Summer 2013

Financial and business intelligence

Time to reflect and take stock

SHIPLEYS FAYE

shipleys LLP

Also in this issue:

New TV tax credit positive news for UK TV industry

Audit regulations relaxed and keeping ahead of tax changes

Bad debts: all may not be lost

Client profile:
Identity Direct Ltd

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

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Designed and co-edited by Thirdperson.co.uk

This *Shipshape* in numbers

£2m

Lower limit of property value for the Annual Tax on Enveloped Dwellings

1 CONNECT
2 BE ACTIVE
3 TAKE NOTICE
4 KEEP LEARNING
5 GIVE

5 fundamentals of well being

according to The New Economics Foundation

2014
6
APRIL

date of changes to taxation of partnerships

£36bn+

annual value of UK's creative industry

4 YEARS

to reclaim excess SDLT paid as a result of previous TOGC policy

Viewpoint: Ken Roberts, *Managing Principal*
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I can see clearly now

Taking time to reflect and take stock

With good news stories seemingly few and far between, I thought it might be a pleasant change to dwell on an alternative train of thought – not a bad thing to do at any point – be it from a business or personal point of view.

Under pressure

Sometimes it's difficult to see the wood from the trees when you're dealing with the day-to-day issues involved in running your business, especially in the current climate when things often seem to be more difficult than they need to be. Lots of people are working harder just to get by. When you're constantly busy, it takes a certain amount of discipline to make time to step back and adopt a different perspective that enables you to recognise what you've actually achieved. But why not take time to reflect? This can act as a useful re-energiser and provide an opportunity to set realistic goals.

Success means different things to different people. Inevitably, financial matters play a significant role for most. There's a commonly held view that monetary success brings the freedom to control one's own life – a sense of financial autonomy – as opposed to feeling that things are beyond our control (most of us have experienced the latter at some stage!). But once material necessities have been met – however elaborate these may be – softer issues such as aspiration and emotional well-being assume greater importance.

The New Economics Foundation (an independent think-and-do tank that inspires and demonstrates real economic well-being) was commissioned to draw on state of the art research from across the world to develop evidenced-based actions to improve personal well-being.

It reported five ways to well-being: connect (with family, friends, colleagues and neighbours), be active (discover a physical activity you enjoy which suits your level of mobility and fitness), take notice (be aware of the world around you and what you're feeling), keep learning (try something new or rediscover an old interest – perhaps learn to play a musical instrument or how to cook your favourite meal) and give (do something nice for a friend or stranger).

What matters to us usually changes at different stages of our lives. In our 20s it's nice to be able to shop without looking at the price tag; in our 30s we're more likely to be motivated by ensuring the health and happiness of our families; and from our 40s our priorities may be more about helping others and making a difference. As for me, I never liked Frank Sinatra when I was in my 20s and now I'm a big fan!

It's my life

While we may all have different measures of success, establishing what it is, and how it looks or feels can make a big difference to whether you achieve it. I think this applies in business and in life.

But after all the preparation, planning, discussion, and debate – only you know what's important to you. Ultimately it comes down to backing yourself and trusting your ability and those around you. We'll do our best to help you take charge of the financial measures and provide whatever support we can.

You never know, I might even heed my own advice: I'm off on holiday shortly and looking forward to the rest and re-energising. See you in the next edition.

£30m expected savings to be passed on to creditors in measures to cut insolvency red tape, according to the Cabinet Office

2 out of 3 threshold criteria to be met for new audit exemption

30 days key cut-off point in new anti-avoidance legislation for directors' loans

Door now open to a 'Golden Age' of TV dramas filmed in Britain

High-end TV – a tax credit in the making

Tollymore Forest, Northern Ireland, one of the amazing locations for HBO's Games of Thrones

Claiming the TV tax credit

Who is eligible?
TV production companies subject to UK corporation tax.

Eligible programmes
Dramas, comedies and documentaries which have a slot length of more than 30 minutes and average core expenditure of at least £1m per 'slot' hour. Animations can also qualify, but don't need to meet the 'slot' length or core expenditure criteria.

Key requirements
Intended for broadcast to the general public, certified as British (there is a points-based test similar to that for films) and with at least 25% of 'core expenditure' being expenditure on goods or services used or consumed in the UK.

The UK film industry has enjoyed the benefits of a tax credit, a financial contribution to a project's budget subsidised by the government, since 2007. It has been used to finance over 1,000 films, which in total have boasted £5.5bn of production expenditure, nearly three-quarters of which was incurred in the UK. The film tax credit has been a real success story; given that the UK's creative industry is worth more than £36bn a year, it's surprising that the high-end TV tax credit hasn't been brought in sooner.

