

SUMMER 2010
GH NEWS
The George Hay Newsletter

OBITUARY

It is with deep regret we report that one of our senior managers, John Mayhew, sadly passed away on 9th April 2010 after a short period of illness.

John was a manager based at our Biggleswade office. He joined George Hay in 1963 when he commenced his training as an accountant. He progressed to the position of manager and developed his own portfolio of clients to whom he provided valuable advice over the years.

John had lived in Biggleswade all his life and was well known by many. He was famed for his sense of humour and love of a good joke.

He will be sadly missed by his family, friends, colleagues and clients and I'm sure all those who knew him will join with all of us at George Hay in offering our sincere condolences to his family.

BUDGET WEEK

Our Tax partner Barry Jefferd was kept busy during budget week. He not only presented at our own Budget Update seminars but also could be heard on the radio.

Barry appeared on three of the local radio stations BBC Radio Cambridgeshire, Biggles FM and Shire Radio. He answered questions concerning the changes in the budget and the effect they are likely to have on individuals and businesses.

At our Budget Update seminars held on the Thursday and Friday of budget week, Barry gave an informative in-sight into the announcements made by the Chancellor giving attendees plenty to think about.

NEW PRESIDENT



Victoria Hitchcock has just started her term of office as the new President of Bedford Rotaract, Rotary for 18-30 year olds.

Victoria is based at our Biggleswade office. She has been at George Hay for five years and has been training towards her Chartered Accountancy exams. Victoria originally joined the firm in the Book keeping department; she has spent the last six months on secondment to our Letchworth office to help cover maternity leave and has now returned to Biggleswade but this time to the accounts and audit department.

Our congratulations go to Victoria on her role; we wish her a successful year in office.

GEORGE HAY HAS GOT TALENT

Not only has Britain got talent but we have discovered hidden talents amongst our Partners and Staff.

Partner Nick Willis who is based at our Biggleswade office recently decided to pursue his love of singing and joined the Bedford Choral Society. The Society performs three or four times a year usually at the Bedford Corn Exchange as well as provides the choir at Bedford's Proms in the Park, so if you pop along to one of their events you may just see a familiar face.

Our other talented member can be found in our Book Keeping department. Diane Aldridge is a budding actress at heart and putting her talents to good use has become a member of Variety Express, a charity variety show group based in North Hertfordshire. The group put on their main annual performance during the October half term week at the Plinston, in Letchworth. Diane has been busy rehearsing for this year's event. The group donate all funds raised from their performances to local charities.

FSB SMALL BUSINESS AWARDS

As reported in our last newsletter George Hay was one of the sponsors at this year's FSB Hertfordshire Small Business Awards which were held on 13 May. Being a sponsor meant that Keith Middleton a partner from our Letchworth office had the privileged position of being one of the judges. In this capacity Keith met with the applicants in order to review and assess their entries. Keith commented that there was a high standard among the entrants demonstrating the calibre of small businesses in the local area. Many of the businesses who entered had made significant advancements or achievements in their field.

The overall winner at this year's awards was Hannah Couzens Photography Ltd from Cuffley.

BUDGET UPDATE

The Chancellor, George Osborne gave the new coalition government's Emergency Budget on 22 June fulfilling their pledge to hold a budget within 50 days of coming to power.



The budget was described by the Chancellor as being 'tough but fair' and as being 'unavoidable as a result of the years of spending by the Labour government'.

We summarise some of the main announcements to impact businesses and individuals.

VAT

One of the main headlines was the rise in the VAT rate to 20% from 4 January 2011.

This will actually have very little impact on businesses which are already registered for VAT other than of course the administrative burden of implementing the changes. Businesses who are not registered for VAT and individuals may wish to consider the timing of any significant purchases to prior to the rate change.

It does of course affect Fuel Scale Charge rates which will change from 4 January 2011 and anyone who calculates their VAT using the flat rate scheme will have a revised rate to apply. Details of rates for both of the above are available from our website at www.georgehay.co.uk.

PERSONAL ALLOWANCES

The personal allowance will increase by £1,000 from April 2011. This is worth £200 a year to a basic rate tax payer, however for those who pay tax at higher rates no benefit will be seen as the level at which higher rate tax starts to be paid will correspondingly fall negating the effect of the increase in the allowance.

