

**MILSTED
LANGDON**

Chartered Accountants

MILSTED LANGDON: BUSINESS ADVANTAGE • PEACE OF MIND

NEWSLETTER

JULY 2011 EDITION

BOOST FOR INVESTORS SET TO BENEFIT BUSINESSES

Changes that will benefit small and growing businesses and investors

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Designed for businesses to grow and create jobs



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WELCOME



Jonathan Langdon

Welcome to the latest issue of Milsted Langdon News, our regular bulletin bringing you news and updates on issues that may affect you financially.

We've included a range of tax and financial developments that we hope will be of interest to readers in both their private and business lives, including an overview of Chancellor George Osborne's Budget on 23 March.

Other topics include a focus on Milsted Langdon Legacy

Services, which is designed to help business owners to plan effectively for the future security of their family and the continuity of their business in the event of unforeseen death or serious disability.

We also look at how changes to Enterprise Investment Schemes (EIS) announced in the March Budget could help bring new benefits to both entrepreneurs and investors.

We would welcome your feedback on the content, or ideas for topics that you'd like to see featured in the future, so if you would like to comment please email advice@milsted-langdon.co.uk or call our **Taunton office** on **01823 445566**, our **Bristol office** on **0117 945 2500** or our **Yeovil office** on **01935 383500**.

PLANNING AHEAD MAKES SOUND BUSINESS SENSE



Simon Denton

We all want our families to be financially secure when we are no longer around to look after them. If you own and run a business that may have taken years to establish and grow, it's natural that you want your enterprise to benefit your family in the future.

Thinking about the consequences of an accident or illness that causes sudden or unexpected death or severe incapacity is something most of us would prefer not to do.

But when we have families and businesses depending on us, putting structured, personalised plans in place to deal with all the issues that follow a death or incapacity is essential. That's why we have developed Milsted Langdon Legacy Services.

This new service is designed to help people ensure that their business and financial affairs will be looked after efficiently and effectively in the event of unforeseen death or serious disability.

Working with lawyers where appropriate, we use our tax, business and financial knowledge and experience to provide practical, professional guidance on the measures you can put in place.

Where your business is concerned, for example, this includes drawing up a business living will that would enable a nominated person or people to take over the reins and keep your business running in the interim and also sets out your wishes for the future of the business, such as an early sale, an orderly wind down or retaining it as a going concern within the family.

Other areas we can assist with include inheritance tax planning and putting in place a professionally drafted will and Lasting Power of Attorney, which allows a trusted person, or persons to make decisions about your non-business financial and property affairs and your health and personal welfare when you are no longer able to do so yourself through mental incapacity.

We hope the plans we offer through Milsted Langdon Legacy Services will never be needed. But if tragedy does strike, having structured arrangements already in place will make it a little easier for your loved ones to deal with potentially challenging situations and spare them from making tough decisions at a very difficult time.



MAKE THE MOST OF YOUR MANAGEMENT INFORMATION



Chris Downing

There's no disputing the fact that anyone who runs a business wants to give themselves the best possible chance of success.

But all too often, businesses can be at a real disadvantage because owners and managers don't fully understand how they are performing financially or can't find the financial data they need to make key

decisions within their accounting systems.

At Milsted Langdon, our Business Intelligence team has developed a new service specifically designed to tackle this problem and we've already helped a number of business clients to improve the quality of their management information.

Business Intelligence Solutions is a cost-effective way to help business owners unlock and make sense of key financial information hidden in their accounting software and to use the data effectively, to tackle problem areas and strengthen their businesses for the future.

Our fresh approach to the management accounts and graphs we produce as part of Business Intelligence Solutions provides business owners and managers with timely, user-friendly tools to monitor, report and act on key performance indicators.

Our flexible service means that we'll tailor our solutions to individual requirements, including monthly/quarterly management reporting, cash flow forecasts, reporting against budgets and total spend by customer/supplier and top customer/supplier analysis. We can even create desktop-based 'live' reports and push graphs to your iPhone or iPad!

One client described the service as "a breath of fresh air" – so if you'd like some help with taking a fresh look at your financial data, please contact us.



BOOST FOR INVESTORS SET TO BENEFIT BUSINESSES



Steve Horton

It's an ill wind that blows no good, as the saying goes, and one measure announced in the 23 March Budget is set to blow some good news in two directions.

Chancellor George Osborne announced changes to the Enterprise Investment Scheme (EIS) that will benefit small and growing businesses and people willing to take a higher risk tax planning opportunity.

EIS is designed to help businesses raise additional funds for growth through private investors. Up until April this year, it was restricted to companies with fewer than 50 employees and no more than £7 million in gross assets before the investment, with a £2 million limit on how much they could raise in a year.

Each individual was also limited to an annual investment of £500,000, which attracted income tax relief of 20 per cent.

Since April 2011 the income tax relief rate has been increased to 30 per cent (subject to State aid approval) and from next April, the restrictions will be loosened further still.

The scheme will be opened up to companies with fewer than 250 employees and no more than £15 million in gross assets pre-investment and they will be able to raise £10 million a year in this way. Individuals will also be able to invest £1 million each year through EIS.

