Autumn 2012

Financial and business intelligence

SHARP SHIPE

The only way is ethics

From catwalk to tax talk, ethical debate takes centre stage

shipleys LLP

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

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This *Shipshape* in numbers

£2m

value of residential property over which the new annual tax charge applies

IR35

don't get caught out

<1% share of UK population with a personal pension affected by new contribution limit

£5bn

estimated annual cost of tax avoidance

MIND THE GAP

£35bn Government estimate of 'tax gap' between what's owed and collected

1%

income tax rate reportedly available through K2 tax scheme

Viewpoint: Ken Roberts, *Managing Principal*
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The only way is ethics

Exploring the grey areas and morals of tax

Showing that your business is taking an ethical approach has become de rigueur across many industries. To different people this can mean different things including treating staff properly, paying a fair price to suppliers, avoiding 'sweat shops', supporting fair trade initiatives or being 'green' by recycling paper, encouraging car sharing and not wasting energy.

Where possible, taking any of the above approaches is obviously the right way to go. But the ethics of managing tax liabilities is not quite so clear-cut. It always used to be generally accepted that if a tax planning strategy was legal, then it was okay to use it. In a 1935 tax case involving the Duke of Westminster, Lord Tomlin's judgement included the celebrated dictum that 'every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be'.

But recently the moral argument has come to the fore following revelations about the loopholes and scheme used by the rich and famous to legally sidestep large tax bills.

For anyone in doubt it may be helpful to clarify that tax evasion – often simply not paying what you owe by concealing or failing to declare something – is illegal. Tax avoidance – arranging matters in accordance with tax statute (including anti-avoidance rules) and practice to avoid or reduce liability is legal and, morals aside, it's okay. One could even argue that ISAs are a form of tax avoidance within the law.

The comedian Jimmy Carr recently found himself in the middle of a media storm about K2, a scheme which, without going into the detailed workings, claims to enable its participants to pay income tax at 1%. Although this scheme may not be caught by the legislation, it was not illegal.

In the wake of the backlash against 'scandals' such as this and in corporate banking, politicians are increasingly reflecting the views of society that some tax avoidance by the wealthy and by big business is unacceptable and needs to be stopped. Even the BBC was taken to task over payments for presenters and others made via companies, the inference being that these arrangements were designed to avoid tax.

The Treasury has announced a crackdown, with promoters of "aggressive" tax avoidance schemes in the firing line. The proposals include beefing up the Disclosure of Tax Avoidance Schemes (DOTAS) rules, for example by forcing so-called 'tax cowboys' to disclose client lists to HMRC inspectors. These types of firms, which specialise in schemes such as K2, are quite easy to spot as they generally revolve around taking big commissions on the tax savings made, rather than hourly fee rates. Companies could face fines of more than £1m if they flout the new rules.

In addition, a new general anti-abuse rule is expected to come into force next year, targeted at artificial and abusive tax avoidance. Somewhere between ISAs and the K2 scheme there is a cut-off point, but where this lies is not clear. There are currently no statutes or case law to help define tax 'abuse'. So initially, at least, it will be down to the ethics of those involved. Who would want to be a test case?

Wealth creators have a right to enjoy the fruits of their efforts, but the moral dilemma surfaces when deciding the extent to which to embrace tax avoidance schemes. Taxation relies on people paying their fair share, but, like business ethics more generally, this can mean different things to different people. The accountancy industry body, the ICAEW, recognises that there is a distinction to be drawn between tax avoidance and aggressive tax avoidance, although they, like everyone else, struggle to clearly define where the line falls. Shipleys does not see itself as a moral arbiter. It is our job to make our clients aware of their options and then let them decide what's acceptable and right for them.

