

SHIPSHAPE



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On a cliff edge

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Managing Principal's Comment

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New rules of the game

With spiralling inflation, a troublesome property market, rising unemployment and dismal predictions all round, is recession looming or has it arrived? How can you prepare for the months ahead?

Doom and gloomier

Since the Spring edition of *Shipsshape* the spectre of rising inflation and soaring energy and food costs have continued to dominate the headlines.

In June, in its latest quarterly report, the Organisation for Economic Co-operation and Development predicted difficult times ahead for the UK economy, with consumer spending already slowing and house prices possibly falling 10% by the end of 2009. As a result, the OECD forecasts economic growth of just 1.4% next year, the lowest rate since the last recession, and much lower than the Treasury's 2.5% Budget forecast.

With the property market wobbling, some commentators are already making comparisons with the 1980s crash. Many would like to see interest rates lowered to stimulate the market. But with the headline inflation rate breaching 3% – its highest since the Consumer Price Index began in 1997 – interest rates are almost certain to continue to go up rather than down as the Bank of England struggles to keep a grip on the economy. Some analysts think the CPI could reach 4% this year.

The true cost?

But the CPI underestimates the real picture, since it doesn't take account

of mortgage repayments or council tax – both major outgoings for many families. New research published by *The Daily Telegraph* shows that the real cost of living has grown by 9.5% in the past year. Fears remain that higher rates will push up pay demands, and so trigger a 1970s-style downward economic spiral.

High fuel and food prices are already hitting individuals' wallets. The strength of the euro and increases in fuel surcharges as a knock-on effect from oil prices will certainly be felt by those of us holidaying in the EU this summer.

As an aside, keen observers may have noticed the irony in a recent quarter per cent cut in interest rates for both underpaid and overpaid quarterly instalments of corporation tax (to 6% and 4.75% respectively).

The extent to which the fallout from the economic downturn will cause businesses to go under in the coming months remains to be seen. What's certain is that we won't see banks falling over themselves to lend money any time soon. The fact is that this is uncharted economic territory, with the most common position among the pundits, and probably the most sensible, being to sit tight and wait to see what happens.

Staying in shape

So, if the rules of the game are changing, what should businesses be doing to make sure they keep fit for business?

Firstly, a sound business model will be crucial to survival and management should be keeping a close eye on the balance sheet, with liquidity high on the agenda.

Understanding and monitoring your key performance indicators will be essential as early warning signs of trouble ahead. We offer some tips on important measures for business on page 2.

In this unpredictable climate, the last thing you need is to take your eye off business performance and incur penalties for incorrect tax returns or late filing of accounts. See page 4 for an explanation of the fines and deadlines under the new rules.

And elsewhere, both within these pages and throughout our business, we're here to help steer our clients through the financial maze of the uncertain times ahead.

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How is trading?

Early warnings on business performance

When times get tough it's even more important than usual to monitor business performance to get an early warning of impending trouble. At the very least this means keeping management information up to date so that you can assess current trading performance. Reviewing the trading year once it is over may well be too late.

What's needed are a few simple indicators that you can calculate quickly and review on a monthly basis. The following are some of the most important.

Average debtor days

Work out the number of days, on average, that each customer takes to pay. It's not a question of comparing your business with others, as once practices are established it can be difficult to re-educate your clients or customers. What's important is noticing any increases in debtor days as it may indicate that customers are facing difficult times.

Customer spread

Assess your customers and consider whether you may be too dependent on one or several major customers. Think about the strength of your relationship – is what you provide essential to their business and could they get it somewhere else? How financially secure are your customers? It may be

worth carrying out credit searches on new or even existing customers. This is something that Shipleys can help set up and monitor.

Current ratio

Keep your current ratio in check as it indicates whether you will be able to pay your bills comfortably. It's simply your current assets divided by current liabilities. A ratio greater than one shows liquidity, but should be looked at regularly as the change in your business over different periods is also important.

Return on sales

Calculate your net income divided by sales to show the proportion of each sale feeding through to profits.

