



Chartered Accountants ► Taxation Consultants ► Business Advisers



## Autumn Newsletter 2011

### HOW PLANNING AHEAD CAN HELP YOUR BUSINESS

RICHARD WALLER, DIRECTOR

I am constantly amazed and encouraged by the success of a number of our clients. As well as thinking 'outside the box' and looking at new services and methods of production, one of the most important characteristics they show is that they plan and think ahead.

We have learnt that it is critical to be in tune with our clients and understand how the economic climate impacts on their businesses.

It is essential for our clients to receive a proactive service from us, the benefits being:

- **Tax savings** – both for the businesses and the individuals by ensuring a tax efficient structure of the business and tax efficient extraction of funds by the owners.
- **Advance warning of forthcoming tax liabilities** – we continue to project 12-18 months in advance. This information is enormously useful for cash flow forecasting, a critical area of success at present.
- **Pre year end meetings** – we are increasing the number of pre year end meetings that our clients receive. It is at these meetings we can spot opportunities that ultimately result in tax savings; a key service to our clients.

Our aim is to consistently deliver this to our clients and we are always grateful for your feedback.

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# COMPANY CARS - BENEFIT OR COSTLY EXPENSES?



A company can provide employees with benefits and incentives and obtain tax relief which is not possible for the sole trader employer.

Although this is not an option for a sole trader, it may be thought that a company car is an ideal solution for a director. Company cars with low CO<sub>2</sub> emissions (no more than 120g/km) are taxed at only 10% of the manufacturer's list price in 2011/12. However, from next year, this will rise to between 15% and 35% and, with the removal of the cap on the tax and NIC charged on expensive company cars, this could mean a large increase in tax payable after April 2012.

Private fuel provided for directors and employees is taxed heavily and has increased since 2010 making private fuel rarely tax efficient. The typical saving in terms of tax for a director or employee from removing the private fuel element amounts to £1,000 per car. This is not taking into account the additional charge on the company for National Insurance.

An alternative to the company car is to provide the director or employee with a car allowance. From April 2011 this amounted to 45p per mile for up to 10,000 business miles and 25p per mile for the balance and is tax free. Any additional allowance paid by the company is subject to income tax and national insurance. If the company pays less than this amount the director or employee can claim the difference via his Tax Return.

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## CHANGES TO PERSONAL PENSIONS

HMRC has published updated guidance relating to pension reforms that are due to come into force next year but are you prepared for the changes?

### In summary

- From April 2011 the amount of the annual allowance will reduce from £255,000 to £50,000.
- From April 2012 the lifetime allowance will be reduced from £1.8m to £1.5m.
- The method for calculating the amount of pension saving (pension input amounts) for a defined benefit or a cash balance arrangement has changed. There is no change in how you calculate the pension input amount for a money purchase arrangement.
- There will be a three year carry forward rule that allows you to carry forward unused annual allowance from the last three tax years provided you have made pension savings in those years. This means if your pension saving is more than £50,000 you still may not have to pay the annual allowance charge.
- There will be no blanket exemption from the annual allowance in the year benefits are taken. However, there will be an exemption in the case of serious ill health as well as death.
- The special annual allowance rules introduced in Finance Act 2009 will be repealed.

### NEST

From October 2012 employers will be required by law to automatically enrol all of their eligible employees, not already in a pension scheme, into a Qualifying Workplace Pension Scheme (QWPS).

Employers who do not have, or will not set up, their own QWP Scheme will have the option of using the National Employment Savings Trust (NEST). NEST will launch later this year and has been designed to meet the requirements of auto-enrolment.

Research has revealed that more than half the workforce is totally unaware of next year's pension reforms which will see staff automatically enrolled into a retirement savings scheme.

Fortunately, for most of our clients (SME's) the rule will apply to them from 2014 as it is the larger companies that are affected first, from October 2012.

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## 'FLIPPING' PRINCIPAL PRIVATE RESIDENCE (PPR)

The principal private residence capital gains tax exemption costs the Government approximately £120m per annum. The Chancellor has instructed H M Revenue & Customs' investigation teams to take a tough line with those owners of second homes and buy-to-let properties who try to abuse the legitimate tax planning method of 'flipping' the property that they maintain is their principal private residence.

It is a matter of fact whether a property is the PPR or not but to demonstrate the fact here are some suggestions:

- Utility bills should be in one's own name at the property address. Also, fuel bills should reflect that the property was occupied during the winter.
- Other evidence such as receipts for home insurance, telephone bills and DVLA records.
- The property address should be the voting address on the electoral register.
- Bank accounts should have the address as the registered address.
- The mortgage should be a standard plan not a buy-to-let mortgage.

From 4 July 2011 information required when a property is purchased has included; for individuals their National Insurance Number; for companies and partnerships their Unique Taxpayer Reference number or VAT registration number.

