

SNAPSHOTS

Summer 2010



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What will first Budget bring in the War on Debt?

With the Election behind us and a full blown Coalition established between the Conservatives and Liberal Democrats our thoughts turn to how the tax system may be changed as the new Government grapple with reducing the budget deficit. Throughout the campaign each party had very set ideas as to the approach they would take either in terms of tax amendment, new taxes to collect additional funds or make the current system fairer. With the Election producing a Hung Parliament these measures have been debated to exhaustion behind closed doors to produce a shared manifesto for implementation over the next five years.

As with any new Government the first budget is all important. In 1997 the New Labour Government weighed into the Utility Companies with a windfall tax that raised £5.2 billion. This time large profits ripe for attack are not so readily available. So what might we expect when George Osborne gets to his feet to address the House of Commons?

The prime motivator of the Conservative campaign has been the retraction of the "Employee Tax", namely the additional 1% on National Insurance and this looks set to be implemented. The majority of business owners will be delighted by this move. Labour never seemed to grasp why this was such an unpopular measure and it is to be hoped that the Coalition do not make the same mistake. In essence those running a business got fed up of Governments taking the easy option every time it needed some cash.

Take a public company that sets a tight budget for costs and expansive budget for sales growth in order to deliver a specific dividend for its shareholders. An increase in National Insurance costs means another round of costing cuttings just to stand still. Marks and Spencer suggested on BBC Radio 5 that the increase would cost them £10 million. Unfortunately those costs are either in jobs or you not winning the order you hoped for with them because the shareholders cannot be let down!

The problem is that if this increase is not put through monies need to be raised elsewhere to cover them and with the Liberal Democrat proposal to increase the personal allowance (see Lisa's article inside) to £10,000 being accepted that may leave even more money due to be found elsewhere.

There is little doubt that the standard rate of VAT will be raised probably to 20% so shopping for new TV's ahead of the Olympics might need to be brought forward! The Liberal Democrat manifesto suggested the 50% rate of tax being

applied from £100,000 rather than the £150,000 that New Labour has left us with. A cause for concern this may be but only in the immediate future if the reading of our financial records makes us equal with Greece.

However, the great Conservative promise of Inheritance Tax not being paid if an estate is under £1 million now looks to be in jeopardy, certainly in the short term but maybe for the life of this Parliament. While this will be a bitter pill to swallow the chance of power once more might be accepted by party members.

It also seems certain that the gap between income tax and capital gains tax (CGT) rates will be narrowed as predicted by us before the last budget. What is not clear is whether the increase in Entrepreneur's Relief which allowed the first £2 million of gains, previously £1 million, at 10% on a business disposal will be honoured before ultimately rising to the current capital gains rate of 18%. If the rate of CGT increases to say 40% or aligns itself to Income Tax rates once more then the implications for business disposal might be somewhat different in the future.

It is expected that the main rate of CGT will increase and therefore non business gains will generate much more tax than before. It is also likely that current schemes to reward with items subject to capital gains rather than income tax to keep down the tax take will also be jumped upon to make the playing field flatter and reduce planning opportunities for City bonuses.

From a planning point of view one might need to consider whether taking action now might be beneficial should rates start to rise. Chris Harman has always advocated paying tax now because rates have been low and whilst this has not been popular, particularly when monies have not always materialised at the same time, it now looks like his predictions for higher rates may be becoming reality.

Certainly now might be a time to review ones affairs with a view to protecting one's estate and looking at measures to protect future capital gains and bring forward income if the threat of lower thresholds for the higher rate of tax appears likely. We shall be keeping our ears to the ground and are available to discuss planning measures if required.



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A cut above the rest?

A recent tax case concerning a BBC newsreader goes to show just how difficult it is for employees to obtain tax relief for costs they incur in doing their job.

Certain rules which relate to employees only allow tax relief for costs '...incurred wholly, exclusively and necessarily in the performance of their duties.' The courts have interpreted these words extremely narrowly over the years, as seen in the case of Sian Williams. The BBC television newsreader claimed certain deductions in respect of 'travel and subsistence costs' and 'other expenses and capital allowances'. Of these, the following items remained in dispute:

- Professional hairdo and colouring £975
- Professional clothing for studio £3,231
- Laundry of professional clothes £325.

