

SHIPSHAPE

Is your bank listening?

We find out how businesses are getting on with their banks



News and Views

Top tips for surviving the recession plus protecting your business against internal fraud

Client Profile

Vital Regeneration's work with young people in London's most disadvantaged neighbourhoods

Shipleys' Services

A focus on Shipleys' specialist charities team

Money Matters

Tax issues to consider when letting out your home

In this issue

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Who benefits from tumbling interest rates?

Banks have been reluctant to pass on rate cuts to customers. We've been looking at the impact.

Since the last edition of *Shipsshape*, we've come to accept that this downturn isn't going to be short – it's serious and it will affect everyone.

The Chancellor and the Bank of England have taken dramatic steps over the last few months in an attempt to stimulate demand and prop up the banking sector. It's clear that the lack of credit in the system rather than the cost of it is the main problem for small and medium-sized businesses. Inflation is no longer the issue. If even the most reliable, strong businesses, which have behaved responsibly with their banks in the past are having difficulty getting the finance they need, the economy will slow further and take longer to recover.

Feeling the benefit?

In his Pre-Budget Report in November, Alistair Darling announced a £20bn fiscal stimulus to help the economy through the downturn, including the immediate VAT rate cut to try and boost spending. But at just 1% of GDP, much less than the expected fall in output, time will tell whether or not these proposals will be enough given the scale of the economic problems.

The Bank of England has brought the base rate down to 1.5% – the lowest it's been in more than 300 years. We hear terms like base rate bandied about all the time, but what

does it really mean for you or your business and will you actually benefit from these cuts?

What does it mean?

The base rate is the rate at which the Bank of England lends to other financial institutions, who in turn lend to individuals and businesses at interest rates which are usually one or two percentage points above the London Interbank Offered Rate (LIBOR). LIBOR is a daily-calculated reference rate based on the interest rates at which banks borrow from each other and is partly how lenders make a profit on loans.

As the public now owns large slices of several of the nation's banks, one might assume the Government could force them to pass on the recent rate cuts to customers. So far most banks have been reluctant to do this, preferring instead to try to claw back losses from the recent crisis.

But there's still hope. If the base rate stays the same or gets even lower, the Government's latest attempt to shore up the financial system with an insurance scheme to cover bad debts brings some much-needed stability and the banks become more confident about lending again, interest rates on mortgages and other loans may come down. There are some big 'ifs' here though.

Life at the sharp end?

We recently became aware of a case where a bank had not passed on interest rate cuts to one of its customers, despite being obliged to do so under the terms of a loan agreement. We wanted to know how widespread this is and what's really happening on the ground. So for this issue of *Shipsshape* we asked some of our clients to tell us about recent experiences with their banks to find out whether what the press is saying matches the reality. Have our clients' relationships with their banks changed dramatically over the past 12 months? Have they had difficulty renewing overdrafts or getting loans, and what interest rates are they being charged? Are some sectors getting better treatment than others?

You can read the results over the page. And if it strikes a chord, let us know how your bank has treated you and your business in recent months. In the meantime, we hope you'll find plenty of interest within this issue.

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Can you bank on your bank manager?

We find out how the banks have been treating their customers in recent months.

The banking crisis continues to dominate the headlines with the Government and the Bank of England announcing new measures all the time designed to get the banks lending again. But we wanted to know what's really happening on the ground. So we asked a range of Shipleys' clients to tell us how their recent experience compares to what's being said in the press.

Have any facilities been withdrawn and have these businesses successfully been able to extend or renew their overdrafts or taken out new loans? If so, were they charged the same rates as before and have their banks passed on interest rate cuts? And what could the banks and the Government be doing to help?

Deteriorating relationships?

Some of Shipleys' clients have noticed little or no difference in their relationship with their bank in the last few months. Douglas van Zijl, finance director at top 100 law firm Forsters, says they have not experienced any substantial change as a result of the credit crunch. "We have a close relationship with an independent bank which can be traced back more than 200 years. It's an unusual arrangement."

Carole Darley of family-run timber and damp treatment firm Dampcure-Woodcure/30 Ltd has "no complaints" about how the bank is continuing to treat them. "We have a good relationship manager who knows and understands our business. This helps us tremendously and saves a lot of time."

