

## Entrepreneurs' Relief amendment



Kim Davis,  
Tax Planning Team

The Government announced a significant Finance Bill amendment on 25 June 2008 to Entrepreneurs' Relief relating to associated disposals, an area which had caused much comment in the original draft.

The amendment is a transitional provision, so that assets owned by an individual and let for a charge to their company or partnership, before 6 April 2008 (but not after that date) will now qualify for Entrepreneurs' Relief. This represents a substantial tax saving as the effective rate of tax is reduced from 18% to 10% on any gain.

Initially, under the rules for Entrepreneurs' Relief, assets owned by an individual would not have qualified in full for the relief if he or she had let them for consideration, to his or her personal company. For example, where a property is held personally, but used by the individual farmer's own company or partnership in exchange for rent, the relief would have been restricted.

However the amendment now means that any rent charged before 6 April 2008 will now not be taken into consideration when calculating restrictions to the relief.

Restrictions on assets owned by the individual, but let to unrelated third parties are not affected, as no Entrepreneurs' Relief is available in this circumstance.

## Reducing Inheritance Tax (IHT) bills



Julia Banwell,  
Chartered  
Financial Planner

"You can't take it with you" – but most of us at least want to ensure we pass as much as possible on to the family.

The Chancellors slight of hand last autumn when he appeared to increase IHT allowances has taken the subject off the front page. However, the reality is that this is still a major issue for many of the region's owner managers. At Old Mill, as well as our tax planning team, our Old Mill Financial Services consultants can help you make sure your "house is in order" and that you take advantage of some generous opportunities that the Government have on offer.

Do you have ISAs and PEPs? These are very tax efficient for income and growth during your lifetime, but will be included in your estate for Inheritance Tax purposes. If the investments are surplus to your needs it may be appropriate to consider Trust planning so this money is outside your estate seven years after the gift.

Trust planning does however involve giving money away and not yourself benefiting from it in the future which can put people off. However, for owner managers it may be more appropriate to invest in assets which qualify for Business Property Relief, which will be outside of your estate after two years. You hold these investments personally, and they do not have to be gifted away.

To avoid the full impact of Inheritance Tax and to achieve the best result for your family, it has become increasingly important to plan ahead and putting in place a number of small strategies rather than a grand one. The answer is always to make sure you get professional advice that takes into account all the factors and aspirations for you and your family. Please feel free to talk to one of our consultants to find out how Old Mill Financial Services may be able to help you.

Old Mill Financial Services are one of the first West Country IFA's to hold Corporate Chartered Financial Planner Status and are authorised and regulated by the Financial Services Authority.

## Contact Old Mill

### Chris Bowles

The Old Mill, Park Road,  
Shepton Mallet, Somerset BA4 5BS  
tel: 01749 343366  
fax: 01749 344986

### Craig Howes

Number One Goldcroft,  
Yeovil, Somerset BA21 4DX  
tel: 01935 426181  
fax: 01935 431852

### Andrew Vickery

Berkeley House, Dix's Field,  
Exeter, Devon EX1 1PZ  
tel: 01392 214635  
fax: 01392 214690

The content of this newsletter is for general information only. It should not be relied on and action which could affect your business should not be taken without appropriate professional advice. Please contact your usual Old Mill contact or local Old Mill office.



## West Country Business news

### Be proactive through the hard times

The pundits are predicting a hard time for businesses with the “recession” word on the tip of the tongue. However, what does this mean for you and your business?

The balance probabilities is that even if we do have a recession a significant majority of established businesses

will still be here in three years time. Very few doom and gloom merchants are predicting the sort of total economic meltdown that would mean this was not the case. There is a future.

However, it is important for all businesses to be

proactive and working with your advisers to ensure you make the most of the economic realities to capitalise on

any opportunity to make sure your business is in the best shape possible.

Old Mill is ideally placed to help you:

- Do you need management accounts to tell you where your business is changing, to what extent it is changing and how fast?
- What is your personal game plan – what do you want out of your business?
- Is your accountant doing their best to mitigate tax bills?
- Is there anyway you can save VAT?
- Is your business planning robust?

At Old Mill we look after over 2,000 West Country businesses through 170 staff in offices across the region. We offer a unique balance of Chartered Accountants and Chartered Financial Planners who provide real assistance to our clients.