This is a good indicator of whether margins are suffering or if overheads are out of control.

Get a wider perspective

These financial indicators are very important but as they use historic information they may not tell the whole story. A much more powerful picture is built up by combining these with both financial forecasts and other criteria.

Even where a business has grown and maintained profitability, things may not be as secure as they appear, as the data in Figure 1 from an apparently successful business demonstrate.

Fig 1: A company heading for trouble?

	Base	Now	Comment
Sales revenue	£25.4m	£45.4m	good
Net profit	£1.6m	£5.5m	good
Return on sales	6.3%	12.1%	good
Market growth	18.3%	17.9%	good
Company growth	12.8%	10.9%	warning
Market share	20.3%	14.9%	warning
Customer retention	88.2%	80%	warning
Relative quality of service	8%	-4%	warning



Selling overseas property

Tax implications in light of new CGT rules

A closer look at the figures shows that the company has failed to maintain market share, is increasingly reliant on new customers and has lost its historic reputation for quality and service; the future may not be quite so promising.

Remember, above all, that turnover is not the be all and end all of a successful business. As they say, 'turnover is vanity, profits are sanity'.

If you would like help choosing the most suitable indicators for your business, please talk to your usual Shipleys contact.

Over recent years we have seen a rise in UK resident individuals buying overseas property, mainly for holidays and investment letting. With the economy in such a fragile state and the pound low against the euro, we could start to see a decline in purchases and a rise in sales. So, what are the tax implications if you do decide to sell?

Assuming that the owner is a UK domiciled tax resident, a property that is not their main residence will be subject to capital gains tax (CGT) in the UK upon sale. This applies whether or not it has been let.

i.e. real property, are taxed in the country where the property is located and are also taxable in the UK.

Therefore, you will have to report and compute the gain under the law of the country where the property is situated, which in some circumstances may be calculated differently to the UK.

Exchange rate fluctuations

If an overseas property is purchased in a foreign currency, it must be taken into account when calculating the capital gain. For UK CGT purposes, the costs of the purchase of the

“... gains... are taxable in the country where the property is located and are also taxable in the UK.”

Calculating the cost

Under the new CGT rules, effective from 6 April 2008, you take the net proceeds of sale after deducting selling costs such as legal and estate agents' fees, and subtract from this the original purchase costs of the property including legal expenses and stamp duty, plus any qualifying improvement expenditure that has occurred in the period. This leaves you with the 'capital gain'.

From that gain you subtract any capital losses for the year and/or losses brought forward and your annual CGT exemption to give you the taxable gain at the new tax rate of 18%. If more than one party owns the asset, then the gain is split between them.

However, it must be remembered that a number of overseas countries have their own capital gains regimes. Under most double tax agreements the gains from 'immovable property',

property and/or any improvements on the property are converted at the exchange rate on the day when those costs were incurred. Similarly, sale proceeds are converted to sterling from the overseas currency at the exchange rate on the date of sale. This will therefore factor in any currency gain or loss into the calculations.

A simple example of this might be that if you bought a French property for €1 million three years ago and sold that property today for €1 million, it is likely that in France you would not have a capital gains liability. But in the UK, due to the movement of exchange rates in that period, there would be a 'currency profit' within the capital gain reporting and CGT would be payable.

Any overseas CGT paid can normally be set against the UK CGT liability up to the level of the UK liability.

Don't get caught out!

Changes to penalty regimes



Late filing penalties for company accounts

Under the Companies Act 2006, which is now being introduced, the late filing penalty regime has been revised. Additional action will also be taken against companies who repeatedly file their accounts late.

The previous £100 fine was probably considered by many companies to be a bargain in return for a three-month extension to their filing deadline.

The new, increased penalties, as shown below, will apply to accounts due to be filed on or after 1 February 2009. If a company's accounts were

also filed late in the previous year, the relevant late filing fine will be doubled.

There are also shorter filing deadlines. For accounting periods starting on or after 6 April 2008, the normal time for filing accounts has been reduced from ten months to nine months for a private company, and from seven months to six months for public companies.

