

SNAPSHOTS

Winter 2007

New Partners in Chelmsford

Lambert Chapman LLP is delighted to welcome two new Partners who will be based in our Chelmsford office taking the number of Partners there back to three. Chelmsford is where our business began in 1970 and had three partners for much of its life until retirements left Melinda on her own. The size of the office has remained consistent and it is to capitalise on the growth that exists in the Chelmsford area that Stephen and Beverley have been brought on board.



Stephen Jones joined the Braintree office of Lambert Chapman in 1997 and qualified as a Certified Accountant in 2002. Following an inter office secondment Stephen joined the Chelmsford staff on a permanent basis in January 2007 where his role encompasses accounts and audit. He is also an active member of the Chelmsford corporate finance team dealing with company valuations, due diligence work and sits on the firm's audit policy committee.

Beverley Hill BSC (Hons) ACA studied at the University of Sussex where she attained an Honours degree in Mathematics and Statistics. She trained and qualified as a Chartered Accountant with a Top 20 firm in Canterbury before moving to their London office to gain greater experience.

Melinda Atkinson, pictured with Stephen and Beverley above, commented, "I am delighted at the appointment of two new partners here in Chelmsford. I am sure that the individual skills that Beverley Hill and Stephen Jones possess will strengthen our structure and ensure that we can continue to service a growing client base with the personal and efficient service which has made us successful as a Practice."



Beverley joined Lambert Chapman in 2004 and is based in the Chelmsford office working on a range of accounts and audits. She has a specialism in the not for profit sector which includes schools and charities. Beverley is also involved in the firm's popular Business Builder Forums that provide business advice and development for other local business owners and managers. As an escape from the office Beverley enjoys hill walking and has been known to climb Ben Nevis in knee-deep snow!

Lambert Chapman becomes a Limited Liability Partnership

After 37 years trading as a Partnership, Lambert Chapman converted to Limited Liability Partnership status on 29 September 2007 and is now known as Lambert Chapman LLP.

The new corporate entity of a Limited Liability Partnership (LLP) has been available since 6 April 2001. A substantial proportion of larger accountancy and legal practices have already converted to LLP and medium sized firms are

now following their lead convinced of the advantages of LLP status. We are keen to promote our brand and enhance this with a contemporary corporate method of trading.

As an LLP we can contract and operate as a single entity rather than a number of individuals trading in partnership. The corporate body can deal with other entities in its own right, enabling us to grow the Practice and remove the traditional partnership barriers

to liability. It is part of our overall risk management strategy to be able to trade without unnecessary risk.

LLP status will also help with succession issues supporting the entrepreneurial spirit of potential new partners and encourage them to join a progressive Practice. Lambert Chapman LLP looks forward to the next 37 years with undiminished enthusiasm and confidence.



John Smith-Daye FCA
Maldon



Nigel Whittle FCA CF
Braintree



Nick Forsyth FCA
Braintree



Chris Harman CTA
Braintree



Paul Short BA(Hons) FCA CF
Braintree



Lisa Potter FCCA
Braintree



Melinda Atkinson LLB FCA
Chelmsford



Stephen Jones ACCA
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Beverley Hill BSc(Hons) ACA
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The Pre Budget Report

This year's Pre budget Report was brought forward to early October and was the first from Chancellor Alistair Darling. Unfortunately it turned out to be a deeply disappointing statement which included the abolition of taper relief, an intention to legislate for income splitting between couples in owner managed businesses and some amendments to the inheritance tax nil-rate band. The following comments set out some views on these changes and may be useful in determining whether any action will be needed before 5th April 2008.

Taper relief



Sean Wiegand

The Chancellor announced that taper relief will be removed for all capital gains with effect from 6th April 2008 along with indexation from March 1982 to April 1998.

Instead there will be a flat 18% charge on the capital gain.

His reason for the change is to simplify the current system and whilst in the long run this may be the case, small businesses may once again be penalised. The only advantage appears to be for individuals who hold non business assets and even then, if the asset has been held for a period of time prior to April 1998 the loss of indexation may lead to an overall disadvantage. I have prepared the following example to illustrate the changes:

An entrepreneur purchased a freehold commercial property in 1975 to use in his trading company and the property carries a March 1982 value of £100,000. The entrepreneur now wishes to retire and sell the company along with the freehold property. The property is valued at £500,000. What are the effects of the changes in taper relief?