But these examples seem to be the exceptions rather than the rule.

"...a victim of the blanket distancing of everyone working in the estate agency business"

In many cases it seems that previously long-term, positive relationships with the local bank manager count for little as head offices wrest back control to minimise exposure to risk. In many cases the local branch manager seems to have been left with little influence or discretion.

Cautious approach

Loudspeaker manufacturer PMC has found its bank much more distant and cautious recently. "Last year we had regular contact with our personal bank manager," says managing director Miles Roberts. "This year he has been noticeably absent, there's

been a much less personal approach and he has taken longer to respond to communications. Our local branch has become less flexible, often querying cheques and sometimes refusing to accept them for clearance without authority from the main business branch in central London."

Colin Fellows, finance director at Saffron Insurance, says he received a "generic" letter informing them of

charges for late supply of information such as accounts and summaries of debtors. "We've told them that we won't accept these charges. They agreed and said this was just a letter aimed at getting to the repeat offenders. Our bank has also been asking for more security and in some cases is asking for personal guarantees."

Perhaps unsurprisingly, due to the state of the housing market, our interviewee working in the property sector has seen the relationship with his bank take a dramatic turn for the worse over the last few months. Jim Bullard, senior partner at estate



Jim Bullard
Senior partner,
Archers Town &
Country estate
agents.



Carole Darley
of family-run
firm Dampcure-
Woodcure/30 Ltd



Colin Fellows
Finance director,
Saffron Insurance



Miles Roberts
Managing director
of loudspeaker
manufacturers PMC



Douglas van Zijl
Finance director of
law firm Forsters LLP

agents Archers Town & Country, says the firm has “been a victim of the blanket distancing of everyone working in the estate agency business”. He too was dismayed to receive a “generic letter, out of the blue” from his bank manager saying that the overdraft facility was to be withdrawn. “Despite a previously good relationship, he did not forewarn me. It was unreasonable as we have a strong and established business

Also, we recently asked if we could top up an existing loan facility; initially they were reluctant, while in the past they were happy to do it.”

PMC’s bank has not passed on interest rate cuts. “A recent application approved in principle for additional vehicle loans was at a very high rate compared to our previous vehicle loans in 2007,” says Miles Roberts. Their main concern, however, is to see more stable foreign

own bank is doing as much as it can. But many of our clients have had their overdraft facilities withdrawn or restricted. It would be good if the Government could force banks to put credit into the system.”

Jim Bullard echoes this sentiment. “Interest rates have been cut, but the banks and mortgage lending houses are not passing them on. Banks need to start lending to each other and then it might start to get better.”

“It would be good if the Government could force banks to put credit into the system”

– just one of several companies we have with the same bank. We had a comparatively small overdraft and it was never over the limit. It’s like they suddenly took the view that all estate agents are a big risk and pulled the plug.”

What’s the reality?

Saffron Insurance has recently successfully renewed and extended its overdraft, but it was more expensive. “They have put the margin up over base on our overdraft – by at least 20% more than it was before,” says Colin Fellows. “All their charges have gone up within the last few months.

exchange rates. “It is imperative for businesses trading internationally, both for export and particularly import.”

Again bucking the trend, Dampcure-Woodcure has recently extended its facilities without any problem. Forsters too has succeeded in extending its overdraft facility, but the bank has imposed a minimum rate of 3%.

While Douglas van Zijl explains that Forsters has sufficient facility to get through this period, they are having issues getting paid on time, particularly for completed property work. “From a credit perspective our

What have we learned?

The Government’s recent announcement of a £20bn credit plan for businesses will be welcome news for many. But whether it will be enough, only time will tell. Meanwhile, businesses should not be relying on their previously good long-term relationships with their banks to carry them through. As banks’ head offices look to cut their exposure to risk wherever they can, it’s clear that local branch relationship managers are finding that they have much less influence than they have historically had. Businesses reliant on their overdraft should not be taking their facilities for granted and should actively consider what alternatives are available.

Recession-busting advice

Focus on the positive



Armed with a proper plan to maintain or even increase profitability and reduce reliance on external funding, businesses can take more control of their own future and may emerge from the recession in better shape.

