

# SNAPSHOTS

## Spring 2010



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## HMRC are on the prowl - with teeth!

From time to time we receive emails advising us of specific areas that HM Revenue & Customs (HMRC) consider worthy of attack. A recent email notified us of a review of Hospital Consultants where reduced penalties are being offered of 10% if voluntary disclosure is made by individuals in the sector having unpaid taxes as a result of failing to disclose income.

We've seen these attacks before and they normally arise from those in the sector being offered non financial inducements, in the form of gifts or vouchers, to use their supplier's products. In many cases the recipient does not appreciate that the gift can be considered to be taxable and does not calculate a value for inclusion on their tax return. It normally comes to light after a review of the suppliers records by a PAYE group who identify that wide scale third party benefits exist in the market place.

Whilst this sector may be of little interest to you our intelligence tells us that other sectors are to follow including a review of most of the professions with even Accountants being included on the list! We are approaching the end of another tax year so when you start to gather together your information please do consider whether you have received anything else that could be considered to be taxable. If you are unsure please give us a call and seek clarification from our tax team.

### Is the end for Offshore planning in sight?

You may well have read about the Huitson case when it reached the newspapers in late January 2010. This may well be a landmark case as the decision allows HMRC to look backwards into a taxpayer's affairs rather than just from this point onwards. If this proves to be the case then more than the 57 who will be bankrupted and 29 who will have to sell all of their assets to repay their tax in this case will be quaking in their boots.

For a number of years HMRC have threatened that they will close down what they consider to be loopholes in the UK tax system. Clearly the Government will be encouraging them to collect in as much back revenue as possible to reduce the national borrowings so we should expect more of these cases in the future. If you have taken specific advice on products of the type referred to in the Huitson case maybe now is the time to undertake a review to determine that you have consistently followed the implementation steps required to make your affairs comply with UK legislation. We can offer specialist help in this process if required.

Similarly HMRC appear to have won the upper hand in the Gaines Cooper case which may ultimately cost him a chunk of his personal fortune. In this case Mr Gaines-Cooper had claimed to be Non-Resident and therefore not subject to UK Income Tax. However, his case has been lost as the Court of Appeal decided that he had not cut sufficient ties with the UK to justify his non residence and that the UK had remained "the centre of gravity" of his "life and interests" even though he had never breached the 91 days rule and lived in the Seychelles since 1976.

What this shows is that a review is urgently required if you retain property in the UK and are hoping to rely on the Non Residence rules.

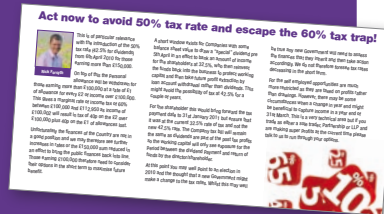
These cases are starting to demonstrate that HMRC is on the prowl and may be sharpening its teeth in an effort to collect more tax for the Exchequer. If you do receive, what you previously thought of as gifts from suppliers please talk to us to determine whether they are taxable.



## Avoiding the 60% tax trap

Your opportunity to do this by early profit withdrawal is running out quickly so if you do wish to benefit, as we set out in the last Snapshots, you need to contact us fast! Feedback from the Winter edition showed that majority of readers were aware of the new 50% rate for those earning in excess of £150,000 but many of you had not heard of the trap between £100,000 and £112,950.

Please call your local Lambert Chapman contact for advice.



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# HMRC have Coding Notice and CIS penalty shambles!



Nick Forsyth

Like all firms of accountants our work has been cut out to keep on top of the number of inaccurate tax codings which have been issued over recent months. Last summer HM Revenue & Customs introduced a new system for dealing with tax coding notices and underpaid tax. The results have been met with a shake of the head by the Accountancy profession and widespread confusion by you the tax payer.

