Spring 2014

Financial and business intelligence

SHIPSHAPE

Be a master of time

Dos, don’ts and deadlines

shipleys LLP

Also in this issue:

Countdown to the tax year-end – get your timing right

Big changes affecting partnerships

VAT: motoring special

Client profile:

Learning to tell the time with Aramazu

Contents:

Comment and analysis

Countdown to the tax year-end

Get your timing right to save on your tax bill before 5 April

Key numbers for the new tax year

Annual tax-free savings limit: £40k

Qualifying VCT investment limit: £200k

Effective tax rate on income between £100k and £120k: 60%

Annual limit for IHT 'lifetime gifts': £3k

Lower income limit for high income child benefit charge: £50k

Annual ISA allowance: £11,880

Basic rate band: £31,865

Viewpoint: Ken Roberts 1
Give me just a little more time

Countdown to the tax year-end 2
Save on your tax bill – act before 5 April 2014

All change for company accounts 4
A look at the new FRS 102

Tightening up on partnerships 5
The impact of new tax legislation

Tax briefs 6
Claiming your £2,000 NIC employment allowance, plus a round up of other tax news

VAT corner 7
Motoring special

Client profile 8
Publisher of storybooks that help children tell the time: Aramazu

AGN focus 9
Profile: US member firm Rothstein Kass

Shipleys news 9
Alumni news, our latest financial services update and exam successes

Money matters 10
What are the options if bankruptcy is looming?

Shipleys LLP is a firm of chartered accountants and business advisers. *Shipshape* is our regular newsletter for clients and contacts.

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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More detailed information on tax changes is available on our website at www.shipleys.com

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Give me just a little more time

In a recent issue of *Shipshape* we looked at the importance of taking time to reflect. Well, first off, let me say that I know I should practise what I preach and for me – and I suspect I'm not alone – taking time to reflect is more of an ambition and not something easily achieved.

We always seem to need more time – there's never enough time in the day. Entrepreneurs and small business owners are some of the hardest hit when it comes to having enough time, typically working a 52-hour week – 63% more than the average worker – according to research published in *Real Business* magazine last year.

Buying time

When there aren't enough hours in the day, they say that you need to make every minute count. Part of the answer is simply recognising the issue and taking action to address it – by delegating responsibilities and making the most of technology, for example, so that you can be more effective with your own time.

Another key to success is sticking to what you do best and making sure you have the right team around you – both internally and externally – to take care of the rest. You don't have to try to do it all in-house of course – part of the skill of successful business (as in life) is knowing when to get help and getting the right people on board to give you that support – and that includes your accountant.

This gives you the opportunity to take control, focus on the big objectives and get them underway – rather than being a slave to your to-do list. It can help you buy time for yourself and achieve that all-important work/life balance.

The final countdown

Businesses face an on-going battle against deadlines including the fast-approaching pensions auto enrolment – as explained in this edition of *Shipshape*. This will be a significant drain on your time and resources, it's not a five-minute job – and it's not going to go away. If you're an employer you need to act now to make sure you have plans in place to meet your auto enrolment deadline – or 'staging date'. Putting in time now to assess where you are with auto enrolment and what you need to do, will enable you and your team to have time on your side to get everything in order before the deadline hits. Investing 5% of the effort now to assess what the other 95% looks like can stop the whole process being an impossible last-minute dash.

Baby you're out of time

The end of the tax year will soon be upon us and, again, it's important to start thinking ahead to ensure you don't run out of time. Taking action well in advance could help you avoid or delay tax liabilities and save you money. See our end-of-year tax-planning guide in this issue to help. Similarly time is of the essence if you are unfortunate enough to be affected by our look at bankruptcy on the back page.

Time out

It's still early days, and many people and businesses will still be feeling the pressure, but there are plenty of signs pointing towards recovery in the economy.

So how will you respond to a healthier business environment? Many of us are hard-wired to feel loss rather than gain and we're therefore often very reluctant to give something up if we've put a lot of time into it. But sometimes we need a fresh perspective to reassess our options – perhaps ones with better odds of success. It's always worth having a fresh look at the way we do things – in life and in business. We could all probably benefit from a bit of 'PPR' – personal process re-engineering. It might just give us the chance to pause for breath, re-evaluate and focus on the important stuff.