This is some of the recession-busting thinking coming out of the latest in our regular series of lively breakfast meetings for local business people at our Godalming office. The breakfast focused on practical measures for owner-managers to take in the current environment, falling into four key areas: management, cash, customers and costs. We've put together the checklist below from the results.

We also drew on the knowledge and experience of the group to consider opportunities emerging from the current environment. Those that attended left with renewed enthusiasm and a head full of ideas, whether it be taking advantage of government efforts to get the economy going again, grabbing market share as competitors drop away, taking advantage of cheap stock or supplies to gain access to new markets or approaching ailing businesses before it's too late.

Some saw the recession as a time to change the way they do business – perhaps finding better ways of demonstrating that they're really

listening to clients, outsourcing non-core activities or recruiting previously unavailable high quality candidates.

A popular idea was to involve staff in discussions of likely trading conditions and getting their input on reducing costs and protecting revenue. One suggestion was 'bottom up' budgeting, where everyone in the business gives input on areas over which they have influence, with the aim of achieving a 10% cost saving overall.

For more details of our business breakfast clubs, please contact Jane Whalley on 01483 423607 or email whalleyj@shipleys.com

Recession-buster checklist

Management

- Review budgets, set realistic 12-month targets and update regularly, at least monthly
- Review product/service offering and drop anything unprofitable or non-core
- Decide which key performance indicators to measure daily or weekly – for example, sales leads generated and converted, orders fulfilled, cash balance, stock turnover, debtor days, gross profit, net profit
- Review efficiency of current activities and consider alternatives such as outsourcing, whether locally or using overseas suppliers
- Get everyone in the business together, explain the game plan and get their ideas and buy-in

Customers

- Get rid of any remaining non- or late-paying customers
- Identify and put extra effort into your relationships with your better customers
- Make realistic forecasts of sales from existing customers
- Manage your new business pipeline and make sure you have clear targets, measures and responsibilities

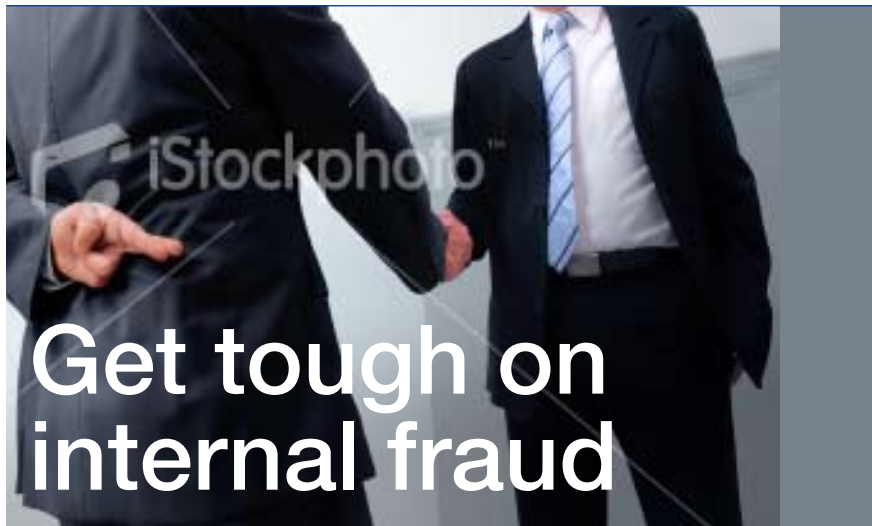
Cash

- Review debtors list and chase up overdue invoices
- Consider extended payment terms or prompt settlement discounts
- Make sure your terms of business contain explicit payment terms

- Clarify individual responsibility in your team for invoicing and collections
- Review banking facilities and future needs

Costs

- Consider extended payment terms with suppliers
- Review and challenge each step of your business processes
- Encourage staff to suggest ways to streamline processes
- Use 'bottom up' budgeting to achieve cost savings in all areas of the business
- Review staffing needs imaginatively



Venture Capital Trusts

A tax planning reminder

Fraud experts are warning businesses that the recession and the increase in the cost of living may be influencing employees to act dishonestly. Internal fraud already costs UK businesses millions of pounds every year, but in these difficult times more employees may be tempted and employers can ill afford it.