Our mission is to provide quality service to provide financial security to you, your business and your family.

If you would like a free without obligation meeting to see how Old Mill can help your business please fill in the reply paid slip – or telephone one of our contacts on the back page of this newsletter.



Jolyon Stonehouse,  
Managing Partner

## Incorporation – is now the time?



Craig Howes,  
Director of  
Business Services

**Should your business incorporate or not? Over the past decade the answer to this seemingly simple question has swung one way and then the other on a number of occasions. So what is the latest thinking?**

One of the prime considerations has been the comparative rate of tax between Personal tax and Corporation Tax. When the government introduced a £10,000 tax free band on Corporation Tax this swung it clearly in favour of incorporation for smaller businesses. However, the Government changed its mind, and for the past three years has gradually been switching this ration in favour of Personal tax by progressively increasing the rate of Corporation Tax. The panic increase in personal tax allowances in May furthered this trend. Currently, a company would need to be earning profits in excess of around £60,000 before there is an advantage to incorporation of a level sufficient to cover the likely increased costs and accountancy fees of becoming a limited company.

However, there are other considerations which need to be looked at if incorporation is being considered. In a worsening business climate the advantages of Limited Liability needs to be taken into account. As a shareholder of a limited company in most circumstances you would not usually be liable for debts above the value of your shareholding. There are circumstances where this may not be the case, such as where personal guarantees

have been required for a loan, or you are guilty of fraud, or trading when you know a company is insolvent. However, a liability may arise through no fault of your own – particularly if a customer lands you with a significant bad debt. In the current climate the risk of this may well be increased and either incorporation or possibly invoice discounters may provide valuable protection.

There are also a number of other tax advantages to incorporation. The process of incorporation can involve a valuation of good will to the new company which can provide a valuable opportunity. Our Corporate Tax team can help look at the potential of this for your company and advise how to deal with possible Capital Gains Tax issues. National Insurance can also be mitigated through the way in which you remunerate yourself from within a limited company. There can also be advantages with making contributions to your pension and in establishing company pension schemes.

One other consideration that is worth looking at is your longer term aspirations for yourself and your business. Will your company be a saleable or transferable asset? Would a Management Buy Out be an option? If these are things you may be looking at then a limited company may be an easier form of legal entity to handle.

Whatever your situation, if you are generating profits of more than £60,000 a year, then it would be very worth while talking to a member of the Old Mill business services team and examining how incorporation may or may not suit your individual circumstances.

## VAT efficient housing redevelopments



Mark Peters,  
Director of VAT  
Consultancy

**With property prices dipping, now more than ever developers need to ensure that their projects are undertaken in a VAT efficient manner. This article briefly highlights some of the ways developers can reduce their VAT costs when redeveloping existing properties.**

Whilst the construction and first time sale of new dwellings is zero-rated, exemption applies to sales of existing properties and also to rent derived from dwellings. This means that VAT incurred on related redevelopment costs may not be recoverable. In such circumstances it is important to examine carefully the

VAT treatment of such costs to determine whether any statutory VAT reliefs may apply.

VAT is charged at the reduced rate of 5% on qualifying services supplied in the course of certain residential conversions. Essentially two types of conversion are relevant here, being conversions that result in a different number of single household dwellings, and conversions that create multiple occupancy dwellings. The former covers projects such as the conversion of a house into flats (and vice versa) or commercial premises into houses or flats. Examples of the latter include the creation of bed-sits from a family home or commercial premises.

A typical example could be a property developer who acquires offices for conversion into flats for long-term lets. As such, lettings would be exempt. He may not be able to reclaim VAT on the conversion costs so securing a 5% VAT rate on such services is of real benefit.

## Client profile

### Simon of the Arctic: Interview with Simon Saunders Design

While many of us are bemoaning the lack of sunshine so far this Summer, for Frome based Simon Saunders the weather hasn't been extreme enough.

For Simon is honing his survival skills ready for an Arctic challenge, in aid of the Anthony Nolan Trust, in February 2009. As a man who hates the cold, braving temperatures of -30 degrees, for eight days, will certainly be testing.