The TV industry obviously thought so too, and has been lobbying the government for the past few years for a TV tax credit in order to level the playing field.

A TV tax credit, finally...
Draft legislation was published in December 2012 and the required EU approval has now been obtained. Although this applies to expenditure incurred from 1 April 2013, no tax credits could be paid out until after the Finance Bill 2013 received Royal Assent.

An exodus of TV production
In the past, many TV productions have ended up being produced outside the UK in countries such as Belgium and Hungary, as many jurisdictions have had their own TV tax incentives for some time. Even the BBC's period drama, Parades End, was partly shot and edited in Belgium despite reports of the production manager 'having to mock up 100 yards of English hedgerows, full of wild flowers, in large pots'. The TV production of Titanic, which desperately wanted to film in the UK, was actually filmed in Budapest due to budget restrictions, as was Sebastian Faulks' Birdsong.

HBO's huge investment in Game of Thrones, filmed in Northern Ireland, was an important factor in changing the Government's thinking about tax credits, particularly their potential to attract big budget productions to help improve local economies around the UK.

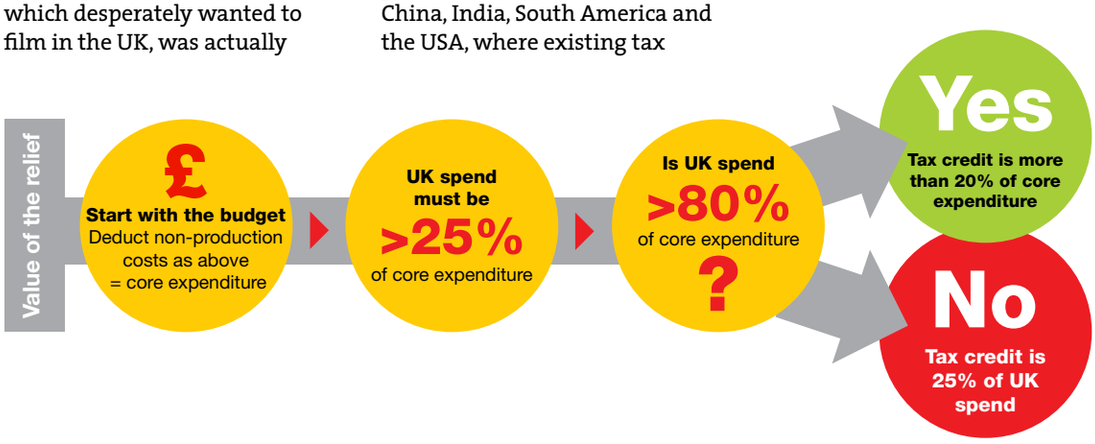
A boost to the economy
Some commentators have estimated the tax incentive will help generate £350m of business in the UK, benefiting the UK economy as a whole by around £1bn per year.

It will help the UK compete with places like Ireland, South Africa and Eastern Europe, as well as attract international productions from the likes of China, India, South America and the USA, where existing tax breaks make it possible for hugely ambitious dramas to be made on a UK budget. It will turn the tables for the UK from being one of the most expensive places to film, into a competitive and more affordable location.

The TV tax credit will undoubtedly benefit the industry as a whole, generating thousands of UK jobs and encouraging more money to be spent on high-end TV production, which in turn will help to train the next generation of film and TV makers.

For more information on the TV tax credit and detailed information on qualification criteria, please visit our website at www.shipleys.com/resources/current-issues

Game of Thrones, filmed in Northern Ireland, was important in changing the Government's thinking about tax credits



Bad debt is it all lost?

When a stack of papers from an insolvency practitioner (IP) arrives in the post and you realise that one of your customers is in trouble, you might think you have no influence over the insolvency process – you've lost your money so what's the point anyway?

You shouldn't just assume all your money is lost, however, especially since HM Revenue & Customs (HMRC) no longer gets a preferential piece of the assets. So it's always worth providing proof of debt to ensure you share in any payout to creditors. This may simply be copies of outstanding invoices.

Be clear on insolvency roles

In the majority of formal arrangements it's the IP's job to get as much back for creditors as possible. And creditors have some influence over which IP is appointed and how much they are paid.

If the amounts involved make it worth their while, creditors might be able to form a 'creditors committee', between three and five strong, to liaise with and oversee the IP, for example, providing input into decisions about legal proceedings to recover assets.