CAPITAL GAINS TAX

There are now two rates for individuals paying Capital Gain Tax 18% and 28%. For an individual to determine which rate they should apply they will need to first determine their total income. Any gain which falls within the unused basic rate band will have the lower rate of 18% applied to it. Any part of the gain falling above the basic rate band will have a rate of 28% applied to it.

This increase came into effect from midnight on 22 June 2010.

The life time limit of Entrepreneurs Relief was also extended from £2m to £5m of gains. The rate of CGT on gains qualifying for this relief is only 10%.

CAPITAL ALLOWANCES

The Chancellor announced a reduction in the amount of Annual Investment Allowance (AIA) for qualifying capital expenditure to £25,000. When it was introduced in 2008 AIA of £50,000 was available for businesses against purchases of capital equipment. In the last budget this was increased to £100,000, however there were few small businesses which made purchases at that kind of level.

A level of £25,000 is more significant though and any business intending to make a large purchase above £25,000 have until April 2012 to do so to ensure they receive relief on the full cost.

A reduction is also to be made from April 2012 to the rate of the writing down allowance available. It will decrease from 20% to 18% for items in the main pool, and from 10% to 8% for items in the special pool.

CORPORATION TAX

For incorporated businesses the change in Capital Allowances is cushioned by a reduction in the Corporation Tax rate. The main rate currently 28% is to decrease by 1% per annum over the next four years. The small companies rate is to decrease by 1% in April 2011 to 20%.

NATIONAL INSURANCE

It was speculated that George Osborne may reverse the proposed 1% rise in National Insurance which is due to take effect from April 2011. Unfortunately he didn't and it still remains. He did soften the blow for employers though and will raise the threshold at which employers start to pay.

FURNISHED HOLIDAY LETTINGS

We don't like to sing our own praises but we were right!! We said to watch this space with regard to the abolition of the Furnished Holiday Lettings legislation as true to their word the Government did not abolish it.

Furnished Holiday Lettings still exist and will continue to have their own set of rules for assessment which are generally more favourable than the usual rules surrounding rental income. So for those with holiday lets you can breathe a sigh of relief once again.

PENSIONS

The government is proposing to review the pension's legislation which is due to take effect from April 2011 and introduce a much simpler regime.

It has been indicated that the annual pensions allowance of £255,000, which is the most somebody can put into a pension will be reduced to between £30,000 - £45,000. Further announcements will be made on this.

Further details on the budget can be found in our usual Budget Summary which is available from our website in the downloads section at www.georgehay.co.uk

CHARITIES UPDATE

KEEP YOUR CHARITABLE STATUS

The Finance Act 2010 introduced a new definition which a charity will require in order to ensure it remains entitled to tax relief.

The new definition which applies not only to charities but also to Community Amateur Sports Clubs is the 'management condition' which states that managers must be deemed to be fit and proper persons to manage the charity.

The term manager is deemed to relate to any person who has day to day control over the running of the charity and any persons who can assert influence over its running.

An individual is considered 'fit and proper' if they ensure that charity funds and tax reliefs are used only for charitable purposes.

HMRC have advised that all managers should sign a declaration as to whether they are 'fit and proper' they suggest a person declares the following:

- I am not disqualified from acting as a charity trustee.
- I have not been convicted of an offence involving deception or dishonesty
- I have not been involved in tax fraud
- I am not an undischarged bankrupt
- I have not made compositions or arrangements with my creditors from which I have not been discharged.

- I have not been removed from serving as a charity trustee or been stopped from acting in a management position within a charity
- I have not been disqualified from serving as a Company Director.
- I will at all times ensure the charity's funds and charity tax reliefs received by this organisation are used only for charitable purposes.

We are sure for most people this will not be too onerous a declaration and will only be a question of form filling to ensure you have the paperwork in place should it ever be requested. It is far more worthwhile doing than losing your charitable status which could have catastrophic tax consequences.

STREET COLLECTORS

We have all seen the street collectors who wave their tin at you in aid of a worthy cause, you may even be one of those people, but has it ever crossed your mind that you must hold a licence to stand on a street corner with your trusty tin.

The charity you are collecting in aid of must obtain a permit from the relevant local or police authority before you can do so. The licensing authority will vet the suitability of the applicant and will check that the money collected goes to the purpose it is stated as being for. The licensing authority will also check



on practical issues such as the number of other charities collecting on the same day.