EIS is a higher risk investment option but the tax relief involved can make it worthwhile for certain people. For example, business owners can defer payment of capital gains tax on the proceeds of the sale of their business by putting money into an EIS.

The investor must subscribe for qualifying shares up to twelve months before or within three years after the gain was made and a claim for relief must be made no later than four years following the end of the tax year in which the shares were issued.

EIS may also be an option for people wanting to reduce the inheritance tax (IHT) liability. By investing in an EIS, the funds become a business asset that is taken out of IHT provided the investor survives for two years. I recently advised a client whose family was facing a potential IHT bill of £300,000 who subsequently was able to shelter that sum through an EIS investment.

There are risks attached to EIS and it is not an investment that will suit everyone. But where it is appropriate to their attitude to risk, EIS offers a useful tax mitigation opportunity that could also help Britain's enterprising and innovative smaller businesses move on to bigger and better things.



AVOIDANCE OR EVASION? YOU DECIDE...



Elaine Durrant

It has always been pretty clearly understood that tax evasion is wrong. It involves breaking the law and is a criminal act.

Tax avoidance, on the other hand, is entirely above board, a process that takes place within the tax rules and legislation to identify and make use of opportunities to reduce tax bills.

Over recent years, however, we have seen successive governments making an enthusiastic attempt to muddy the waters between tax avoidance and evasion. Last September, for instance, the coalition government announced £900 million of funding to tackle non-compliance in the tax system, designed to bring in around £7 billion per annum by 2014-15 in extra tax.

Fair enough, you might say. However, the press release announcing this good news included a section titled "Avoidance & Evasion" that went on to say this area of work will cover "Making it harder for individuals and companies to avoid tax and working to prevent tax avoidance before it happens."

You'll note the reference is to "avoidance" rather than "evasion". So here we have another subtle blurring of the distinction between the two, with the terms seemingly becoming interchangeable in the eyes of the government and HM Revenue & Customs.

The reality is that different governments have created a rod for their own back by building up layer after layer of tax legislation – at the same time creating more and more routes through which it is entirely legitimate to reduce tax bills – that accountants and advisors seem to understand rather better than the people who drafted the rules.

A classic example came in 2002 when then Chancellor Gordon Brown introduced a nil rate band of corporation tax on taxable profits of up to £10,000, but appeared to be completely unprepared for the entirely understandable surge in incorporations by self-employed workers and very small businesses.

Perhaps the work of the Office of Tax Simplification (OTS) will help to streamline our hugely complicated system. If the government wants to cut out tax avoidance – as well as evasion – that would be a big step forward.

John Whiting, tax director of the OTS, is highly respected and speaks a lot of sense. However, the recommendations of the OTS's first tranche of work, which explored 155 reliefs – out of a total of 1,042 – included scrapping just 47 of them. At that rate, we'll still be left with around 700 reliefs, and that's if the OTS looks at them all.

Work we have done with clients to reduce their tax bills – in areas including extracting cash from companies, income tax, capital gains tax and stamp duty land tax – have saved them tens of thousands of pounds, entirely legally. Some of these have come as a direct result of the increase in the top rate of tax to 50p in the pound.

When the sums involved are that substantial, it makes sense for taxpayers to take legitimate steps to pay less tax, courtesy of a system that is creaking at the seams and demonstrates an underlying lack of competence all too often. A recent example came in March, when people who started receiving their state pension in 2010/2011 learned they had underpaid tax because their pension had not been included in their PAYE codes due to faults with the National Insurance and PAYE Service computer.

No-one would argue with a clampdown on illegal tax evasion. Legally organising your tax affairs to reduce your bill is an entirely different matter. Muddying the waters between the two seems to involve some smoke and mirrors on the government's part, perhaps designed to gloss over the flaws in a tax system unfit for purpose and to turn the focus – once again – on hard-pressed taxpayers.



SELLING UP DESERVES CAREFUL CONSIDERATION



Rob Chedzoy

Selling a business is a complex issue with dozens of aspects to consider, from deciding when the time is right to finding a buyer and agreeing on the value.

Not least of the issues to think about is how to make sure that the sale produces the maximum return on your investment, both in financial terms and to reflect the

hard work you've put in to make your enterprise a success over the years.

The tax planning angle is one area where expert advice is essential. For example, what do you do if you've found a purchaser you want to do business with but they want to delay some (or all) of their payment for your company to a later date, by giving you loan notes for the balance?

This arrangement is known technically as deferred consideration and is a useful tool for enabling transactions to go ahead, particularly in the current economic climate when sourcing the upfront funding for such transactions can be challenging.

However, deferred consideration does have implications for entrepreneurs' relief, which will cut the rate of capital gains tax you pay on the sale proceeds to just ten per cent, on a lifetime limit of £10 million, the new maximum introduced in the March Budget.

When you take loan notes to cover the deferred consideration – redeemable at a future date for the remainder – you'll need to decide whether to receive entrepreneurs' relief and pay the tax due on the notes at the time of the transaction. The downside is that you do need enough cash to hand to pay the CGT due.

