



Coates and Partners Limited

Summer 2008

# Newsletter

## Entrepreneurs' Relief—Do You Stand To Benefit?

**Following some intense lobbying and debate, the controversial reforms to the capital gains tax (CGT) regime finally came into force on 6 April 2008. As originally announced in the Chancellor's 2007 Pre-Budget Report, indexation and taper relief have been abolished and a single rate of 18% is now applicable. A new Entrepreneurs' Relief – a supplementary measure intended to appease the concerns of the business community – is also in operation.**

Under the previous rules, which applied to 5 April 2008, many assets qualified for Business Assets Taper Relief. That was a capital gains tax relief which could, in effect, reduce the tax rate on the sale of qualifying assets from a maximum of 40% to less than 10% after as little as two complete years of ownership. The new Entrepreneurs' Relief is available on the disposal of qualifying assets which, in the right circumstances, will see the effective rate of capital gains tax again reduced to 10%.

The new relief works by reducing the first £1 million of lifetime gains by 4/9. So, for example, on £1 million of gains the tax would be:

$£1,000,000 \times 5/9 \times \text{the flat rate of } 18\% = £100,000.$

The £1 million may be made up of any number of disposals and, unlike the former retirement relief (upon which the rules are based), there is no minimum age qualification. Generally, the relief will be available to individuals on the disposal (after at least one complete qualifying year) of:

- all or part of a trading business carried on alone or in partnership
- the assets of a trading business after cessation
- shares in the individual's 'personal' trading company
- assets owned by the individual used by the individual's personal trading company or trading partnership.

Where shares are exchanged for qualifying corporate bonds (QCBs) on the sale of a company, the deferred gain will be taken as the gain after Entrepreneurs' Relief. This will likewise apply to deferrals made under the Enterprise Investment Scheme (EIS). Transitional relief will also be available for gains deferred via QCBs, EIS investment or Venture Capital Trust investment, providing the deferred gain would have qualified for Entrepreneurs' Relief if it had been in force at the time of the disposal.

It is also worth noting that not all of the assets which scored for the maximum Business Assets Taper Relief will qualify for Entrepreneurs' Relief. For example, on the disposal of shares the company must have been a trading company in which the individual was an officer or employee of the company and owned at least 5% of the ordinary share capital (and was thereby entitled to exercise at least 5% of the voting rights).

**We can help you plan for a successful and profitable business exit. Contact us to ensure you can count on the most favourable CGT rate when you come to sell your business.**

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# Into The Dragon's Den

## Securing Funding For Your Business

**Approaching a potential investor, whether it is a bank or private financial source, can be a daunting prospect. However, sufficient planning and forethought can substantially increase the likelihood of securing the vital funding needed to help your start-up business prosper, or your existing business to grow.**

### The basics

Here are some essentials to help maximise your chance of success:

- **Choose the right financier** – think carefully about the most appropriate lending source for your particular objectives. An overdraft might not be the best means of funding a long term project, for example. It is generally wise to spread your commitment over a number of sources. Seek our advice on finding the right financier.
- **Reduce the risk** – most lenders will require some form of security from you, such as a fixed or floating charge over your business assets, or a second mortgage on your home. You should always seek professional advice on these matters, particularly if the lender requires a personal guarantee.
- **Clarify your intentions** – be explicit when confirming what you will use the money for; you will need to demonstrate a clear direction for your business and explain how the loan will help your business grow – and how you will eventually repay it.

Remember, it is also important to disclose other sources of funding and any financial commitments you may have to a prospective investor.

### The business plan

A sound business plan is essential to any request for finance. It will need to include detailed and realistic projections of basic data such as current and projected balance sheets, a profit and loss account and an analysis of cash flow. You will also need to demonstrate a good understanding of your intended market. It is important not to cut corners with these calculations, and to be as accurate as possible. Do ask for our assistance with this.

Consider the following tips when developing your plan:

- **Pay attention to presentation** – organising your plan into clearly-defined sections will improve its comprehensibility. Use sub-headings, bullet points and diagrams where possible and include a concise

executive summary showing the highlights of each section.

- **Show sales and marketing savvy** – you will need to demonstrate a sound and specific understanding of your intended market, as well as clear plans for bringing your products or services to it. Knowledge of your main competitors is also vital.

