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PUTTING THE 'M' BACK IN SMEs



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If you have any suggestions for topics you would like to see covered in *Shipshape*, or have any comment about the content or presentation of the newsletter, please contact Stuart Dey at our London office.

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Managing partner John McCuin considers the political uncertainties which will affect British business in the near future.



Interesting times

"May you live in interesting times" is a traditional Chinese wish which is intended to be benevolent. I'm not so sure that it is. It implies a degree of uncertainty.

I have written previously about the negative effects on British business of an uncertain future. Uncertainty is just plain bad for business, and we may have a lot of it ahead in the next couple of years.

The media seem to be convinced that there will be a General Election in May this year. But it could be much later this year, or as far away as June 2006. Politicians are unlikely to take account of business planning needs when calculating the most favourable political date for a General Election.

But British business needs certainty. Whichever party wins the next election, their policies will affect on our future profitability.

The Budget

Assuming a 2005 Election, whenever it may be, the Chancellor will want to pull some rabbits out of the hat (for political and personal reasons) in his Spring Budget. But it is hard to see where these rabbits will come from.

Bear in mind that second Budgets in election year are very common, so we could have good news in the Spring followed by bad news in the Autumn.

If we have a new Government following a May General Election, or a hung parliament, an Autumn Budget is almost inevitable.

The Referendum

The UK referendum on the new EU Constitution is promised for 2006. However, it is possible that as many

as nine member states will have held their own referendums before then, and just one 'No' vote would scupper the process. So what would happen then? There seems to be no consensus on this.

If the new Constitution is approved by all the member states there does seem to be a consensus that the UK's adoption of the Euro currency would become more likely and more imminent. Would that be good for us?

There would certainly be costs involved, if only in adapting our financial systems.

"Uncertainty is just plain bad for business"

Optimism

I don't want to sound too pessimistic about the uncertainties outlined above. As I said in our last issue, there are many reasons to be cheerful about our short and medium term business prospects.

But, as your business advisers, we do have to think about the longer term, and consider future uncertainties and their possible effects. Paul Druckman's article on the back page of this issue emphasises the importance that small and medium-sized businesses place on advice from their accountants; we have to continue to work hard to retain that respect.

Thank You

On page 9 of this issue of *Shipshape* you will find a report on the findings of our Readers' Survey in last year's October issue. We are grateful to those of you who replied, sometimes in great detail.

We do try very hard to make *Shipshape* interesting and useful, and your feedback is invaluable to us. We are pleased that we seem to be getting it right for most of you, most of the time, and that you appreciate the efforts of the editorial team.

END OF YEAR TAX PLANNING

The Chancellor's Pre-Budget Report in December gave the allowances and NIC rates for 2005/06, but said nothing of tax rates for that year. At the time of writing the date of the Spring Budget is unknown. With a General Election widely expected in 2005, the Budget may be before the tax year ends on 5 April, in which case planning would become easier and we would be better placed to recognise the effects of actions taken by 5 April compared with those deferred. If so, an updated version of this checklist will be placed on our website at www.agnshipleys.com

Capital gains tax

If tax rates and taper relief rules were unchanged there would be attractions in deferring past 5 April 2005 the disposal of any asset showing a gain. This could increase taper relief, reduce the effective capital gains tax rate and defer liability by a year. But there are circumstances where taper relief is actually reduced by delaying disposal. For example, shares in a listed company held by an employee are business assets, but cease to qualify when he is no longer an employee. So the taper relief would gradually diminish.

In past years it has generally been wise to realise capital losses sooner rather than later. But taper relief has made the timing of such losses much more critical. Losses, set off in the order most beneficial to the taxpayer, reduce gains before taper relief is calculated, thus sometimes effectively tapering the loss.

Realising sufficient capital gains to utilise the annual exemption (this year £8,200) does, of course, remain good planning.

Deferral of income and gains into 2005/06 will normally postpone tax liability, but if such income and gains were then taxed at a higher rate, deferral would be unwise. Furthermore, the basis of calculating interim income tax payments on account may reduce the postponement of liability. Care and judgement are needed.

Pension contributions

Current pension arrangements should be reviewed, ready for the 'simplified' pension regime beginning in April 2006. This is explained on page 8; see also Current Issues at www.agnshipleys.com

As ever, there could be merit in making pension contributions in 2004/05 (say on 1 April rather than 10 April), either to get tax relief at a higher rate than might apply in 2005/06 or simply to get the tax relief earlier.

Employees in occupational pension schemes should consider the merit of topping up their own contributions by 5 April to the maximum of 15% of earnings (generally capped at 15% of £102,000).

There remain advantages in making contributions to a Funded Unapproved Retirement Benefit Scheme (FURBS). Until 5 April 2006 a FURBS is generally taxed more lightly than the employee would be, on any income or gains generated from the contributions. Of more long term relevance is that the FURBS fund derived from contributions before 6 April 2006 is outside the member's estate for inheritance tax purposes.

Trusts

The reform of the taxation of trusts is scheduled to apply from 6 April 2005. Trusts affected will need to consider the merit of action before that date. This topic is covered in detail as a Current Issue at www.agnshipleys.com

Charitable giving

A gift aid declaration enables the charity to reclaim the basic rate tax notionally deducted by the donor on a monetary gift, enhancing the gift by about 28%. And if the donor pays tax at 40%, his tax liability is cut by about 23% of the gift.