When Simon isn't busy trying to catch his own tea or lighting a fire he is occupied with Simon Saunders Design, the company he and his wife Karen formed in the mid 1990s.

Simon with 32 years in the design and printing industries, and Karen with 20 years in journalism, marketing and PR, combine their skills effectively. 'Good customer service is of paramount importance,' says Karen. She adds, 'With our backgrounds we are both used to working to tight deadlines and clients are often surprised that we are able to reduce their original timeframes.'

There are four main areas that they work on with businesses; corporate development, brand management, design and copy writing. 'Good brand management – the perception people have of a

company – can easily be overlooked,' says Simon. 'Often clients forget to research what it is their customers are looking for in the market place and to focus on the all important USP. We help our clients ensure their brand image and design motivate potential customers to make that all important first enquiry.'

Simon Saunders Design has taken on over forty new clients in the past year and still possesses plenty of capacity having recently recruited two new members of staff. The client list is as diverse as it is long, with an estate agent, international construction company and a well known food brand amongst the ranks.

Simon and Karen don't stop at running the design company though. As well as renovating their own house, plans are well underway for the conversion of the barns on their farm into luxury holiday cottages. As their situation became evermore complex Chris Bowles at Old Mill was able to provide guidance as to the best steps to take.

One member of Old Mill who will literally be following in Simon's footsteps is Kevin Whitmarsh, a financial services partner at Old Mill, as he will be accompanying Simon on his trip to the Arctic. Proof that a good adviser will follow you to the ends of the earth.

To find out more about Simon Saunders Design you can visit their website at [www.simonsaundersdesign.co.uk](http://www.simonsaundersdesign.co.uk) and you can sponsor Simon by visiting [www.justgiving.com/simonsarctic](http://www.justgiving.com/simonsarctic).



## Adopting the right policies



Kevin Whitmarsh,  
Financial Services  
Partner

**Key employees are vital to any successful business and in the current economic climate, can make the difference between success and failure. The good health of staff is something we often take for granted.**

Indeed, it is often the case that we only understand the impact of staff non-attendance when long term absenteeism strikes.

Many business owners do not take the simple step of insuring their key personnel. If your company lost a key employee through long term sickness would major projects have to be shelved, deadlines missed and contracts lost? Insuring against the loss or incapacity of key staff can be a cost effective way of protecting your business.

There are a whole raft of policies and protection available in the financial marketplace today so cover can be provided for most eventualities. Key Person Assurance is not an insurance product in itself, it simply enables you to use normal insurance policies to protect your business against financial loss should key people die or become seriously ill. Many different policies fall under this guise and professional independent advice should be taken before any policies are instigated.

A consideration for private limited companies that only have a small number of principal shareholders is Share Protection Insurance. As the name suggests this type of policy ensures that funds are available to buy shares from a shareholder or their estate. It also makes certain that the proceeds from the sale of the shares are paid to those that want to acquire them.

There is a raft of Life Assurance policies to choose from, be it Term Assurance or Flexible Whole of Life Assurance. Once the correct cover has been determined another consideration is how the policy should be taken out. It is possible for each Director of your company to take out a life policy on his or her own life (perhaps for the value of their shareholding) and place it in trust for the benefit of others.

For those businesses with cash in the bank setting up an offshore investment bond for amounts of £100,000 is simple and cost effective. The extra 1-2% return that can be achieved each year could be used to set up a suitable protection policy for your business.

Simply asking an independent expert to review your existing policies can often prove to be a rewarding experience. Often, inappropriate policies can be cancelled all together or replaced by more cost effective alternatives, ensuring that you adopt the right policies for your business.

## The best business to business show in the South West

**“Business South West” returns to Exeter on Thursday 16 and Friday 17 October 2008. This is the largest Business Exhibition of its kind in the South West region and is the event to attend should you wish to increase your business potential.**

With special packages for first time exhibitors, this show will place you in front of a hard to reach diverse market and enable you to showcase your business and products to the region’s most influential business people and decision makers. This well established business event is in its 14th year and attracts business owners, directors and entrepreneurs running small and medium-sized businesses (SMEs). It is also the perfect tool for sourcing new suppliers and services, with amazing opportunities

**Business South West 2008**

for ideas and special offers through assorted seminar programmes, varied workshops and presentations by significant keynote speakers.