Some of you, perhaps those old enough to remember Chris Farlowe's *Out of Time*, may well have got all this under control by now. Others will still be on the learning curve – you can guess which stage I'm at... but there's still time!

I hope you find time for this *Shipshape* and enjoy the read.

Count to the year-e

Get your timing right to save on your tax bill before 5 April

Timing of income and deductions

If you have income over £100,000, your personal allowance is reduced by £1 for every £2 over £100,000. So, for 2013/14, you will lose your personal allowance entirely if your income exceeds £118,880. For 2014/15 the threshold is £120,000. The effect is a 60% top income tax rate if your income is between £100,000 and these thresholds (plus 2% NIC if applicable).

If you're not domiciled or not ordinarily resident in the UK and are taxed only on remittances of overseas income and gains, you don't get the personal allowance, unless your unremitted overseas income and gains are less than £2,000.

The basic-rate band is being lowered to £31,865 for 2014/15, removing the benefit of the increase in the personal allowance for those with income over £41,940.

2013/14 is the first full year affected by the high income child benefit charge (HICBC). Tax is equal to the child benefits claimed, if the claimant or the claimant's partner has income of £60,000 or more. The charge is scaled down proportionately where the income is less but still over £50,000.

Tax relief for 'pension input periods' ending in 2013/14 is limited to £50,000. This is increased by any 'pension inputs' – basically contributions by you and your employer to a pension scheme – in the previous three years which fell short of £50,000 a year. More details on this can be found at www.shipleys.com. The £50,000 limit falls to £40,000 from 6 April 2014. If you have an election in place requiring no further pension contributions, you should beware of being automatically included in a workplace pension scheme.

Unless your marginal tax rate will be higher for 2014/15, it's better to do any charitable giving by 5 April 2014. This applies not only to gift aid donations but also to gifts of listed securities and land, where these qualify for income tax relief. You may elect to treat gift-aid cash donations made between 6 April 2014 and 31 January 2015 as though they were made in 2013/14 for income tax purposes.

Timing of capital gains

Deferring a disposal that gives rise to a capital gain and takes you over the annual capital gains tax (CGT) exemption (£10,900 for 2013/14) until after 5 April would mean CGT is payable a year later. Deferral may also mean that you may become eligible for entrepreneurs' relief, where gains are taxed at 10% rather than 28%. If any assets have become of negligible value, you should consider a loss claim for CGT purposes. In some circumstances income tax relief may be available instead. Selling shares or securities to realise a gain covered by losses or the annual exemption and then buying the same shareholding within the next 30 days is caught by anti-avoidance rules. However, these rules don't apply to shares 'reacquired' by your spouse or ISA.

From 6 April 2014 disposals of shares that result in a controlling interest in a company being held by an employee ownership trust are exempt from CGT.

Enterprise Investment Scheme (EIS) deferral relief may enable you to postpone tax on a gain which has already been made, until disposal of the EIS shares. Relief is given for share subscriptions in EIS-qualifying companies up to three years after the earlier disposal.

For acquisition of Seed Enterprise Investment Scheme (SEIS) shares, gains arising in 2013/14 on disposal of other assets are exempt up to an amount equal to 50% of the SEIS subscription.

down tax end

Key numbers for the new tax year

Annual tax-free pension input limit: **£40k**

Qualifying VCT investment limit: **£200k**

Effective tax rate on income between £100k and £120k: **60%**

Annual limit for IHT lifetime gifts: **£3k**

Lower income limit for high income child benefit charge: **£50k**

Annual ISA allowance: **£11,880**

Basic rate band: **£31,865**

Tax-efficient investments

No tax is payable on income and gains on investments within an ISA. You can invest up to £11,520 in total in 2013/14 (increased to £11,880 in 2014/15), up to half in a cash ISA. You may only contribute to one cash ISA and one stocks and shares ISA in any tax year.

Income tax relief at 30% is available on up to £200,000 subscribed for shares in Venture Capital Trusts (VCTs), if the shares are held for at least five years. Subject to limits on the size of holdings, dividends and gains relating to shares in VCTs are exempt.

Income tax relief at 30% is available in 2013/14 on up to £1m subscribed for shares in qualifying EIS companies, provided you're not connected with the company. Any gain on their sale is exempt from CGT if the shares are held for at least three years. Up to a further £500,000 may be subscribed in 2013/14 and claimed in 2012/13 if EIS relief wasn't fully used in that year. CGT on a gain realised up to three years earlier may be deferred by a subscription for shares in qualifying companies, even if you are connected with the company.