If quoted shares or interests in land are given to charity there is no capital gains tax on any gain that might otherwise have arisen, and the donor is entitled to income tax relief on



the market value of the gift. If assets are donated that show a capital gain, the value to the charity can be significantly greater than if the assets were sold and the proceeds given.

Tax-efficient investment

Those able to do so should consider using their 'ration' of tax-aided investment opportunities – ISAs, Venture Capital Trusts (VCTs) and Enterprise Investment Scheme (EIS) investments. The tax advantages of both VCTs and EIS are improved for 2004/05 – although a capital gain can no longer be deferred by a subscription for shares in a VCT.

Companies should not overlook Corporate Venture Relief, which provides a relief from corporation tax on amounts subscribed by a company for up to 30% of the shares in a qualifying trading company. This has added attraction now that gains on 'substantial shareholdings' (10% upwards) in trading companies are exempt.

Inheritance tax

Inheritance tax has scarcely been changed for some years, save for anti-avoidance action. And even this has now taken the form of an income tax charge where the Government feels that inheritance tax has been avoided by past action. For more on this see the article in Tax News on page 4.

If you would like advice on your own end of year tax planning please talk to your usual contact at AGN Shipleys.

PERSONAL TAXATION

Inheritance Tax

Inheritance tax – or death duties, as whodunnits still often call it – was once thought of as only concerning the very wealthy. Now, the growth in home ownership and the fact that property prices have long outstripped inflation mean that many more face the possibility of tax being payable on their estates at death.

For most married couples tax will only be due once they have both died. This assumes that – as is so often the case – each leaves everything to the surviving spouse and then perhaps to children. Thus, there would generally be no inheritance tax on the first death but tax on the second death at 40% on the excess over the nil rate band (currently £263,000), to the extent that lifetime gifts in the preceding seven years (those outside the exemptions mentioned later) have not used that band.

So, in the simplest case, a £500,000 estate, with no lifetime gifts complicating the calculation, inheritance tax would be payable on that second death of £94,800 [40% of (£500,000 less £263,000)].

There are ways to reduce this liability, but most are of limited appeal to those whose major asset is their home. The customary ways are:

- lifetime gifts, which (subject to the exemptions mentioned below) are only effective if you survive the gift by seven years
- investing in assets that enjoy special reliefs, such as business assets and agricultural property
- carefully worded Wills
- spending the money!

Some lifetime gifts are exempt even if the donor does not survive the gift by seven years:

- Gifts out of income on a regular basis which leave the donor able to maintain his or her usual standard of living out of the remaining income;
- Gifts out of capital each tax year of up to £3,000 per donor (plus any amount unused from that ‘allowance’ in the immediately preceding tax year);
- Gifts in anticipation of marriage, of from £1,000 to £5,000 depending on the closeness of the relationship between donor and recipient;
- Gifts between husband and wife without limit (except that if the donor is domiciled in the UK and the recipient is not, there is only a cumulative maximum exemption of £55,000);
- Gifts to charity of any amount; and
- Outright gifts (the others mentioned can be either outright or into trust) of up to £250 each to any number of donees in each tax year.

Substantial lifetime gifts may not appeal, however, and may not be possible. Many will be concerned to ensure that they are left with enough to face their old age in comfort. But those who think they have sufficient liquidity to contemplate lifetime gifts should explore the opportunities. There will be cases where a couple’s income exceeds their normal living costs. Such a surplus, if saved, is potentially subject to inheritance tax. A self-denying lifestyle could result in 40% of the saving going to the Treasury. So a regular gift of the surplus is worth considering, as such gifts are exempt without the donor needing to survive seven years.

In the past, recognising that their home is their major asset, schemes have been designed to enable the owners to continue to live there while the house, or a substantial part of its value, is removed from charge. Such schemes have been attacked in previous Budgets, and now an income tax charge is to apply from April 2005 under the so-called ‘Pre-Owned Asset’ regime (see panel in the next column), not only to discourage any such ploy in the future but also to negate the benefit thought to have been derived from previous schemes that were implemented before anti-avoidance

legislation was introduced. There are those who are already discussing ways round this new legislation, but the warning signs are there. The Government would clearly block up any loophole identified, probably with an income tax charge.

Is your home owned by someone whose purchase you financed in any way? Do you have the use or possession of a car, boat, painting or other chattel owned by someone whose purchase you financed in any way? These are among the situations which may be caught by the ‘Pre-Owned Asset’ regime. Much fuller details are on our website as a Current Issue at www.agnshipleys.com. If you think you might be affected, seek advice from your usual AGN Shipleys contact.

The action available to all – and always to be recommended in any case – is to have a carefully worded Will. If the hypothetical couple mentioned earlier had each left £250,000 to the children on the first death and any residue to the surviving spouse, there would still be no inheritance due on the first death; and nothing payable on the second death either. But of course this would rarely be acceptable. The couple would prefer that the whole estate be available to the survivor. The answer is for that bequest of £250,000 on the first death not to go to the children, but to a discretionary trust which has the surviving spouse and the children as potential beneficiaries.

But note the limitation on the inter-spouse exemption to a cumulative £55,000 (including lifetime gifts in the seven years before death) if the transferee is not domiciled in the UK for inheritance tax purposes but the transferor is.