Who are the likely perpetrators and what might motivate them to commit fraud? And, more importantly, what can you do to mitigate the risk? Experts say there are three main drivers leading employees to commit internal fraud: opportunity due to ineffective internal controls; motive as a result of financial problems or addiction; and when they think their actions are justified, for example feeling they are owed by the company or they see other people doing the same.

Survey findings

A recent survey carried out by KPMG examined 360 internal fraud profiles. Findings included the following.

- 70% of fraudsters were between 36 and 55 years old
- 85% were male
- 89% were employees committing acts against their company (only 11% were external acts)

The survey also found that 86% of fraudsters held management positions and 60% of these were senior management and/or on the board of directors. With the responsibilities and trust associated with these roles

comes the ability to override internal controls, gain internal knowledge and access confidential company information.

Many businesses unwittingly create opportunities for employees to commit fraud by having weak controls, such as poor supervision, lack of segregation of duties and inadequate policies. The first line of defence for employers should be to check the identities of new employees, their personal details and references. They should also verify the backgrounds of existing staff being promoted to positions with access to company assets.

Shipleys' system review

We can carry out an internal procedures review and conduct background security searches such as criminal records bureau checks and County Court Judgments. An audit itself will not usually pick up instances of fraud, but if you suspect anything suspicious our experienced forensic accountants can review your systems to help identify key areas of risk and make recommendations on they how they can be mitigated.

For further information please speak to your usual Shipleys contact.

A VCT is a company, broadly similar to an investment trust, which has been approved by HM Revenue & Customs (HMRC) and which subscribes for shares in, or lends money to, small unquoted trading companies.

Although the current economic climate does not give investors much optimism, the credit crunch may afford VCTs opportunities to get involved with quality businesses one would normally expect to be looked after by the banks. VCTs may be well placed to identify these companies, offering investors a way to spread their bets.

The VCT itself is exempt from tax on its capital gains and the investors enjoy several tax advantages.

Individuals can claim a reduction in their income tax of up to 30% of the first £200,000 each year subscribed for new shares in VCTs, provided they hold the shares for at least five years. On disposal within that period some or all of that tax relief may be recaptured.

The investors are then exempt from income tax on dividends received on shares in VCTs acquired (whether by subscription or purchase) within the annual maximum of £200,000.

The investors are also exempt from capital gains tax on gains realised on disposal of VCT shares acquired (whether by subscription or purchase) within the annual maximum of £200,000.

Our professional rules prevent us from providing specific investment advice. However, if you would like further guidance on VCT investments your usual Shipleys contact can refer you to an investment specialist in this area.

Tax matters

A round-up of tax issues that may affect you or your business



Writing off cars

Changes are being made to the way businesses get tax relief for their cars. Although some proposals are still subject to consultation, in most cases the new rules are likely to prove less generous, and some may wish to consider action before April.

Cars with CO₂ emissions up to 110g/km are unaffected and will continue to attract 100% writing down allowance (WDA) so that the whole of the purchase cost can be offset against profits for the period in which the car is acquired.

At present, 'expensive' cars costing more than £12,000 are looked at individually. The WDA is limited to £3,000 per annum and on disposal the written down value is compared with the sale proceeds, and the difference is given as a tax allowance or taxed. The effect is that full relief for the actual depreciation is given over the period of ownership.

Cars bought from 6 April 2009 (1 April for companies) including qualifying hire cars such as taxis, will be put into one of two pools, with different WDAs as follows.

- Cars first registered before March 2001 or with CO₂ emissions not exceeding 160g/km – 20%
- Cars first registered on or after 1 March 2001 and with CO₂ emissions exceeding 160g/km – 10%

The effect of pooling is that tax relief is not given for depreciation which has been suffered on disposal of the car. Instead, the pool is reduced by the sale proceeds and allowances are given on the balance at 10% or 20% per annum. If a car is not sold at the end of five years, then any pool balance remaining is added to the normal plant and machinery pool. Cars costing more than £12,000 acquired before April will fall within the older, generally more advantageous rules, so companies may wish to consider changing cars before April.

Under the current proposals, where a car is used partly for non-business purposes by an individual sole trader or partner, it may continue to be put into a single asset 'pool', with the WDA determined by its CO₂ emissions. This aspect, however, is still subject to consultation.