The SEIS is available for shares issued by smaller companies. A maximum of £100,000 subscribed can attract 50% income tax relief, but this is withdrawn if the shares are realised within three years. Any gain on their sale after three years is exempt from CGT.

Inheritance tax

There are a number of exemptions for lifetime gifts that don't depend on surviving at least seven years. You can give up to £3,000 each tax year, together with any amount not used in the preceding year. In addition, you can give up to £250 to any number of recipients each year.

There are special exemptions for gifts made for a marriage or civil partnership – £5,000 for each of the parents of the couple, £2,500 for each grandparent or remoter ancestor, and £1,000 in other cases.

Regular gifts out of income are exempt without an upper limit, provided your remaining after-tax income is sufficient to maintain your usual standard of living. A trust may be a suitable vehicle to receive such gifts. Lifetime gifts of assets likely to increase in value are also worth considering, as any further increase in value during your lifetime is outside your estate, even if you don't survive seven years.

Bequests to charity on death are already wholly exempt. If bequests are at least 10% of the amount otherwise chargeable at 40%, the tax rate on the balance will be reduced to 36%. In some circumstances this actually makes lifetime gifts to charity less tax-efficient.

More detailed guidance on preparing for the end of the tax year on 5 April is available at www.shipleys.com

All change for company accounts

FRS 102 explained

A new financial reporting standard – FRS 102 – will replace existing FRSs, SSAPs and UITFs rules for company accounts for periods commencing on or after 1 January 2015.

For small companies, the Financial Reporting Standard for Smaller Entities (FRSSE) will remain in force for the time being. So FRS 102 will apply to companies not preparing their accounts under the FRSSE and who haven't adopted the International Financial Reporting Standards (IFRS).

There are likely to be many changes to contemplate under FRS 102, including presentation, measurement and disclosure.

Key areas worthy of early consideration are:

- **Deferred taxation** The scope will widen to include, for example, a provision for deferred tax on all revalued assets.
- **Investment properties** The main change is recognition of revaluation gains and losses through the profit and loss account rather than through balance sheet reserves.
- **Goodwill and other intangibles** The scope will widen as there will be more identifiable assets on a business combination under FRS102, so potentially a reduced goodwill value. There will also be a rebuttable presumption of a five-year life and you won't be allowed to apply infinite useful lives to goodwill and other intangible assets.
- **Financial instruments** Derivatives, such as interest rate swaps and forward exchange contracts, will need to be valued and recognised on the balance sheet.
- **Holiday pay** Employee holiday pay for 'days not taken' by the accounting year-end, will need to be valued and recognised as a liability.

Do you need to do anything now?

Yes. The changes take effect for accounting periods commencing on or after 1 January 2015, but there is a transitional period from 1 January 2014 to ensure comparative financial information conforms to the new standard. Where applicable, take steps to arrange valuations for assets and liabilities held at the transition date which will be recognised for the first time, such as financial instruments and holiday pay. It may be harder to obtain these valuations retrospectively.

Guidance for charities

A draft new Charities SORP (Statement of Recommended Practice) has been developed to provide guidance for charities on how to apply FRS 102 or FRSSE. This is compulsory for all charities preparing accounts on an accruals basis for accounting periods beginning on or after 1 January 2015.

Charities applying FRS 102 need to comply with paragraphs prefixed 'PBE' (public benefit entities). Smaller charities can apply the FRSSE and aren't obliged to adopt the 'PBE' paragraphs, although they are considered best practice. Smaller charities are defined as those which meet at least two of the following tests – turnover of not more than £6.5m, balance sheet total of not more than £3.26m, and 50 or fewer employees.

The new Charities SORP is designed in a modular format so charities can select the areas relevant to them. The Charities SORP Exposure Draft can be downloaded from the SORP microsite at charitysorp.org. This website also includes some useful helpsheets about the SORP and the key changes from SORP 2005.

Jargon buster!

FRS
Financial Reporting Standards

SSA
Statements of Standard Accounting Practice

UITF
Urgent Issues Task Force

Tightening up on partnerships

Time for action

Prompt action may be required with new tax restrictions due to apply from 6 April 2014 and some already in place since 5 December 2013 – before the end of the consultation process.