Incidentally, the press coverage of the Pre-Budget Report seems to have overlooked one rather radical announcement. The Finance Bill 2005 will provide that same-sex couples registered under the Civil Partnerships Act will be treated for tax purposes in the same way as married couples, and will presumably enjoy the same exemption for inheritance tax purposes.

Capital gains tax

Taper relief on business assets means that 75% of a gain realised after owning a business asset for over two years will be exempt from tax; so that the current tax rate on the untapered gain for individuals and trustees is a maximum of 10%. For periods from April 2000 a property occupied for the purposes of its trade by an unquoted trading company (which must not be a subsidiary of a quoted company) has qualified as a business asset. For periods from April 2004 this has been extended to situations where the property is occupied by a sole trader or partnership for their trade. Previously, the occupier had to be the owner or a partnership of which the owner was a partner. This should be borne in mind when weighing up prospective tenants.

But note that, if a property has not qualified as a business asset throughout the period of ownership (after 5 April 1998), a chronological proportion of the gain will only qualify for non-business taper relief. For example, a gain realised on the sale on 6 April 2005 of a property owned since 1997, and let to an unquoted trading company in which the landlord has no shares, would be split as to two-sevenths non-business taper, enjoying only 30% relief and five-sevenths business taper, which would get 75% taper relief. For a higher-rate taxpayer the effective rate of capital gains tax would be just over 15%.

BUSINESS TAXATION

Small companies and the self-employed

One rather worrying phrase in a Government discussion paper published in December referred to "segmenting owner-managers of companies from other company owners for tax purposes". It has been suggested that this might mean that such 'owner-managers' would be taxed personally on their company's profit; or simply involve that NIC is charged on dividends paid to them by their companies. Such ideas seem unlikely to be pursued; there are too many obvious complications, and powerful arguments against treating a company and its 'owner-managers' as one. Nevertheless, we will be following the discussion closely.

Renovating or converting unused business premises

The Finance Act 2005 will include a provision to give 100% tax relief on the capital costs of renovating or converting unused business premises in disadvantaged areas, where currently there is either no tax relief at all or relief is 4% a year (which applies to industrial and agricultural buildings and certain hotels).

Areas that qualify, which also qualify for SDLT exemption, are listed on the Inland Revenue's website at www.inlandrevenue.gov.uk/so/disadvantaged.htm They comprise the most deprived areas in the UK, which in England, Wales and Northern Ireland are defined at ward level, and in Scotland are defined by postcode.

Anti-avoidance

This is clearly high on the list of the Government's priorities. The Chancellor announced action effective from 2 December in a number of areas, and since then (on 14 December) a further measure was announced, effective from that day, "to prevent companies arranging to bring forward tax relief for losses prior to transition to International Accounting Standards".

At least the latter measure is not retrospective. This is in contrast to the announcement on 2 December which referred to the possibility of future legislation being introduced to counter arrangements "designed to frustrate our intention that employers and employees should pay the proper amount of tax and NICs on the rewards of employment", which would be effective from 2 December 2004.

International Accounting Standards (IAS)

The next Finance Act will include provisions effective from 14 December 2004 to prevent companies arranging to accelerate tax relief for losses prior to transition to International Accounting Standards (IAS). This will prevent companies getting relief for losses arising on transactions in financial instruments that are solely designed to accelerate relief that would otherwise be deferred until 2006 at the earliest, under the changes to accounting rules required by the introduction of IAS or changes to UK generally accepted accounting practice (FRS 26).

VAT

Flat Rate Scheme

This scheme was introduced in 2002 by Customs & Excise to encourage VAT compliance among small businesses by allowing use of a simpler method of calculating the net VAT payable each quarter. There is a separate, and different, scheme for farmers.

Normally a VAT registered business must separately identify and record details of each sale and each item of expenditure in order to calculate the VAT due on sales, the VAT recoverable on purchases, and from that calculate the net VAT payable to Customs & Excise.

The Flat Rate Scheme simplifies this procedure; the net VAT payable is calculated by applying a Flat Rate percentage to the value of total supplies for the quarter.

There are different percentages for different sectors, and initially these were set at quite high levels so few businesses benefited from the Scheme. Now the percentages are much lower so the Scheme is beneficial to a wider range of businesses. There is also a 1% discount for newly VAT registered businesses.

It is intended to apply only to very small businesses, so only those with annual turnover of up to £150,000 from the making of 'taxable' supplies, and annual turnover from all supplies of goods and services of up to £187,500, are eligible.

There are other conditions, such as not being within the Capital Goods Scheme, and it is necessary to have approval from Customs & Excise before using the Scheme.

If you believe you are eligible and would like further information please ask your usual AGN Shipleys contact, or Nancy Cruickshanks, telephone 020 7312 6526, e-mail cruickshanksn@agnshipleys.com

£500 million birthday gift

This Spring two million youngsters will benefit from the first issue of Child Trust Fund (CTF) vouchers. The Government has started issuing CTF vouchers for every eligible baby born on or after 1 September 2002, ready for the launch on 1 April, from which date these vouchers will be honoured. For those born after April 2005 the vouchers will be worth £250; for those born earlier the values range from £256 to £277. Children are eligible to receive the voucher if child benefit has been awarded for them and they live in the UK. An extra £250 will be awarded for children in families eligible for full Child Tax Credit.