Leasing – anti-avoidance

As announced on 13 November 2008, and effective from that date, action is being taken to counter tax avoidance schemes that involve the lease or sale and leaseback of plant or machinery to obtain relief for more than the original cost of the asset, and seek to avoid tax on the granting of a long funding lease. In addition, action is being taken to remedy a technical defect in the Capital Allowances Act which could lead to a gross loss of tax when a long funding lease ends.

Leasing cars

For leases commencing on and after 6 April (1 April for companies) there will be no restriction to the tax deductibility of car lease rentals if the car's CO₂ emissions do not exceed 160g/km. There will be a straight 15% restriction if the CO₂ emissions are higher.

Late tax payments

HMRC has announced a new Business Payment Support Service – a team with a special telephone number to deal with those who can't pay tax, National Insurance, VAT or other payments owed to HMRC on time.

The service – 0845 302 1435 – operates Monday to Friday 8am to 8pm and weekends 8am to 4pm. They will review your circumstances and discuss temporary options tailored to your business needs, such as arranging for you to make payments over a longer period. HMRC will not charge late payment surcharges on payments included in the arrangement, although interest will continue to be payable. Visit www.hmrc.gov.uk/pbr2008/business-payment.htm for more information.

Those proposing to use the business support service should contact them before payment is due.

HMRC interest rates

The recent cuts in the Bank of England base rate have led to falls in the interest rates charged on unpaid taxes or paid on tax refunds. Visit www.hmrc.gov.uk/rates/interest.htm for more details.

The 'official rate' of interest, which is the rate adopted to measure the taxable benefit of employee loans and in connection with certain pre-owned asset charges, is to fall from 6.25% to 4.75% from 1 March 2009.

The valuation rate of interest, or the discount rate, used in connection with discounted gift schemes is reduced from 6.75% per annum to 5.25% per annum, with effect from 1 February 2009.

Health screening

The Finance Bill 2009 will exempt from tax the provision of yearly health screening and medical check-ups provided by employers to their employees, dropping the proviso that these benefits have to be available generally on similar terms to all employees.

This will mean that the tax and NIC treatment of employer-provided medical checks will be broadly the same as it was before new regulations were introduced in August 2007. In the meantime, HMRC will continue its current concessionary practice not to collect tax and NICs that may arise from the existing regulations.

Wills and survivorship periods

Many wills have a 30-day survivorship clause. For example, a bequest might go to a widow on the condition she survives the testator by at least 30 days. Now that an unused nil-rate band on the first death can be transferred for use on the survivor's death, the reason for such clauses has largely gone. Indeed, in certain circumstances, the operation of this clause can lead to more inheritance tax being payable on the second death. If you are interested in reviewing your will please speak to your usual Shipleys contact.

VAT News

Temporary workers – withdrawal of VAT concession

The VAT treatment of temporary workers has been under review by HMRC for several years. Normally VAT applies to the entire charge levied by the employment bureau including the wages element. But a concession, introduced in 1997 pending the outcome of the review, enabled the wages element to be VAT free. Sadly the review concluded that EU law does not support the concession so it will be withdrawn, with effect from 1 April 2009.

Credit crunch – further advice for house builders

As notified in the previous issue of *Shipse*, HMRC issued a brief in September advising house builders about the partial exemption implications associated with making short term lets of new houses prior to selling them. Follow-up advice was issued in late October which confirmed that selling the houses to an associated letting business in order to avoid any partial exemption problems would not be regarded as an abusive arrangement.

VAT penalties and time to pay

The previous issue of *Shipse* mentioned the upcoming changes to the VAT penalty regime, but a recent VAT Tribunal case serves as a reminder that the existing regime is just as bad.

The case concerned the director of a company that had failed to submit one of its quarterly VAT returns and instead paid an estimated assessment amounting to £421. The company's true liability was, however, in excess of £3m, which it could not afford to pay. When questioned by HMRC the director admitted that he knew that the true liability was considerably higher than the estimated assessment and as a result of this admission HMRC levied a dishonest evasion penalty of in excess of £600,000 on him personally. This case serves as a timely reminder to contact HMRC at an early stage if you are having difficulty paying the VAT you owe. They may be able to offer 'time to pay' and it may also be possible to avoid incurring a default surcharge.