Steering you through the process

Businesses and individuals can unexpectedly find themselves dealing with a supplier or customer who is struggling financially. We've noticed a marked reduction in the number of people attending creditors' meetings. But we can help those in this situation to understand the insolvency procedures and take steps to protect their interests and minimise losses, as much as possible.

Do you still need an audit?

Changes to audit regulations mean that more companies will now be exempt, but is an audit still a good idea?

The new audit exemptions regulations mainly affect small companies and subsidiaries of larger groups.

Changes for small companies

Audit exemption thresholds are basically being aligned with existing accounting thresholds, which means that more small-sized entities will be exempt. The definition of small was, and remains, meeting two of the following criteria: turnover less than £6.5m; balance sheet total less than £3.26m; and fewer than 50 employees. The relaxation is that the requirement for even a small company to be audited if it didn't meet the turnover and balance sheet conditions, has now been dropped. This affected, for example, many investment property companies which exceeded the asset limit, but were well within the turnover and employee limits, and so were required to have an audit. Certain regulated businesses, such as financial services, may not be able to take advantage of the changes however.

These changes are a welcome removal of regulatory burden for those smaller companies who questioned the need for increased emphasis on documenting procedures and perceived little value in an audit. But those who are now exempt may choose to continue to have an audit for one or more of the following reasons:

- An audit may be required by lenders under existing loan agreements. New lenders may be more likely to provide finance, or an improved interest rate, to the company if it can provide audited financial statements.
- Their credit rating may be affected as credit agencies often look for audited financial information.
- An audit can provide valuable oversight, and help to promote financial discipline among the finance team.

Changes for subsidiaries

Subsidiary undertakings will also be entitled to audit exemption, subject to a number of conditions, most notably the requirement for the parent company to give a statutory guarantee of all the outstanding liabilities of the subsidiary at the end of the financial year.

Very careful thought needs to be given to using this exemption, as the guarantee required, which will require legal advice, will cover all outstanding liabilities of the subsidiary at the balance sheet date. There is currently uncertainty over the scope of this guarantee, but it is potentially very extensive and may include amounts which would not be recognised in the balance sheet, such as contingent liabilities, obligations under operating leases and even possibly future interest costs under finance leases.

A parent company guarantee also needs to be considered in the context of risk management, since many corporate structures are set up with a view to protecting the group from risks relating to one company, sector or project. The guarantee survives the sale of the subsidiary and this point will need to be considered in any future company purchase or sale.

Positive outlook

Overall, the changes to the exemption limits for small companies seem to be good news and, if an audit is not required or desired for other purposes, may ease the burden for some. For subsidiaries, the price paid for audit exemption in terms of the guarantee required appears high and it will be interesting to see how many companies will actually look to make use of it.

Expensive residential properties targeted

The new annual tax on enveloped dwellings (ATED) and associated capital gains tax (CGT) regime are now in place.

Those affected need to make sure they comply with the rules and might want to restructure to avoid future liabilities. It's understood that HMRC has been busily reviewing the Land Registry records.

Who is affected?
'Non-natural persons' (UK and non-UK resident companies, collective investment schemes and partnerships in which at least one partner is a company or collective scheme – but not trustees) who are beneficial owners of UK residential property worth over £2m on 1 April 2012 (or acquisition, if later).

Expensive properties have often been owned through a company ('enveloped'), typically to save stamp duty, or by non-UK domiciliaries to mitigate inheritance tax and capital gains tax.

The annual tax
The new rules which apply from 6 April 2013 (before the Finance Bill 2013 received Royal Assent!) require a tax return to be submitted by 1 October and tax paid by 31 October this year (after that the return and payment are due on 30 April), in accordance with the value of the property as follows:

Property value	Annual tax 2013-14
£2,000,001 to £5,000,000	£15,000
£5,000,001 to £10,000,000	£35,000
£10,000,001 to £20,000,000	£70,000
£20,000,001 and over	£140,000

Note that these valuation bands will remain at these levels for five years, when properties will then need to be revalued. The tax charges will be increased annually in line with the consumer prices index.

Capital gains tax
Those liable to the ATED will also be subject to a new 28% CGT charge. This will apply to the disposal of property after 6 April 2013 but only to the gain attributable to the period since 6 April 2013 where the ATED has applied.

Action required
There are a number of reliefs intended to take out of charge property not occupied by the owner (or connected persons such as a spouse or other family member). These reliefs cover situations where, for example, a property company holds property as trading stock or it's let out to a third party. However, the relief must be claimed in the ATED return.