Parents will be able to open a special CTF account with the voucher. Many banks, building societies, unit trust managers etc will be offering CTF accounts, which will be able to invest in a similar range of investments to ISAs.

In addition to the Government's contributions, parents, family and friends will be able to contribute up to a total of £1,200 a year to a CTF account until the child reaches the age of 18.



Income and gains arising on investing the contributions to a CTF account will be exempt from tax (and will not affect family benefit and tax credits), so they should make ideal savings accounts for parents, grandparents, uncles, aunts, godparents, etc.

A second voucher is to be issued at age seven to every child born on or after 1 September 2002, and the Government is consulting on whether these should be of the same value as the first vouchers.

The funds in a child's CTF account can only normally be taken out by the child at the age of 18 (the exception being for terminally ill children). The account belongs to the child, although it is managed by a person with parental responsibility until the child is 16 and takes over the management.

There is no suggestion that a CTF with similar tax privileges is to be available (without the Government voucher) for babies born before September 2002.

A parent making a comparable annual investment for an older infant child would be taxed on the income derived from the gift unless the child's income in the year from the gift does not exceed £100, and is taxable on the lot if it is over £100 [which might represent the interest on £2,000]. Thus £1,200 a year invested for a child at 5% p.a. by a parent paying tax at 40% would produce £28,981 at age 18, compared with £35,448 if in a tax-exempt CTF. Furthermore (under the proposals for the reform of trusts), the parent will also be taxed on any capital gains arising to the child from such a gift after 5 April 2005.

A child's income and capital gains derived from gifts by others, such as grandparents, however, are taxed on the child. And as even the youngest child is entitled to a personal allowance for income tax and annual exemption for capital gains tax, there will often be no tax liability on the income and gains from investing such gifts.

For more information see www.childtrustfunds.gov.uk

Godalming Business Breakfast Club

The refurbishment of the ground floor of our office at Godalming has at last given us sufficient space to host seminars and larger meetings. We have taken the opportunity to establish a Business Breakfast Club for clients and contacts, which has so far met three times. The topics we have discussed, and the opportunities for networking, seem to be much appreciated, as are the excellent bacon rolls provided for breakfast!

Our monthly meetings are facilitated by Chris Ragg of the Centre for Organisation Analysis, who also chairs a similar Breakfast Club for the Institute of Directors. His objective is to get people thinking outside their immediate daily concerns, but on issues which may have longer-term implications for their businesses.

Discussions are held in small informal groups around a table (see photo, right), and reported back to promote further discussion.

The first session concentrated on the things that had most transformed business during the participants' lifetimes. The results, not surprisingly, given the age range involved, ranged from the calculator to nano-technology.

The second meeting, in December, looked forward to the business-related changes that we wanted to make progress on during 2005. An intriguing element of this meeting was Chris Ragg's invitation to participants to write down three New Year resolutions and put them in a self-addressed envelope, marked with the date on which they wanted to be reminded of them. Chris now has these envelopes for safekeeping, to be returned to their owners on the appointed dates. How well (or otherwise) we all did with our



resolutions could provide the basis for a very lively discussion at a future meeting!

Our third session was all about trust in our business and professional lives; how important it is, how to create it, and how it contributes to sustainable success. We were also asked what advice we would give to a newcomer to the business world about achieving trust.

If you would like an invitation to join our next Breakfast Business Club meeting on Friday 18 February at 7.15am, please contact Jane Whalley, telephone 01483 423607, e-mail whalleyj@agnshipleys.com

FILM TAX RELIEF

Following the Treasury announcement in September 2004 of a new tax relief for British qualifying films, partners Ken Roberts and Steve Joberns have been heavily involved in discussions with both the Inland Revenue and Department for Culture, Media and Sport (DCMS) to advise on its implementation.

Ken Roberts



Ken and Steve have regular consultations with the DCMS on a variety of topics, but they regard this issue as being of particular importance for clients. Steve explains, "This gives us the opportunity to ensure that our clients can maximise their returns on the production process. It is a stated objective of the Inland Revenue that the new tax relief should amount to 20% of the production budget for qualifying films, so it is important to make sure that the Government gets the implementation details right."

Eligible costs

Ken and Steve have been involved in discussions with the Inland Revenue and DCMS concerning exactly which costs of British films should be eligible for tax relief. In addition, they are considering the even more complicated issue of the co-production status of films involving investment from, and production expenditure in, other European countries, which has become of increasing importance recently as less finance has been available in the UK. This involves an analysis of the whole co-production process, as well as a review of all treaties to which the UK is a signatory.

The dual announcements made by the Chancellor in 2004, the latest being in his Pre-Budget Report in December, have resulted in a significant change in accounting practice for film tax reliefs. The widespread practice of 'double dipping' on a film's production costs has effectively been stopped for films which were not in principal photography as at 2 December 2004. This can only accentuate the trend of reduced production activity in the UK, which has seen the volume of UK film production drop by as much as 40% in the last 12 months.

The Film Council

Ken and Steve have close links with the Film Council, the Government-approved body with responsibility for the British film industry and distribution of support funds, and believe that the Council's approbation of their expertise has contributed to their close links with the Department of Culture, Media and Sport.