Some of the greatly inspiring exhibitors include ITV1 West Country, the largest commercial television network in the UK, the major global financial services provider Barclays Bank Plc, the well known Chartered Institute of Management as well the powerful Federation of Small Businesses. Besides a vast amount of other very successful and influential South West companies such as Old Mill, Exeter University and First Great Western will be present at the exhibition.

Old Mill is delighted to be exhibiting at Business South West for the third year. Whether you are exhibiting or just visiting make sure you come and visit us on our stand.

# Could management accounts help your business?



Chris Bowles,  
Associate Director  
Business Services

With the business climate getting tougher it is becoming increasingly more important to know exactly how your business is performing.

There may well need to be adjustments and alterations made before the next set of annual accounts are produced.

Key performance indicators can be identified and tracked which will provide an early warning system which will not only identify potential areas of problem, but also areas of opportunity to capitalise on.

The need to make pension contributions during the current financial year to qualify for tax relief has also made management accounts more attractive.

No longer can you wait until the annual, retrospective, accounts have been produced – you need to be in a position to know what contribution you can make during the year.

Last winter a significant number of our clients undertook the opportunity to take up our offer of producing management accounts. The advantage of seeing impending tax liabilities ahead of year ends proved invaluable in almost every single case, to the extent that virtually everyone who took part in the planning was able to reduce their tax liabilities significantly by taking action prior to the tax year end of 5 April.

Moving forward to the current year, we will undoubtedly be looking to do the same in the Spring of 2009 and we would strongly advise those clients for whom the recommendation is made to produce pre year end management accounts take up that opportunity. Planning ahead is the key.



James Fowler,  
Business Services  
Manager

# Guilty until proved innocent...

The employed v self employed debate rumbles on and the news is not good.

All owner managers must be aware that if they engage the services of an individual to do anything other than provide specific set services then it is almost certain that that individual is an employee rather than self employed. If the individual is paid by the hour, takes no

risk, provides no machinery and is not entitled to send a replacement, then those are all indicative factors of an employment relationship. The risk is with you, the employer, and the reassessment of an individual from self employed to employed will see the employer having to pay the full tax liability.

Do not think that it is easy to debate either. The Inland Revenue will merely raise an assessment on what they think is the due tax and look to collect that money within 30 days, a case of guilty until proved innocent.



## Guest spot

**Justin Hopkins, Partner of Dyne Drewett Solicitors**

**The most recently appointed Partner of the law firm with offices in Somerset and Dorset, Justin's experience in the commercial property sector has culminated in a new concept which may change the way property transactions are carried out...**

It's a tricky one, how to renew confidence in the property market. With national headlines counting down to a recession and slumps in property sales reported nationwide, the UK property market has already entered a definite period of uncertainty, which at present, looks set to continue.

Developers offering to carpet, or drop the price of their new build properties, or even offer shared equity schemes have shown to do little to encourage sales and nothing for long-term confidence. This behaviour will only serve in making buyers hold fast and watch the market to see what happens.

Enter then a new approach: Negative Equity Trust, or more memorably, NET. A concept devised by commercial property specialist Justin Hopkins, which although still in discussion with many key property market players, is looking as though it may provide a way forward.

NET, if adopted by the market, would provide a scheme that not only works in the buyer's interest, but the developer also.

Simply, the developer sticks to market prices and upon completion of a sale transaction, the developer and buyer place a percentage of the completion monies into a 'ring-fenced' (protected) account, for a fixed period of time.

This percentage and period of time are yet to be determined, but for the purposes of this article and making sense of the scheme, 20% will be the percentage set aside by the developer and buyer, and two years will be the period of time this is held for.

The advantage of the scheme comes at the end of the two-year time period, when the property subject to the above transaction is revalued.

If there is a drop in the property's value, between the completion date and the revaluation date, the difference in market price is passed immediately back to the buyer. If the value dropped by 10%, the NET would be split between developer and buyer. If the revaluation amount falls below the 20% set aside, the entirety of the NET would be transferred back to the buyer. However, if the property remains the same in value, the NET will be passed on to the developer.

