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Lambert Chapman

SNAPSHOTS

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Challenges for Farming

Farmers are traditionally conservative people. Their word is their bond. They are loyal and they value loyalty. Consequently farmers do not tend to change their professional advisers very often.

Given this situation, we have been pleased at Lambert Chapman by the way our portfolio of agricultural clients has steadily grown over the last few years. We would like to think that the farmers appreciate our friendly and supportive approach, underpinned by a professionalism and knowledge of the sector.

Essex has a wide range of Farming options. Cereals take a large proportion but are supported by livestock and poultry. We have experience in all of these sectors.

The farming industry is now at a critical juncture. The Single Farm Payment is likely to be phased out by 2012 and businesses now have only a few years in order to

restructure if they are to remain viable and retain existing levels of profitability.

The solutions will differ in each case, depending on the individual farmer's own circumstances. The choices are varied. For some it will be the extreme case of extraction from the industry. Some will contract out, and others will look at co-operative arrangements with regard to machinery. Some will have the opportunities and resources for major diversification projects.

Our team at Lambert Chapman has the experience of advising farmers on the options for change. We are ready to continue this challenge over the coming years to support our agricultural clients. If you would like a complimentary discussion with one of our farming principals please contact John Smith-Daye, for Maldon and Dengie, Paul Short, for Braintree and North Essex, Melinda Atkinson, for Chelmsford and South Essex and Nick Forsyth for poultry expertise.

Reclassifying Subcontractors: A New Hard Line

HMRC have begun to take a very hard line with the reclassification of subcontractors to employment status. The effects of this can be bad enough for a business but it now appears that HMRC are 'squeezing until the pips squeak'.

When an individual has been reclassified as an employee, HMRC's practice had been to collect only NI from the employer, provided that the individual had paid income tax on a self employed basis. The NI would include both employer and employee contributions with no deduction for contributions paid by the individual.

HMRC now appear to be seeking a full settlement of the tax as well as the NI. HMRC will only allow a set-off for the amount of tax paid by the individual where the employer can obtain a mandate from the individual stating that the individual will not seek a refund of the tax (which they could do by making an error or mistake claim for the last six years) and requesting that HMRC set the tax paid against the PAYE liabilities of the employer.

If employers cannot trace the individuals concerned, they may have to settle the tax in full.

Also HMRC appears to be pursuing all earlier years although the tax paid by the individual more than six years ago will be set off in the settlement because the individual cannot reclaim this.

The effects of reclassification can be serious and can affect any business using self employed individuals. Please talk to us if you have any concerns about this issue.

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Tax Issues of Home Working

More than 3 million people work regularly from home - most being 'teleworkers', eg those relying on computers, telephone and broadband internet connections. What are the tax issues arising for the employee and the self employed?

Equipment provided by employer

If an employer provides equipment (furniture or computers) or supplies services (a telephone line or internet access), this would normally be a benefit in kind. These are exempt, however, where the only purpose is to enable the employee to work at home and private use is insignificant. Telephone and internet access must be a vital and central part of the employee's duties and the employer must be able to minimise private use.

Expense payments to employee

There is no tax charge where an employer reimburses an employee for any additional household costs incurred whilst working at home, for example for extra light and heat or insurance. Up to £2 a week may be paid without the need to keep records but more than this can be paid if there is evidence to justify the amount.

The homeworker must do some or all of their work at home with the agreement of the employer under a formal arrangement. No relief is given where an employee takes work home in the evenings.

Expense deductions

If an employee incurs expenses, tax relief will not be given unless the duties of the employment require the employee to work at home. Most employees who work at home are doing so by choice and they will not receive tax relief on these expenses.

If a homeworker travels to the employer's office, the cost will not be allowed unless trips are irregular or self contained - for example for a meeting. Business trips to other locations will normally be allowed.

Self employed

An expense is not usually allowable if it is part private, but a claim for "use of home as office" based on a reasonable apportionment of household expenses will normally be given to self employed taxpayers. This can be based on number of rooms or surface area and include costs such as rent, light and heat, insurance, council tax, water rates etc. HMRC expect to see that an identifiable part of the house is set aside for business use.