If a deadline falls on a Sunday or bank holiday the law still requires accounts to be filed by that date, so they should be posted in time to arrive the working day before then to avoid a fine.

Incorrect tax returns

HMRC has introduced a new, clearer penalty regime for incorrect returns for income tax, corporation tax, PAYE and VAT from 2008/09 onwards.

The penalty will be determined by the amount of tax understated, the behaviour giving rise to the understatement and the extent of disclosure by the taxpayer. Disclosing errors early will substantially reduce any penalty due.

The maximum penalty for failure to take reasonable care is 30% of the potential lost revenue. For deliberate but not concealed action it is 70%, and for deliberate action with concealment it is 100% of the potential lost revenue.

The new penalties for incorrect returns will be extended to most other taxes, levies and duties, from 1 April 2009 where the return is due to be filed from April 2010.

New late filing penalties

Length of period	Public company	Private company
Up to 1 month	£750	£150
1 to 3 months	£1,500	£375
3 to 6 months	£3,000	£750
More than 6 months	£7,500	£1,500

Who is looking after your children?

Childcare costs can be a huge drain on the finances of working parents. Yet the Government's Childcare Voucher scheme can save employees thousands of pounds on nursery or child minder costs every year.

Childcare Vouchers are non-taxable and exempt from National Insurance Contributions (NICs) for employees. But for parents to get the vouchers, their employer must participate in a scheme. As they also offer National Insurance savings for employers, they usually cost nothing and this may be incentive enough.

For every £1,000 a basic rate taxpayer earns, after tax and NICs are deducted, he or she only actually receives £690 in their pay packet. By using childcare vouchers, the whole £1,000 pays for childcare so there's a £300 gain per £1,000 of childcare.

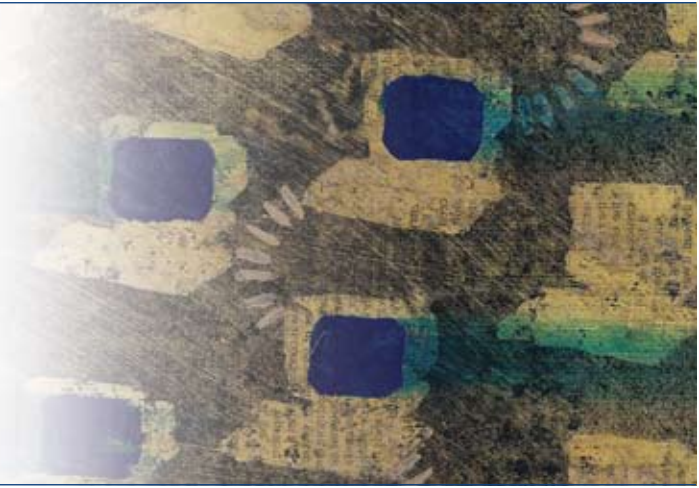
The tax and NICs exemption on childcare costs are up to £55 per week per employee. At £55, the total exemption over a year would be £2,860 for a higher rate tax payer. As this figure would otherwise be funded from gross income of £4,847, the tax and NIC saving to an employee is £1,987.

As both parents can claim, if there are at least two children and both parents are higher rate taxpayers, the saving is then £3,974, or £76 per week.

To qualify for the £55 a week tax and NICs exemption, the childcare must be registered or approved, it should be available to all employees and the employee must have parental responsibility for the child.

Website compliance hots up

Is your website breaking the law?



Following a recent flurry of press articles about ‘Stop Now’ notices, which force websites to stop trading until various compliance issues have been sorted out, businesses are starting to wise up to the dangers. There are an ever-increasing number of laws that apply to the content of websites, but few (if any) sites comply with all of them.

Common errors

There are dozens of requirements that should be complied with. The following are five of the most frequently overlooked issues.

Not stating your full company details, including ‘Limited’ in the company name

The Companies Act requirements for letterheads now apply to websites too.