The new legislation is intended to target three main areas:

1. **'Fixed-share' or 'disguised-employment' partners in LLPs**
   Action required
2. **Tax motivated profit-sharing arrangements in mixed partnerships**
   Action required
3. **Transfers of assets or income streams by partners**
   Action required

1. 'Fixed-share' or 'disguised-employment' partners in LLPs

It has become commonplace in some industries (notably professional services) for senior employees to be made a 'partner,' but to be given a fixed amount each year and sheltered from most of the commercial risk. The main benefit has been to save employer's national insurance contributions (NICs), currently 13.8%.

Those members whose status is affected by HMRC's proposals will be treated as employees and their share of the profit treated as salary, subject to PAYE (including class 1 NICs).

This will apply if:

(a) the member's profit is fixed and not affected by the LLP's profits, and

(b) he or she has no significant say in the running of the business, and

(c) he or she has no significant capital at risk in the LLP (defined as 25% of the member's disguised salary for the year).

Action required

LLPs with members who will be re-categorised as employees, need to decide whether to revise the profit-sharing or capital-funding arrangements to avoid the new rules. Care is needed as the new legislation includes 'targeted anti-avoidance rules' under which HMRC can disregard measures taken in an attempt to avoid the new provisions, unless they are genuine commercial changes. If new funding arrangements are required sufficient time must be allowed to agree these with the lender.

2. Tax motivated profit-sharing arrangements in mixed partnerships

This can apply where there is a corporate partner. Typically that corporate partner's shareholders might include the other individuals in the partnership. Such an arrangement enables profits (notably surplus or undrawn) to be allocated to the corporate partner who pays tax at a much lower rate (20 or 23%) than the individuals (often up to 45%).

Legislation is to apply from 5 December 2013 to reallocate the profits where that attributed to a corporate partner is held be excessive. Only profits which reflect the corporate partner's services (excluding any supplied by the individual partner) and an appropriate return on capital (a rate which 'in all the circumstances' is a commercial return on capital), can be allocated to the corporate partner.

Individual partners will be denied relief from 2014/15 for losses which result from 'relevant tax avoidance arrangements' – such as those which reduce the loss that would otherwise arise to a corporate partner.

The draft legislation also includes provisions effective from 6 April 2014 to deal with certain tax consequences of the Alternative Investment Fund Managers Directive (AIFMD). Where, in consequence of the AIFMD, certain partnership profits can't be immediately accessed and the firm so elects, those deferred profits aren't allocated to the partners as such, but to the firm itself and taxed at 45%. Credit is given for this tax when the profits subsequently vest in partners.

Action required

Partnerships with corporate partners need to assess whether they are affected by the new restrictions on the allocation of profits and losses.

3. Transfers of assets or income streams by partners

Draft legislation is aimed at tax-motivated disposals of the right to receive sums that would otherwise go to an individual partner. It will apply where the arrangements are made after 5 April 2014.

Action required

Those potentially affected will need to monitor their exposure to the legislation.

Tax round-up

Don't forget to claim your £2,000 NIC employment allowance

Plan ahead to make the most of the NIC boost

From 6 April 2014 eligible employers will be entitled to a £2,000 Employment Allowance. This was announced in last year's Budget. The new relief can be offset against employer's national insurance contributions (NICs) and will reduce the cost of employing staff for many.

The relief can be claimed via the Real Time Information payroll reporting system. Before claiming the allowance, employers need to tick the relevant box in their payroll software or ask their payroll provider to do this.

To get the best of the relief it's worth thinking about your staffing and salary levels ahead of April.

For 2014/15 employer's NICs are payable at a rate of 13.8% on employment earnings in excess of £153 per week (£7,956 per year).

Therefore you could, for example, pay a single employee a salary of £22,448 and pay no employer's NICs at all. Alternatively, you could pay two part-timers a salary of £15,202, or three part-timers £12,786 each, or four part-timers £11,579 each, with the same result. You could pay any number of staff under £153 per week without incurring any NICs liabilities.

Additionally, from 2015, employer's NICs will be abolished for any employees who are under 21 and have earnings of up to £813 per week (£42,276 per annum).