"The Film Council seems to like the way we work," says Steve. "They know that we look after many of the country's leading producers, who will continue to produce British films almost irrespective of the tax breaks."

Optimism

Steve is generally optimistic about the outlook for the British film industry. He cites the continuing indications of the Government's support for the sector, despite their stated intention to crack-down on the so-called financial 'middlemen'.

Steve Joberns



"It is clear that the Government has a definite commitment to the industry," says Steve, "even though it is currently unclear what that commitment will be worth in monetary terms."

It is anticipated that there will be a further announcement on the mechanics of the new tax credit by the end of February 2005.

The film tax relief proposals are detailed on our website, www.agnshipleys.com, on the Current Issues page.

Company Secretarial Services

Our specialist Company Secretarial Services department now considers that the Companies House electronic filing system for annual returns is sufficiently robust, after some teething problems, to be of benefit to many clients, and has therefore introduced an electronic filing facility.

Initially this will process the Annual Returns which detail changes to Directors and shareholders, and structural changes such as a move of registered office, but Companies House

is expected to extend the system to several other documents at some time in the future.

The majority of clients will be eligible for the new service and will be notified individually of the change, during the course of the year. Robert Ramsdale, head of Company Secretarial Services, explains that the main immediate advantage will be a reduction in the quantity of paper which currently has to be shuffled around from clients to AGN Shipleys and on to Companies House, and points out that it will be of particular benefit to the many companies whose Directors,

shareholders and structure very rarely change.

A longer term benefit is that it will enable clients to avoid the higher filing fees that Companies House will be charging for paper returns in the future.

If you are not already a client of our Company Secretarial Services department, but would like to take advantage of the new electronic filing facility for your company, please talk to your usual contact at AGN Shipleys or call Robert Ramsdale on 020 7312 6504, e-mail ramsdaler@agnshipleys.com



Pensions Simplification – Winners and Losers

We now have as much information as we need about the new pensions legislation to be able to advise our clients. The legislation is wide-ranging, but the headlines are:

- Pensions legislation will completely change on 6 April 2006, which has been designated as 'A-day'.
- The various pension scheme arrangements will be rationalised into a single regime.
- The maximum contribution attracting tax relief will increase, at first, to the lower of 100% of salary or £215,000.
- By 2010 the earliest retirement date will move from 50 to 55.
- Current investment restrictions will be lifted, providing new opportunities such as investing in residential property.
- The ability of 'self-invested' pension funds to borrow will be significantly scaled back.
- A 'lifetime allowance' will be introduced on pension funds, starting at £1.5 million.
- A tax penalty equal to 55% on capital and income will be introduced for funds in excess of the 'lifetime allowance'.
- The obligation to buy an annuity at age 75 will be lifted, resulting in the possibility of transferring pension funds on death to others.
- Death benefits before, and after, retirement will change significantly.
- Tax-free cash after A-day will be limited to 25% of the accumulated pension fund.
- The tax treatment of contributions to funded unapproved retirement benefit schemes (FURBS) will be less attractive.

Most people will be affected by these changes. Although future pensions legislation will be simplified, pre- and post-A-day pension planning is complex and requires care and attention, sooner rather than later. Importantly, anyone who will be disadvantaged by the new measures will be able to preserve their pre-A-day position if they take appropriate action.

The winners

Our view is that the majority should benefit, and that the Government's intention to raise pensions awareness and reduce 'barriers to entry' is likely to be successful.

The winners will be those who react to this legislation well in advance, and take the best out of what is currently available – such as the greater borrowing capacity of self-invested plans and pre-A-day funding of FURBS – and those who seek protection or preservation of pre-A-day benefits, having taken full advantage of pre-A-day funding.

The losers

There will be a minority who will lose out and can do little about it. They will include those under 45 with existing funds above, say, £700,000 (or an equivalent, deferred pension of, say, £35,000). Or professional sportsmen, where the lifetime allowance is scaled back by 2.5% for each year of retirement before the age of 50 (55 from 2010). Or, more importantly, those who are able to take action now, but fail to do so; they will have no-one else to blame!

Our advice

You should find out how you will be affected – for better or worse – and take advantage of current and pending pensions legislation. Do not wait to find out that it is too late and that you may have been better off, had you taken action now.

To discuss your pension strategy please contact Julian Hawkes or Chris Holmes at Tor Consulting, telephone 020 7306 0026, e-mail info@tor.uk.com

Tor Consulting Ltd is a joint venture with AGN Shipleys and is an Independent Financial Adviser authorised and regulated by the Financial Services Authority.

Help for Employers

More than 14,000 of this country's employers regularly take advice from Peninsula Business Services, one of the UK's leading employment law and health and safety consultancies.

Based in Manchester, and established 21 years ago, Peninsula provides a wide range of services for employers of just one member of staff, large corporations, and everyone in between, with fees based on the size of the workforce.

New employment legislation, contractual requirements and case law precedents are being introduced frequently, and employers are expected to implement them straightaway or run the risk of being taken to an employment tribunal.

Breaches of Health and Safety regulations can be very time consuming and potentially costly, as they can lead to substantial fines and even criminal prosecution. It is essential to establish line management and employee responsibilities, and record such things as maintenance, training and risk assessments.