Flat Rate Scheme for small businesses

HMRC does not normally allow a business to backdate its admission to the Flat Rate Scheme unless it can show that there were 'exceptional circumstances'. Very little guidance is available regarding the definition of 'exceptional circumstances' so the recent VAT Tribunal case involving a Mr Burke is welcome. He managed to convince the Tribunal that failure by a visiting VAT Officer to tell him about the scheme was an 'exceptional circumstance', which saved him about £2,000 in VAT.

Second hand margin scheme records

Use of the second hand margin scheme is almost universal in the used car industry but it does have strict record keeping requirements that must be observed. Failure to do so may result in a requirement to account for VAT on the full selling price as a Mr Thornhill recently discovered. His failure to keep proper records increased his VAT liability from about £3,500 to £72,500.

For further information about any of the above topics, please speak to your usual Shipleys contact or the VAT team.

Helping charities rise to the challenge



Shipleys' charities team members:
Simon Robinson, James Vassiliou,
Jane Henman and Sarah Leggatt

Many charities are facing sharp reductions in income as a result of lower investment returns and a reduction in donations. Staying on top of the onerous requirements coming into force under the Charities Act 2006 at a time when many are trying to make savings on administration costs is especially challenging. Our experienced team can help identify the issues and get things done.

Our experience

Our charities team is led by principal Simon Robinson, who is a holder of the Diploma in Charity Accounting (DCHA) from the ICAEW, and has specialist knowledge of the accounting, audit and governance issues facing charities. Other members of the team include principals Jane Henman, James Vassiliou and Alastair Mein, senior tax manager Penny Brockhurst and audit & accounts specialists Tanya McKnight and Sarah Leggatt.

We help all types of charities and non-profit organisations, ranging in size from small bodies that do not require an audit, up to large household names with incomes of many millions and more complex regulatory requirements. Our clients include well-known national charities and their local branch offices, independent schools, charitable trusts, gentlemen's clubs, religious orders and Government training bodies – at all stages of their development.

Shipleys' services

We can help set up and register a charity with the Charity Commission, and advise on the most appropriate structure for the organisation.

We help charities set up the right system to ensure accurate and reliable financial records, compliance with the latest Statement of Recommended Practice for charities and ensure cost-effective preparation or independent audit. There are different audit requirements for charities depending on their size and status. Shipleys can also work with trustees and finance staff to maintain appropriate internal controls and help minimise the risk of fraud.

We can work on any or all aspects of the annual return, whatever the size or type of organisation. For most charities tax on income is not a major issue. However, our specialist team can give advice on the possible tax implications of the charity's operations, including, for example, the VAT issues arising from any trading activity.

Our team can advise on the recoverability options of any investment income subjected to taxation as well as help with all aspects of Gift Aid planning. We also offer payroll services to ensure the correct payment of Pay As You Earn (PAYE) and National Insurance Contributions.

In this particularly challenging period, we are helping a number of charities with strategic planning.

We can work with trustees and finance staff to assess what has been achieved and what can be done to meet future goals as well as help to assess the use of resources and identify cost saving opportunities where appropriate.

For more information, contact:

Simon Robinson

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Exam successes

Congratulations to (left to right) Liam Waters, Jenny Corcut, Jeremy Singham and Ria Bentley who have passed their final exams to become qualified chartered accountants.

Vital Regeneration

Shipsape speaks to Angela McConville, Chief Executive of Vital Regeneration – an award-winning charity that works with young people in some of London’s most disadvantaged neighbourhoods.



Learning, employment and enterprise

Vital Regeneration was formed in 2005 as a legacy of a major 1990s regeneration programme working to effect positive change in some of Westminster’s most disadvantaged housing estates. The charity works in the areas of learning, employment and enterprise with young people from primary school age up to 25.

A media training programme offered to young people who are not in education, employment or training (NEET) has been another particularly successful project, with more than 75% of participants achieving an accreditation and progressing to positive destinations including jobs, volunteering and college. “Some ten per cent of young people in London are classified as NEET,” explains Angela. “They’re excluded from the

Shipleys has helped Vital Regeneration as it has grown, acting as auditors and advisers. In 2005 the charity’s turnover was £0.5m with just eight members of staff. This has grown to £1.5m and more than 25 staff.