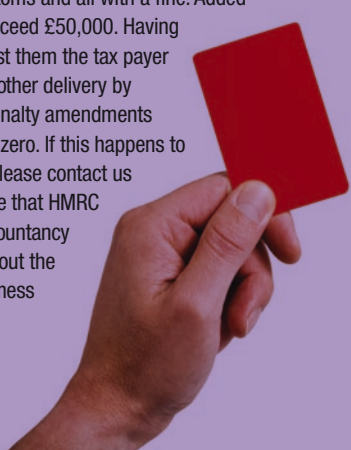
My own clients have had some hideous codes to sort out. One code included a massive sum for benefits which related to credit card expenses for which a business expenses claim had been submitted. Because only half the information had been included huge deductions of tax would have ensued had it been operated. Similarly, another client in the same situation had no credit card expenses allocated to his code but the business expense claim was posted meaning a massive refund would have occurred leading to tax having to be repaid at a later date.

What you should understand is that we don't always receive copies all of your tax coding notices issued and you may therefore be paying too much or too little tax on your monthly earnings. If you do receive a code which looks strange please do talk to our tax department as they will be able to provide you with some guidance on how the figures are made up.

## Erroneous Penalty Notices for Self Assessment and CIS

We are aware that a number of clients have received penalty notices for self assessment tax returns where the tax return was filed by the due date. In many cases this is where the person is either a new self assessment tax payer or has undergone a change in circumstances. Often it results from a new record being created which means that your records are duplicated. For all tax returns submitted we hold the internet filing detail and can identify in a single telephone call the reason for the problem.

We are also aware that in some situations the CIS computer has "gone mad" and issued penalties for every single month using the sliding scale of fines leaving some in the construction industry with postal deliveries by van to deliver a sack of post all from HM Revenue & Customs and all with a fine. Added up these can exceed £50,000. Having appealed against them the tax payer then receive another delivery by van of all the penalty amendments putting them to zero. If this happens to your business please contact us as we are aware that HMRC are settling accountancy fees for sorting out the confusion and mess created.



Most business owners are finding that turnover has reduced with their overheads too high for the remaining activity.

Should you consider searching for a suitable acquisition, a business that you can absorb without increasing overheads?



Nigel Whittle

I am the partner responsible for corporate finance and can help you find a potential target and do this for a fixed fee. We have three search types:

### Passive Search – Free

We are regularly contacted by third parties regarding businesses which are being offered for sale. Once made aware of your requirements, we will happily forward details of any relevant businesses on to you.

### Proactive Search – Level 1 - £395 (plus VAT)

We will actively review the businesses being offered for sale by our Corporate Finance contacts. In addition, a flyer will be prepared detailing your acquisition requirements.

This will be distributed to a minimum of 50 contacts or your own preferred targets

(information to be provided by you) to proactively market your requirements.

### Proactive Search – Level 2 - £695 (plus VAT)

In addition to the service provided under Level 1, we will identify potential targets from our FAME database based upon your own search criteria and will market your acquisition requirements directly to each target business.

### Note:

Please note that any additional or further work not detailed above is not covered by the Fixed Fee and will be subject to additional charges based on Lambert Chapman LLP's hourly charge out rates.

Please contact Nigel Whittle or Richard Thomson on 01376 326266 to discuss this opportunity to expand your business.



## Mark Pearson looks at registering for Online VAT returns

For some time HM Revenue and Customs have indicated that they planned to phase out the usage of paper based returns for PAYE and VAT. For VAT purposes from 1st April 2010 if a business has a turnover excluding VAT of more than £100,000 future VAT returns will need to be submitted electronically and monies paid through online banking arrangements or by direct debit. The first quarter that will be affected by these changes is 30th June 2010.

Any business that registers for VAT from 1st April 2010 will have to submit the return and payment electronically. Once a business is on the scheme it cannot escape even if its turnover falls below £100,000. Businesses currently registered but with turnover of less than £100,000 can still submit paper returns. However, this may change by 2012.

Although it is not compulsory for a business to submit a VAT return electronically if its turnover is below £100,000 there may be advantages of filing the returns online. For example it may save time and avoid a visit to the post box, it could be more convenient as forms can be filed by day or night.