On a lighter note, life's not all about the morality of tax avoidance, and nor is this magazine – have a good read!

share of unpaid income tax due to aggressive avoidance schemes

shipleys LLP 75

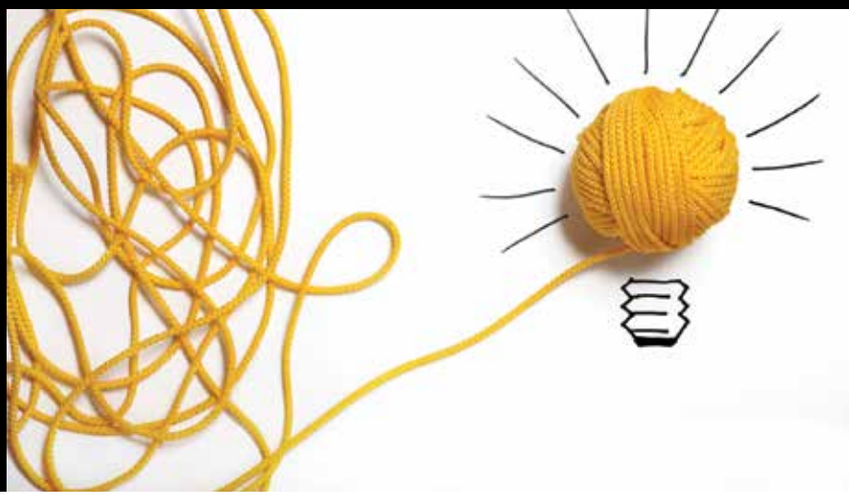
75 years of Shipleys

25%

of FTSE 100 companies avoiding tax by locating subsidiaries in tax havens, according to ActionAid

Wise up to IR35 rules

Contractors advised to consider their position



The IR35 rules were once again under the spotlight earlier this year when the Treasury admitted that some 2,000 civil servants were being paid through "service companies", that could be used to reduce their tax bills.

The IR35 tax legislation took effect from April 2000 and was designed to eliminate the avoidance of PAYE tax and Class 1 National Insurance Contributions (NICs) by "contractors" who for all intents and purposes would otherwise be considered employees rather than self-employed.

Focus on self-employed businesses

The problem has been exacerbated over the years by HMRC attacks on various self-employed businesses. Many individuals, such as IT consultants, claimed to be self-employed, whereas in HMRC's view they should have been treated as employees of the end client. This has made some clients of such businesses reluctant to engage them directly for fear of the contractor being regarded as an employee, which would mean the end clients becoming liable for PAYE on their fees. In turn, this led to widespread use of personal service companies or partnerships by consultants. An additional benefit of this is the ability to smooth out income or share it with a 'partner', and potentially avoid higher rates of tax.

How are individuals affected?

Individuals affected by IR35 can end up paying significantly more tax and NICs than other freelancers or contractors. If you're caught by IR35 then fees payable under the relevant contract are considered "deemed salary" through your personal service company or partnership. Tax and NICs need to be dealt with by your business in a similar way to that of an employee, and while certain deductions are allowed, these are generally not significant. The main issue is that you have to pay employer NICs at 13.8%, as well as employee NICs and income tax of up to 50%. All this is significantly more than someone paid through a service company, who may only be taxed at the corporation tax rate of 20%, and up to 28.9% income tax on any dividends then distributed.

Am I affected?

The legislation looks at the contract between the client and the personal service company or partnership. It is possible for some contract work to be outside the scope of IR35 legislation and some within it. This will depend on a number of factors, which are by no means simple to follow.

Clarity needed

It is up to the contractor's personal service company or partnership to determine the position of the individual. Yet there is no statutory definition of someone who is self-employed or employed, so there has been a mixture of guidance, practice and court decisions over the years. A significant number of cases have been brought under this legislation with winners and losers on both sides.

If you think you may be caught under these regulations you are obliged to notify HMRC about this on form P35. This currently has no statutory footing, but it is proposed that it will in the future.

To find out whether the IR35 legislation affects you, speak to your usual Shipleys contact.

BBC presenter and freelance 'contractor' Fiona Bruce was reported to have set herself up as a company.

A "fair share" of tax on residential property

Government targets transactions on homes over £2m

This year's Budget implemented big changes to stamp duty land tax (SDLT) for residential property in another move to tackle tax avoidance. In the past it's been common practice for more expensive properties to be held in a corporate envelope, whereby the vendor sells and the purchaser buys shares in the company that owns the property to avoid a large chunk of SDLT. The reason for this is that the stamp duty on residential property is much higher than stamp duty on shares.

Time to unwrap

Before this year's Budget, SDLT on property purchases in excess of £1m was 5%, compared to 0.5% for shares. The Budget increased SDLT on residential property purchases in excess of £2m to 7%, on the face of it making the idea of a corporate wrapper even more appealing. However, to ensure 'fair taxation of residential property transactions' two measures were introduced.