The value of the property is reported to HMRC in the ATED return. You can value it yourself, or obtain a professional valuation. Valuations must be on an open-market willing buyer and seller basis, and a specific figure – not a range. When addressing the 1 April 2012 valuation it makes sense to also consider the 6 April 2013 value (needed for CGT as above). If HMRC challenges your valuation, internal inspection may be required, and if it is found that it's too low, the ATED may be increased and penalties and interest added.

For properties believed to be within 10% of a property band, you can submit your valuation to HMRC for a pre-return banding check. Professional valuations will normally be accepted.

Restructuring ownership may be appropriate to remove the property from the ATED and associated CGT charges altogether.

Property letting businesses

Capital gains tax on business assets may be deferred on incorporation, by exchanging the assets for shares. 'Business' is a wider definition than 'trade' and includes a property letting activity, depending on its scale. In the recent case Elizabeth Moyne Ramsay v. HMRC, the Upper Tribunal decided that a large house divided into ten flats amounted to a business, at least for CGT purposes. The argument over the inheritance tax treatment of such a property and, in particular, furnished holiday lets continues.

Meanwhile, the 'renewals basis' has been withdrawn with effect from April 2013. This gave relief for the cost of replacing plant or machinery. The withdrawal leaves in its place only capital allowances (not applicable to letting dwellings) and a 'wear and tear' allowance of 10% of rents, but only for furnished holiday lets.

Beware

Changes to the rules on taking loans from your company

If the loan is still outstanding nine months after the end of the accounting period, the company has to pay an amount equal to 25% of the loan to HMRC.

In the past many owner-managers have made payments to themselves from their business – whether regular monthly amounts or variable sums – to cover personal expenditure, but often without fully considering what they represent.

In practice these payments were often initially treated by default as loans – at least until further thought was given to them at a later date. Of course the introduction of Real Time Information (RTI) for Pay As You Earn (PAYE) purposes has forced a review of such behaviour. But whether this leads to fewer loans remains to be seen.

Why doesn't everyone do it?
At first sight the advantage of loans is that they may escape PAYE and NI, but there are some commercial practicalities to think about:

Do you really want to owe your company very substantial sums representing many years' worth of personal income? If the company gets into financial difficulties you might find administrators asking for say, the last ten years' 'earnings' to be repaid.

Loans would not normally be an expense (in the way that salary/bonus are) for the purposes of working out your corporation tax liability, so there might be corporation tax to pay – although corporate tax rates are lower than income tax and NIC rates.

In addition, low interest loans normally result in benefits in kind – so employees and directors end up paying tax on any difference between HM Revenue & Customs' (HMRC) official rate of interest (currently 4%) and the actual interest paid.

But the real deterrent is the special rules which apply to close companies (broadly those controlled by five or fewer individuals) that make loans to 'participators', broadly shareholders. Under these rules, if the loan is still outstanding nine months after the end of the accounting period, the company has to pay an amount equal to 25% of the loan to HMRC and can only claim this back nine months after the end of the accounting period in which the loan is repaid. In the Budget earlier this year it was announced that rules would be introduced to penalise those who abused the system, typically by repaying a loan within the nine months and then advancing it again a short while later. In some instances this may have been a few days later, or even the same day. In practice, this is much harder now as banks are less likely to play ball – perhaps recognising the practice as tax abuse.

Under the new 30-day rule, where a director repays more than £5,000 and re-borrows at least £5,000 within 30 days, for the purposes of the 25% charge the year-end balance is only reduced by the amount repaid and not redrawn. There is also a so-called 'intentions and arrangements rule', which works in a similar way, but without any 30-day test, where the amount owed is £15,000 or more. HMRC will no doubt be influenced by what has actually happened in determining what it thinks the intentions were when applying this rule.

Furthermore, the charge is extended to loans made to a trust of which a participator is trustee or beneficiary, and loans to a partnership if one of the partners is a participator.

What to do?
HMRC has indicated that the anti-avoidance rules won't apply to loans if they are cleared by salary, bonus or dividend payments, as opposed to new loans or the introduction of funds from elsewhere, even if a new loan is made shortly afterwards. Otherwise, wait the 30 days!

Warning: keep track
Make sure you decide – at the time – the nature of any payment to a director or employee, and keep a record of the decision where relevant, such as a meeting minute or an entry in the accounting records.

Crackdown on tax planning using partnerships

The Government's crusade against tax avoidance continues apace – and now it is turning its attention to partnerships.