- **Remain realistic** – most business plans are overoptimistic, especially regarding sales and the size of the market. Avoid creating unrealistic forecasts and attempting to borrow amounts that will financially overstretch your firm.

### The pitch

A sound business plan is the most important element in securing financial backing, but if you need to make a 'pitch' in front of potential investors, remember that first impressions count. Here are some presentation tips:

- **Prepare and rehearse a script** – practising a presentation of the key points, phrases and figures can help stave off those public speaking anxieties.
- **Deliver strong opening and closing statements** – this will bring authority and assurance to your pitch and make for a more persuasive argument.
- **Sell yourself** – An impressive business plan may help you on your way to financial success, but remember, a prospect is also investing in you. An impressive, enthusiastic but sensible individual is always at an advantage.

### Other sources of funding

Even if you are refused capital from one source, this need not spell disaster. Identify the causes behind the failure of your application and be sure to rectify these pitfalls for future requests. Your bank manager may be your first port of call, but there are alternative financial sources available. For example, your firm may be eligible for an Enterprise Capital Fund, Small Firms Loan Guarantee or a Research & Development Grant.

**A well-prepared proposal presented to a carefully chosen lending source will have a greater chance of securing funding for your business. We can help with all aspects of raising finance - contact us today.**

## Let Property Tax Campaign Launched

**HM Revenue and Customs (HMRC) has launched a new campaign to collect unpaid tax on let property profits. HMRC is writing to all those landlords it can identify whose tax return does not include an entry for property income.**

Officers at HMRC can access a significant amount of information about properties that may be let. Property owners may be traced through the Land Registry and Stamp Duty Land Tax returns, while officials can also ask letting agents to list the properties on their books. By combining this information HMRC can match property owners to their self assessment tax returns and observe any discrepancies.

Under current legislation landlords are required to include all of their rental income on the property pages of the self assessment tax return, including income that is cancelled out by expenses such as mortgage interest and repairs. The resulting loss or profit must be reported in every case.

The HMRC letter includes a form that requires details of any property income and expenses received in the last six tax years, together with some guidance notes. If you receive this correspondence it does not mean that you are under investi-

gation by HMRC. Rather, this is a more informal way of broaching the subject of undeclared income and, as such, you are not obliged to respond. However, failure to provide a satisfactory response may lead HMRC to open a formal tax enquiry.

If you receive a property declaration letter do take it seriously. It is possible that the Revenue's information contains errors; names do get confused and typing errors can occur. Ask us for advice before you respond to HMRC, but do not delay even if you think you have declared all of your income and capital gains correctly.

The Government drive to clampdown on undeclared property income has started slowly, with a just a few hundred letters sent out in the first batch. However, HMRC intends to expand the campaign to include landlords who have not submitted a tax return, and those who have no tax records at all.

**If you have friends or relatives who are letting property but have not declared the income on their tax returns, recommend that they seek advice to avoid being subject to further action by HMRC.**

## New Tax Treatment For Non-Domiciles

**Despite much speculation that they would be deferred for a year, new rules affecting the way people not domiciled in the UK will be taxed became effective from 6 April 2008.**

### What is domicile?

Domicile is a simple subject to describe in one word, but the legal definitions and tax legislation are very complex. Perhaps that is because the one word is so simple: 'home'. Your domicile is not the place you happen to be living, but 'home' – perhaps, though not necessarily, the place you were born, the place you grew up, or the place you want to be buried when you die.

For many years those domiciled outside the UK have become 'deemed domiciled' for inheritance tax once they have been resident here for at least 17 out of the previous 20 years. The worldwide estates of 'deemed domiciliaries' are taxable just as they would be for someone domiciled in the UK. There was, and still is, no such rule for income tax or capital gains tax. Instead, anyone resident but not domiciled in the UK has basically paid tax on income earned in the UK and gains on the disposal of UK assets, but only paid tax on non-UK income or gains as and when they were brought into ('remitted to') the UK. So, if the income/gains are left offshore, the result is no UK tax.