The first is 15% SDLT on the acquisition of residential dwellings over £2m by 'non natural persons'. This includes companies (but not trusts) to deter those buying a property with a corporate envelope.

The second measure is a proposed annual charge, from 1 April 2013, that will be levied on non-natural persons owning houses worth more than £2m. The amount payable depends on the value of the property, but for the first five years will be between £15,000 (for properties worth between £2m and £5m) and £140,000 per annum (for those over £20m).

CGT proposals

Concerns have also been raised that non-resident companies are being used to avoid paying tax on capital gains realised on the disposal of UK properties. Non-residents are not liable for CGT. The Government is now proposing to extend CGT (at a rate yet to be announced) to gains realised by non-resident non-natural persons (including trusts) on the disposal of UK residential property for more than £2m. This looks set to apply to gains realised from April 2013 and not just to the increase in value from that date.

Action required

Be aware that in the future buying and owning an expensive property through a company will be costly. It's also important to note that if a home is held through a company then, where there is a capital gain, the CGT main residence exemption will not be available. In the past the prospect of this tax charge has usually been offset by the initial stamp duty saving and the possibility of achieving a higher sale price if the buyer was also able to avoid SDLT.

The result is that buyers are likely to purchase a property outside of a property-owning company or to discount the price to reflect the cost of extracting it, which can be considerable.

On liquidation of the relevant company the cost of the property to the company may well be less than its current value, so the company could realise a capital gain on the disposal.

Those currently owning property through such structures should take stock of their exposure and in many instances change the ownership structure.

Annual charge who will it affect?

The annual charge will apply to the following existing owners:

- **UK resident companies**
- **non-UK resident companies (except where acting as trustee of a trust)**
- **partnerships where one or more of the members of the partnership is a company, and collective investment schemes.**

The annual charge will be determined by the valuation band the property falls into on 1 April 2012. It's proposed that these will apply for five years before being reviewed. There are some exemptions to the SDLT changes and the annual charge. These include bona fide property developers, companies holding as nominee and charities.

Weighing up incorporation

The pros and cons of becoming a company

Incorporating a professional partnership or sole practice can be worth considering where partners are unable to draw their profits while they're building up the business. This is because partners are taxed on their share of profits whether they are drawn or not. Retaining profits after corporation tax at 20% or at most 24%, is more attractive than suffering tax and NICs at up to 52%, or even 62% in exceptional cases. There may be an additional attraction to incorporation where there is saleable goodwill. The options need to be carefully weighed up before making a decision to incorporate.

Saleable goodwill

Sale of goodwill can be advantageous, effectively transforming future profits for a time into capital gain, with a reduced tax burden. This is achieved by selling the goodwill to a newly formed company, whose shares are owned by the existing sole trader or partners. The price is fixed at open market value, but is not paid at the time of the transfer. Future profits suffer corporation tax at up to 24%. Profit after tax is then 'drawn' by gradually paying off the debt for the goodwill.

An individual's capital gains tax on the sale of goodwill can be as low as 10%. This results in an effective rate of 28% (20% plus 10% of 80%). If there is corporation tax relief on amortising the goodwill, the effective tax rate plunges even further. Corporation tax relief will apply if the goodwill was created after March 2002.

All of this assumes that the goodwill of the business is reasonably valuable. The tax advantage runs out once the goodwill is paid. So any decision on incorporation should be based on comparing the value of goodwill with future profits. HMRC also has to agree the value of the goodwill sold to the company on incorporation.

Common pitfalls

Firstly, there is the value of the goodwill. HMRC is especially resistant where goodwill is thought to be personal to the seller(s). HMRC expects the company to give an acceptable level of remuneration for the services of the transferors, now directors. It is also alert to the possibility that the amount ostensibly payable for goodwill is in part a 'golden hello'.

A second potential obstacle concerns the division of future profits. If the transferors are partners content to share profits in the same manner indefinitely, or at least until the debt for the goodwill has been paid off, there is no problem. But if the division of profits during the repayment period differs from the way in which the goodwill debt is split, difficulties may arise.

Self-employed v Remuneration

If partners want to draw the company's profits as remuneration, they can face a tax and NICs burden which is heavier than would have applied before incorporation. The income tax and NIC liability on a £100,000 profit share as an individual, at 2012/13 rates, is £34,311, leaving £66,557 after tax. If drawn as remuneration, after allowing for employer's NICs, take-home pay is over £7,000 less at £58,272.