The taxpayer claimed that these expenses were allowable expenses as incurred wholly, exclusively and necessarily in the performance of her duties. The Tribunal found that:

'Even if the Appellant was required by her work to appear with her hair dressed to a certain standard, and even if she would, if asked, have stated that she was having her hair done because of those requirements of her profession, the hairdressing services were also something that she needed as a human being.'

Some of you may be claiming for clothing on our advice. In these circumstances your Company will receive tax relief for the expense because you will be taxed on the clothing costs as a benefit in kind.

This means that you will only pay the tax amount rather than the full cost of the clothes and maybe as little as 20% if you operate a proper register of clothes bought and disposed of.

What this case shows that costs incurred which have a dual purpose are unlikely to obtain relief. HMRC have agreed that particular deductions for clothing and equipment can be made from earnings for certain occupations. HMRC negotiates these flat rate deductions with trade unions to apply to certain classes of employees. The flat rate amounts are intended to represent the average annual expense incurred by that class of employees on the repair and replacement of work equipment, such as tools and special clothing.

The flat rate amount is only deductible where the expense falls on the employee and where the employer reimburses part of the expense, the deduction is reduced accordingly.

How do you know if you or your employees work in one of these areas? Can you get a free handout from HMRC for this year and possibly the last four? To view an up to date list of occupations and amounts, please visit www.hmrc.gov.uk/manuals/eimanual/EIM32712.htm

If you require advice on either providing clothes by way of benefit in kind or flat rate expenses please get in touch with your local Lambert Chapman contact to discuss this further.

Lambert Chapman Wealth Management



Chris Harman



Gill Philpott

Few of us like to think about dying, but equally few of us could live with the thought that we have not made adequate provision for family and friends who survive us.

With Conservative provisions to increase the Inheritance Tax threshold to £1 million on hold for the foreseeable future you may need to review your Estate planning and we are here to assist you.

Our Estate planning team is led by Chris Harman and assisted by Gill Philpott. They are both Chartered Tax Advisers and Gill is a qualified member of the Society of Trust and Estate Practitioners.

Passing on your estate to your chosen beneficiaries requires advanced and specialist planning. Chris and Gill will discuss with you your plans and help you to identify what course of action you could take in order that they can be met. Since none of us knows when we will die, this means making the necessary provisions now.

The earlier you make the arrangements, the greater your chance of taking full advantage of the tax opportunities available and thereby maximising the amount that goes to your beneficiaries with the minimum tax. Nothing is more demoralising than the thought that a substantial slice of the wealth you have worked hard to accumulate will end up in the Government's coffers!

It is equally important when planning to transfer your estate that you make adequate provision for you and your spouse or you and your civil partner in your later years. Striking this balance calls for considerable skill and foresight - and a detailed knowledge of the tax regime. We will liaise with your solicitor, your financial adviser, your legal adviser or others persons as necessary, after receiving your approval to do so, to make sure your Estate Planning will provide what is best for you

The team provide a discreet estate planning service that includes:

- Reviewing your will
- Making full use of exemptions and lower tax rates on lifetime transfers
- Optimising lifetime transfers between spouses
- Transferring agricultural or business property
- Should you create a trust?
- Transferring assets into trust
- Arranging adequate life assurance to cover potential inheritance tax liabilities
- Should you consider the purchase of a specialised investment to reduce IHT?

Please contact Chris or Gill on 01376 326266 for a preliminary review.



David Kemp

David Kemp at our sister company Active HR Limited has been busy advising clients on a variety of HR issues, some brought on by the current economic conditions. We appreciate

that human resources is a fast moving area of constant legislative change so an instant method of staying in touch may be most welcome.

David has become a regular on twitter providing information on a variety of HR issues as you can see from his page. Sign up to follow Active HR at <https://twitter.com/ActiveHR> to receive David's tweets.





How to cut a deficit!

With George Osborne and his colleagues looking for opportunity to cut the deficit John thought he'd look to our history books for previous innovative measures to combat difficulties.



John Smith-Daye

In 1635 King Charles I faced a financial crisis and came up with a cunning plan to overcome it. He issued writs for "Ship Money" which previously had been used to tax ports, towns and cities. Whilst unpopular it produced such a collection that he expanded it to every parish and hamlet in the country. Such was the unpopularity it created that it led to him being deposed and the creation of the Commonwealth!

Having put Charles II on the Throne in 1660 the Restoration Government excelled themselves by introducing Hearth Tax in 1662. This was an idea borrowed from the Continent and called for 2 shillings a hearth from all non exempt householders on Houses valued at more than 20 shillings and those with second properties or income over £10 per annum.