Those affected by the changes proposed would include many professional firms, private equity funds and hedge funds and could involve very substantial sums that have, until now, been saved by firms in tax and NICs.

Closing in

Over the years a number of planning strategies involving the use of partnerships have evolved. These are allowed within the current legislation, but are increasingly viewed as tax avoidance by the authorities. HM Revenue & Customs has now issued a consultation document covering measures to tackle these widely used tax strategies and these would apply from 6 April 2014.

Caught by the new rules – some examples

Including a corporate partner in a partnership

A corporate partner may be owned by the partners. For example, Mr A and Mr B both own half of X Ltd and the partnership is A + B + X Ltd. Mr A and Mr B might pay tax at 45% on their share of profits, but the profit allocated to X Ltd is typically taxed at a much lower rate – 20% or 23%. Of course Mr A and Mr B take full advantage of their personal allowances, the basic-rate band and any personal losses or reliefs etc. The share of profit allocated to the company is not in the personal hands of the partners, but at the very least, the tax on undrawn profits is as good as halved and it opens the door to other planning opportunities. If losses are incurred, these are allocated to the partner that saves the most tax by having them!

Making a senior employee of a partnership a 'fixed-share' partner

This is common practice in professional services firms. 'Fixed share' is slightly misleading however. Typically, the employee/partner gets a profit share, say £120,000 plus 0.05% of the profits, with no entitlement to capital if the business is sold. The downsides of being a partner are borne by the 'real partners' in the form of guarantees (LLPs help to mitigate the risk of losses extending to the private assets of partners). The benefit is that this neatly avoids employers' NICs of 13.8%. From HMRC's point of view, the employment relationship is disguised through the LLP and this is to be countered by removing the presumption of self-employment, which currently applies to LLP members.

It all stops here

HMRC's consultation document aims to address and put a stop to these scenarios, as well as other perceived abuses.

Napoleon twizzles the turkey baron

A recent report on the division of the late Bernard Matthews' assets in France is a reminder of the effect of the Napoleonic code. Under the 'forced heirship' rules, Matthews' children were entitled to a share of his French assets (principally a villa in St Tropez said to be worth £12m) with the share determined by the number of children. In this case four children were entitled to 75%. In his will, the turkey tycoon left his French property to his mistress Odile Marteyn and said the children had already been well provided for. But they weren't content and three of them successfully demanded 'their share'. If the French property had been held in a (non-French) company, its shares would have been unaffected by the Napoleonic code and the children would have had no claim.

Statutory residence test (SRT)

The Finance Act gives more detail on the SRT, which it is hoped will give certainty on UK residence status from 6 April 2013. A detailed note, with a decision tree to help users determine their residency status, will be available on our website www.shipleys.com once the law has been finalised.

General anti-abuse rule (GAAR)

Although targeted anti-avoidance rules continue to emerge, the Government is convinced that the new GAAR is also needed. This applies from Royal Assent to the Finance Bill 2013. The GAAR will cancel out the tax effect that would otherwise occur in consequence of 'abusive tax arrangements'. These are described as 'arrangements the entering into or carrying out of which cannot reasonably be regarded as a reasonable course of action' and which, 'having regard to all the circumstances, it would be reasonable to conclude that the obtaining of a tax advantage was the main purpose, or one of the main purposes, of the arrangements'. Only experience will tell how this can work.

Disincorporation relief

More details are now available of the proposed tax relief available on disincorporation of companies. As drafted, it's confined to cases where the company's business is transferred as a going concern to some or all of its shareholders. The value of the 'qualifying assets – goodwill and interests in land and buildings not held as trading stock – must not exceed £100,000. The shareholders to which the assets are transferred must all be individuals and have held their shares for at least 12 months. The company will not pay tax on the distribution, the qualifying assets are deemed to be acquired by the transferees at their cost to the company (or market value if lower). This relief is to be available for transfers in the five years ending 31 March 2018.

Inheritance tax (IHT)

Liabilities

There are three measures relating to liabilities and IHT contained in the Finance Act. Liabilities are to be deducted primarily from excluded property in the case of non-domiciled individuals (and trusts with a non-domiciled settlor). Otherwise liabilities are to be deducted primarily from property qualifying for business property or agricultural relief. Liabilities existing at the time of death are only to be deductible if they are discharged on or after death, unless there is a real commercial reason for them remaining owing. These measures apply from the date of Royal Assent.

