

CONNECT

WINTER 2009/10

CHIENE + TAIT'S QUARTERLY NEWSLETTER

How broad are your shoulders?

Speculation was rife in the run up to the Chancellor's Pre-Budget Report (PBR). Tax increases seemed inevitable to help plug the biggest Budget deficit for many years. It was therefore with some trepidation that we sat down to listen to the Chancellor's PBR speech, which was delivered on 9 December last year.



The speech was peppered with references to "fairness" and "building a fairer society". The Chancellor talked of tough but necessary measures to increase tax. He warned that "the biggest burden would fall on those with the broadest shoulders." In the end, however, apart from the much hyped "supertax" on bankers' bonuses, the 2009 PBR will be remembered more for the tax changes that did not happen than for those that did.

No change

- The capital gains tax (CGT) rate for individuals remains at 18% as does the effective rate of 10% for those attracting "Entrepreneurs' Relief". This is despite much prediction that the CGT rate would be increased with immediate effect from PBR day resulting in a flurry of activity for stockbrokers at the beginning of December.

- The proposed extra 10% on the higher rate of income tax (from 40% to 50%) applying from April 2010 for individuals with income over £150,000 also remains unchanged. The pre PBR predictions here were that the rate could be even higher or could apply from a lower income level.
- There were no changes to inheritance tax (IHT) reliefs despite speculation about the possible abolition of Agricultural Property and Business Property Relief. The IHT nil rate threshold will, however, be frozen at its current £325,000 for 2010/11 although it had previously been announced that this would increase to £350,000.
- The main VAT rate remains at 17.5% and it reverted to this on 1 January following the temporary reduction to 15%. The Stamp Duty Land Tax "holiday" for residential property costing up to £175,000 also ended as originally planned on 31 December 2009.

Some bad news

- It had previously been announced that National Insurance Contributions (NIC) for employers and employees would each rise by 0.5% with effect from April 2011. The increase is now to be a full 1% although the limits for low earners will be changed to protect them from this rise.
- The April 2009 Budget included the announcement of measures to restrict pension tax relief for high earners from 2011/12, with immediate temporary restrictions under anti forestalling rules for 2009/10 and 2010/11. The PBR included further tightening of the anti forestalling rules, although the Chancellor promised that no-one with income below £130,000 would be affected.

And a little bit of good news

- The small companies' rate of corporation tax will remain at 21% and the proposed 1% increase to 22% has again been deferred.

What next?

Apart from the attack on the broad-shouldered bankers, it seems that the PBR has done little to close the fiscal gap. Further tough choices will need to be made on tax and on public spending in the Spring Budget. This could be before or after the next general election.

There is a window of opportunity for all to consider what tax planning might be carried out between now and the next Budget. It remains to be seen whether some of the predictions made prior to the 2009 PBR might yet come true.....

1885 - 2010

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125th ANNIVERSARY

IN THIS ISSUE

REGULATED CLIENTS

REVISED
REGULATORY
RULES



PRIVATE CLIENTS

INHERITANCE TAX
- THE VIRTUE OF
REGULARITY



NEW YEAR VAT RULES

VAT CHANGES FROM
1 JANUARY 2010



CORPORATE

PLAN TO
SUCCEED - PART 3



Revised regulatory rules

CHARITIES + EDUCATION

Accounting standards board issue new financial reporting standards

In June 2009, the Accounting Standards Board issued FRS 30 Heritage Assets, as a response to criticism of the current financial reporting requirements surrounding heritage assets.

The objectives of FRS 30 are to ensure that:

- Enhanced disclosures apply to all heritage assets, regardless of whether they are reported in the balance sheet; and
- Where information is available on cost or value, balance sheet capitalisation is applied.

Most organisations previously adopted an approach which only capitalised assets purchased on or after 2001, with supplementary disclosures for assets acquired in previous periods. Adoption of FRS 30 will require a revised approach and organisations should start now to consider the impact for them. The standard is compulsory for accounting periods starting on or after 1 April 2010 but earlier adoption is encouraged.

The FRS applies to all financial statements, including those which are charitable. Entities applying the Financial Reporting Standard for Smaller Entities (FRSSE) are exempt from these requirements. If you would like more information on the new reporting standard, please visit the Chiene + Tait website to download our free inform, called Heritage Assets or speak to your usual C+T contact.

SOCIAL HOUSING

Component accounting – a headache on the horizon for RSLs?

Financial Reporting Standard (FRS) 15 “Tangible fixed assets” includes a requirement that “where a tangible fixed asset comprises two or more major components with substantially different useful economic lives each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life.”