In 2007/08 the capital gains liability would be £25,850. This will increase by £44,494 in 2008/09 to £70,344. Even as a non business asset there would be additional tax payable of £3,152. As the removal of taper relief will dramatically increase the tax payable on business assets there has been public outcry from all quarters resulting in the Chancellor holding meetings with a number of business groups. At the time of writing it appears that retirement relief may be brought out of "retirement" in a limited form to mitigate these increases. A sum of £100,000 has been mentioned but this is unlikely to be confirmed until budget day. In the example above this relief might save £18,000 of the extra tax payable but one can see it is still a hefty increase.

As a result, a number of important decisions may need to be made between now and the end of the tax year. What will be important is to identify gains in excess of £100,000 to see whether action is appropriate. Please contact us so that we might assist you in this area.

If you would like further advice regarding this matter then please contact your local Lambert Chapman LLP contact or call me at the Braintree office.

Inheritance Tax



Alistair Darling's announcement could be considered to have retrospective connotations. Why do I say that? Well, the new regime enables any unused Inheritance Tax £nil rate band of the deceased to be used by the surviving spouse or civil partner.

For example; if Fred died during 2000/01 when the £nil rate band was £234,000 and he only used £140,000 of the band then the balance of £94,000 was, as it was viewed at the time, 'wasted'. The £94,000 is 40% of the £234,000 band. The new rules for someone who dies on or after 9th October 2007 means that when we calculate the position for Fred's widow Freda, we add 40% of the current band to her own band. Therefore, if Freda dies in November 2007 she will be entitled to a £nil rate band of £300,000 (the current band) plus 40% of £300,000 (£120,000) meaning there is a total £nil rate band available to Freda of £420,000.

If the deceased had put plans in place to use up their £nil rate band at their death their surviving spouse/civil partner won't benefit under the new system. But, if the deceased had not used up all of the £nil rate band their surviving spouse/civil partner can now benefit.

Income Splitting



HM Revenue and Customs had been fighting an unforgiving campaign against husband and wife companies (The Arctic Systems Case) in which they sought to treat the dividend income paid to one spouse as taxable on the other spouse who was doing the lion's share of the economic effort. The Law Lords found against them. Almost immediately HMRC issued a hurried statement to indicate that they would take their usual

step. When they lose in the courts they then move to change the law.

Accordingly, we were not surprised when the "income splitting" concept was included in Mr Darling's Pre-Budget Report to the effect that legislation would be introduced from 6th April next to counter what is perceived as an abuse. Before the Pre-Budget Report a Treasury official was quoted as saying: "It is the Government's view that individuals involved in these arrangements should pay tax on what is, in substance, their own income and that the legislation should clearly provide for this." It is targeting income splitting because it thinks business owners should not be able to reduce their tax bills simply because they are married.

It believes too many firms now operate by generating income using one partner's efforts and skills and then splitting the profit between both partners so that both tax free allowances and lower rate allocations are used.

There is therefore a window for vulnerable companies to take action to maximise the tax savings whilst the going is good. For some there will be the opportunity to set up structures which can still yield a positive tax position, even after any aggressive Revenue action. Lambert Chapman LLP has always focussed on reward strategies for its clients. I will be reviewing the position for all of my relevant clients over the coming months and putting forward ideas and options to be considered and possibly implemented.

Do call your contact partner if you want such a process put in motion for yourself.



Louise Main looks at distributing the value of a business before dissolution



Having come to a time in your life where you feel it is best for your Company to cease trading what are your options? Two options exist to wind up the business by striking off a company using a form 652a or a formal liquidation.

More importantly what happens to the assets held by the company?

Before taking any action shareholders should ensure that assets owned by the Company are transferred out of its ownership, as from the date of dissolution these assets (but not its liabilities) transfer to the Crown, under the 'Bona Vacantia' rules.

Bona Vacantia literally means vacant goods and is the legal name of ownerless property that passes to the Crown. So in a case of a Company still holding bank accounts these will be frozen and any positive balances transferred to the Crown. When the Company has been dissolved, most of its liabilities will be written off unless they are secured on the Company's assets.

The formal liquidation route is often the only legal way to avoid a Company's assets passing to the Crown if the value has not yet been distributed. However,

as a formal liquidation can be a costly process, HM Treasury have agreed that their Solicitor will waive the crown's rights to any funds of less than £4,000.

If a Company's assets exceed £4,000 and a distribution has not taken place the Company should be put into formal liquidation prior to it being dissolved to protect its assets. If an excess is purely a result of the Company's share capital being over £4,000 steps can be taken to legally reduce the amount of the share capital to below £4,000 prior to dissolution. Whilst this avoids liquidation it would require professional assistance.