Unwittingly preventing partially-sighted customers from being able to read your site

There are some basic rules for accessibility and plenty of guidance is available on the web, but the vast majority of websites still don’t comply.

Not having a proper privacy policy

You need to tell your visitors what you will do with their personal details and register with the Information Commissioner.

Not stating your VAT number

This simple requirement is frequently overlooked.

Not allowing easy printing of your terms and conditions

There’s no point having carefully-drafted terms and conditions if they don’t apply to your contracts. So make sure customers have to click to accept them. They don’t have to read them, but you must give them an opportunity to do so.

‘Stop Now’

The Office of Fair Trading (OFT), the Information Commissioner and the Royal National Institute of Blind People are all taking an active interest in website legal compliance. If your terms and conditions don’t comply with OFT guidance, and you fail to respond to their letters, the OFT will issue a ‘Stop Now’ notice. This requires you to cease using the offending terms and can stop you trading until the problems are fixed.

Why comply?

Website compliance is essential in today’s marketplace. Customers are increasingly aware of their rights, and can see which websites are not complying with the law. If they don’t like what they can see or can’t see, they will click elsewhere. But many companies that comply with accessibility and data protection laws find that the positive impression is good for business. An accessible site can also help boost your ranking on search engine listings.

How we can help – legal healthcheck

Shipleys can put you in touch with specialist solicitors who offer a website legal healthcheck service, providing a report on how your website measures up against more than 50 legal compliance issues.

Contact your usual Shipleys partner if you want further information or are interested in attending a seminar providing a fuller briefing on the issues.

Is your bookkeeper registered?

HMRC has introduced a register for auditors, external accountants and tax advisers (known as Accountancy Service Providers (ASPs)), which are not supervised by a designated professional body, such as the Institute of Chartered Accountants in England and Wales or any of the others listed in Appendix 2 at www.hmrc.gov.uk/mlr/asp.htm. This is to ensure that they comply with anti-money laundering legislation.

The administrative deadline for applications was 1 July and the register will open on 1 October. Any ASPs that have not registered by 1 October will not be able to trade legally until they have done so.

Inheritance tax: the transferable nil-rate band



As *Shiphshape* readers will probably be aware, inheritance tax (IHT) is charged at 40% on the excess of an estate over the nil-rate band – currently £312,000. Bequests to one's spouse are generally tax-free (unless the surviving spouse is not UK domiciled and the deceased was). There are various other exemptions and reliefs, but these are the relevant facts for most people.

and civil partners will be able to use their deceased spouse's unused IHT nil-rate band allowance on their death on or after 9 October 2007. The transferable nil-rate band will do away with the need for many planning devices – such as discretionary will trusts – designed to avoid 'wasting' the nil-rate band.

For example, if Adam died in 1998 leaving his whole estate to his

Review your will

Although anyone whose will mentions a nil-rate band trust should review it, there is generally no need to amend it. It might prove useful, depending on circumstances. If not, action can be taken within two years of death which has the effect of revoking it

But in cases where the spouse is not a beneficiary of the nil-rate band trust, or the nil-rate band has been left direct to named beneficiaries rather than a trust, it would be sensible to review the position.

“The transferable nil-rate band will do away with the need for many planning devices – such as discretionary will trusts – designed to avoid ‘wasting’ the nil-rate band.”

Under the old rules, where married couples left everything to each other, IHT only arose on the second death, but the nil-rate band available on the first death was 'wasted'. In other words, when the nil-rate band was £300,000, up to this amount could pass to someone other than a spouse IHT-free. However, many did not want to deprive the surviving spouse, so a popular compromise was to draw up a discretionary trust including the surviving spouse as a potential beneficiary, who was given access to the money if needed.

Under changes included in this year's Finance Act, surviving spouses

wife Eve (having made no lifetime chargeable gifts) and Eve dies in July 2008 also having made no chargeable gifts, her executors can claim a 100% increase in her nil-rate band, which otherwise would be £312,000, effectively doubling the tax-free sum to £624,000.