This graduated onto Chimneys in 1664 with it being paid by all who had two chimneys with a stopped up chimney being charged double if discovered! It was eventually abolished in 1689 being described as "a great oppression to the poorer sort".

We've all heard of Window Tax which was introduced in 1696 to clear a financial crisis brought on by inflation and conflicts in Ireland and the Continent. Initially it was paid by those having more than six windows in their property but this was increased to eight in 1825. Examples still exist of bricked up windows on period properties to avoid payments but the tax continued till 1851 when it was replaced by House Duty.

1777 saw the introduction of Male Servant Tax where a master was required to pay an annual sum, starting at £2. 8s for one servant to £7.13s for eleven or more. Batchelors were also required to pay an additional £2 for every man-servant which goes some way to understanding Blackadder's frustration with Baldrick! Such was the success that a Female Servant Tax was introduced in 1785 before both were withdrawn by 1790.

In 1795 a new Hair Powder Tax was introduced on every person who wore it at a sum of £1. 3s. 6d apart from the Royal Family, those working for them, Clergymen, persons serving in the Navy under the rank of commander and other exemptions. Thankfully no one was asked to pay for more than two unmarried daughters. Ridiculous though this sounds it lasted until 1869!

In 1797 the shortlived Act of Parliament Clocks was introduced. The tax covered all timepieces including watches and clocks. It was charged at half a crown for a basic watch up to ten shillings for a gold watch. Clocks costing more than £1 were rated at five shillings. It lasted only nine months for people stopped buying timepieces leading to hardship amongst clockmakers.

Will George Osborne come up with anything sufficiently innovative to be added to this list? Whilst it seems unlikely, as it shows above, times of financial crisis encourage innovative thought!

Lisa Potter looks at the Income Tax's Personal Allowance



Lisa Potter

6th April may be remembered as an important date for some tax payers as this was the date that they lost their income tax personal allowance. This will apply to anyone who earns more than £112,950 but for those earning between £100,000 and £112,950 they will lose £1 of allowance for every £2 of income earned.

So is this fair or does everyone have the right to some reliefs when calculating their income tax?

My colleague Nick Forsyth believes it to be wrong. Ask him about it and you'll hear a Blackadder type speech about "A man's personal allowance is his own private kingdom. I'll protect it with my life" and so on. Others would disagree suggesting that at that level of income you can afford to be without it so stop moaning. What they might not appreciate is that as it is withdrawn the recipient pays tax at 60% only to fall back to 40% before reaching 50% if they achieve earnings in excess of £150,000.

Then along come the Liberal Democrats who include in their manifesto their much suggested £10,000 personal allowance to be paid for by increases in capital gains tax and by pension relief being restricted to basic rates. Three solid debate performances and they get into a Coalition and the £10,000 is on the table for the Emergency Budget at 15.30hrs on 22nd June.

It seems likely that as part of the Coalition agreement that the personal allowance will in fact increase to the £10,000 sum. What is not clear and will not be until Mr Osborne tells us is whether it will be removed using his predecessors rules as this will severely stretch the 60% trap from £12,950 of income to £20,000. If this is the case many more complaints will certainly be heard and many from the City of London.

I've had a personal allowance since I started work in 1990 when it was £3,005. In those days Lambert Chapman were so generous to new starters that I just about used it all up in my first 9 months of employment! I thought about looking back to see when the personal allowance started. I couldn't easily find that out but on the HM Revenue & Customs website it listed amounts back to 1948 when it was £110 per annum or £2. 2s. 4d per week in old money.

In those days we saw a married allowance too but this went some years ago though the Conservatives were considering bringing it back before the Election. What I cannot see evidence of is the personal allowance being

withdrawn from people irrespective of income. Lots of tax rates but seemingly no withdrawal of the allowance. So it appears that this New Labour rule is quite ground breaking in its efforts to collect tax in a stealthy way from the more well off in society.

But is it right? And if it proves to be successful what might come next for the tax payer as the deficit gets attacked?

At the present time there is the equivalent of the personal allowance in the Annual Exemption for Capital Gains of £10,100. Rates are predicted to rise, maybe to parity with Income Tax, so could this allowance also be at risk for gains over a certain sum? Similarly for Inheritance Tax the nil rate band is considered to be like a person's personal allowance. Whilst this is never going to be at risk from the Conservative party who wish to increase it to £1M we might see it under threat for large estates if the Coalition does not succeed and Labour come back looking to reduce their deficit!