“Shipleys are very helpful and provide us with charity intelligence about the charity landscape – they tell us about trends they see happening in their charity portfolio. Simon Robinson, the Shipleys principal who looks after us, is good at suggesting events and awards that we should be going to and is good at networking. He puts us in touch with other relevant clients so that we can work on projects together.”

Like the majority of charities, Vital is facing challenging times as funding becomes harder to obtain. “This particularly applies to corporate funding as companies that have traditionally donated or provided sponsorship are feeling the squeeze,” explains Simon. “All this at a time when charities are facing increased governance and compliance burdens. We try and take some of these burdens away so that Vital can concentrate on what it does best, which is delivery of its projects.”

“What we’re doing is making a real difference”

“We have a range of innovative programmes and a diverse portfolio of work, primarily in Westminster, but also in Brent and Hammersmith & Fulham,” explains Chief Executive Angela McConville, who led the team that established the charity in 2005.

Projects include an advice and brokerage service for young people seeking access to apprenticeship. “We provide young people with information on the types of apprenticeships available in London. We take a pastoral and holistic approach that takes them through the whole process, from finding the right employer, through to the application, interview and induction process, as well as offering after-care.”

world of education and work and they often have very poor numeracy and literacy levels. Music and events are a hook and through this we help improve their skills and employability.”

Award-winning work

In 2008 Vital Regeneration was presented a UK Catalyst Award by Gordon Brown for its work with young people on using technology for social improvement.

“What we’re doing is making a real difference,” says Angela. “We benefit from a diverse blend of income – from trusts and foundations, to commissions from local authorities. We also do training and consultancy work.”

Visit www.vitalregeneration.org for more information.



Letting out your home

As the recession starts to bite, many people will be thinking about taking in a lodger or letting out their home completely. Here are some of the tax issues that you'll need to consider.

Rent a room – income tax relief

Income from letting out a room in your house is tax free if rents received are less than £4,250 per annum, provided you make a 'rent-a-room relief election'. If the property is owned jointly then this figure, as well as the rents, will be shared between the partners.

Under rent-a-room relief, expenses are ignored and you will be taxed on the difference between the total rents you receive and £4,250. Without the election, you may choose to be taxed on the difference between the rents you charge and directly attributable costs, such as a proportion of gas,

electricity, water, general repairs, rates and mortgage interest.

Renting out your home – capital gains relief

If you decide to move out of your home and let the whole property, then the following capital gains tax (CGT) issues should be taken into consideration.

If the property has been your main residence, any gain will be tax-free if made on selling the property within three years of moving out. Therefore if you do not let your house for more than three years and then sell it, there will be no CGT to pay.

If you do let it for more than three years you can make a claim for lettings relief which is currently worth tax relief on up to £40,000. This is available to both owners if the property is jointly owned.

Of course, you will be liable to

income tax on the rents received, less attributable costs, including mortgage interest.

Note: In both of these situations, letting or part-letting your property may be prohibited by your mortgage lender.

Fake message warning from HMRC

HMRC is currently trialing new ways to contact its customers. As part of this you may receive an automated voicemail or text message asking you to call them on 0191 225 5348. If you receive such a message claiming to be from HMRC but asking you to call any other number, do not respond. Instead, report the matter to your HMRC Contact Centre. This warning only applies to automated messages, not to those left in person by HMRC officers asking you to ring them back at your local office.

Company cars – advisory fuel rates

Reflecting the recent fall in petrol and diesel prices, the advisory rates at which employers may reimburse their employees for road fuel used in company have been reduced from 1 January 2009, as shown in the table.

Petrol hybrid cars are treated as petrol cars for this purpose.

HMRC will also accept the figures in the table for VAT purposes though employers will need to retain receipts in line with current legislation.

Engine size	Petrol	Diesel	LPG
1400cc or less	10p	11p	7p
1401cc to 2000cc	12p	11p	9p
Over 2000cc	17p	14p	12p

Detailed advice should be obtained before taking action, or refraining from taking action, as a result of information in this newsletter.

Shipleys LLP is not authorised by the Financial Services Authority but we are able in certain circumstances to offer a limited range of investment services because we are licensed by the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide.