We are now in the era of simplified pensions, with its increased flexibility and choice. There are new rules covering contributions, investments and benefits. Here are eight top tips from Robert Bell of CTFS Ltd, Chiene + Tait's associated independent pension advisory arm, on what to look out for as we become familiar with the revised rules.

Tip 1: Contribution Levels

Pension contribution limits for the self employed and those with earnings are now 100% of earnings subject to the annual allowance. This replaces the previous age related percentage bands. This will give much greater flexibility over building up pension funds.

Tip 2: Annual Allowance

In general it will not be tax effective to add to pension funds over the annual allowance level of £215,000. However, and of particular interest to company directors, the annual allowance does not apply in the year in which the pension benefits start.

Tip 3: Carry Back

The A day changes to the pension rules are generally helpful. One exception is the abolition of carry back, where a pension payment could be made in one tax year but treated for tax purposes as made in the previous year. Now pension contributions can only be set against the income of the

current year. This makes planning maximum contributions difficult for the self employed if the relevant accounting information is not available by the end of the tax year.

Tip 4: Bonuses in Pensions

The flexibility of the new rules will encourage some potential bonus payments to be taken in the form of pension contributions to a personal pension, perhaps one with the extra investment opportunities of a self invested personal pension (SIPP).



Robert Bell of CTFS

Tip 5: SIPP Investments

SIPPs allow for the maximum investment choice. This can include commercial property, perhaps as a part of a syndicate. Share in the employer company can also be allowed. Finally, despite all the furore over residential property, this is allowed but only in syndicates.

Tip 6: Lump Sums

The old rules required lump sums and pensions to be started together. Now lump sums can be taken without starting the pension income.

Tip 7: Increased Lump Sums

The lump sums available through employer schemes could be less than 25% of the underlying fund under the old rules. Provided the employer is prepared to alter the rules, the lump sums can be increased to the 25% level. Further lump sums are now allowed for all AVC contracts.

Tip 8: Income after 75

The requirement to take an annuity at age 75 has gone. Instead an alternatively secured pension can be drawn. This allows for family SIPPs with later funds passing down to the next generation, albeit with tax charges.

All pension arrangements have important details which need to be considered on an individual basis. Please speak to your usual Chiene + Tait contact, or to Darrel Poletylo of CTFS Ltd for further information.

ESTATE PLANNING

Important changes have been made to the tax rules on trusts. These new provisions fundamentally affect efficient estate planning and will strategies. See the C+T website for our latest thinking (www.chiene.co.uk/library.cfm, then click on the *inform* section), or telephone for a free written copy. Please speak to your usual C+T contact or Moira McMillan for an informed view on the implications for you and your family.

the gathering

SCVO Fair
19 to 21 June 2006

Since 2004, the Scottish Council for Voluntary Organisations (SCVO) has organised an event at the Scottish Exhibition and Conference Centre in Glasgow, known as "the gathering". It is Scotland's charity and voluntary sector fair and is the largest event of its kind in the UK. In 2005 more than 4,500 people came to the gathering, visiting the 180 exhibitors and attending the many conferences, seminars and workshops that took place during the three-day event.

For the first time, Chiene + Tait's Charities and Education Group manned a stand at the fair, providing the opportunity for visitors to talk to us about the services we provide as a specialist focus group for the firm.



Gavin Morton discusses C+T's services with gathering attendee

Our stand featured a prize draw with the chance to win a voucher for the Hilton Hotel. We also had on display a slide show of the firm website, and a selection of *inform* and *lookout* information leaflets. These included the recently released Charity Accounting Regulations *inform* which explains the changes brought about by the Charities Accounts (Scotland) Regulations 2006 which are effective from 1 April 2006 and cover accounting requirements and audit thresholds for Scottish charities.

It was good to meet some of our existing clients who were attending the fair, as well as talk to charities and other service providers. We hope to develop further the many contacts we made at this event.

FURNISHED HOLIDAY LETTING

Income tax is charged on the profits of a property business. Very broadly this means rents received reduce by expenses of a revenue nature incurred wholly and exclusively for the purpose of generating the rental income.

For tax purposes a distinction is drawn between properties which are let as 'furnished holiday lettings' and those which are let on any other basis. There are particular tax reliefs which apply to 'furnished holiday letting' and in order to qualify the following rules must apply in respect of the property:

- It must be let furnished (the tenant is entitled to the use of furniture) and it must be available for letting on a commercial basis, with a view to realisation of profit.
- It must be available for letting for 140 days or more and is in fact let for at least 70 days for each year of assessment, being the 12 months to 5 April.
- It must not be let to the same individual 31 days continuously over a period comprising up to seven months in a 12 month period.

Assuming the above conditions are met, the business will be treated as a trade for tax purposes with the following consequences:

- income is classified as earned income;
- any losses can be relieved against total income;
- income constitutes 'relevant earnings' for personal pension purposes;
- certain Capital Gains Tax reliefs are available on the disposal of the property;
- income is standard rated for VAT purposes.

If you wish to discuss taking advantage of the reliefs available please contact Helen Mackenzie.

business & enterprise

PAYROLL GOES ELECTRONIC

Like it or not, the electronic filing of annual returns with HM Revenue & Customs (HMRC) is already compulsory for employers with more than 50 employees. It will become compulsory for all employers from 2009/10 onwards.

The Chiene + Tait payroll team covers online filing as part of the latest payroll technology to give a modern, flexible and secure service covering:

- Transfers of funds by BACS (the banking system) to employees and HMRC.
- Secure detailed payslips for employees.
- Tailored payroll management reports, which can be issued electronically.
- Electronic receipt of Notices of Coding from HMRC.
- Electronic transfer of payroll data from other systems.

Developments in progress include electronic payslips. Our team services payrolls ranging from 1 to 200 employees.

If you use other services your main options for online filing are:

- A payroll software product that can file online using HMRC's secure PAYE Online for Employers Internet service;
- Electronic Data Interchange (EDI) which allows a secure electronic exchange of PAYE information between employers and HMRC.

Further information on these options is available on the HMRC website, www.hmrc.gov.uk.

As an encouragement to the early adoption of electronic filing by smaller employers, HMRC offer tax free incentives. These total £325 over three years for switching to online filing for 2006/07 annual returns onwards.

For further information about electronic filing and payroll services, please speak to your usual Chiene + Tait contact or our dedicated payroll specialists, Robert Miller, Paul Wightman and Gerry Hughes.

SHOOTING ACTIVITIES AND VAT

While being selected for a VAT inspection is generally a random task, HM Revenue & Customs (HMRC) do tend to have phases of targeting specific business sectors or areas of interest.

We are aware of a growing number of VAT inspections focusing on agricultural estates and in particular shooting activities (whether or not such activities fall within a VAT registration).

The supply of shooting in the course of a business is a standard rated taxable activity for VAT purposes and where income generated exceeds the VAT registration limit, currently £61,000, VAT registration is compulsory and VAT should be charged on supplies. Accordingly, VAT on associated expenditure should be recovered.

Often, however, VAT registered estates and farms run shooting activities which are regarded as outside the scope of the VAT registration provided specific conditions are satisfied, ie shooting in hand and shooting syndicates. Shooting of this nature does not entitle recovery of VAT on associated expenditure. HMRC therefore want to ensure that shooting activities are properly accounted for from a VAT perspective.



The following points highlight areas relating to shooting in hand and shooting syndicates that HMRC may focus on:

- Does the arrangement constitute merely a recovery of costs from participants/syndicate members, ie no one individual stands to make a profit?
- Are participants friends and family or syndicate members only, ie not advertised or supplied to members of the public?
- In the case of shooting in hand are losses borne by the landowner personally rather than the estate/farm?
- If a landowner (VAT registered in his own right) charges a syndicate, of which he is a member, for shooting rights or for the supply of beaters, etc, is VAT appropriately charged by him to the syndicate on the open market value of such supplies? The syndicate will not be able to recover VAT charged.
- Is all VAT associated with non business shooting activity properly blocked from recovery

If you would like further information or have any concerns please contact us at 0131 558 5800

Charity Tax Exemption – An Update

To read the latest information on significant changes affecting charities please see the C+T website at <http://www.chiene.co.uk/clientalerts.cfm>, then click on the *inform* section and go to New Releases on the drop down menu.