The Statement of Recommended Practice (SORP) for Registered Social Landlords (RSL) interprets FRS 15 for RSLs and technical guidance on the application of component accounting to the sector is to be appended to the next SORP (expected for March 2011).

Receipt of government subsidy to build affordable homes means the sector is highly regulated and the expected high standards of maintenance of housing stock result in programmes of refurbishment taking place constantly. In addition, Scottish RSLs are charged with ensuring that all homes meet the Scottish Housing Quality Standard (SHQS) by 2015 and major upgrade programmes are underway. Accounting treatment of this major expenditure varies but is either a revenue expense or is capitalised and depreciated: but generally not adopting component accounting!

RSLs will have differing views on what constitutes major components and what their useful lives are – based on the RSL’s planned replacement programme. In any case RSLs should be considering now:

- How to identify major components and their useful lives.
- Whether adopting component accounting would result in a fairer charge to the income and expenditure account – the charge is always a combination of depreciation and repair expense – but where would the balance lie?
- The impact component accounting would have on the RSL’s ability to meet financial covenants.
- Whether the historical information to set up the necessary fixed asset registers is available.
- Whether IT systems are able to cope with detailed fixed asset registers or if bespoke software or advice is required.
- Whether component accounting would have any tax implications.

Please feel free to discuss component accounting with your Chiene + Tait contact or a member of our Social Housing Group on 0131 558 5800.

Inheritance tax - the virtue of regularity

One of the potentially most valuable IHT reliefs - and one that is often overlooked - is the IHT exemption on lifetime gifts for “normal expenditure out of income.” It is in addition to the annual £3,000 exemption and, unlike some other IHT reliefs, it does not depend on the donor surviving for a period of years.

Normal expenditure can be established by either showing a pattern of expenditure, or a commitment regarding future expenditure. Examples of the establishment of normal expenditure might include regular gifts; say monthly, quarterly or annually, the payment of life policy premiums, periodic personal pension premiums or school fees.

The gifts need to be within income after tax, leaving the donor sufficient to maintain their usual standard of living, taking one year with another.

Good record keeping is helpful, as executors are later required to submit details of gifts in the seven years prior to death, including those covered by this exemption. However, the exemption is also flexible - if more than “surplus income” is gifted then the exemption still applies to the extent of available income. Richard Clarke, private client tax specialist in the firm’s tax team said “This is a great exemption, especially for the more elderly who do not spend their whole income”. Please contact Richard or your usual C+T contact to further discuss this or other inheritance tax planning.

Valuation overload

In the current economic environment, HMRC is under pressure to maximise tax revenues and one area where it is taking a particularly tough line is IHT and property valuations. For most individuals, their property will be the single largest item in their estate. Until recently, the practice has been to obtain two valuations; however, HMRC is “recommending” that executors obtain three valuations. If it transpires that a valuation is incorrect, then estates could be faced with paying a penalty for failure to take reasonable care.



New Year VAT rules

There are many VAT changes that applied from 1 January 2010 including-

- The reversion of the standard rate to 17.5% from the temporary 15%.
- If you sell services within the EU then you need to submit more paperwork.
- The system and its time limits for the recovery of EU VAT.



Standard rate change

The change in the standard rate of VAT back to 17.5% is well known. However there are some important details that can apply, particularly to supplies straddling the date of the change. For instance, advisory services might have been provided over a period in both 2009 and 2010, but billed after the rate change. The supplier may be able to apportion the supply between the two rates.

For a fuller explanation of the background rules, see the guidance on our website www.chiene.co.uk, or speak to your contact at the firm, or call Lynn Gemmell of our VAT team.

EU services

Your business may sell services to other EU countries. Broadly you charge UK VAT to final consumers, but not on business to business supplies. Some details of this have changed. However there is a new requirement to send HMRC regular lists of these supplies. The lists are generally required sooner than VAT returns, and may cover different periods from your VAT return.

Again we have a handy summary of the requirements on our website to assist you. Our VAT team can further explain the EC Sales Lists rules.

EU VAT recoveries

Does your business pay VAT in other EU countries, perhaps on travel and related costs? You may be entitled to have this repaid to you. If you have done this in the past you may know that it can be a frustrating experience dealing with other countries' equivalent of HMRC.

From 2010 claims for recoveries will be submitted electronically via an HMRC portal. The time limits and some details are being changed. Please contact Lynn or her team to talk through what this means for you.

...And coming soon

Compulsory electronic submission of VAT returns will apply from April 2010 for the majority of businesses.

Happy VAT New Year!

