

## Trading as a Company – Does it Still Save Tax?

**The Chancellor is gradually cranking up the rate of tax on small companies over the next three years. This has important implications for deciding whether to trade as a company or an unincorporated business.**

Recently, even the smallest of businesses could have benefited from trading as a limited company, but now the tide has started to turn. Companies with profits of up to £300,000 a year will see the tax rate on their profits rise by 1% to 20% for the year to 31 March 2008, and then another 1% in each of the

following two years. Small companies will not benefit from the 2% cut to the mainstream rate in 2008.

Trading as a limited company and drawing profits mainly as dividends can still save you money because you will avoid national insurance contributions. However, at lower profit levels, the benefit may not be worth the cost and inconvenience of setting up and running a company. For example, on profits of £20,000, the saving is now only around £1,300. Future tax changes will erode this advantage even further.

At higher profit levels, incorporation remains generally worthwhile. For example, if your profits are £50,000, trading as a limited company could still save you nearly £4,000 – and more if you leave some of the profits in the company.

Tax is not the only factor in deciding whether to trade through a company. For example, limited liability can be very desirable, although this is



*Is the tax tide turning?*

also available through a limited liability partnership (LLP). We would be happy to evaluate and discuss the costs and benefits to you of incorporating or self-employment.

## Planning Your Way to Success

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Business Plus

**Far too many people discover as they get close to retirement age, that they are far further from retirement than they ever realised. A properly constructed and used business plan can ensure that doesn't happen to you.**

We all need a business plan at some time or other. Usually, it is when we want to generate some funding for our business. As a general guide, a plan to obtain bank borrowing will typically run to 20 pages. If we are looking for equity funding, then 30 pages is the norm.

No wonder then, that once the funding is in place, we retire the plan to the archives, never to be seen again.

But a business plan should be much more than that. Used properly it will keep you on track towards your ultimate goals, because, let's face it, in the middle of all the daily emergencies, it's all too easy to lose track of where you are going.

So what should a working business plan look like? Well, it really does depend on the number of people that need to understand where the company is going. For the average small company, that means the plan should consist of only 1 to 2 pages of text, and 2 excel spreadsheets. And this is the revolutionary bit - **company performance should be compared against it every month.**

The plan offers:

- Regular monthly meeting to decide and review goals, priorities and actions.

- Telephone helpline for any problems or issues that arise in the month.

- Monthly newsletter offering suggestions and advice on a whole range of topics.

- Discounts on a range of services, including phone costs, cars, utility bills, insurance etc.

- Introduction to our bank of business specialists for further assistance with any business matters.

- 25% discount on any further assistance provided by Precept Mentoring Group Ltd.

If you would like to know more about producing a working business plan, please call on 01509 212890 or e-mail us at [bp@turnerandsmith.co.uk](mailto:bp@turnerandsmith.co.uk).

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# tax ISSUES

## 'Amnesty' for Offshore Tax Dodgers



**Anyone who has failed to declare tax liabilities of any type can do so now and suffer a penalty of only 10% of the underpaid tax, but it is essential to act quickly. HM Revenue & Customs (HMRC) has announced a new disclosure facility, dubbed an 'amnesty' in much of the press.**

Individuals must have come forward by 22 June 2007 and provide full details by 26 November 2007. There is no penalty at all if the income to declare is less than £2,500. Normally, penalties of around 30% of the tax are charged, and up to 60% in the worst cases where HMRC discovers a person has not declared income, although a 100% penalty is possible in theory.

The 'amnesty' is mainly directed at people who have not paid tax on offshore income and HMRC has put a special procedure in place for those in this position to notify and declare that income and any other liabilities. What has received much less publicity is that taxpayers who do not have undeclared offshore income can disclose

other tax liabilities at any tax office. If they have notified by 22 June 2007, they can expect similar terms.

After a number of court cases and the implementation of the European Savings Directive, HMRC is now believed to have more information than it can handle about UK residents who hold offshore accounts, and considers that the new disclosure regime is the best way to maximise revenue.

It would be dangerous for people with undeclared overseas income to ignore the offer in the belief that they will not be found out. HMRC says that after the notification deadline has passed, it will link the information it has obtained with tax returns and investigate any mismatch. HMRC will then seek penalties that are unlikely to be less than 30% of the tax due.

The low penalty is not the only attraction. HMRC has said that most disclosures will be accepted without question and it will allow reasonable estimates where it is impossible to obtain records,

such as bank statements. Normally, where HMRC makes a discovery of undeclared offshore income, taxpayers are subjected to a lengthy enquiry into all their tax affairs. Such enquiries are time-consuming and tend to cost considerable amounts in professional fees.