But by far the greatest advantage of paying electronically is HM Revenue & Customs allow a

further seven days credit. This extra period of credit is not new and a number of clients have benefited for some time from these additional days. On top of this if you choose to pay by Direct Debit you will receive a further three days taking it to ten days after the end of the period's previous payment date.

As an example, a 30 June 2010 return period would previously have to be filed by 31 July if the payment was by cheque. By paying electronically the return and payment need to be filed by the 7th of August.

Under the new scheme by utilising an online facility the dates will automatically be moved from 31 July to 7th August. If the Direct Debit option is taken the form must be filed by the 7th August and the payment will be taken on the 10th August.

In subsequent periods the 10th day of the month might not be a working day. If this is the case the monies will be taken from your account under the direct debit scheme on the first working day after the 10th day of the month.

If you require any further information regarding registering for VAT online please do not hesitate to contact our office on 01376 326266.

# Chris Harman looks at the taxation of company bicycles



Chris Harman

We've all seen the television advert suggesting we drive 5 miles less each week in an effort to assist the environment but what can we do about it? We still need to get to our place of work and go out and meet customers so it is difficult. If, however, we consider those who live close to their place of work and are work place based or maybe ourselves with fitness in mind on dry days or during the summer months

some options to achieve this objective exist.

In a bid to encourage alternative means of transport, the Government introduced a taxation exemption for qualifying expenditure on the provision of cycles and cycling equipment to employees. This is usually referred to as the 'Cycle to work scheme'. Under the rules, the employee is not charged income tax on the benefit on the provision of the item by the employer.

To qualify, the cycle or equipment has to be:

- Available generally to the employees.
- The employee uses the cycle or equipment mainly (more than 50% of its use) for 'qualifying journeys'.

A journey only counts as a 'qualifying journey' in two situations:

- If all or part of the journey is between home and the workplace.
- If all or part of the journey is between workplaces.

## Tax Deductions for the Employer

The employer purchasing the qualifying cycle and safety equipment should, in most cases, be able to claim tax relief for the employer through the Capital Allowances regime. Many small businesses will qualify for full tax relief in the year of purchase through the Annual Investment Allowance (AIA). Other businesses will obtain tax relief on an ongoing basis through their claim for annual writing down allowance (WDA).

If the cycle or equipment is leased, generally the leasing costs will be tax deductible for the employer as will the cost of maintenance, storage and parking of a qualifying company bicycle and the benefit is not taxable on the employee.

The VAT on the purchase can be reclaimed, subject to the usual rules on VAT recovery.

**Example 1** - Shows the cost of purchasing a qualifying bicycle by a company, that is entitled to AIA on the purchase and which pays Corporation Tax at the marginal rate of 21%.

Bicycle retail price (including VAT)	1117.50
VAT reclaimed by the employer	117.50
Net of VAT cost of bicycle	1000.00
Corporation Tax Relief at 21%	210.00
Net Cost to Employer	£790.00

The actual cost of acquiring a bicycle with a gross retail price of £1,117.50 to the company is £790.00.

## Salary Sacrifice Schemes

An employer may want to recover the cost of providing the asset to the employee. A salary sacrifice scheme is when the employee accepts a lower salary in return for the employer providing a non-cash benefit. As an exempt benefit, the employer will not have to pay any National Insurance Contributions (currently 12.8%) on the provision of the qualifying bicycle or equipment to an employee.

The employee will not have to pay Income Tax or National Insurance when being provided with the qualifying equipment. The salary sacrifice allows the cost of the bicycle to effectively be reimbursed to the employer, whilst saving National Insurance costs.

The employee is able to obtain use of the bicycle with payment being made out of their gross salary.

**Example 2** - Further savings will be achieved for the employer if a salary sacrifice scheme is introduced for the provision of the bicycle costing £1,000 net of VAT.