But what if Eve had re-married and survived her second husband, who also left everything to her? Could her executors claim two extra nil-rate bands? No, the maximum increase is still 100%. Nevertheless, timely action can be taken to make that second extra nil-rate band available.

Non-doms' offshore mortgages

After 5 April 2008 the payment of interest offshore from unremitted offshore income on a loan raised to buy an asset enjoyed in the UK constitutes a remittance of that income to the UK. Under the Finance Act 2008 there is transitional relief for pre-12 March 2008 mortgages. Thus, offshore income used to meet interest on such a debt (if used to buy residential property in the UK) is not to be treated as remitted to the UK. However, this requires that the debt was secured on the property (and remains so), and that, after 11 March 2008, no other debt is secured on the property and none of the terms of the loan are varied.

Tax breaks for working from home

HMRC has published new guidance on the expenses that can be claimed by the self-employed working from home.

It has always been possible to claim tax relief on the costs attributable to working from home. HMRC has recently confirmed that these costs include council tax and mortgage interest as well as buildings and contents insurance, gas and electricity etc.

The costs in question are those attributable to an area of the home used exclusively for business purposes, taking into account the area and the time.

Visit www.hmrc.gov.uk/manuals/bimmanual/bim47820.htm for further information.

The 10% debacle

As many readers will be aware, following the abolition of the 10% income tax rate earlier this year, the Government subsequently decided that more help was needed by those on low incomes who were affected. As a result, the personal allowance for 2008/09 for those under 65 is now £6,035 and the threshold at which someone starts to pay higher rate tax is to be £34,800.

The effect of these two changes will be neutral for higher rate taxpayers, but will benefit 10% and basic rate payers.

You will find full details in the revised *Tax Facts* booklet enclosed.

Tax credit trap

Among the many unexpected aspects of the rules concerning Working Tax Credits is that 'employment' does not include simply holding the office of director. The directors of many family companies do not have a contract of service, if only to avoid being subject to the minimum wage regulations. As a result, if it were ever relevant, they would not be entitled to Working Tax Credits.

VAT News

Property and construction

As mentioned in the previous issue of *Shipsape*, VAT legislation relating to the option to tax has been completely rewritten. The new legislation came into effect from 1 June 2008 and is designed to make it easier to understand and simpler to administer.

VAT Notice 742A has also been rewritten to provide useful explanations and is important as some parts have force of law. In addition, a series of new and updated mandatory forms and certificates has been published. These can all be found on the HMRC website at www.hmrc.gov.uk/vat/agents-forms.htm under VAT forms.

Although the new legislation was billed as a rewrite it is clear that there are a number of administrative changes that will take some getting used to and this article provides a brief summary of the main items. More detail is available on our website, www.shipleys.com.

Option to tax forms

Although the option to tax form is still a VAT 1614, it has morphed into nine separate forms – VAT 1614A through to VAT 1614J – which now must be used; a simple letter is no longer sufficient. Each form has a separate function and great care should be taken to use the correct form. For example, the VAT 1614A 'notification of an option to tax' is too similar to VAT 1614E 'notifying a real estate election'.

The real estate election or 'REE' is a new concept and enables a taxpayer to make an automatic option to tax on all properties acquired after the date of making the REE, without having to separately notify each one. If the taxpayer wants to exclude a property from the REE they must make a separate notification to HMRC using form VAT 1614C.

Other changes

HMRC has traditionally regarded land and buildings as being separately subject to an option to tax. This is no longer the case, so a building constructed on opted land will automatically be subject to the option to tax unless notification to the contrary is made using form VAT 1614F. Likewise, an option to tax will remain in place where an opted building is demolished, so will automatically apply to the land and any buildings subsequently erected on it.

One useful change is the introduction of certificates to disapply an option to tax where buildings are to be converted to dwellings or residential use or land is to be sold to a housing association. The certificates must be issued within specified time limits, which should provide some certainty for sellers.

Detailed guidance is also now available regarding revocation of an option to tax after 20 years. In addition, the 'cooling off' period within which a new option can be cancelled is extended to six months.