The difference shrinks at lower levels, but even if profit share is £40,000, the after-tax figure before incorporation, £30,568, is about £3,500 more than the £27,051 if taken as remuneration.

Self-employed v Dividends

Alternatively, if profit suffers corporation tax and is then drawn as dividends, these are taxed more lightly. For example, the after-tax dividend which can be derived from a £100,000 profit share which bears corporation tax at 24% is nearly £1,000 more, at £66,669, than the same profit share before incorporation. But remuneration and dividends might not be shared in the same manner, and there are circumstances where remuneration is preferable.

To incorporate or not?

Incorporation may offer a short term saving related to the value of goodwill and an ongoing saving if profits are shared by way of dividend. There are many aspects of incorporation to be weighed up before making the final decision. These include considering what happens to business premises and what happens when a partner retires or dies. There should be an exit strategy in place. Anyone contemplating incorporation should speak to their usual Shipleys contact.

Salaries or dividends – which is best?

A look at some of the key issues for limited company owners when deciding how to pay themselves

A common tax planning point that comes up time and time again for limited company owners is how best to draw an income – usually a salary, bonus or dividends – from the business. Changes in tax rates from one tax year to another can make this a recurring exercise. It may also be beneficial to draw an income in one tax year rather than another, so it's not just a question of how but when. Of course other options are available, including pension contributions, and there are also more aggressive planning strategies, normally designed to extract substantial amounts from a business.

All change

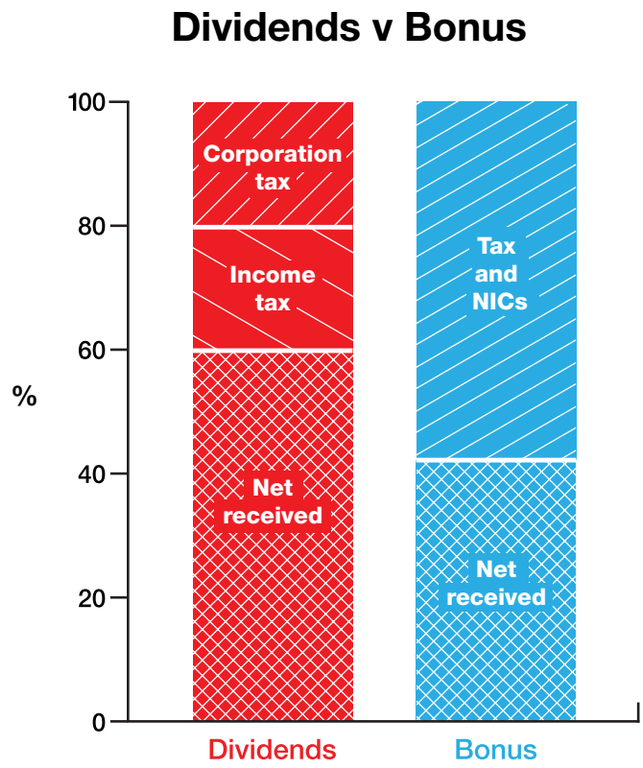
In the past, owners would often withdraw profits from companies as loans and then subsequently decide on the salary, bonus or dividend payments to cover these. The big change is that these decisions on how you withdraw an income must now be made and documented much earlier.

It used to be possible to avoid interest and penalties if all PAYE for a tax year was paid by 19 April following the end of that tax year. This is no longer the case and the new regime is set to get tougher. All amounts subject to PAYE must now be dealt with on a monthly basis to determine what payment is due that month, because HMRC has already introduced interest and penalties for so-called 'in year PAYE' paid late (see Tax Briefs on page 6). From April 2013, real-time PAYE is being introduced under which payments to employees, and tax and NICs paid each month will need to be logged with HMRC.

Dividend vouchers have to be prepared at the time they are declared. In the absence of a payment representing a declared dividend, a PAYE or tax liability on a beneficial loan may have accrued. Attempts to avoid this by subsequently declaring an earlier dividend would be fraud. Entries in the accounting records must be made at the appropriate time. It is not possible to make adjustments to the salary/dividend mix when dealing with the annual accounts. The issue has to be addressed in advance. An understanding of the basic principles may help you decide if and when a more detailed review is appropriate.