HMRC has also invested in a new computer system which will bring together items such as rating, council tax and property valuations. Other information sources include large deposits in bank accounts, Land Registry entries, websites such as 'Rightmove', Credit Agencies and Housing Benefits paid to landlords. With this HMRC can request historical lists of all properties purchased by a landlord or his family members and compare this with declarations made on personal tax returns. They have had such success with this that they have formed a designated compliance unit to target evading property developers and buy-to-let landlords.

Another popular source is the income derived from some SW19 residents who let out their homes to players and officials during Wimbledon fortnight. Every year teams from HMRC attend the area, even going door-to-door to ascertain if the homes are rented out or used as unofficial boarding houses. This method is likely to be adopted during the Olympics in 2012.

'Flipping' is a legitimate tax planning exercise. However, if used too often or in quick succession, there is a danger this will initiate an investigation to prove that either the PPR exemption is invalid or that the owner is a 'serial seller' and is liable to income tax rather than capital gains tax.

**Carolyn Taylor, [carolyn@kennethmorris.co.uk](mailto:carolyn@kennethmorris.co.uk)**

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## INCORPORATION AND BEYOND

A sole trader or partnership may exist for many years without ever considering incorporation. Often clients think they are too small to benefit, that the process will be too long and drawn out or that the paperwork will simply be too daunting for it to be worthwhile.

Until recently the financial benefit of incorporation would only really be noticeable when annual profits exceeded £50,000. However, with Corporation Tax rates reduced to 20% for companies profits up to £300,000, whilst Income Tax rates have soared to 40% for higher rate tax payers and 50% for additional rate taxpayers, you may want to reconsider.

There is also a certain status attributable to the 'limited liability' company which may add to the ability to obtain opportunities where possibly a sole trader would not be invited.

It may also be a consideration that in this type of business it may be easier to sell or bequeath shares, rather than the whole business or business assets which would be necessary as a sole trader.

Whilst incorporation is not for everyone it is always worth considering the implications. We can provide a full assessment and, if this is the best way forward, manage the process from beginning to incorporation.

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## SPOTLIGHT ON: BUMBLE HOLE FOODS LIMITED



Andrew Hewston, Terry Griffin and David Hewston

Bumble Hole Foods Limited has been a client of KM for 50 years. The business was set up by William Hewston in the 1950s after he retired from the Fire Service. It started out as a moderate business with a few chickens in his back garden to supply his ex-colleagues and friends.

In 1964 William's son, David, purchased the site at Bumble Hole in Bromsgrove, which at this point had expanded to ten acres in size. David set up Bumble Hole Eggs which produces

and grades fresh eggs for supply to local shops.

It was during the growth period in the 1960s that David approached Kenneth Morris to act as accountants and business advisers.

By the 1970s the company had established itself as an important egg producer in the region and was rapidly expanding its product range, sales region and reputation.

In the 1990s the Bumble Hole site was yet again expanded to meet the high demand for processed egg products including pasteurised egg, hardboiled egg and egg mayonnaise.

The business is now run by David's son, Andrew, together with a highly trained and dedicated team and KM is delighted to support Andrew in his current and future projects with proactive business and tax planning advice.

We are pleased to award Andrew our client award. He and his team are great to work with and he appreciates the advice we give.

If you would like to know more about Bumble Hole Foods Limited, please visit their website: [www.bumblehole.co.uk](http://www.bumblehole.co.uk).

To contact Andrew Hewston, telephone 01527 874821 or email [andrew.hewston@bumblehole.co.uk](mailto:andrew.hewston@bumblehole.co.uk).

## KM ON THE LOOSE AT THE ANNUAL TEAM BUILDING EVENT

The annual KM team day took place on Thursday 15 September at Beau Castle situated just outside Bewdley.

The day consisted of team events in rifle shooting, archery and disc golf. Emotions were running high with a great deal of excitement amongst the teams. Needless to say the Directors showed their competitive streaks with Terry producing an amazing 'hole in one' on the disc golf and a number of the team showing signs of being crack shots (which seemed to unnerve Richard, Terry and Teresa).

If you would like to run a similar event for your team and would like to hear our experience, please contact Sue Bellingham or Linda Hulme at KM for details.



**One to flag up for your diaries!** On **Tuesday 13 March 2012** we will be hosting our fourth business club event and our guest is Graeme Chaplin, Regional Agent to the Bank of England. Mr Chaplin will be providing us with the latest up to date insight from the Bank of England. He is very interested to hear real life client experiences and receive feedback to keep the Bank more in tune with owner-managed businesses.

There will be an opportunity for questions and networking so if you would like to attend, please contact Sue Bellingham on 01527 872888 or email [sue@kennethmorris.co.uk](mailto:sue@kennethmorris.co.uk)



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