These may also result in taxpayers having to accept higher tax liabilities than necessary because they cannot prove they have declared all their other income, especially if they are self-employed or company directors. HMRC usually works on the principle that if a person has failed to declare one type of income, such as offshore interest, they have probably done the same in other areas.

We hope our clients have long known that placing investments offshore does not avoid UK tax on the income they generate, and have given us full details of all their income, wherever it arises, to record on tax returns. If not, or if you have a friend or relative who needs help in disclosing income under the new disclosure facility, please tell us without delay.

## Business Rates Blow to Landlords



**If you own an empty business property, from 1 April 2008 you will start to pay full business rates after just three months of the vacancy.**

If the property is classed as industrial premises or

warehousing, the rates-free period will be six months. After this initial three or six-month period, full business rates will apply. Empty properties held by charities will remain exempt from rates.

The Royal Institution of Chartered Surveyors believes that the removal of the relief will cost the commercial property

sector more than £1 billion a year. At present, offices and retail premises are eligible for 100% relief for the first three months followed by 50% relief thereafter. Empty industrial premises are given 100% relief indefinitely. The changes are aimed at increasing the supply of

commercial property for rent and to boost the number of brownfield sites for development.

The problem, as every property owner knows, is that finding the right tenant can often take much longer than three or six months. As well as having to pay higher rates while the property is empty, owners might then have to accept a lower rent to get the property occupied.

The government is also looking at other aspects of business rates. In particular, business rates may also be extended to land that is derelict or is vacant having previously been developed.



## Maternity Benefits

**Pregnant employees will now benefit from more generous maternity rights. The new rules apply to women with babies due on or after 1 April 2007, although they also impose additional responsibilities on such women towards their employers.**

Every woman is now entitled to take up to one year's maternity leave regardless of her length of service with her employer.

# Capital Allowances Get Budget Boost



**Major changes to capital allowances for expenditure on plant & machinery (P&M), buildings and research & development (R&D) have been announced in the Budget, with most of the changes taking effect next year.**

## **The 100% allowance for the first £50,000 of expenditure on P&M**

An important change will be the new annual 100% investment allowance for the first £50,000 of expenditure on plant & machinery which will replace first-year capital allowances. The details and scope are subject to

consultation, but according to the Budget report, companies, sole traders and partnerships of any size will be able to claim the new allowance for expenditure on most P&M apart from cars.

If you are planning to buy P&M, you may want to wait until April

2008, provided the delay will not harm your business. The allowance will only accelerate tax relief that you would have received anyway. There is no point delaying purchases to reduce your tax next year if your profits suffer because your business does not have the equipment it needs.

For small businesses the additional benefit of the new allowance will be less because they already qualify for immediate tax relief on half their expenditure on qualifying P&M. The Budget has extended this temporary 50% rate of first-year allowance for another year.

## **Writing-down allowances**

Another big change will be the reduction of the long-standing 25% rate of writing-down allowance to 20%. This means that if your expenditure on equipment does not qualify for a first-year allowance, it will take ten years, instead of the present eight years, before you get tax relief on nine-tenths of the cost. For businesses that do not spend more than £50,000 a year on equipment, the 20% rate will, in practice, affect only continuing allowances on purchases made before April 2008, and of course cars.

## **Industrial and agricultural buildings**

The other surprise change was that industrial and agricultural buildings allowances will be phased out. The only immediate effect is that allowances will no longer be clawed back if you sell a building on which you have claimed allowances, except for buildings in enterprise zones and contracts entered into before 21 March 2007. If you buy a used industrial building, you will be able to claim the

same allowances that the seller would have got if the building had not been sold.

The present 4% allowance will fall to 3% from April 2008, and by a further 1% a year until abolition in April 2011.

## **R&D tax credit**

Another allowance directed at encouraging business investment is the R&D tax credit, which provides enhanced tax relief for revenue expenditure on research & development. From April 2008 the rate of relief for large companies will increase from 125% to 130%. For small and medium-sized enterprises (SMEs) the tax credit will go up from 150% to a generous 175%, though this is subject to state aid approval by the European Commission.

Tax is never the only issue. We can advise you on the effect of capital purchases on your cash flow and profits and look at the options for financing investment to grow your business, taking tax and other factors into account.



## **Benefits Extended**

This is split into 26 weeks of ordinary and 26 weeks of additional maternity leave. During ordinary maternity leave, a woman normally receive all contractual benefits apart from salary.

During additional maternity leave, which follows without a gap, only certain terms of the employment contract must apply, although employers and employees may agree that other terms will continue.

Maternity pay is a separate entitlement and women must meet qualifying conditions based on their length of service and pay to qualify for it. These conditions have not changed, although a woman is now entitled to 39 weeks of statutory maternity pay (SMP) instead of 26.