Non-domiciled spouses and inheritance tax

In response to the suggestion that UK law is not compliant with European law and as mentioned in the Spring Budget, the £55,000 cumulative IHT exemption for transfers from a UK domiciled individual to a non-domiciled spouse is to be increased to a sum

equal to the nil-rate band, currently £325,000, with effect from 6 April 2013. A non-domiciled transferee spouse will also be able to elect to be treated as UK domiciled, with effect from a date after 5 April 2013. The drafting could be better, especially as regards the time limits, and may still not be compliant with European law.

Periodic charges on trusts

A further consultation on possible ways of simplifying the calculation of the IHT ten-yearly and exit charges on 'discretionary' trusts has been published. It is understood that any changes will be in the Finance Bill 2014.

Community investment tax relief (CITR)

The Finance Act provides that investors may carry unused CITR forward to later tax years. Changes will be made to the amount of equity and loan investment which companies will be able to make in Community Investment Finance Institutions (CDFIs), and newly accredited CDFIs will be allowed more time to make onward investments.

Pensions: drawdown

For 'drawdown pension years' beginning after 25 March 2013 the maximum drawdown pension is increased from 100% of the comparable annuity rate to 120%.

Life insurance: qualifying policies

The tax relief on life insurance policies taken out or varied after 20 March 2012 will be restricted by limiting the amount of qualifying premiums payable into policies by an individual to £3,600, in any 12-month period from 6 April 2013.

Company cars

Advisory fuel rates which determine the amount employers can reimburse employees with company cars for business mileage have been changed, from 1 June 2013. See http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm

VAT corner %

Legitimate expectation

Most people would probably assume that VAT advice received from HMRC must be correct – and that if for some reason the advice was wrong, the taxpayer wouldn't be penalised.

Sadly a recent Tribunal case involving a Mr Noor, demonstrates that HMRC can't be relied on to give good advice or to play fair.

Mr Noor had just started a commercial construction project and phoned the HMRC VAT helpline to find out when he ought to register for VAT. He was told, incorrectly, that he would be entitled to claim VAT incurred in the three years prior to VAT registration and, based on this advice, delayed registering.

In fact, the three-year rule applies only to goods that are still on hand at the time of registration. The majority of the expenditure incurred by Mr Noor related to services, which meant he was only able to reclaim VAT incurred in the six months prior to registering. Had he been given correct advice he would have registered from an earlier date.

Nevertheless HMRC refused either to refund the VAT or allow an earlier registration date, which meant that Mr Noor lost quite a lot of money on the project. To add insult to injury, the Upper Tribunal also found in favour of HMRC.

It may be advisable therefore to seek a second opinion rather than rely on HMRC.

The Robinson family case – SDLT update

In the previous edition of Shipshape, we highlighted the relaxation of the transfer of a business as a going concern (TOGC) rules following the outcome of a VAT tribunal case involving Robinson Family Ltd. Since then, HMRC has confirmed that excess SDLT paid as a result of the previous TOGC policy can be reclaimed. Claims must be made within four years of the transaction.

Place of supply – new rules for telecoms, broadcasting and e-services

The VAT place of supply rules have been going through a series of changes since 1 January 2010 and the next phase is due to take place on 1 January 2015.

Those affected are EU businesses making B2C supplies of broadcasting, telecommunications and e-services.

At the moment these services are subject to VAT according to the place where the supplier is based, but from 1 January 2015 they will be taxed according to where the customer is based.

Under normal VAT rules this would mean that affected businesses would have an immediate requirement to register for VAT in every EU country in which they have clients. So, to make life easier, affected businesses will be given the opportunity to register in only one EU country via what is being called the 'mini one-stop shop'.

Affected businesses will still be required to charge VAT at the rate appropriate in their customers' country, but will only have to do so on one VAT return and will only have to deal with one VAT authority.

IT and accounting systems will, therefore, need to have a mechanism in place to identify where the customer is based and apply VAT accordingly.

Hotel function rooms

Most businesses in the hotel sector that hire out function rooms for a party, wedding or similar event would hope to be asked to provide both the room and the catering.

However, some clients may only want the room and will arrange for someone else to provide the catering.

In the past, HMRC allowed this type of room-only supply to be treated as VAT exempt unless the hotel had made an Option To Tax on its premises.

This treatment is no longer accepted and HMRC will expect VAT to be applied if the room is being let for a use that involves catering, regardless of who provides the catering.

This change mainly affects businesses that operate hotels, boarding houses or similar establishments. It could, however, apply to a farmer who, for example, hires out a barn for a party, but also happens to offer bed & breakfast accommodation at the farm, even though the two activities appear to be completely unconnected.