Do the maths

To work out how to achieve the highest after-tax income for company owners, corporation tax, income tax, national insurance and sometimes capital gains tax will need to be taken into account. Payroll costs (salaries, bonuses and associated NICs) are a business expense that can be deducted when working out profits, subject to corporation tax. On the other hand, dividends are a distribution of profit rather than a deduction. Companies paying dividends need to hold back or otherwise have funds available to pay the corporation tax on distributed profit. It's worth noting that companies are only allowed to declare a dividend if they have distributable reserves – broadly speaking, undistributed accumulated profits.



Smaller company paying a 40% taxpayer (full rate NICs)

Comparing tax rates

The corporation tax saved by increasing payroll costs depends on the company's tax rate. In the current tax year, rates are 20% for small companies, with a main rate of 24% and a marginal rate of 25%. The NIC rate depends on income levels, so 0%, 2% or 12% for employees and 0% or 13.8% for employers. Shareholders whose dividends fall within the basic-rate tax band are not required to pay any further tax, but 40% taxpayers must pay a higher rate of tax equal to 25% of the dividend received (36.11% for 50% taxpayers).

A company owner who pays corporation tax at the small company rate, plus income tax at 40% and NICs at the full rate, will receive 60% of the profit if paid as a dividend but only 42.18% if received as a bonus (80% and 59.75% respectively for a basic-rate taxpayer).

Other points to consider

Net income is not the only factor to consider. For example, it can make sense for owners to pay themselves more than £107 per week in salary to maintain a 'qualifying year' for the purposes of the basic state pension. Also, some lenders are reticent about accepting non-earned income, such as dividends, when considering lending applications like mortgages. There are added complications around pension contributions or if the company uses a property owned by its shareholders.

It's important to plan ahead, recording decisions and preparing documentation at the right time. Individual circumstances will vary, but there could be potential for material savings with careful planning.

Government gets TOUGH on tax avoidance

Extra measures include a 50% expansion of HMRC's high-net-worth unit which deals with the most wealthy individuals

The Chief Secretary to the Treasury, Danny Alexander, recently revealed that the government is intensifying its attack on some tax planning by corporations and wealthy individuals. Extra measures include a 50% expansion of HMRC's high-net-worth unit which deals with the most wealthy individuals, more resources for the Liechtenstein Disclosure Facility, and a new policy of refusing to award government contracts to companies that use 'aggressive tax avoidance' schemes.

The **DOTAS** (disclosure of tax avoidance schemes) rules have been with us for some years now. Promoters of a 'tax scheme' have to notify HMRC of the scheme. Participants enter the scheme registration number on their tax return which makes it easy for HMRC to see how many people have participated and how much tax is involved before deciding whether to challenge how the scheme works or introduce new legislation to stop it. The rules about notification of schemes have been widened to include more schemes recently.

There is also consultation in progress, with a view to introducing **GAAR** (general anti-abuse rule), which as its name suggests, is intended to thwart 'abusive' tax avoidance, which, escapes any existing targeted anti-avoidance legislation. It remains to be seen what might be regarded as abusive but it might apply from April 2013 as an added weapon to counter some tax schemes at an early stage.

Cracking down on late PAYE payments

A reminder about the penalty regime for late payments of PAYE. All employers now face a penalty charge if they are late making an in-year payment. Previously, penalties only applied to large employers. Penalties depend on whether the payments are due on a monthly, quarterly or annual basis. They apply even if payments are only a day late. However, notification of any late payment penalty charge can only be made by HMRC after the end of a tax year. In fact HMRC has up to two years after the late payment has been made in which to issue the notification.

Penalties start at 1% of the amount paid late and increase to a maximum of 4% according to the number of times payments are late in a tax year. Monthly and quarterly payments made more than six months late may attract penalties of 5% with a further 5% due, if the payments have still not been made after 12 months. HMRC may also charge up to three 5% penalties of the late paid amount for annual payments like Class 1A NICs and PAYE settlement agreements. Interest also applies to the late payments.

New tax rules hit holiday homes in France?

France has extended 15.5% social security contributions on property income and capital gains to non-residents. This applies to income from property from 1 January 2012 and to gains on sales after 17 August 2012 (including shares in companies owning French real estate). These contributions will be in addition to income tax or capital gains tax (the latter at 19% for EU residents). Although the taxable income or gain may differ for UK residents due to timing, the main effect is likely to be an increase in tax revenue for France and a reduction for the UK.