Peninsula supports its clients with:

- Skilled helpline staff available 24 hours a day, seven days a week, to deal with enquiries
- Up-to-date information on new legislation
- Indemnity against tribunal cases brought by staff.

There is a wealth of useful information on the company's website at www.peninsula-uk.com

AGN Shipleys has a working partnership with Peninsula, and can introduce you to an appropriate contact if you want to find out more.

Alternatively, you can make direct contact with Peninsula's Paul Beard, telephone 07976 083532, e-mail paul.beard@peninsula-uk.com, or Steve Oakes, telephone 0161 827 8560, e-mail steve.oakes@peninsula-uk.com

A Place in the Sun

More and more UK residents are thinking of buying a property overseas, either as a holiday place, an investment, or because they may move abroad permanently.

The obvious considerations – location, accommodation, construction, condition and price – are well covered by the many TV programmes on this topic. Less often mentioned, if at all, are such dull aspects as the associated costs of buying offshore (transfer duties, VAT, legal fees, etc – which can add a perhaps unexpected 10% to the cost), overseas taxes on rental income (real or imputed), UK taxes on rental income (and the extent that



running expenses may be deducted for tax purposes), the ownership structure (one may find that what is actually being sold is a company that owns the apartment, not the property itself), and local inheritance laws (which may restrict your right to leave the property to whom you please).

With the aid of our colleagues in AGN (Accountants Global Network) member firms abroad we hope to cover these important aspects in detail in a series of articles on buying properties abroad in future issues of *Shipshape*.

Wherever you have, or plan to have, your own place in the sun, you must remember that, if you are resident and domiciled here for tax purposes, UK income tax, capital gains tax and inheritance tax apply just as much to property overseas as to property in the UK. Those resident but not domiciled in the UK are still subject to UK income and capital gains tax, but only on income and gains remitted to the UK. Please ask your usual AGN Shipleys contact if you want advice on your tax position.

“VERY READER FRIENDLY”

Thank you to all who returned the Readers' Survey forms sent out with the October issue of *Shipshape*. We have taken notice of everything you said, and have already taken action on many of your suggestions.

The majority of our readers continue to read some articles only and skim the rest, though a surprisingly large minority claim to read every word. The most popular articles are John McCuin's lead article, inside the front cover, and general tax news and information, with almost equal ratings, closely followed by news about AGN Shipleys (so we are giving you more internal news this issue).

Substantial majorities of you find *Shipshape* informative and interesting, and either useful or occasionally useful, which matches our objectives.

Most of your general comments about *Shipshape* were very complimentary; words that recurred frequently were: readable, relevant, topical, clear, clarity, brief, succinct and concise.

Additional coverage

You had a huge range of suggestions for additional topics to be covered. To please all of you we should have to double the size of *Shipshape* and

publish it every month! However, some definite themes emerged.

You want more tax information relating to the current situation, not just tax changes, so see our articles on year-end tax planning (page 3), inheritance tax (page 4) and the VAT flat-rate scheme (page 5).

Owning property abroad is an issue for many of you, so see above for our introductory article in a new series.

Those of you who want more coverage of our expertise in the film industry should be pleased with the report on Ken and Steve's activities on page 7.

We shall deal with other popular suggestions in future issues. But, sorry, we can't give you general investment advice in *Shipshape*, as noted in the small print at the bottom of the back page. However, Tor Consulting is authorised for personal investment advice; see page 8.

Criticism

We can take it! In fact there was very little, apart from individual gripes. We agree with you about the 'mugshots' of regular contributors, and have removed or changed most of these.

Your opinions

You don't have to wait for the next survey to tell us what you think; please contact Stuart Dey at any time, telephone 020 7312 6528, or e-mail deys@agnshipleys.com

Prize Draw Winner

Congratulations to the winner of our Readers' Survey prize draw, Mark Fielding of Ingenious Media, who chose a case of excellent claret as his prize.

Rather embarrassingly, Mark is an alumnus of AGN Shipleys, but at least that proves that the prize draw was fair and above board! He trained for his ACA qualification here, while working predominantly in our Film and Television division, and left us in 2002 to move to Ingenious Media, a company with which AGN Shipleys has a strong relationship.

Ingenious Media is an independent and integrated group of companies that advises on and invests solely in media and entertainment. Amongst its other activities, Ingenious has financed over £370 million of film production in the last two years, and has just launched Ingenious Film Partners, which plans to raise a minimum of £100 million for similar investment this year.

Ingenious was involved in the financing of the recently-released films *Vera Drake*, *Hotel Rwanda* and *Closer*, which have already won prestigious industry awards and have recently received a total of eight Oscar nominations.

Mark works both in the group finance team and oversees the financial operation of Ingenious Media's film production activities.



Peter White

Congratulations!

Congratulations to our student Peter White, who achieved a stunning 97% in his first professional examination, only six months after joining us.

But our commiserations, too, because Peter didn't win a prize.

The professional stage accounting examinations of the Institute of Chartered Accountants in England and Wales are held four times a year, and for many years a prize was awarded for the best student at each sitting. Last year the system was changed, with only one prize for the best student of the year.

When we learned of Peter's impressive 97% in the summer we were sure that he would be last year's winner; we have had other students who have won prizes for less. To our amazement, and his disappointment, Peter didn't win the overall prize, but this does not detract from his excellent performance.