Alternatively, you can pay CGT at the current rate when the loan notes are cashed in, but this is likely to be much higher than 10 per cent. Currently, the rate is 28 per cent.

There are other courses of action available, such as structuring the deal so that you retain shares in the business in such a way that when the loan notes are redeemed, you still qualify for entrepreneurs' relief.

These are big decisions that require careful consideration by anyone thinking about selling a business in the coming years. Making the decision to take expert advice will make the process much easier.

INSOLVENCY EXPERTISE OFFERS NEW HOPE



Roger Isaacs

Running a business at any time can be tough. Trying to run a business when creditors are constantly chasing for money that you want to – but can't afford to – pay back is almost impossible.

But expert advice can make a huge difference, not only in terms of getting a business back on track financially but in rebuilding confidence and belief for the future.

That's the experience of Jim Mason*, who turned to Milsted Langdon after he found himself struggling to keep his business going under the constant pressure of creditors.

An experienced businessman, Jim had launched a new venture that was fundamentally sound and profitable but was dogged by high set-up costs that left a legacy of poor cash flow, leaving him unable to satisfy terms with suppliers in the specified time.

He said: "We had some cruel months after Christmas 2010. Things became pretty aggressive and the effect of having someone ringing up every few minutes for money really takes away your business focus. Having to dodge phone calls, not because you don't want to pay but because you can't, is draining."

Jim asked his accountant to recommend advisers experienced in cases like his and was put in touch with Milsted Langdon. From his first meeting with the team, which included partner Roger Isaacs and insolvency administrator Tim Ostler, he could feel the weight lifting.

He says: "Within the first couple of minutes, they told me how I felt because they understood the emotional side of the situation. Within another ten or 15 minutes, they had done a quick analysis and could tell that we were an ideal candidate for a company voluntary arrangement (CVA).

"From the time Milsted Langdon took over, things really accelerated. I didn't have to deal with creditors' enquiries any more – Milsted Langdon dealt with it, which meant I could focus on the business again – and they contacted the creditors to present the case for the CVA to them. It really made sense, because instead of nothing, they'd receive a substantial part of what they were owed.

"They also rallied them to come to the creditors' meeting to protect their interests and as a result the CVA arrangements were approved unanimously. The whole thing took six weeks from start to finish."

Two CVAs put in place will allow Jim to pay off his creditors a high percentage of the original amount owed over a five-year period, leaving him free to concentrate on his business. He says: "My situation really underlines the value of getting advice early. Doing so has severed the pressure from creditors, allowed my self-esteem to come back and means that I can run the business with confidence again."

** Name has been changed for client confidentiality.*



'FUEL IN THE TANK' BUDGET OFFERS FOOD FOR THOUGHT



Stephen Griffiths

Chancellor George Osborne says his 2011 Budget is designed to "put fuel into the tank of the British economy" by making it easier for businesses to grow and create jobs.

He told the Commons on 23 March: "We want the words: 'Made in Britain', 'Created in Britain', 'Designed in Britain', 'Invented in Britain', to drive our nation forward. A Britain carried aloft by the march of the makers: that is how we will create jobs and support families."

Measures intended to boost businesses included a further reduction in the main rate of corporation tax, which had been due to fall to 27 per cent in April 2011. A new rate of 26 per cent was introduced from April and Mr Osborne said the rate would continue to fall by one per cent in each of the following three years, down to 23 per cent in 2014.

Other measures designed to support business growth and tax competitiveness in the UK include:

- increasing the rate of research and development (R&D) tax relief for small and medium-sized enterprises to 200 per cent in 2011 and 225 per cent in 2012
- scrapping proposals for specific regulations that would have cost business more than £350 million a year
- creating 11 Enterprise Zones across England, with simplified planning rules, superfast broadband and tax breaks for businesses, with local areas to bid for a further ten
- an exemption from new domestic regulation for businesses with fewer than ten employees and start-up businesses for three years from 1 April 2011
- doubling the lifetime limit on capital gains qualifying for entrepreneurs' relief to £10 million from April 2011.

Stephen Griffiths of Milsted Langdon said: "Small to medium businesses have had a tough couple of years and it is encouraging to see that the Government are making moves to ensure there are some positives ahead."

"With new businesses starting life with just a couple of employees, the exemption from domestic regulation will be helpful while the creation of new Enterprise Zones could help to revitalise areas in need of investment.

"The enhanced levels of tax relief on expenditure relating to R&D are also a welcome financial incentive to further innovation.

"Meanwhile, the 20 per cent small company corporation tax rate, in place since 1 April 2011, and planned progressive reduction in the main rate, to 23 per cent by 2014, may make incorporation into a limited company more attractive for some sole traders and partnerships.

"From a personal finance perspective, the reduction in the inheritance tax rate to 36 per cent for anyone leaving ten per cent of their estate to charity, from April 2012, may encourage more philanthropic giving.

"Meanwhile, the capping of pension scheme contributions to £50,000 a year, which had been previously announced but took effect only in April, will significantly affect those with higher incomes, especially when combined with the loss of personal allowances and 50 per cent tax rate for people with an income over £150,000, so higher earners need to consider seeking expert advice."

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