For more information and to find out if your business is eligible, visit:

www.gov.uk/employment-allowance-up-to-2000-off-your-class-1-nics

Non-residents and capital gains

The Finance Act 2013 extended UK capital gains tax (CGT) to certain gains realised after 5 April 2013 on the disposal of high-value UK residential property (value over £2m) by 'non-natural persons' (principally companies) including non-residents. In last year's Autumn Statement the Chancellor said that from April 2015 a CGT charge will be introduced on future gains made by non-residents disposing of UK residential property. A consultation on how best to introduce this will be published in early 2014. We assume that this will apply to non-resident individuals, companies and trusts. It's possible there will be a re-basing at 5 April 2015.

Main residence exemption

At present, the CGT exemption on disposal of a property which at some time has been an individual's main residence, is unaffected by its use in the final 36 months of ownership. This period will be reduced to 18 months for disposals from 6 April 2014 – except where the disposal is by someone who is disabled, or a long-term resident in a care home and who has no other residence.

Pensions

The lifetime limit (on the value of your pension saving which can attract favourable tax treatment) and annual limit (on tax free inputs to the pension arrangement) are both to fall from 6 April 2014 to £1.25m and £40,000, respectively. 'Individual Protection 2014' is being introduced this year to enable claimants to keep their lifetime maximum at £1.5m or, if lower, the value of their pension fund at 5 April 2014.

Car fuel benefits

It will generally be better for an employee to pay for their fuel for private motoring. If their employer meets any of the cost, the employee's income tax liability for a car of, say, 1.5 litres in 2014/15 is on 25% of £21,700. This means a liability of £1,085 for a basic-rate taxpayer, £2,170 if their top rate is 40% and £2,441 if it's 45%. Furthermore, the employer has national insurance contributions (NIC) to pay of £749. Many will simply compare the tax bill with the cost of the petrol, but the better comparison takes into account the cost to the employer of providing the road fuel for private motoring and the NIC burden. So the more canny will cut a deal with their employer.

IHT and discretionary trusts

Changes to the basis of the inheritance tax charges on 'discretionary' trusts are expected, probably from 6 April 2015. There is, however, to be a change from 6 April 2014 in the treatment of income that has been neither accumulated nor distributed.

UK film tax credit

The tax incentives are to be improved in April this year.

The proportion of total qualifying expenditure which must be UK based in order to receive film tax credits is to be reduced from 25% to 10%, but not for high-value television and non-film animations. At present, qualifying expenditure of up to £20m attracts a 25% tax credit, but if qualifying expenditure exceeds £20m, a 20% credit applies to all of it. In future, the lower rate will only apply to the excess.

VAT corner

Motoring special

The rules on motoring expenses and more

The VAT rules relating to motoring expenses are complicated and confusing and applying them incorrectly can be costly. The rules explained below apply to most businesses but please bear in mind that specialist businesses such as car dealers have their own rules. It's also important to note that where VAT is described below as recoverable, the normal restrictions relating to exempt and non-business activities still apply.

Buying a vehicle for business use
The ability to recover VAT when buying a vehicle, whether as a cash purchase, finance lease or by hire purchase, depends on the nature of the vehicle and the intended future use.

Perk cars:	No VAT recovery.
Pool cars:	VAT can be recovered provided the car is kept at the business premises, is not allocated to a specific individual, and not kept at an employee's home.
Vans:	VAT can be recovered if private use is minimal (no more than 3 or 4 times per year). If private use is more than this the VAT must be restricted either at the time of acquisition or by paying VAT each time there is private use.

Note: The definition of 'vans' covers all other road vehicles that are not cars, such as trucks, motorcycles, motor homes etc.

Leasing a vehicle for business use
The same rules apply as for buying a vehicle above, except that 50% of the VAT incurred on lease rentals can be recovered for perk cars.

Road fuel
Businesses are only allowed to claim VAT on road fuel acquired for business use. If there is private use by anyone (a proprietor, director, employee, family member, etc.) and VAT is claimed it must be reimbursed to HMRC via the fuel scale charge.

This means, for example, that a sole trader using a car for both business and private purposes can claim back all the VAT paid in relation to the road fuel. However VAT would then have to be paid to HMRC via the fuel scale charge thereby increasing the quarterly VAT payment. The VAT amount depends on the CO_2 emissions of the car (visit www.hmrc.gov.uk) but would be between £10 and £33 per month.

Alternatively the business can keep detailed mileage records and claim VAT only on business mileage.

Where a business pays a mileage rate to employees who use their own cars for business journeys it is possible for some VAT to be recovered on the fuel element.