At the point of considering this issue three options require consideration to remove the final funds:

- Drawing Salary – paying tax at either 22% or 40%
- Declaring a Dividend – paying tax at either 32.5% or nil%
- By a Capital Distribution – paying tax at 10% up to 5 April 2008

Looking at the tax rates it is clear that the capital distribution is attractive for larger sums but requires a liquidation and use of

Inland Revenue ESC C16 allowing the distribution on dissolution to be treated as a capital gain. Consider the following example:

David is 45 years old and has decided that he would like to wind up his trading company. It has cash of £100,000 which he would like to distribute before it is dissolved and has asked what is the best way for him to do this?

Taking the most effective method to be the capital distribution route:

- The total Capital Distribution is £100,000
- In which he can currently claim 75% business asset taper relief (£75,000)
- Giving a gain chargeable to tax of £25,000
- David's individual exemption for the 07/08 tax year is (£9,200)
- Giving total gains chargeable to tax of £15,800

David's capital gains tax (before 5 April 2008) would be £6,320 which equates to a rate of 6.32%. If you need advice on this area before April 2008 please contact me or your local Lambert Chapman LLP partner.

Chris Harman warns, "Contractors; look out - HM Revenue & Customs (HMRC) are getting tougher on penalties"



It may only seem that it was yesterday, and not just over six months ago, that the new CIS system came into being. HMRC realised the impact of the new system and around the time it was implemented announced that they would

take a gentle approach with regard to penalties which could be charged on the late submission of the monthly CIS300 Contractors Monthly Return.

The gentle approach was to be in place for six months.

That six month period has now expired.

From 19th October 2007, HMRC will charge a penalty on any contractor monthly return, including a nil return, which is still outstanding by its due date. That includes any returns due from May to September 2007 that are still outstanding on 19th October 2007. So, if there is a return for the month ending 5th July still outstanding as at 19th October and the return for the month ending 5th October is also outstanding as at 19th October, both returns will incur a first penalty in October 2007. If the returns continue to not be filed to HMRC there will be further monthly penalties charged until such time as the return is filed with HMRC.

The penalties are an automatic £100 (for returns showing up to 50 subcontractors) for each return to the 5th of the month which is not held by HMRC by 19th of that or each subsequent month. A penalty will still be payable even if the return for the month doesn't need to show any subcontractors (a 'nil' return). The penalty is increased by £100 for each additional 50 (or part of 50) subcontractors. Therefore, a return showing 65 subcontractors will incur a monthly penalty of £200.

In the example above the July and October late returns would each incur a penalty of £100 on 19th October and a further £100 each in each and every subsequent month that the returns are outstanding. If a return is outstanding after twelve months, an additional £3,000 penalty will be charged. You have the right of appeal against penalties. Finally, late returns will affect your gross payment status as a sub-contractor. Your gross status will be taken away from you if you send one return in that is more than 28 days late, or, you send 3 returns that are less than 28 days late - in any twelve month period.

If you need help please contact me.

Thanks for your feedback



In our last edition we asked for feedback and received some really positive comments for which we thank you. As a result we shall be looking into a monthly email and have taken the decision to revert our letter font to Times New Roman. Please feel free to provide us with feedback at any time. We also offered a cash prize of £50 which was won by Janet Kirsch of Appellewell and Event Assured Limited who is pictured receiving her note from Nigel Whittle.

In this edition we ask you to "name the carols" from the lyrics by 19th December 2007 to win a Fortnum and Mason hamper.

LLP Reception, and new Partners, warmly received

Lambert Chapman held a "LLP Reception" at the Shire Hall Chelmsford on 4 October 2007 which was attended by a number of clients and contacts of the firm. The reception also allowed us the opportunity to present our new Partners Stephen Jones and Beverley Hill, who are pictured receiving champagne from Melinda. Those present were entertained by The Larry Berkowitz trio who played jazz before and after the speeches.

Nigel Whittle made a short presentation on our reasons for considering LLP status and explained the pain of making the transition whilst Melinda welcomed our guests to Chelmsford, introduced Stephen and Beverley and presented them with a bottle of champagne each by way of welcome from the existing Partners.

Chelmsford is currently attracting a large number of legal and banking organisations to the town and as we started here in 1970 it has been a traditional stronghold for us. With the current local vibrant economy we hope our new Partners will be able to forge a strong foothold in the local business community.

We thank everyone who was able to attend and also to those who sent messages of thanks and support afterwards.

A collage of photographs of the event are included with this edition.



Team completes "Run 4 Fun" event

On 13th September 2007, eight people ran on behalf of Lambert Chapman in the "Run 4 Fun", a sponsored 2.5 mile run through Castle Park, Colchester which is organised by Essex Solicitors Birkett Long.