Plan to succeed - part 3

In the Summer edition of **CONNECT** we discussed the importance of producing a business plan. Financial forecasts are a key part of any business plan

The importance of financial forecasting

Forecasts can be used for a number of purposes including the provision of information to banks and other external bodies. However they are also an integral part of running your business. They can help you plan your business growth, anticipate cash flow issues and allow you to measure against actual performance.



What your forecasts should include:

- **Profit and loss forecast** – this is a statement of the expected trading position of the business. It will show the level of profit you expect to make given your projected sales and costs.
- **Cash flow** – this shows when you expect money to enter and leave your business. The aim is to show that your business will have enough working capital to survive. If you are predicting cash flow problems in the future it will allow you to possibly prevent them or find other solutions.
- **Scenarios** – by trying out different scenarios you will determine what it takes to make your business financially viable. For example, you may want to forecast a 20% reduction in sales, loss of a key client, a change in your prices, sales being slower than predicted or a delay in a project.

In some instances it will also be beneficial to prepare a balance sheet forecast especially where forecasts are being prepared for funding purposes. This gives a snapshot of the assets and liabilities of the business at a particular point in time.

Forecasting tips

- It is important that the forecasts should be based on your numbers and assumptions. You will be responsible for achieving the objectives so it is vital that you believe in the numbers. By all means get help in the production of the forecasts but you remain responsible for them.
- Make sure that your financial plan is consistent with your business plan.
- Always be realistic with the figures.
- A common mistake made by businesses is to prepare financial forecasts for a bank or investor and then forgetting all about it. Your financial forecasts should be monitored on an ongoing basis and compared to your actual results. This will help you anticipate problems before they arise.
- Get someone to challenge your forecasts and query your assumptions.

If you would like to discuss any aspect of this article please contact Carol Flockhart, Business Support Director.

Chiene + Tait helps to give AIDS orphans a better future

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Another not for profit organisation has recently benefitted from Chiene + Tait's support - Refilwe UK is a Christian Charity for Aids Orphans in South Africa. In the words of Refilwe Project leader, Jaco van Schalkwyk:



"We need to start making a difference. If we can relieve the suffering of one patient, give hope to even one AIDS orphan and help a child to realise a dream it will have made our mission at the Refilwe Community Project worthwhile".

Two visionary ladies, Jean Stewart and Yvonne Jacques were inspired to do just this. In April 1991 they started a clinic on a small site near Lanseria Airport, Johannesburg. From this grew the Refilwe project that we see today and which cares for a semi-rural disadvantaged community of about 50,000 people. It now provides a TB and AIDS clinic, a shelter for AIDS Orphans, lunch and stimulating afternoon care for school children, and an outreach programme distributing medicines, clothes and food to those who cannot reach the Refilwe Centre. For more information about Refilwe, please visit www.refilwe.org.



In October this year, Chiene + Tait committed to support the UK launch of the charity, which was celebrated with a recital by world renowned pianist Melvyn Tan and baritone William Berger. Over 150 special guests, including Chiene + Tait clients, attended the very special evening which raised over £20,000 for Refilwe's important work with

AIDS orphans. Helen Mackenzie, C+T Partner and Refilwe Trustee comments, "The generosity of our guests and supporting organisations really does help Refilwe to save and change lives. We hope that with the funds raised at the recital, more orphans can look forward to a brighter future."

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Happy Anniversary Chiene + Tait

2010 marks a very special year for Chiene + Tait – it's our 125th Anniversary. Throughout the year, we will produce a series of articles highlighting key achievements since our conception and the story behind our longevity. Watch this space for further information in the next edition of Connect.

1885 - 2010

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125th ANNIVERSARY

New for you

We now have more than 170 inform summaries – short, user-friendly briefs – freely available on our website. Here is a selection of some of the latest additions.

CHARITY VAT CHANGES

Charities and some other bodies can obtain important VAT breaks on their building work. However some of these tax breaks depend on the buildings being used "solely" for specified purposes. HMRC has issued a new interpretation. Our summary gives the key details.

TRUSTS, BUT WITH LESS TAX

Did you know that many trusts will soon be liable to tax at 50%? We set out a helpful way of reducing this in our summary on discretionary trusts: dividend income and tax planning.

CREDIT FOR DIRECTORS

See our handy summary of some key points to consider where companies make loans to their directors.

LIST YOUR OVERSEAS SERVICES

Do you sell services to other EU countries? Then look at our summary of the new rules on EC Sales Lists.

QIPS

Quarterly instalment payments must be made by larger companies. Our briefing paper gives the lowdown on the rules.

GOING GREEN?

Are you involved with smaller scale renewable energy? Our summary on feed-in tariffs sets out the key long term financial incentives now on offer.