Peter is also well known within the firm for dislocating his shoulder while playing rugby, only a couple of days before he joined us, and turning up for his first day with his arm in a sling.

He is a keen sportsman, and excels at Eton Fives, which is not played at many schools apart from Eton. His prowess led to him being recruited as a school sports coach for a year when he left Nottingham University. He assures us that he prefers accountancy to teaching; at least, he says that it's better than being responsible for a swimming lesson for a class of four-year-olds!

ACCOUNTING UPDATE

NEW ETHICAL STANDARDS

The Auditing Practices Board has issued new Ethical Standards, to be effective for audits for periods beginning on or after 15 December 2004, and we are not happy with many aspects of these.

We are concerned, for example, about the 'Exemptions Available for Small Entities' (EASE). These are intended to limit the impact of the new Standards on smaller clients, but we don't believe that they go far enough. Indeed, if advantage of EASE is taken, a modified audit report will be issued, and some people may infer that a lower class of audit has been done.

In this context, 'small entities' are companies with a turnover up to £5.6 million. There are no exemptions for medium-sized companies with turnovers between £5.6 million and £22.8 million.

Additional controls

We have to put in place additional internal administration controls which will impact on all our clients, irrespective of their size. These are intended to enhance our integrity, objectivity and independence, but we don't believe that they will make any material difference. They are also intended to improve the regulation of our financial, business, employment and personal relationships with our clients, but we believe that the previous regulations were entirely satisfactory.

If your audit partner, whom you may have known for many years, suddenly asks you whether you are an 'informed' member of your company's management, please don't be alarmed; he will be obeying the new rules, and will have to document your reply. This is just one example of the unnecessary burdens that the new Standards will impose.

Client relationships

Our ability to second staff to help clients with specific tasks, or for a fixed period of time, will be limited.

And when they return to us their role within the client's audit team will also be restricted.

If clients 'poach' a member of their audit team to become an employee (which could be good both for the client and for the individual's career), all sorts of administrative consequences will follow.

Even worse, if a client poaches a partner who has been involved in his audit team in any way in the previous two years, the firm will immediately have to resign as auditors, and not accept reappointment for at least two years (though this may be relaxed by EASE for smaller clients).

Audit partners

We know that many clients value very highly the relationships they have built up with their audit partners over a period of time; the partners come to understand the business well, and can prove their worth as professional business advisers as well as auditors.

We value these relationships too; they are important to our job satisfaction.

However, under the new Standards we may have to 'rotate' our audit partners and senior staff from time to time; that is, remove them from your audit team when they have become really valuable to you. Alternatively, we could resign the audit!

Good news

There is some good news to come out of all this. We had feared that the new Standards would prevent us from actually giving any business advice to our audit clients, but such a restriction has not been included.

We can continue to give you tax advice, help you with your internal accounting, undertake corporate finance assignments for you, and many other things, and we shall be pleased to do so, but only after yet more internal checklists and controls have been completed!

Toy Story 3

AGN Shipleys staff, their families and friends, did a lot of their Christmas shopping at Boots last year. We know this because they managed to collect 630 vouchers to exchange for a variety of 63 fluffy toys, which were donated as Christmas presents for children at Great Ormond Street Hospital and Keech Cottage Children's Hospice at Streetly, near Luton.



The story began three years ago when Penny Brockhurst (pictured above), a tax manager at our London office, collected enough Boots vouchers on her own to claim six fluffy toys, and donated them to the self-funded Keech Cottage Children's Hospice near her home. The delighted response from the Hospice encouraged Penny to collect vouchers again the next year, and to ask some of her colleagues to help, and they managed to increase that year's total to 21 toys.

In 2004 Penny's initiative was taken up enthusiastically across the firm, and the combined effort enabled Penny to claim 63 toys. This year's range were all Warner cartoon characters, and included Bugs Bunny, Sylvester, Daffy Duck and Tweety Pie.

"It just seems such an obvious and easy way to give pleasure to less fortunate children at Christmas" says Penny (modestly ignoring her own organisational, collection and delivery efforts). "Both the Hospice and the Great Ormond Street Hospital Children's Charity were very grateful for the gifts, and if Boots runs a voucher scheme this year I shall definitely do it again."

CLIENT NEWS



WORLD CLASS

Neural Technologies Ltd has established itself as a world leader in risk management and revenue assurance for global telecommunications companies, financial institutions and government organisations by providing neural network-based software solutions to combat fraud. For the last two years it has been ranked in the Sunday Times Tech Track 100 league table of the UK's top technology companies.

Neural networks are computer systems modelled on the human brain and nervous system. Neural Technologies has developed software with advanced pattern recognition capabilities which can identify anomalies within interrelated data relating to individuals, and this is particularly valuable to clients in the telecoms and financial services sectors. It provides them with the tools to identify customers who will never pay bills, predict delinquent behaviour and recognise fraud.

The company was established in the UK in 1990, with the objective of providing credit risk solutions for banks and building societies. The software it developed enabled it to expand rapidly into the telecoms sector, both here and abroad, and the telecoms sector is now its major market worldwide.

Neural Technologies' clients include GE, Visa, AT&T Wireless, Nextel, Sprint and Orange.

International expansion

Neural Technologies is expanding both organically and by acquisition. Its UK base is in Petersfield, Hampshire, and it also has an office in Kansas, USA, to manage its expansion in North America, and a wholly-owned subsidiary in Bangalore, India, which concentrates on research and development but also deals with sales in that region.