Two potential pitfalls

In some cases, business use of the main home may cause a capital gain to arise on sale and there may also be cases where business rates are payable. Please contact us for more information if you think you might be affected by these issues.

What is an EMI Scheme and is it Really as Good as it Seems?



Beverley Hill

Our Chelmsford team have recently been successful in setting up an EMI scheme for one of their clients. The client is in a high-tech industry and wanted a way to retain the specialist skills

of their key staff.

An Enterprise Management Incentives (EMI) scheme is a scheme available to small companies to help them recruit and retain key employees. It is also an excellent way to reward key employees for taking a risk by investing their time and skills in a small company and gives them the opportunity to participate in the successful growth of their company which they have contributed to.

So how does it work?

The scheme works by offering employees options to purchase shares in the company.

There are no tax implications on the grant of the options and the employee has the option to buy shares at some time in the future at the market value agreed at the grant of the option.

Capital Gains Tax

If the shares are subsequently sold, the gain will be subject to Capital Gains Tax.

However, if they have been kept for 2 years from the date the option was granted then the employee will be entitled to full business asset taper relief of 75%. This means in the 06/07 tax year, if you have no other capital gains, you could make gains on these shares of up to £35,200 tax free.

Advance notice of financial commitment

The market value of the shares at the date of granting the option can be agreed with HMRC. This means the employee is aware of the price of the shares and the resulting tax liability well in advance.

Eligibility

EMI schemes are available to independent companies carrying on qualifying trades whose gross assets are less than £30 million.

The setting up of such a scheme is fairly straightforward and the Chelmsford office team would be happy to talk through the opportunities for your company.

If you would like to discuss the possibility of setting up an EMI scheme for your company, please contact Beverley or Melinda on 01245 216800 or email beverley.hill@lambert-chapman.co.uk or melinda@lambert-chapman.co.uk

Keeping the Corporate Finance Deal Moving



Nigel Whittle

Transactions involving the purchase and sale of companies are on an upward trend nationally and we at Lambert Chapman are being called upon increasingly to provide our expertise in this area.

One of the major areas of negotiation is dealing with the warranties and indemnities to be provided by the vendors to the purchasers. When both sides refuse to move and the deal becomes deadlocked due to the cost of potential liabilities which the vendor is unwilling to inherit, it is little known that insurance can be purchased to ring fence identifiable risks enabling the transaction to proceed.

The insurers will wish to look at the sale and purchase agreement, disclosure letter, warranties and due diligence reports before insurance is considered. An excess of approximately 0.5% of the consideration value will often be set with an insurance layer given linked to the warranty cap in the Sale and Purchase Agreement. The insurance premiums will normally be in the range of 2.7% - 4.5% of the amount to be covered. For example, a £30 million deal with a £10 million warranty cap will have an excess of £500,000 and for the next £10 million cover a premium of say £350,000 will be payable dependent upon the industry and the deal size.

Insurance for corporate finance work is an innovative way of dealing with the risk related problems that can cause deals to often grind to a halt.

If you are considering a sizeable deal and wish to reduce your risk in respect of warranties, indemnities or contingent liabilities, maybe insurance could provide a solution.

VAT Flat Rate Scheme

The flat rate scheme was introduced to simplify the VAT procedure. In reality the same records need to be maintained but some small business can benefit due to a reduced VAT liability.

The scheme works by applying a fixed rate VAT percentage, based on sales, to calculate the businesses VAT liability. Generally input VAT is not claimed on purchases.

The percentage used to calculate the VAT is based on the trade sector of the business. The percentage is based on the average VAT liabilities in the sector.

Thus many businesses may find an advantage in using the scheme if they do not follow the characteristics of the sector or if they have limited input VAT claims.

An example of the rates are shown below - however these are calculated on the gross sales figure rather than the net figure used when calculating output VAT under the normal rules.