### The new rules

From 6 April a new set of rules apply. Once a person (over 18) has been resident in the UK in at least seven of the last ten tax years they will have to choose whether to accept a UK tax charge on their worldwide income and gains, or to pay a £30,000 'tax-in-advance' each year and also lose their entitlement to allowances. The £30,000 will be attributable to unremitted foreign income or gains as the person chooses, and it is expected that it will qualify for credit against any

foreign tax payable on the same income or gains. The credit should be available to offset the UK tax liability which arises if and when the income or gains are finally remitted to the UK. There will be a de minimis: the £30,000 payment will only be required if unremitted foreign income and gains exceed £2,000 in the year.

New rules have also been introduced which make it more likely that money or assets bought out of untaxed foreign income or gains will be caught for UK tax – please contact us for further information.

The decision to opt for tax on the remittance basis or the normal 'arising' basis will need to be made each year – and, fortunately, can be made after the year ends (it will be a part of the tax return preparation process, so we will discuss your position with you each year that you are affected).

Finally, there has been a tightening of the rule on what counts as a 'day' spent in the UK for the residence test (you are 'resident' in the UK for tax if you spend more than 182 'days' in the country in the tax year or your visits average more than 90 'days' per year over 4 years). From 6 April, you are present in the UK if you are here at midnight. Rules allow presence to be ignored if you are 'in transit' but not if, for example, you break your journey to have a business meeting.

**New rules can often seem to complicate matters and the latest reforms are no exception. However, steps can be taken to minimise your exposure to UK tax. If these issues affect you, you should seek advice to review your current position and your offshore financial arrangements.**

## Selling Business Property: Don't Lose Out

**Selling your business premises can be an onerous task, and one which may draw valuable time and attention away from other essential business activities. Further still, with the controversial reforms to the capital gains tax (CGT) regime now in force, it is important to take full advantage of the deductions that may be available when selling business property.**

The new rules governing CGT, which apply to disposals made after 5 April 2008, mean that individuals and trustees will no longer have the advantage of claiming indexation relief (disposals to April 1998) or taper relief (disposals from 1998 to 2008). For post-5 April disposals the measure of the taxable gain is simple: proceeds less cost equals the gain.

As the gain will potentially be taxed at a flat rate of 18%, it is important to make the most of what deductions you might have available. These could include:

- legal costs, purchase and sale
- estate agent's costs on sale
- stamp duty on purchase
- architect's fees (on new-build or improvement)
- building cost (new build or improvement)
- cost of obtaining planning consent
- cost of fixtures and fittings not already claimed for income tax
- costs of improvements

It is worth noting that the cost of improvements is allowed, providing the work resulted in an addition to value reflected at the time of sale. Repair costs are not deductible for CGT. This list applies to all property, so make sure that you retain details of all expenses relating to all property, including buy-to-lets and holiday homes.

Do not forget that other reliefs may reduce, postpone or even eliminate your CGT liability when you sell business property. For example, you might rollover the gain into new business assets, you might have capital or trading losses to offset, and of course you are entitled to a £9,600 annual exemption for 2008/09. If the disposal is connected with the disposal of a business, then Entrepreneurs' Relief might also be available. If the disposal is a gift, for example as part of your strategy for passing the family business on to younger family members, you might also be able to roll the gain over.

**We will always endeavor to ensure that your capital gains computation includes all the deductions that you may claim. However, to maximise the value of our service, discuss your plans with us as soon as possible, since timing may be key to securing more substantial tax breaks.**

## Corporate Manslaughter: The New Rules For Business

**Ensuring that you are protected against potential health and safety litigation is a necessary part of managing your business. However, this obligation now carries even greater significance following the recent changes to the law on corporate manslaughter.**

Corporate Manslaughter and Corporate Homicide Act, which came into force on 6 April 2008, business owners and company directors can now be held responsible for fatal accidents that occur as a result of defective management practices. Businesses deemed liable may incur an unlimited fine, along with a possible publicity order which can force a company to publicise details of the offence to the wider public. A court may also instruct an organisation to make changes to remedy the failures behind the death.