What seems clear is that precedents set in one tax could lead to some, or rather more, choppy water in other taxes! What we have to hope is that the increase to £10,000 is accompanied by a statement overturning the withdrawal procedures to remove the 60% trap and tax individuals fairly on all of their income.

So finally, is the increase to £10,000 a sound objective? It certainly aligns the minimum wage level for a full timer and offers protection to low earners. For some years some of our tax team have advocated such a move to stop the mucking about that currently goes on and it may certainly repair some of the damage done by the withdrawal of the 10 pence rate of tax. It is predicted to remove 4 million from the tax net which would be a rather bold statement in these troubled times.

However, if we look back to the introduction of Income Tax in 1798 it began at 2d on incomes over £60 – somewhere approaching £50,000 in today's money. So morally it looks a sensible measure but critics will point at the cost of it which is huge. Clearly for it to work and the deficit to fall other taxes will have to take up the strain. We all have ideas as to how this will be achieved. Suffice it to say 22nd of June is not far away!



deficit

Did you know about?



Chris Harman

Who are you	Chris Harman
When (year of birth)	1954
Where (place)	Wickford
Qualifications	Chartered Tax Adviser
Work done for LC LLP	Tax
MY LIFE outside hobbies likes etc.	Time with Rose, time with my children, club motor sport (I was a Marshall for quite a few years), cars, D I Y.
1st JOB	Working on my parent's smallholding from a very early age. I also had a number of part time jobs to boost my pocket money. My first full time paid job was with a London stockbrokers.
Favourite Genre	TV
Favourite Film	The Italian Job (the original one)
Favourite TV show (ever)	The Andre Previn sketch on a Morecambe and Wise show.
Most listened to Music/album	In my youth: Deep Purple in Rock. I have calmed down since then. I now have a wider taste in music being pop, rock and classical.
Favourite Book	Swallows & Amazons
Daily Journal	Telegraph
Favourite Place	East Anglian coastline
Great Meal	Roast beef, Yorkshire pudding, peas, cabbage, potatoes, gravy and English mustard.
Tipple	Adnams bitter
Favourite decade	1960's
Biggest Fear	Trapped underground in the dark.
Ideal day away from the Office	With Rose and listening to the sea.

Snapshots Quiz Winner

The Spring quiz was won by Sue Lucky who correctly identified all of the leaves on our quiz sheet and picked up a £50 voucher for Kings Tree Nursery as her prize. The number of entrants is slowly rising after making the quiz sheet a download but we would point out after incorrect answers you have an excellent chance of winning.



The Summer Quiz asks entrants to identify aeroplanes from the Battle of Britain which was fought 70 years ago. Entitled "This was their finest hour" it offers a flight in a light aircraft over the Essex Countryside as its prize which we won in the auction at the Barclays Charity quiz last November. To download a quiz sheet please go to www.lambert-chapman.co.uk and click the picture of Winston Churchill.

Lambert Chapman quiz team finds form

Our own quiz team has recovered its form after a disappointing start to the season taking part and winning the South Essex Institute of Chartered Accountants general knowledge and tying for first place, with Tolhurst Fisher, the Savills charity quiz. Both events were well attended with the latter event featuring 26 teams at the Ford County Ground in Chelmsford. In all, the evening raised over £4,000 for Action Medical Research and our team on that night (Paul Short, Sarah Brewer, Lee Sutton, Nick Forsyth, Richard Hamilton and far right Chris Harman) are pictured along with Tolhurst Fisher receiving their prizes.



Two Page Plan seminar a success

Lambert Chapman LLP ran its first "Road Map to Success in 2010" seminar at the Rivenhall Hotel during April where the delegates prepared a two page business plan for their respective business to take away at the end of the day. Lambert Chapman partners Nick Forsyth and Lisa Potter were joined by Jim Jordan from The Coaching Solutions Toolbox Limited to present a seminar that had been developed in house by them.

Many businesses spend lots of time preparing business plans but then fail to put them into operation instead focusing on what happens on a daily basis. As our plan is only two pages we felt it could be used more easily as a working document and the beauty is each plan was the delegates own work.

Feedback on the day was positive and we hope that the plans are in use. If you are interested in attending a repeat of the seminar please contact Nick Forsyth on 01376 326266.



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