If a salary sacrifice scheme is used to loan the employee the qualifying equipment over 36 months, the employee could sacrifice £6.41 per week from their gross salary. Net of tax and National Insurance for a basic rate tax payer, this would have a cost of £4.42 per week for the employee.

The employer will save National Insurance costs on the salary sacrificed. Throughout the period of ownership of the bicycle, the employer will save £128.

In these circumstances, the company is effectively being reimbursed by the employee for the cost of the bicycle. The company is able to achieve additional savings due to the reduction in the employer's National Insurance becoming due with the result that an overall saving of £101 (after Corporation Tax relief of £26.88 (£128 @ 21%)) is achieved. The company is financially better off if it provides the bicycle through the salary sacrifice scheme than if it does not offer the benefit at all to the employee.

## Cycle to Work Days

In order to encourage staff to cycle to work, an employer can organise a 'cycle to work day' at which a free breakfast is provided to those taking part. The provision of a free breakfast would normally be treated as a benefit in kind but an exemption exists for a 'Cycle to work day' to allow the provision to be tax free.

## Using a Cycle for Work Journeys

### Employee Owned Cycles

If the employee chooses to use their own privately owned and privately maintained cycle for business journeys, they will be able to claim a mileage rate of 20p per business mile under the statutory mileage rates. This is not available unless the bicycle is privately owned.

The Cycle to Work scheme is currently extremely popular with a number of major employers such as the BBC, Coca-Cola and Rolls Royce. If you need more information on this type of scheme please give Chris a call on 01376 326266.



# UK200Group launches its new business valuation index



Richard Thompson

Lambert Chapman LLP are pleased to be members of the UK200Group, one of the foremost mutual associations of quality assured independent accountants and lawyers serving the small and medium business sector.

The UK200Group has recently announced the publication of its valuation index, designed to assist firms with the valuation of small and medium sized businesses.

Various data is already published on valuations and on the larger deals achieved in the corporate finance

market. However, it was found that these would often not be comparable to the actual mergers and acquisitions which were being achieved by the small and medium sized business.

After many months collecting and collating data from its members, the UK200Group published its findings.

The publication of the index comes as many reports suggest that the economy may be slowly starting to recover and that merger and acquisition activity is increasing.

Over recent months, I have been approached by clients wishing to make acquisitions and also by

clients deciding to retire or to dispose of their business.

In advising clients it is essential that I have access to the latest figures showing current values and trends in the market.

The publication of the UK200Group index is based on actual transactions involving the sale of businesses in the last 5 years and provides an ideal research tool to assist in evaluating current market expectations.