The collection is also bound by certain provisions surrounding its conduct, such as the use and controls in place

for numbered collection tins. How the tins will be opened afterwards and the controls in place for counting and recording the amount collected.

The organisers are also required to obtain a statement of account showing the proceeds, expenses and application of the proceeds. This statement must be signed by a qualified accountant.

So next time you see someone shaking a tin at you think of all the preparation that goes on to enable the poor sole to stand there in the first place and maybe spare a penny or two.

PAYROLL UPDATE

LATE PAYMENT OF PAYE PENALTIES

As reported in our last newsletter if your monthly/quarterly PAYE is paid late a penalty could now be incurred. A new penalties regime was introduced from May 2010 meaning that all businesses large and small must send their payment in on time.

Penalty notices will not be issued until after the end of a tax year in order that the number of defaults in a period can be calculated. There will be no penalty for the first default but subsequent defaults

start at 1% rising to 5% of the tax unpaid. Letters were sent out at the beginning of June to businesses who missed making their first payment on time, however just because you didn't receive a letter but paid late will not mean you won't get a penalty, if you are late again.

If your business does not make regular payments of PAYE it is well worth advising HMRC of this in order that they do not expect you to have made a payment when one was not due. If you only have the occasional month where

no payment is due you can either notify online via the HMRC website that you have no liability for the month or submit a nil payslip from your yellow payslip book.

If you have any queries regarding the preparation of your payroll our in-house payroll bureau PayScheme will be happy to help. Contact a member of the team on 01767 220199.

TO INCORPORATE OR NOT TO INCORPORATE?

Following the Emergency Budget it is time to revisit that age old question 'should I incorporate or not?'

As mentioned in our earlier budget article the Corporation Tax rate is due to reduce by 1% making the Small Companies rate 20% from April 2011. This is good news for business owners but of course it only applies to those which are incorporated. Those who operate their business as either a sole trader or partnership are subject to Income Tax and National Insurance on their business profits meaning they will be hit by the 1% rise in National Insurance from April 2011.

Returning to our question of 'should I incorporate or not?' Indicators do strongly suggest that it is widely beneficial for most owner managed businesses to incorporate and when doing the sums

at the new rates from April 2011 the tax savings from incorporation increase even more.

By operating as a limited company it will mean the business profits are taxed at corporation tax rates. The business owner is only individually taxed on the profits they actually withdraw from the business. It is generally more beneficial to do this in the form of dividends, only a minimal salary is then drawn so minimising the amount of National Insurance paid. As the National Insurance rate is to rise the savings which can be made will increase.

There have been many attempts to try to curb the incorporation trend in the past due to the tax savings which can be made and the thought that business owners are not paying the 'right amount of tax', an opinion previously expressed

by Gordon Brown and we are sure HMRC will continue their plight to ensure that businesses do not flout the tax laws.

Careful consideration should always be given to incorporation and expert advice sought. It is not always the right choice for everyone and other factors come into play for instance: legal liability, increased regulation, disclosure of financial information and future business plans such as the sale of the business, but it is always worth asking the question or at least checking with your George Hay adviser as circumstances do change.

For further information on any of the articles contained in our newsletter do not hesitate to contact your George Hay adviser or nearest office, we will be happy to assist.



OUR SERVICES:

- Raising Business Finance
- Tax Planning
- Investment Strategy
- Business Start-ups
- Cash Flow and Budgeting
- Management Accounts
- Accounting and Audit Services
- VAT and PAYE Planning and Advice
- Payroll and Bookkeeping Services
- Inheritance Tax Planning
- Business Loans
- Management Consultancy
- Independent Financial Advice for Investments, Pensions and Life Assurance

OFFICES:

Biggleswade

Brigham House, 93 High Street,
Biggleswade, Bedfordshire SG18 0LD
Tel: **01767 315010**
Email: biggleswade@georgehay.co.uk

Letchworth

Unit 1B Focus 4, Fourth Avenue,
Letchworth, Hertfordshire SG6 2TU
Tel: **01462 708810**
Email: letchworth@georgehay.co.uk

Huntingdon

St George's House, George Street,
Huntingdon, Cambridgeshire, PE29 3GH
Tel: **01480 426500**
Email: huntingdon@georgehay.co.uk



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