Patent box

A patent box is to be phased in gradually from April 2013. This allows companies to elect to be taxed at a lower rate on profits derived from patents and other innovations. The company is then entitled to an additional deduction in its corporation tax profits as long as it still qualifies. The result is the same as charging the relevant profits of the company (which are the profits "in" the patent box) directly at 10%. In some cases patent box profits may be charged at a little below 10%.

The regime will be phased in over the next four financial years from 1 April 2013. This will be done by limiting the deduction to a gradually increasing percentage of the profits from patents etc.

Company cars – fuel rates

Advisory fuel rates for 'company cars' have changed again, with effect from 1 September 2012. Details are available at www.hmrc.gov.uk/cars/advisory_fuel_current.htm

Business investment relief for non-dom investors

More detail is now available about the new tax exemption for non-doms who remit offshore income or gains to the UK to invest in qualifying investment vehicles. If you think you may be affected by these changes, please speak to your usual Shipleys contact.

Blowing hot and cold

VAT rarely becomes headline news, but few readers will have failed to notice the so called 'pasty gate' debacle that caused such a furore and led to some much publicised back-tracking by the Government. This tended to obscure the fact that a number of important new rules came into force on 1 October 2012. In anticipation of these HMRC has issued a series of information sheets, which detail the following:

Hot takeaway food has been VATable for a number of years but the definition of the word 'hot' has always been a source of dispute. HMRC has introduced a new definition designed to clarify the situation.

Food is VATable if it is hot when provided to the customer and one of the following five tests is satisfied.

The food:

- has been heated with the purpose of enabling it to be consumed hot
- has been heated to order
- has been kept hot after being heated
- is provided in packaging that retains heat or in any other packaging specifically designed for hot food
- is marketed in a way that indicates that it is supplied hot.

Supplies of cold food are also subject to VAT if supplied for consumption 'on the premises'. This term has also been redefined to make it clear that the 'premises' include areas of seating near the retailer, that are set aside for the consumption of food, e.g. food courts.

Removal of zero rating for listed buildings goes ahead

In spite of much protest the removal of the zero rating of alterations to listed buildings will go ahead. There are transitional arrangements where planning consent or an agreement with a contractor, were in place before 21 March 2012.

Anti-forestalling legislation has also been enacted to prevent artificial arrangements designed to benefit from the zero rate before it disappears.

In response to criticism of the impact of the withdrawal of this zero rate in respect of ecclesiastical buildings, the government has increased the amount of grant money available in the Listed Places of Worship Grant Scheme operated by the Department for Culture, Media and Sport.

VAT for hairdresser chairs not cut

Most hairdressing salons operate with self-employed stylists renting a chair from the salon owner. The stylists usually have turnover below the VAT registration threshold so cannot recover VAT. It is beneficial, therefore, if the salon owner can avoid applying VAT to the chair rental. There have been a number of schemes over the years that have attempted to achieve this, largely, without success. Nevertheless HMRC thought it was worth changing the law to put the matter beyond doubt. So hairdresser chair rental is now VATable.

Similarly, self-storage facilities and other facilities for the storage of goods will also be specifically VATable.

Coming up – new invoicing directive

The European Commission has issued a new invoicing directive aimed at simplifying and harmonising the rules for VAT invoicing across the EU. HMRC must implement the changes on or before 1 January 2013.

The key points from the directive are:

- relaxation of the rules in respect of e-invoicing
- extension of the less detailed invoice scheme for supplies of less than £250 to all businesses (currently only usable by retailers)
- standard EU-wide wording where special schemes are used, such as the margin schemes or reverse charge
- the time limit for issue of VAT invoices for intra-EU supplies to be standardised at the 15th of the following month.

Eco Age: from green retail to green workplaces

Eco Age started life in 2008 as a retail business in Chiswick, West London, providing an eco interior design service and selling sustainable furniture and accessories. Since then the company has evolved quite radically in two very different directions.

The transformation began by moving away from retail into the business-to-business consulting sector turning offices and supermarkets into green workplaces. As demand grew, the business soon started implementing sustainable management systems into multinational corporations. Today, the Eco Consultancy side of the business provides outsourced corporate social responsibility (CSR) consultancy services. It also implements energy efficient systems, renewables technologies and waste – energy plants.