## Did you know about?

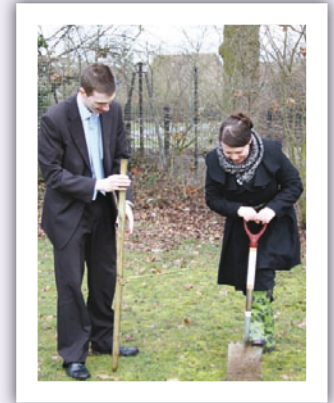


### Lisa Potter

<b>Who are you</b>	Lisa Potter
<b>When (year of birth)</b>	1972
<b>Where (place)</b>	Colchester
<b>Qualifications</b>	9 GCSE / 1 AS Level / 3 A Levels / ACCA / French and German Graded Level Test 2
<b>Work done for LC LLP</b>	<p>Started in 1990 as a Junior and progressed through the ranks to become a Partner in 2003.</p> <p>One of my main roles is that of an Audit Partner which means I get to see lots of larger clients and appreciate how efficient a systemised business can be. Using this knowledge I help smaller businesses to develop systems, especially start up businesses, and watch them develop over the years.</p> <p>I deal with owner managed businesses of all sizes and types with their accountancy and business issues and treat the business as if it was my own. It is very rewarding when you see a business succeed from the work you have done with them. Every day is different and brings with it new challenges and I pride myself on not being traditional or boring as is often linked with our profession.</p>
<b>My life outside hobbies likes etc.</b>	Digital Photography including wildlife and plants (currently doing a diploma in Wildlife Photography) and belong to a local photography group. Gourmet Cooking and having friends round for dinner. Fine Wine appreciation which includes being a member of a local wine club called Ad Hock Club.
<b>1st job</b>	Bar Maid at the Alexandra Pub in Coggeshall and part time sales person at the local Chemist in the village.
<b>Favourite genre</b>	THEATRE – particularly musicals (Les Miserables remains my ultimate favourite).
<b>Favourite film</b>	It has to be any slushy film that makes you cry, recently this includes My Sisters Keeper, Marley and Me and an all time favourite is Beaches with Bette Midler. For sheer pleasure, watching any film with Will Smith in it, he is simply gorgeous.
<b>Favourite TV show (Ever)</b>	Any crime drama in particular CSI, especially Las Vegas, (bring back Grissom) and Criminal Minds.
<b>Most listened to music/album</b>	I like 80's disco music and romantic ballads. Most played album is Decade of Song by Celine Dion.
<b>Favourite book</b>	PS: I Love You and My Sisters Keeper (great twist from film ending) – both weepies.
<b>Favourite place</b>	Chobe Reserve in Botswana – visited in 2007 and found the real me, since then I have visited Masai Mara in Kenya and this was fantastic too.
<b>Great meal</b>	Anything to do with seafood particularly shellfish – you can't beat a good lobster ravioli or a prawn curry.
<b>Tipple</b>	A very good Riesling for the white nights and Cabernet Sauvignon Shiraz for the red nights.
<b>Favourite decade</b>	The current one.
<b>Biggest fear</b>	Losing my mum, it will happen one day but still dread it, we do a lot together and she is a good friend and a shoulder to cry on, especially since my Dad died in 2003.
<b>Ideal day away from the office</b>	Visiting a day spa being totally pampered and having time to read and slob out without being told off.

## Lambert Chapman LLP start tree planting programme

As a business we try to do as many green things as we can in an effort to reduce our carbon footprint. We do our best to turn off electrical equipment, keep our printing to a minimum and recycle all the bottles and cans that we use and it is reasonably effective but you cannot see any tangible evidence of our efforts. So when the Channel 4 programme



River Cottage showed Hugh Fearnley-Whittingstall cooking for a company that were in the country planting trees to reduce their carbon footprint we thought that this might be a project we could undertake that would provide the tangibility we were seeking.

If every household were to plant 7 trees a year that would in time contra their carbon footprint. Therefore we felt that planting 50 trees each year might go a good way towards achieving the firm's objectives. What we needed was a place where we could plant so we made enquiries via our staff as to clubs or groups that they were involved with. From this we discovered that the White Court Primary School were looking to plant an area of the field so we offered our assistance to them.

Planting took place in late February and Steve from King & Co was particularly patient with us all when explaining what routines were required to successfully plant each tree. A variety of trees were planted including Oak, Cherry and Field Maple.



Within the Lambert Chapman LLP group were Nigel Whittle, Nick Forsyth, Lisa Potter, Nigel's manager Louise Main, Chris Maher from our tax department and an ex-pupil of the School and secretarial support Sue Sibthorpe whose daughter attends the School and offered our assistance to them. For more information please visit our website.

## Christmas Quiz Winner



The winner of the Lambert Chapman LLP Christmas Quiz was Paul Wood from Holmes & Hills, Solicitors in Braintree and Halstead. Paul correctly identified the twelve days of Christmas answers from within pages on our website advertising the services we offer and won a 5kg KellyBronze turkey.

He is pictured receiving his KellyBronze from Paul Short before rushing off home to the kitchen to start preparing for the family feast.

The Spring quiz focuses on our green initiative and asks you to identify leaves. The winner will win a £50 voucher for Kings Tree Nursery. Please download your question sheet from our website.

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