INFORMATION SECURITY – ACCESS CONTROL

Mistakes can be made. With modern IT, sensitive data can be sent around the world at the click of a button. Housing Associations store large quantities of sensitive data electronically. Common-sense dictates that this information should be carefully and securely stored. Associations must also consider statutory requirements. The eight principles of the Data Protection Act 1998 include requirements that data must:

- be adequate, relevant and not excessive;
- not be kept longer than necessary;
- be kept secure.

One of the key areas of control relates to information access. Listed below are steps which organisations can take to make data more secure.

User ID & Access Control: Do all staff need access to all areas of the network? The more people who have access the less secure the information is. A fundamental method of improving security of data is to restrict access. The first stage of the process is an audit of data; how sensitive is it, is it secure, what are the consequences of publication? The data audit requires active consideration of what data each role in the organisation requires access to.

Passwords: Passwords are frequently taken for granted although they can be the last line of defence against unauthorised access. There are a number of ways in which passwords can be strengthened:

Do use:

- passwords of 8 characters;
- simple combinations of words and substitutions, e.g. fr4gr4ntr0se (fragrant rose).

Don't use:

- the name/birthday of a spouse, partner, child or pet;
- your phone number, postcode, etc;
- the word 'password' - you'd be surprised how many times it is used;
- old passwords again.

Our specialist Information Risk Advisory team can help you assess the security of your data.

Termination tax

The taxation of termination related payments has long been an area of misunderstanding and dispute. The man in the pub "knows" that the first £30,000 of termination payments is tax exempt. HM Revenue and Customs (HMRC), backed by past tax cases and its published views, believe that most payments are fully taxable. A further recent case gives a comprehensive analysis of the tax rules, not accepting all of HMRC's views, but still significantly different from the wishful thinking down in the pub. Contact us if you consider these rules could be applicable to you.

Something for nothing

A freebie from the tax system is rare. However companies with share options

may qualify for the equivalent of a free lunch. When an option holder exercises the share options, he will often be protected from an income tax charge if the option is an EMI or other tax privileged option. Generously the tax system grants the employer a tax deduction despite having incurred no cost. Speak to your usual C+T contact if you would like further details.

Arctic remains frozen

The test case on the Revenue's views on the application of the settlements legislation to the taxation of spouses in one man band company situations is known as the Arctic Systems case. The taxpayer won in the Court of Appeal, but HMRC have succeeded in obtaining the permission of the House of Lords for a hearing there. However the hearing in the Lords and their final word on this issue will not be known for some months. Let us know if you want guidance as to your options at this stage.

THE CALEDONIAN CHALLENGE 2006

On Saturday 17 June 2006, a Chiene + Tait team comprising competitors Gavin Morton, Arlene Reid, Dave Roberts and Lisa Cooper attempted the 2006 Caledonian Challenge. They were accompanied by a support team of two, Jim Adams and Bill Reid.

The Caledonian Challenge is a physically and mentally demanding event. 2006 was the tenth anniversary of the Challenge, and Chiene + Tait has entered teams for the last seven years.

The Challenge is to walk 54 miles within 24 hours. Teams set out from Fort William on a Saturday morning to walk the West Highland Way, finishing at Loch Lomond on Sunday morning. That means no sleep and navigating part of the hilly course in total darkness.

The ultimate aim of the Challenge, beyond testing the determination and stamina of the teams, is to raise money for charity. The C+T team raised over £5000 from generous sponsors. All sponsorship money raised will go to the Scottish Community Foundation.

This year, the weather was not particularly kind to the competitors. During the day it was warm and sticky, ideal conditions for the Scottish midge. Through the night it rained heavily to stretch the nerves and endurance of all those involved.

Arlene achieved a bronze medal for completing the first 3 stages and 30 miles of the challenge but, unfortunately, Lisa was injured after just 13 miles. However, Gavin and Dave triumphantly completed the course to receive gold medals and achieve the admirable time of 21 hours 56.



Gavin Morton (right) and Dave Roberts

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