With in-house consultants and partnerships with technical providers, the firm works on projects ranging from £3m to £120m. The client list is diverse and includes the Football Association, Wembley Stadium, mining companies, large retail chains, the British Film Institute, film studios, hedge funds, fashion labels, cement producers and logistics firms.

"Working across different business sectors has always been our focus as it helps us and our client to 'think outside the box' and develop award-winning solutions by cross-feeding practices and enhancing CSR performance in the most efficient way," says founder and CEO Nicola Giuggioli.

Nicola Giuggioli
CEO Eco Age Limited

"Shipleys are more than just accountants for us, they have a different approach and really want to know about the business and where it's going. Just to be working with Shipleys enhances our reputation and helps us to be taken seriously."

"We build the green team within the client and then we manage the team. We have gone from supermarkets to football stadiums. Two years ago we won the Green Awards in Toronto – which are like the Oscars for us. Another recent highlight was Wembley winning best stadium in the world for CSR."

Taking sustainable practices to the red carpet

Eco Age is also well known in the fashion industry for the success of its celebrity-endorsed Green Carpet Challenge, spearheaded by Nicola's sister Livia Firth – the firm's creative director. When Livia's husband Colin was Oscar-nominated for his role in A Single Man, she was challenged by environment journalist Lucy Siegle to wear only ethical fashion to red carpet events. She hasn't looked back since, encouraging several other A-list celebrities to follow her lead.

"Making a difference in the fashion and jewellery supply chain is a high priority for us and an area where the two sides of the business meet," says Nicola. "Current projects include helping a big watch and jewellery brand to improve sustainability, and working with the EU to create a recognisable label which instantly tells the consumer that a garment has been ethically made."

Eco Age's retail business now focuses solely on fashion and in October is launching a small range of new products. In November, Livia will be honoured with the UN Leader of Change 2012 award – the first person in fashion to win such an accolade.

The Green Cut – a recent Green Carpet Challenge (GCC) event celebrating the very best of fashion, film and sustainability.

Flexible business model

"We opened the shop four months after the 2008 financial crisis hit. This was very hard on the business and we soon had to raise more capital. It quickly became apparent that it was a good idea to change from retail to consultancy. It showed us that in a period of crisis you need to be flexible with your business model. When people aren't spending, you need a very light and efficient company in terms of cashflow and flexibility to take advantage of opportunities."

"Shipleys are more than

Shipshape talks to Nicola Giuggioli, founder and CEO of Eco Age, about how his business uniquely combines the world of A-list celebrity eco fashion with CSR consultancy services.

just accountants for us," says Nicola. "We have a dedicated team and Ken Roberts has been a real mentor to me. They have a different approach and really want to know about the business and where it's going. Just to be working with Shipleys enhances our reputation and helps us to be taken seriously."

Nicola hopes that the company will continue to grow over the next five years as much as it has over the past two. "Our dream would be to continue delivering at our current high level, keep winning awards for clients and open offices in the US and Italy. We are in a strong position and unique with both very strong consultancy and marketing platforms to help communicate the brand."

For further information, visit:
www.eco-age.com
www.eco-consultancy.com

Shipleys news

Party time as Shipleys turns 75

As Shipshape goes to press, at Shipleys HQ we've been busy finalising the firm's 75th anniversary celebrations. We are very much looking forward to welcoming more than 150 Shipleys alumni to an evening reception at the Oxo Tower on 26 October. We have carried out a major exercise to get in touch with former members of staff, and happily, almost half of those we've contacted will be attending.

New VAT workshops

We are planning a series of VAT workshops in our London office to help clients with any queries they have in relation to VAT. These 'mini training' courses will include common problems and cover issues raised by delegates.

If you have any questions that you would like to see covered or are interested in attending, please contact: Nancy Cruickshanks at cruickshanksn@shipleys.com

New PAYE workshops

We will also be running workshops at our Godalming office to assist with the new rules relating to 'real time PAYE'. Please let your normal Shipleys contact know if you would like more details.

Shipleys' fee protection service – Renewal reminder

Clients taking advantage of our fee protection service are reminded that the annual renewal date is October 31. Please speak to your usual Shipleys contact if you wish to continue using the service.