The aim of this new concept is to engender purchaser confidence in the UK property market, and help developers to attract sales, without having to drop property prices. The application of this proposed scheme also has potential to re-attract first time buyers to the market, alongside potential for commercial property transactions and even the second-hand property market.

Justin commented: ***"Fine-tuning is still needed to make this concept a reality, but the genuinely upbeat reaction I've received from all parties I've approached in the property market has inspired me to continue with the idea. I'm still in discussion with banks, accountants, mortgage brokers, developers and estate agents to develop the concept and am looking forward to progressing this to the next stage, so that this scheme is hopefully adopted in the near future. NET has real potential for a positive impact in the property market as it drives at a core fear – negative equity."***

Specialising in all aspects of commercial property work, including site assembly acquisition and disposal, landlord and tenant and property finance, Justin was the lead lawyer on four of the first Commonhold schemes in the country – all in the West Country.

To learn more about the above concept, or discuss your ideas with Justin Hopkins, call Dyne Drewett's head office in Sherborne on **01935 813 691**. Or call this number if you would like to discuss your legal requirements. Alternatively, send an enquiry via **[www.dynedrewett.com](http://www.dynedrewett.com)**.



## Client profile

**Bransons Motorcycles – still going at full throttle in their 30th year**

Brothers Chris and Paul Branson have been surrounded by motorbikes in their Honda showroom in Yeovil for almost three decades.

Looking relaxed amongst the shining lines of bikes and equipment the business continues to go from strength to strength, but as Paul admits, it wasn't so easy in the early days.

Paul originally trained as a mechanic in Bristol and planned to open a small repair shop, while Chris completed his apprenticeship at British Leyland. In their early 20's they were unexpectedly offered a franchise by Honda. 20 bikes were delivered, with payment due in 60 days. During the first month they didn't sell a single bike, but fortune smiled on them with the announcement that VAT would be rising. 'That was the catalyst for our first sales' confesses Paul, and they haven't looked back since. Indeed, their expertise and service has led to Bransons being voted the Number 1 Honda dealership in the South West for the past five years.

With a great deal of hard work, and a little help from Old Mill, Paul and Chris took over another motorcycle shop in Gloucester in 1999. This is now a Honda dealership, which Paul regularly commutes to by bike. The involvement of Old Mill ensured that these premises are now tax efficiently owned and their biking portfolio has increased with two further showrooms in Bristol. More recently, Chris and Paul have opened a brand new Yamaha dealership opposite their Honda premises in Yeovil and will be hosting an Open Day in September to celebrate.



So have they noticed any changes to their customer base over the years? According to Chris many of their original customers are now bringing their children in to purchase a bike and they are also seeing more women in their dealerships. 'Originally we sold more bikes to commuters, but this trend subsequently changed as bikes gained in popularity with those seeking fun in their leisure time' he says. In the current economic climate could this trend reverse again? 'People are realising the benefits of travelling by two wheels instead of four' says Paul. He adds, 'Traffic congestion, the price of petrol and ease of parking make a bike an attractive proposition. Training has improved and with the advances in suspension, braking and tyre technology bikes are safer than ever'.

With a new scooter priced at under £1400 the argument to get, 'On your bike' does seem a compelling one. To find out more about Bransons visit [www.bransonsmotorcycles.co.uk](http://www.bransonsmotorcycles.co.uk).

## The Taxman is coming

One notable feature of the past few years has been an apparent steady increase in the number of Tax inspections of small businesses.

As the officials Her Majesty's Revenue and Customs are increasingly targeted to reach budgets on tax recovered, the cynics may suggest that they have been focused on the soft targets. Evidence suggests that haulage contractors and builders have had twice the rate of inspections compared to the average business – but

there is at least a one in twenty chance that your business will be inspected.

Our experience also suggests that the inspections seem to be becoming more onerous. There is no doubt that the amount of time and hassle which owner managers of smaller businesses are put through can considerably impact on the running of the business. At Old Mill, although we always try to produce accounts in a way to minimise the risk of an enquiry, we do feel that it is now increasingly worth while taking out our Tax Enquiry Fee Protection Cover. If you would like details of this please email [jo.kemble@oldmillgroup.co.uk](mailto:jo.kemble@oldmillgroup.co.uk) or telephone her on **01935 709321**.



Bruce Lockhart,  
Tax Partner