Clarification has also been provided in relation to how an option to tax affects companies that leave a VAT group.

Fail to plan, plan to fail

Shipleys' Strategic Planning Review Service



With all the negative press coverage and predictions of doom and gloom, maximising profitability and mitigating losses is on everyone's minds. We've been thinking hard about how we can help our clients through a potentially difficult period.

Research suggests that a surprisingly large proportion of businesses have no formal business plan. In our experience, our more successful clients are those who spend time and effort creating and then implementing their plans. It's normally an ongoing process, updated as market conditions change and different influences come into play.

How we're different

It can be difficult to know where to begin. Consultants can help to identify some of the strengths and weaknesses of your business, and the opportunities and threats in the wider market. But a plan created like this is almost doomed to be consigned to the bottom of your desk drawer, as it's not your plan.

We've got plenty of experience of helping our clients with business

plans, often as part of a new business venture, fundraising exercise or grooming to maximise value before an exit or sale. But in view of current economic conditions, we have decided to take a much more pro-active role.

Our approach is a bit different from that of a typical consultant, and is based on the fact that nobody knows the ins and outs of your business like you do. We help by combining your expertise and knowledge with a proven process. We facilitate the planning process to make sure you cover all bases, prioritise and produce an action plan with clear timescales and responsibilities. We can also assist with the monitoring and review process.

How it works

For clients who want a taster of the potential benefits before taking the plunge, we offer a two-hour 'Flash Review' session to introduce the planning process and help establish the needs of the business owners.

The full Strategic Business Review normally involves the owners and possibly other members of the management team spending a full

day with us. The purpose is to identify what's important to the business and the business owners and record prioritised goals and future outcomes.

The business review takes you through a structured process. Remember, it's not about us giving you a report but about helping you to clarify what's important to you and to produce an action plan. Our role is facilitation.

Our strategic review service

Our review is divided into modules, so depending on the needs of your business we can discuss and help you with any or all of the following.

- Clarify where you are now
- Understand your goals as an organisation
- Sales and marketing action plans
- Strategic financial models
- Structure time more efficiently
- Leadership
- Assess the use of resources
- Identify savings opportunities
- Plan for effective investment
- Target key performance indicators

The end product is a bespoke multi-year blueprint for your business – presented as a substantial high-quality document, complete with action points and review processes to help keep you on track.

To maintain your focus and momentum we can offer follow-up sessions to review the period since your last session and examine areas of concern or interest.

Getting going

For more information on the Flash Review or full Strategic Business Review please contact your usual Shipleys Principal, or email Steve Foster at fosters@shipleys.com

Warp X

Nurturing British film talent

Shipshape speaks to Kate Fewins, production co-ordinator at Warp X, about the innovative low-budget film company's success.



Warp X is a film studio based in Sheffield specialising in cutting edge digital technology and low budget production methods.

Formed as an offshoot to Warp Records and Warp Films in 2005, Warp X was awarded a £3m investment by the UK Film Council and Film4, plus £1.5m from regional funding bodies, to produce a slate of low budget genre feature films over three years. Warp X aims to build on the success of Warp Films, which has won rave reviews and a BAFTA for *This is England* in the past year.

Talent corridor

"We pride ourselves on being a very British film company and try to stick to our roots," explains Kate. "Although we are high profile, we're not trying to ape Hollywood."

Warp X has an unusual business model for a film company, as once a film enters production profit share is available to members of the cast and crew. "It is added incentive to make each film successful and entices good people to come and work for us. It also provides opportunities for up and coming filmmaking talent."

"Warp X is a one-stop shop. All development and production is in-house and we have Optimum Releasing on board as distributor. Things turn around very quickly and don't linger in development. We have incredibly low budgets and we are achieving a lot on them."

For example, the company's latest film, *Donkey Punch* is being released on July 18 and will be screened in some 200 cinemas – just under half the UK's total. "Starring a young, glamorous, British cast, it's a high octane, nail-biting thriller set on a boat," explains Kate. "And it cost just over £1 million. Today's technology means that you can shoot something this good and still keep to a tight budget."