Tom Greene, managing director of Identity Direct Ltd in Australia, talks to Shipshape about its expansion into the UK.

A tale from Down Under

identitydirect
YOUR PERSONALISED STORE

"Shipleys provided us with appropriate tax advice at a crucial time when we were both manufacturing in the UK and shipping into the UK from our New Zealand manufacturing plant."

Tom Greene, managing director of Identity Direct Ltd

Identity Direct Ltd is a family-owned business, headquartered in Australia. It began trading in 1992 as a mail order business after developing a small library of personalised children's books. Since then the business has gone from strength to strength. "Over the past 20 years we have grown to the point where we now have a turnover of approximately £12m, marketing an extensive range of personalised products in Australia, New Zealand, the UK, US and Canada," explains Tom.

Famous names

Tom attributes the success of the business to "our uncompromising commitment to product quality and customer service, and building key strategic partnerships in each market".

The past seven years has seen Identity Direct make the transition from a traditional mail order company to a more e-tailer-based model, with almost 75% of customer orders placed through its global websites. The company has also developed licensing arrangements with organisations such as Disney, Marvel, Nickelodeon and Sesame.

UK appeal

The UK consumer market was the next logical step for Identity Direct. The core personalised children's book product was easy to migrate into the UK because of "the language base, a high population with a relatively high disposable income and a strong heritage as mail order buyers who were early adopters of the internet", says Tom.

Tax challenges

Tom says the most difficult challenges of breaking into the UK have all been a consequence of VAT-related issues. "Our books were zero rated for VAT and as the product range grew, we continued to manufacture and ship products using international direct entry procedures of postal networks where VAT was payable to customs on any product which had a value in excess of the mail order importation value threshold at that time."

This approach worked well for Identity Direct for some years, but changing consumer expectations – mainly as a result of internet shopping and a desire by our customers to receive products faster – led to the decision to start manufacturing products in the UK.

"To set up in the UK, we had to seek EORI permits for base stock being imported from China and other markets. We also had to establish full VAT-reporting capabilities, which our systems were not equipped for.

"Shipleys has helped the business by providing an understanding of the pluses and minuses of the structural options available and assisting with implementing the decisions," explains Tom. "They provided us with appropriate tax advice, attending to VAT registrations and giving us guidance on how to lodge our VAT returns, which was crucial at a time when we were both manufacturing in the UK and shipping into the UK from our New Zealand manufacturing plant."

Future opportunities

Looking to the future, Tom views the internet as an ongoing challenge for Identity Direct, giving global market access to any marketer, and the rapidly reducing cost base of digital printing and design, removing many barriers to entry for competitors. At the same time, he sees it as providing "unlimited opportunity to accelerate growth, and leverage existing investments in products and infrastructure".

For more information on Identity Direct, visit www.identitydirect.co.uk.

In case you wondered, the EORI (economic operator registration identification) permit is an EU-wide customs registration scheme.

Royal appointment

When the Queen was awarded an Honorary Bafta (for her Olympics cameo appearance) at a British Film Industry celebration held at Windsor Castle earlier this year, Shipleys' own Managing Principal was in attendance and privileged to be introduced to Her Majesty. An official photograph was taken but sadly permission to reproduce it in *Shipshape* was not granted, so you'll have to make do with this!

Shipleys' fee protection service – renewal reminder

A quick reminder about our fee protection service designed to cover clients in the event of a tax enquiry.

If you sign up to this service 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. As a Shipshape reader, you will no doubt be aware that HMRC has shifted much of the burden of tax compliance on to the taxpayer and is placing more emphasis on enquiries, which can be very costly and time-consuming. No-one welcomes close scrutiny from the tax office.

OCT 31ST

For clients taking advantage of this service, the annual renewal date is October 31, by which date the fee must be paid if continuous cover is to be enjoyed, so please look out for the renewal paperwork.

If you are interested in taking up the service please speak to your usual Shipleys contact.

Charity bike ride

On 16 June a team from Shipleys took part in the London to Brighton bike ride raising £1,300 for The British Heart Foundation!

shipleys LLP Alumni

Where are they now?

In the first of what we hope will be a regular feature in Shipshape, we bring you some brief news on what may be familiar names.