As before, the first six weeks are paid at 90% of the woman's average earnings and the remaining period at the statutory rate of £112.75 a week. Small employers – those who paid £45,000 or less in national insurance in the previous year – can claim back 104.5% of SMP, and larger employers can claim back 92%.

A new and welcome feature is that a woman on maternity

leave can do up to ten days' mutually agreed paid work, called 'keeping in touch' without losing her SMP. The expectation is that these days will be used to attend training events or meetings, but a woman can also carry out any other agreed employment duties. The law now also makes it clear that the employer can make 'reasonable contact' with an employee during maternity leave.

Employees must now provide at least eight weeks' notice, instead of four weeks, if they want to return early from maternity leave. All these rules also apply to employees taking statutory adoption leave, where the child is due to be adopted after 31 March 2007.

Legislation introduced last year also makes provision for fathers



to take up to 26 weeks of additional paternity leave before the child's first birthday. A father would only be able to take additional leave if the mother has returned to work. No start date has been set for this change but it is likely to be April 2009.

We can help you plan ahead so that your business suffers the minimum disruption if a key employee takes maternity leave or is absent for any other reason.



## How the Smoking Ban Will Affect Your Business

**The smoking ban, which comes into effect in England from 1 July 2007 – following the rest of the UK – will affect most enclosed workplaces, including vehicles, used by more than one person or to which the public have access.**

Businesses will have to put up no smoking signs at every entrance to smoke-free premises, including staff-only entrances and fire exits. The signs must have the specified wording, be A5 in size and include

the international no smoking symbol. Smoke-free vehicles must display a sign in every compartment to which employees or the public have access.

Anyone in charge of a workplace must also ensure smoking does not take place by taking whatever reasonable measures are needed. Penalties of up to £2,500 can be imposed on employers who turn a blind eye to smoking. Failure to display a no smoking sign will attract a fixed penalty of £200, and more if the case goes to court.

Employers are allowed to provide smoking shelters, but these are not compulsory. They will need planning permission, which may take some time to obtain in the run-up to the ban, and must comply with strict rules to avoid being classified themselves as smoke-free premises. Exceptions to the ban are mainly for premises that are partly residential, including hotels which may allow smoking in specific rooms, subject to strict conditions.

The ban does not, of course, mean that employees will stop smoking. Smokers who cannot go without a cigarette will need to take a break to smoke, as they do now in places that are already smoke-free. This can cause resentment among non-smokers. Having a clear company policy on smoking, developed in consultation with employees, should help avoid such friction



and ensure smokers stick to rules regarding the timing of breaks. Figures from Action on Smoking and Health (ASH) indicate that the average smoker spends 115 hours a year on untimetabled cigarette breaks during work.

Employers might also consider offering help to employees to give up smoking. This could have economic benefits beyond the elimination of smoking breaks. Every year around 34 million working days are lost in England and Wales because of smoking-related sick leave, according to a 2004 study published in the *British Medical Journal*.



## Making the Most of Mobile Technology

**Not being in contact with your office for even an hour can affect your bottom line, so being able to access voice and data services using the latest mobile technology can give you a real competitive advantage.**

The challenge is to develop a mobile communications strategy that meets both your business and budgetary needs while making the most productive use of employee time.

Mobile technology can change the way you do business and therefore save you time and money. Devices include portable office components that range from laptops, palmtops and personal digital assistants (PDAs)

to mobile phones. These devices can use a number of communication technologies either wirelessly or by using dial-up services or connecting by cable.

You can use this type of technology to perform any number of normal office-based activities while out of the office. These include accessing the internet, preparing and giving customer presentations and linking directly into the office network to access customer databases and accounting systems and to check stock availability. You should also not ignore more straightforward services that enable you to re-direct your phone to a handset that will answer.

Before you commit any money to a new or upgraded piece of mobile technology you should assess the real needs of your business both today and in the future and find out as much as you can about the technology that is available. Being able to access data and voice services while away from the office is critical for many growing businesses, but exact needs will always be shaped by the type of business you are in. Security also needs to be considered so that mobile devices do not expose valuable data to unauthorised people.

Choosing a provider is an important decision, not least because you will need to keep ahead of the curve in terms of new technological developments and tariff charges. Money can be saved by comparing tariffs before you buy and by continuing to carry out regular checks on the competitiveness of other providers after you have done so. Inertia can cost hundreds, if not thousands, of pounds.

You should also make sure that providers offer detailed billing



to help you pinpoint where your business is overspending. And if you do not have one, you should draw up a company policy in relation to mobile technology to help encourage good corporate usage.

There has been a lot of media focus on the money saving potential of VoIP (Voice over Internet Protocol) and this technology has now been developed to the point that makes it a real business option both from a cost saving perspective and because of the flexibility it provides. But before adopting any new technology you should compare providers and look at the downsides and risks, including the security aspects.