The Run helps to raise money for the Colchester Mayor's Charities and, this year, they comprise the Army Benevolent Fund, Colchester YMCA, RELATE, Home-Start Colchester, 7th Colchester (St Johns) Scout Group and 44th Colchester West Scout Group.

The Lambert Chapman LLP team, pictured left, consisted of (from left to right): Sarah Phillips, Craig Weavers, Richard Hamilton, Chris Harman, Sean Wiegand, James and Marie Forsyth (son and wife of Partner, Nick Forsyth) and Mike Harman (son of Partner, Chris Harman).

All of the runners put in a good performance and finishing times are published on our website in a "Firm News" article dated 14th September 2007.

Mid Essex Business Awards

The Mid Essex Business Awards Gala dinner was held at the Unex Towerlands Arena on Friday 21st September 2007. The firm sponsored the Business2Business category of the awards and this involved Nick Forsyth and Lisa Potter judging the 8 finalists to produce 3 equal winners. They are pictured with the winners on the insert to this edition of Snapshots.

The awards dinner was a grand affair with 456 people in attendance creating a tremendous atmosphere for the awards ceremony itself. Nick and Lisa enjoyed their part in the proceedings and gave a good resumé for selecting each winner who go forward to the Countywide Awards Final in 2008.



UK200Group Presentations a success

Late September saw a visit to the County from the UK200Group President Jonathan Russell who spoke to three different



audiences of bankers and fellow professionals on the merits of using a UK200Group practice. Our events were co-hosted with fellow UK200Group members and comprised a breakfast at the Barn Brassiere Great Tey and a buffet lunch at South Lodge Hotel Chelmsford.

The third event was an early evening meeting at the Holiday Inn in Basildon. Feedback from the events has been good and anecdotal evidence provided as to how firms such as Lambert Chapman LLP can benefit from membership through the ability to access international firms of similar size overseas were well received.

We would like to thank Jonathan for giving up his time to support the Group in Essex and for providing a powerful and thought provoking presentation on our behalf. If you were unable to attend the event or as a banker or solicitor would like more information on the contents of the presentation please contact Nick Forsyth who will be able to provide you with a pack including the slides used and various support documentation issued by the UK200Group.

Good start to Quiz Season



The quiz season is now under way and we have a first and second place to show from the first 2 events. Our team win was at Barclays Commercial Bank Charity quiz, pictured above with Regional Director Matthew Peek and his question master, which was held at Essex County Cricket Ground where we came through a strong field to win on a tie breaker question and hold off Wollastons and Baker Tilly. A week before our season had got off to a good start when we came second at the South Essex Chartered Accountants quiz 8 points off the winners in a field of 19 teams. Our team includes Chris Harman, Mike Carabine, Nick Forsyth, Lee Sutton, Paul Short, skipper Richard Hamilton and Dan Drysdale.

On a separate note South Essex has asked us to sponsor a new cup for their Spring General Knowledge quiz and we have agreed to provide the "Michael Lambert Cup - sponsored by Lambert Chapman LLP" in recognition of our founder who was the 1993/94 South Essex President. In the last Snapshots we advised that Mike had suffered a stroke. We are pleased to report that he is now out of hospital and undergoing regular physiotherapy. He sends his thanks for the best wishes he has received.

Paul Short published in Daily Telegraph

Following the Pre Budget Report Paul was incensed to hear a member of the cabinet team interviewed on Radio 4 and make incorrect statements regarding the amount of capital gains tax paid under the proposed rules against that paid in 1997. A letter bashed off to the Daily Telegraph was published in the City Editors letters column and was spotted by a number of you. The letter is published in full below and follows our policy to point out inaccuracies regarding the tax system where we see them;

Sir – Stephen Timms (Labour advisers revolt over tax reform October 11) invites us to remember that in 1997 everybody was paying capital gains tax at 40%. I do, indeed, remember. Capital gains were actually taxed at a taxpayer's marginal rate. That could have been 20% or 23%, not necessarily 40%. I also remember there was indexation allowance and retirement relief for businessmen selling up – up to £625,000 for a 50 year old selling up in 1997.

The quid pro quo for business asset taper relief was the abolition of indexation allowance and retirement relief for individuals. Perhaps you would ask our Minister at the Department for Business and Enterprise how much tax a 50-year-old will pay after April 5 2008 if he sells his business for a gain of £250,000. I reckon £45,000, ignoring the annual exemption. In 1997 he would not have paid anything at all.