Alan Charlesworth (audit senior until July 1987)

After leaving Shipley Blackburn as it was in 1987, Alan worked for Arthur Young in London and Bermuda, before joining the recruitment industry. He is now Managing Director of international recruitment company IPS Group, having helped lead a management buyout in 1991, and is also a Director of Anakin Seal, the legal recruitment specialists. He still manages to give time to charitable interests and over the years has held a number of trusteeships.

Alan recalls starting his training with the "Mann of Moorgate course" with "the inimical Graham Baxter" and his first experiences of "doing the petty cash at Linklaters under the (not so) watchful eye of Bob", incorporating many visits to The Jamaica.

Deviesh Raikundalia (corporate recovery assistant manager until January 2010)

Congratulations to Deviesh who has been appointed a director of recovery specialists Springfields, in Leicester.

Alison Maguire (audit manager until August 2012)

As some readers may know, Alison tragically lost her daughter Niamh in 2009 to a rare condition, mitochondrial disease. Alison's loss prompted a radical career change and after volunteering for the Lily Foundation, the UK's only charity dedicated to the rare disease, she decided to accept the position of Director of Research and Family Support. Alison now liaises with hospitals on funding dedicated to research into the treatment of mitochondrial disease. www.thelilyfoundation.org.uk

If you're an alumnus of the firm, tell us what you've been up to. E-mail deys@shipleys.com. Please also join our LinkedIn group, Shipleys Alumni.

Obituary

Sadly, former Shipleys Partner **Gordon Dean** passed away earlier this year. He became a partner in 1968, based at Wembley Park and Harrow, but retired early due to ill health in 1991. Gordon will be fondly remembered for his love of cigars.

Pensions auto-enrolment

Employers take action!

Most employers are aware that rules are being introduced which will require them to enrol eligible employees into a qualifying workplace pension scheme, and to make contributions. This is designed to address the widespread failure of people to adequately provide for their retirement. Seven in ten private sector workers do not currently pay into a retirement scheme.

1 Act now

- Nominate a point of contact and register them with The Pensions Regulator (TPR)
- Know your staging date and develop a plan

2 Between now and staging

- Assess your workforce
- Review your pensions arrangements
- Communicate the changes to all your workers

3 At staging and beyond

- Automatically enrol eligible jobholders into a pension scheme
- Register with TPR and keep records
- Contribute to your workers' pensions

The clock is ticking

Just about all employers will be affected – even those who simply employ a nanny, for example, not just those with at least five employees as was the case with stakeholder pensions. The date your scheme must be up and running, known as the 'staging date', depends on the number of people in your PAYE scheme on 1 April 2012. Employers are affected in size order with the largest already required to have implemented their schemes. More employers are affected every month until 1 April 2017 and by then almost everyone will be covered.

TPR will write to you giving 18 months notice, and while this might sound like a long time, in practice it might be quite a challenge to get everything done. At least one larger insurance company has said that it will not take on any employers, irrespective of size, who approach them less than six months before their staging date.

Existing schemes

If you're planning to use your current scheme you need to check that it meets all the auto-enrolment rules. For example, some existing schemes require an employee to have held their job for at least six months or to be aged 25 or over. These restrictions mean such a scheme will not qualify and you'll need to amend it or set up another one alongside it.

Where can I get help?

The main options include:

- **TPR's website** www.thepensionsregulator.gov.uk – a lot of detailed guidance here. However, this could be time consuming and hard going for those who are unfamiliar with this area.
- **Independent Financial Advisers (IFAs)** – a number of IFAs are offering fee-based advice to employers. A typical time-based charge to work out what to do would be in the region of £3,000, with additional costs depending upon the level of involvement required.
- **Pension providers** – These include

  NEST, run by a non-departmental public body that operates at arm's length from government. It is primarily an on-line service with tools.

  Large insurance companies such as AVIVA, AON, Legal & General, Fidelity.

  The People's Pension – specifically designed for automatic enrolment, it is provided and administered by B&CE (Building & Civil Engineering) one of the more experienced providers of high volume auto-enrolment workplace pensions.

Some commentators have suggested that there might not be much choice, as pension providers, particularly the larger insurance companies, may prove unwilling to take on smaller companies (due to the modest fees), or insist that they go via an independent financial adviser for the advice and guidance. But given the relatively limited period over which employers will need this advice, not all IFAs are focusing on it and as time goes by it could be increasingly difficult to find an IFA with the right expertise and spare capacity.

Act now!

Our advice is to get on with auto-enrolment straight away – complete step 1 above and then get cracking on step 2. If you leave it till later you may well struggle to get the help you need. Those who fail to comply risk fines and legal action. Please let us know if you'd like our assistance.

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