Businesses have now been advised to reassess their indemnity to ensure they have sufficient cover, particularly as the legislation encompasses areas where liability may not have previously been considered. For example, a company may be liable if it fails to ensure its employees' cars are kept in a roadworthy condition when being used in the course of their employment, even in cases where an individual is using their own vehicle. Consider the following actions:

### Revisit health and safety policies

Prevention is better than cure, and conducting a review of existing policies and procedures will help minimise your risk of litigation. For further help and advice on creating and operating a health and safety policy, visit [www.hse.gov.uk/business](http://www.hse.gov.uk/business).

### Seek professional guidance on the new Act

Consult your legal advisers on the details of the Act, and brief key staff on the new regulations.

### Review your firm's existing insurance cover

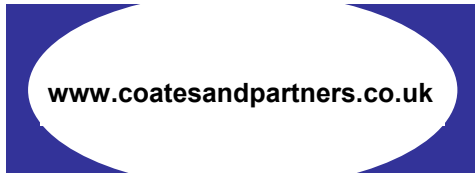
You might want to consider taking out a Directors' and Officers' (D&O) insurance policy to provide cover for a senior member of the team facing prosecution for a management failure resulting in a fatality.

**If you are concerned about the new corporate manslaughter regulations, contact your legal adviser. You should always seek professional advice before acting.**

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*"the forward looking accountants"*

Coates and Partners Limited are based in Ashbourne. We are a four director firm with excellent staff support. We predominantly look after owner managed businesses and, as we have been established for over 55 years, many clients are second and third generation.

Although mainly based in Derbyshire, we have a nationwide client base, with some clients staying with us despite relocation. We have in excess of eight hundred clients made up of a wide range of businesses including a strong international section.

As you would expect from an established firm of Chartered Accountants, we provide a full range of compliance services, ensuring that all our clients, whether corporate or not, are carefully and efficiently looked after in all aspects relating to their annual accounts and resultant tax implications. However, in addition to these services, we offer an extensive range of business development services, including strategic management and development.

Please call us for a free initial consultation.

## Web Watch - Essential Sites for Business Owners

### Business Safety

[www.businesssafety.co.uk](http://www.businesssafety.co.uk) - Provides essential information to help businesses comply with health and safety legislation.

### Information and Commissioner's Office

[www.ico.gov.uk](http://www.ico.gov.uk) - Offering information and advice on data protection and other related issues.

### Business Startups

[www.startups.co.uk](http://www.startups.co.uk) - Contains news, information and resources to help budding entrepreneurs.

### London 2012

[www.london2012.com/business](http://www.london2012.com/business) - Small businesses can register here to compete for contracts to carry out work in connection with the Olympic Games.

## Reminders for your Summer Diary

### June 2008

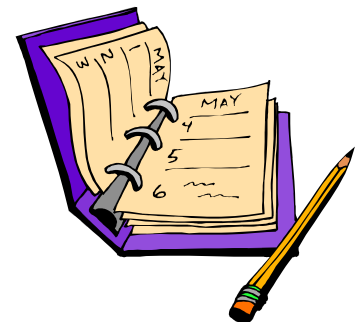
- 30 End of CT61 quarterly period.  
Last day for UK businesses to reclaim EC VAT chargeable in 2007.  
Annual adjustment for VAT partial exemption calculations (March VAT year end).

### July 2008

- 6 Deadline for submission of Form 42 (transactions in shares and securities).  
File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds.  
Issue copies of P11Ds or P9Ds to employees.
- 14 Due date for income tax for the CT61 period to 30 June 2008.
- 19/22 Quarter 1 2008/09 PAYE remittance due.  
Final date for payment of 2007/08 Class 1A NICs.
- 31 Second self assessment payment on account for 2007/08.  
Annual adjustment for VAT partial exemption calculations (April VAT year end).  
Liability to 2nd £100 penalty arises for 2007 Tax Return still not filed.  
5% surcharge on any tax unpaid for 2006/07.  
Deadline for tax credit Annual Declaration (if estimated, final figures required by 31 January 2009).

### August 2008

- 2 Last day for notifying car changes in quarter to 5 July - P46 (Car).
- 31 Annual adjustment for VAT partial exemption calculations (May VAT year end).



*This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases. It is recommended you seek professional advice before taking any action. No liability can be accepted by Coates and Partners Limited for any action taken or not taken as a result of this information.*