The service means that we will deal with any HMRC enquiries on your behalf for a fixed annual fee, rather than charging on the normal basis of our time spent. In recent years HMRC has shifted much of the burden of tax compliance on to the taxpayer, with automatic penalties if you don't file and pay on time. No-one welcomes close scrutiny from the tax office. Even if there's nothing to pay, the time and cost, including fees, of dealing with enquiries shouldn't be underestimated.

Clients must have joined the fee protection service before the enquiry starts to be covered (60 days before in the case of HMRC telephone enquiries). Further information is available at www.shipleys.com/fps

Exam success

Congratulations to Mark Boast on passing his exams to become CPI qualified (Certificate of Proficiency in Insolvency) and also to Lauren Whiterod whose recent exam success means that she is now a qualified Chartered Accountant.

Pensioners take part in The National Pensioners Convention, Blackpool.

Pensions: the ball's in your court

What are you doing to make sure you have adequate funds for your retirement?

The general message from the government is that we need to take more responsibility for our financial security in retirement. The introduction of the obligation on employers to enrol eligible employees in a workplace pension scheme shows that this is likely to involve a stick as well as a carrot! But a number of tax and other changes over the last few years have been reported in a way that may have put people off pensions.

Pensions can be hugely tax-efficient: tax relief at the individual's marginal rate for contributions; tax-free income and growth within the pension, and 25% of the final fund available to be taken as tax-free cash.

Rules of the game

Not too long ago most reputable employers offered final salary pension schemes. Most schemes of this type in the private sector have been closed to new members and many have been converted to money purchase arrangements.

Under money purchase or personal pension schemes (of which the Government's National Employment Savings Trust (NEST) which employers can use to meet their obligations under the new rules is an example), employee and employer contributions (and associated tax relief) go into each individual's 'pot'. This is then invested, rising and falling depending on investment performance, until retirement, when the cash value of the fund has traditionally been used to purchase an annuity. If part of the fund is taken as tax free cash, this reduces the sum available to spend on an annuity.

An annuity pays a regular income for life – how much depends on factors such as life expectancy, anticipated investment returns and whether income payments increase with inflation. Annuity income is determined by an actuarial calculation before purchase. It's important to appreciate that if you die after just a few months, there is no refund of part of the cost of the annuity. On the other hand, if you live twice as long as expected, you continue to get the regular income payments in full.

"treat your pension pot as you would any other investment and keep your eye on the ball to see how it's performing"

Recent changes

In April 2011 the maximum contribution in any year was cut from £255,000 to £50,000 (or 100% of UK earnings, if lower). The less than 1% of the population with personal pensions or self invested personal pensions (SIPPs) can easily calculate their contributions. But participants in final salary schemes are also potentially affected, with the contribution limit applied to the deemed increase in the value of the fund needed to pay the higher pension. In practice, however, the £50,000 limit can often be increased, either by bringing forward unused contributions from earlier years, or by manipulating the so called 'pension input period' (PIP).

It is no longer a requirement to draw an annuity at any particular age. Instead, income of up to the amount which would be paid as an annuity, can simply be taken as a 'draw down pension' from the fund (reviewed every three years up to age 75 and annually thereafter). Those with other lifetime pension income of at least £20,000 can take as much in 'draw down' as they like. This is important because annuity rates at the moment are very poor. When they peaked in 1990, a 65 year old man buying an annuity for £100,00 would have got annual income worth £15,600, whereas now this gets a pension of just £5,743. Over the last 30 months alone annuity rates have fallen by around 25%.

Don't falter at the final hurdle

So, with low annuity rates, those approaching pensionable age should take advice on whether they should 'draw down' and defer the purchase of an annuity. It's worth remembering that it's not a requirement to buy an annuity from the insurance company, which has been dealing with your pension investments.

Maximising returns

Although pensions have tax advantages, the performance of the investments in any money purchase arrangement is absolutely critical. But many people choose a fund when setting up a pension arrangement and then take no further interest in fund performance and selection, in contrast to investments held in their own name.

Those who wish to take a more active role in managing their personal pension might consider converting to a small self administered scheme (SSAS) or SIPP. These allow you to take day-to-day control within the boundaries laid out by the scheme rules.

Above all, treat your pension pot as you would any other investment and keep your eye on the ball to see how it's performing.

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