The company's main office is in Sheffield but it also has offices in London and Nottingham. "We aim to work in Yorkshire and the East Midlands as much as possible, given that EM Media and Screen Yorkshire, two of our backers, are based in these areas."

Finance matters

Shipleys has been working with Warp Films as auditors since it made the BAFTA-nominated *Dead Man's Shoes* in 2004. "We've always had a great working relationship and it made sense to use Shipleys for Warp X films as well," says Kate.

The Shipleys team, led by Steve Joberns, helps the company to apply for tax credits, which Kate explains is crucial for providing cash flow for the next production.

"They get all our finance finalised and delivered. Our contacts at Shipleys are quick, reliable and helpful trusted allies and are integral to our films in post-production."

As for the future, Kate is confident that Warp X will continue to build its reputation as a pioneering digital film company, with funding currently being finalised for the next few years.

Film producer training programme

Shipleys is involved with a training scheme that provides up and coming film producers with the business acumen and market understanding to develop, finance and sell successful British films.

The Producer Training Programme (PTP), is run by Skillset, the sector skills council for the audio-visual industries, this year in collaboration with Magic Light Pictures. It is intended to

give a career boost to people who already have a certain amount of knowledge and experience of film production, and to broaden their business perspective.

During their nine-month course trainees spend time at Shipleys learning about the financial aspects of the film industry.



The soaring cost of motoring

Among the wealth of new rules issued on Budget Day this year were proposed rates of vehicle excise duty (road tax) payable up to 5 April 2011 for cars registered after 1 March 2001. Unless the Government makes another U-turn, the substantially higher rates for cars with high CO₂ emissions will be extended to cars registered before 23 March 2006 from next year. The new rates are available on our website.

“Those hit by the increased road tax and soaring fuel costs may be tempted to reconsider whether to opt for a company car.”

As an example, cars with CO₂ emissions of more than 244g/km, such as a BMW X530.0si, will be subject to road tax of £400 in 2008/09, £440 in 2009/10 and £455 in 2010/11. Also, with effect from 2010/11, new cars with CO₂ emissions of more than 161g/km will be subject to a special first year tax rate of up to £950.

The proposals have drawn widespread criticism from motorists, already hit by soaring fuel costs, since the rules will apply retrospectively and penalise purchasing decisions made up to as much as seven years ago.

Is a company car the answer?

Those hit by the increased road tax and soaring fuel costs may be tempted to reconsider whether to opt for a company car. Detailed calculation will be required, but company car drivers are taxed each year on between 10% and 35% of the list price of the car when new, depending on the CO₂ emissions and whether

it is petrol or diesel. However, those most affected by the increase in road tax will, by definition, be those with high emission cars, so if the car in question is provided by an employer, the employee will be taxed on a high proportion of the list price.

Those who do drive company cars may also have fuel for private motoring provided by the employer. For 2008/09 the tax charge depends on a percentage, determined by the CO₂ emissions, multiplied by £16,900. For a car with CO₂ emissions of 185g/km or more, the employee is taxed on 25% of £16,900, or £4,225. Basic rate employees will have an annual tax liability of £845 or £1,690 if they are 40% taxpayers; which can

only be avoided if they reimburse their employer for all fuel not used for business purposes.

At £1.20 per litre, the cost of petrol for, say, 10,000 miles at 25 mpg is £2,182. To justify being taxed on £4,225 a year, an employee would have to use about 775 gallons of petrol for private motoring. At 25 mpg this means 19,375 miles of motoring. The employer would also have Class 1A NIC to pay on the fuel benefit charge (12.8% of £4,225), £541.

Of course, many will not look at the amount taxed, but at their own actual tax liability. If that is the only factor considered, the optimum private mileage becomes 3,876 for a basic rate taxpayer and 7,752 for a 40% taxpayer. But this is really only sensible if employers do not replace the saving they make by not providing petrol for private motoring with extra salary.

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

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