Since 2001 the company's revenues have expanded by 60% per year.

One of the reasons for the company's success is that its products achieve huge savings for its clients. Chief Executive Officer John Gavan cites the example of VimpelCom, Russia's second largest mobile operator, where subscriber bad debt was cut by half.

Another reason is the versatility of the software, which can process high volumes of data from any number of data sources and can easily be configured to meet each client's needs. This enables the company to market its products as a data management and business tool, not processes which have to be imposed on clients' own systems.

R&D

Neural Technologies' continuing research and development programme has transformed the detection of fraud, and enabled its clients to improve their bottom line performance.

The company has built up a unique understanding of artificial intelligence and advanced neural processes, which distinguishes it from its competitors, and developed and integrated advanced technology into a range of products that are widely acknowledged as world class. Numerous patents have been filed worldwide to protect the company's intellectual property.

For the future, Neural Technologies is striving to reach new innovational limits, to ensure that its technical lead is maintained.

For further information on Neural Technologies Ltd please contact Louise Penson, telephone 01730 260256, e-mail louise.penson@neuralt.com, or visit www.neuralt.com



Paul Druckman, Managing Director of Orange Consulting, reports on research on small and medium sized enterprises (SMEs)



Putting the 'M' back in SMEs

In my role as President of the Institute of Chartered Accountants I have been leading a project on medium sized companies - 'putting the M back in SMEs' - to highlight the importance of the middle market to UK plc. The project looks at the characteristics of 'm' companies and assists in the aspirations of smaller businesses to understand how to grow successfully. It aims to provide evidence that more government support and focus should be centred on this sector, which is the unacknowledged powerhouse of the economy.

We have highlighted significant differences as shown in the table below. There were some unexpected results; for example both small and medium companies use customers as the most important informal source of advice, whilst 'm' companies also place significant reliance on advice from suppliers. Advice from accountants is rated highly, over and above all other advisers, including banks and government agencies.

In fact, government agencies are of negligible significance to 'm' companies, which leads on to the other

central finding of the project. The research takes issue with the traditional DTI size-based criteria used to segment the market. Under these criteria the 'm' companies are a tiny proportion of the whole; however, if you look at the characteristics of 'm' companies versus 's' companies, 'm' companies represent 31% of total UK employment and 25% of turnover.

The cultural characteristics centre on the differences between owner-managed and owner-directed businesses. The issue for companies is: if you want to grow, how do you manage the transition? Clearly, Government can help, but it needs to recognise that it should.

If you would like to receive the full report when it is published in the Spring, or want to understand more about how to grow successfully, then do use your usual contact at AGN Shipleys - one of the most trusted and useful advisers to business in the UK.

To contact Paul Druckman telephone 020 7312 0000 or e-mail orangeconsulting@agnshipleys.com

Research Criteria	Small	Medium
Who runs the company?	Run by owner manager and/or founder's family	Run by employed director and team of outside professionals
What is the long term goal of shareholders?	Want to sell on at some stage	Building for the long term
Factor most important to company's success over last 5 years?	Loyalty of existing customers	Staff and management development
How formally or informally is the business run?	Informally	Formally
Who runs the finance function?	Financial controller or FD with no accountancy qualification	FD with chartered accountancy qualification
Dealing with market change	Avoid long term planning - stay flexible and respond quickly	Anticipate change and plan accordingly
Factor contributing to a strategic failure	Poor marketing	Lack of planning
When do you use advisers?	Only when necessary	On a regular or retainer basis
Average growth rate over last 5 years	2-5%	6-10%

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

This firm (AGN Shipleys) 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.

BUDGET 2005

As *Shipshape* went to press the date of this year's Budget was not known. Whatever the date, our Budget Summary will be on our website at www.agnshipleys.com overnight and will be available as a printed document the next day. If you are not on our usual mailing list and would like to receive a printed copy please telephone Sue Robinson on 020 7312 6534 or e-mail robinsonsue@agnshipleys.com

We shall be holding Budget Briefings in London, Godalming and Saffron Walden on the day after Budget Day, to examine the implications of the Chancellor's proposals. If you do not usually receive an invitation to one of these and would like to attend, please contact the appropriate person as shown below:

London: Breakfast Briefing at our offices in Orange Street, WC2. Contact Sue Robinson, tel 020 7312 6534, or e-mail robinsonsue@agnshipleys.com

Godalming: Lunchtime Briefing at our offices at 3 Godalming Business Centre, Woolsack Way. Contact Jane Whalley, tel 01483 423607, or e-mail whalleyj@agnshipleys.com

Saffron Walden: Lunchtime Briefing, venue to be announced. Contact Doreen Harvey, tel 01799 521301, or e-mail harveyd@agnshipleys.com

Employers' Check List

The 2005 version of our invaluable tax year-end check list for employers will be available in March. This shows the key deadlines, from April onwards, for all PAYE, NIC and benefits returns relating to employees. It includes details of help lines for information, forms and advice, and also explains how to get money back from the taxman by filing your returns electronically.

If you are not on our regular mailing list and would like to receive a copy, please telephone Sue Robinson on 020 7312 6534, or e-mail robinsonsue@agnshipleys.com