Other motoring expenses
As long as the vehicle is used for business purposes and the business pays the expense it can recover the VAT incurred on repairs and maintenance. VAT incurred on expenses such as parking or fleet management is recoverable like any other business expense. VAT incurred on accessories is only recoverable if the accessory is supplied as a separate item after the acquisition of the car and is for business use.

What is a car? The HMRC definition
In most cases it will be easy to tell whether or not a vehicle is a car but there are some borderline areas:

Double cab pickups – are classified as cars unless the payload is at least 1,000kg
Combi vans – are classified as cars unless the payload of the rear passenger area is less than that of the load carrying area
Car-derived vans – are classified as cars if the vehicle was a van at the time of acquisition and then converted by the addition of rear windows, seats, seat belts etc.

Golf clubs – victory for the taxpayer

The European Court recently ruled in favour of Bridport & West Dorset Golf Club confirming that green fees paid by non-members are exempt from VAT. This judgment will benefit non-profit making members' clubs who will no longer be obliged to account for VAT on this income. Any clubs affected by this judgment should lodge refund claims as soon as possible.

Learning to tell the time with Aramazu

Shipshape talks to the creator of Aramazu – storybooks that teach children to tell the time in an original, fast and fun way.

Almost 20 years ago Jamie Rugge Price realised there was a need to find a simple way to teach children how to tell the time. At the time he was working in television production and was asked to make a five-minute programme for children about telling the time.

"I found that I couldn't teach a child to tell the time in five minutes," explains Jamie, who is now a grandfather. "I now know that it typically takes between 6 and 16 months to learn using traditional teaching methods. Apart from mathematically bright children, it's very complicated as they can't understand the equation between the two hands. No one had ever been able to find a child-friendly approach."

Eureka!

Jamie pondered the problem on and off over the years. Fast forward about a decade and he had his "Eureka moment". The breakthrough was the idea of incorporating a map into a clock face, where every hour is the shape of a mountain – half an hour up one side and half an hour back down the other.

He produced two illustrated storybooks, one for the very young and one for those already able to count to 60, which use a finger to point at the hour hand and a foot to point at the minutes.

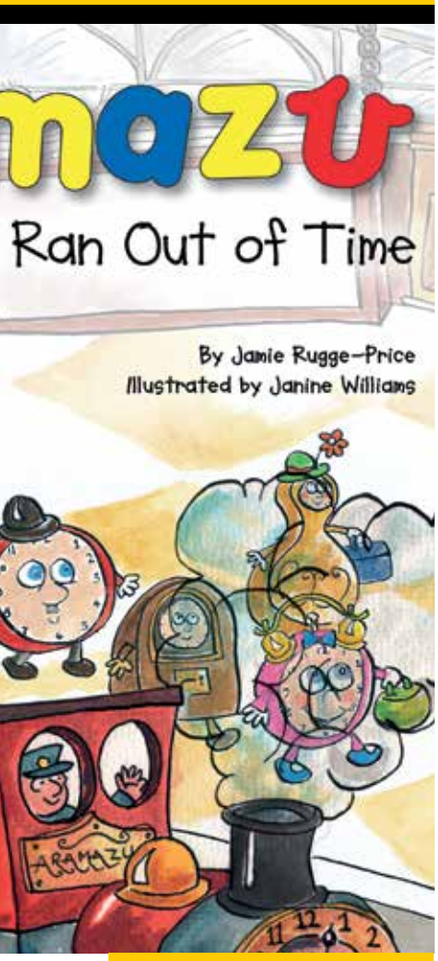
"We tested the books with the help of a magazine called *Primary Times*. Of the children who took part, 85% learned how to tell the time within a week. Half only took a day. And quite a lot of them could do it within an hour. Using the storybooks, most children can tell you what hour it is within 30 seconds. And it's particularly good for dyslexic children."

Going digital

The books are currently sold online and are now getting into schools with school packs containing books and clocks. The next stage is to find a digital partner with the funds and the will to take Aramazu to the next level. "The future is obviously digital – an app. We want Aramazu to be everything to do with time – clocks, wristwatches, timers, school packs. If we put our minds to it, this could be truly global."

"Shipleys has been brilliant," says Jamie, who turned to the firm when he formally set up the company in 2008. "I knew them from auditing my TV production company and we've always got on really well. They helped me with EIS when some friends invested and I'm sure they will help me negotiate a deal with a partner."

For further information, visit **www.aramazu.com** or email **jamie@skylapublishing.com**



"The future is obviously digital – an app. We want Aramazu to be everything to do with time – clocks, wristwatches, timers, school packs. If we put our minds to it, this could be truly global."

AGN focus

Rothstein Kass

Profile: US associate firm, Rothstein Kass

Readers may be aware that AGN is the worldwide association of separate and independent accounting and consulting firms of which Shipleys is a UK member. There are around 200 AGN member firms with almost 500 offices around the world.

One of the North American firms and larger AGN members is Rothstein Kass. This is one of the most trusted assurance, tax and advisory firms in the US, serving leading businesses, business owners, institutions and individuals both at home and overseas. With more than 1,000 dedicated employees in 10 offices, the firm combines market-leading expertise with decades of real-world experience and collaboration.

The firm's original service model was designed for the alternative investment space where high-pressure, high-stakes and high-speed are the norm. Today the firm has specialist expertise across diverse sectors, one of which is entertainers and athletes. Shipleys is of course well-known for its entertainment and media expertise. One of our specialists in this area, Stewart Jell, comments "The ability to draw on local advice is very important and it really makes a big difference when other professionals understand the industry and its people. The specialists at Rothstein Kass are valuable contacts."

AGN INTERNATIONAL

Shipleys news

shipleys LLP Alumni

Where are they now?

Setting accounting standards

Paul Druckman, an articled clerk for Shipleys back in the 1970s, was recently the subject of an article in *Economia*, the ICAEW title. Paul went on to spend the 1980s and 1990s as an accounting software entrepreneur. He is a past president of the ICAEW and is now chief executive of the International Integrated Reporting Council.

Industry promotion

Former Shipleys auditor Ben Van Allen has a new role as margin and commercial support manager at Celesio UK.

Financial services update

Shipleys' latest update considers the Capital Requirement Directive, IFPRU – the new sourcebook, common reporting and recent developments in controller and close links reports.

Visit www.shipleys.com/resources/current-issues for full details.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FCA and Financial Services Newsletter – January 2014

Shipleys exam successes

Many congratulations to Alex Eagle, Thomas Ho, Brin Sawdon and Jay Thurston who have passed all their exams required to qualify as chartered accountants.

Time may be short if bankruptcy is looming. So what are the options?

"Bankruptcy results in an individual losing control of his or her assets – something most of us would prefer to avoid."

The clouds of recession may be clearing, but with many people's earnings failing to keep pace with the rising cost of living, some may continue to struggle financially. Many people and businesses have been able to limp on because interest rates are so low. But this may change if rates go up and repayments become unaffordable. Cynics might say that lenders are waiting for their security, often based on house prices, to appreciate so that they get more of their money back if they do eventually call in loans.

In cases of severe financial difficulty, and with the clock ticking, personal bankruptcy is often viewed as the only option available. For individuals working in the corporate world, a Bankruptcy Order can result in severe and unwelcome restrictions. For example, they are prohibited from being a company director or member of an LLP. Practising professionals in the law or accountancy sector are unlikely to be able to continue when bankrupt. To make matters worse, bankruptcy results in an individual losing control of his or her assets – something most of us would prefer to avoid.

Taking action while there's still time

A debt management plan can be a viable alternative. The benefit of this option is that debts are consolidated and, through monthly payments, are easier to manage. However, creditors are not legally bound to these plans and may refuse to participate, meaning any creditor can continue to pursue the debt, leading to the possibility of bankruptcy later on.

A more suitable option may be an individual voluntary arrangement (IVA). Subject to the approval of creditors, this can be tailored to the wishes of the individual involved, although it is important to understand that the point of this exercise is to balance the interests of creditors and those of the debtor. Certain assets can be included or omitted and monthly contributions or a lump sum contribution made within a time period set out in the proposal.

Most importantly for some, being a director or member of an LLP is not forbidden under an IVA, and individuals can continue to practise in their professional capacity.

How Shipleys can help

Shipleys has a very successful track record when it comes to having IVA proposals approved by creditors. We provide a high level of service and advice from the initial period prior to the drafting of the proposal, through to the end of the arrangement.

If you or someone you know is interested in discussing the possibility of an IVA please contact us for a free consultation in person or over the phone.

For further information, contact Anthony Davidson or Steve Ryman
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