Hairdressing	12%
Photography	9.5%
Secretarial Services	11%
Travel Agency	9%

In assessing entry to the scheme it is best to consider the businesses VAT returns over the last few quarters and compare them to the potential liability under the scheme. A decision can then be made to the advantages or disadvantages of joining.

Who can join the scheme?

The scheme is open to small businesses whose annual turnover does not exceed £150,000 and whose total turnover (including the value of exempt and non taxable income) does not exceed £187,500 a year.

Small Business Rate Relief

On the 1st April 2005, the Small Business Rate Relief Scheme was introduced. This is designed to provide rate relief to ratepayers that occupy just one property in England. The rateable value of the property has to be below £15,000 (£21,500 in Greater London).

The amount of relief awarded is dependent on the amount of rates paid. Where a property has a rateable value of less than £5,000, 50% relief is awarded. This is reduced on a sliding scale of 1% for every £100 rateable value up to £10,000 rateable value. The amount of rates is also calculated using the small business rate multiplier.

Where a property has a rateable value between £10,000 and the threshold (£15,000 or £21,500), the rates are calculated using the small business rate multiplier. For ratepayers not entitled to relief, they have the amount of rates payable calculated using the standard multiplier. This represents a supplement of 7 pence.

Unlike other rate reliefs that are available to a ratepayer, existing legislation requires a ratepayer to complete and return an application form to the council each year. In the absence of a form, relief cannot be granted.

A key date for all ratepayers is 30th September 2006. After this date, the council would not be able to backdate any relief prior to 1st April 2006 (unless there has been a change to liability or rateable value). The council has no discretion in this matter.

The Government is proposing to change the rules on Small Business Rate Relief from 1st April 2007. These changes will be reported on in a future edition of Snapshots. In the meantime, it is imperative that ratepayers take steps to ensure they are receiving their full entitlement to relief.

Contributed by Gary Watson of Hayeswater Consultancy - 01376 329721.

Now a 'Stealth Tax' for Trusts!

Since Budget day there has been much lobbying of the Chancellor on the changes to trusts and some amendments have been made.

The changes announced were aimed mainly at Accumulation and Maintenance (A&M) trusts and Interest in Possession (IIP) trusts. Lifetime transfers into A&M trusts or IIP trusts have always been exempt from inheritance tax (IHT) if the settlor lived for the next seven years. These trusts have also not been subject to the periodic or exit charges suffered by other trusts.

The new rules will apply the treatment currently applying to discretionary trusts to both A&M and IIP trusts. So, in the future there will be:

- a chargeable transfer on entry with a lifetime rate of up to 20%;
- a periodic charge of up to 6% every ten years; and
- an exit charge when funds leave the trust between periodic charges.

The new rules apply from 22 March 2006 to new trusts and to additions of new assets to existing trusts.

Existing A&M trusts which provide that the assets in trust will go to a beneficiary absolutely at 18 retain the old IHT treatment. However, few trusts provide for this since 18 is widely considered to be too young. Therefore, one of the amendments to the legislation is that if a child becomes absolutely entitled to assets at or before the age of 25, rather than 18, then IHT charges may only arise for the seven years post age 18. If existing trusts modify the terms to provide for absolute entitlement between 18 and 25, the above concessions will also apply.

The old IHT rules for existing IIP trusts will run on until the interest in the trust property at 22 March 2006 comes to an end. Also, the current interest may be changed before 6 April 2008 and the old IHT treatment may be retained.

Trusts for disabled persons and certain trusts created on death for a child or which create a life interest are exceptions to the new rules.

If you created a trust before Budget day or have a Will which creates a trust on death, you may wish to contact us to see if it remains tax efficient or if you need to change the terms.

Tax Free Benefits in Kind

A company can provide certain benefits to an employee without there being any additional taxation implications for the employee and where the cost to the company qualifies for tax relief.

Such benefits include:

- Pension contributions.
- Meals in a staff canteen, and normal tea and coffee break facilities provided they are made available to all employees.

- Subsistence costs for site based employees.
- The provision of a car parking space at or near a place of work.
- Home to site travel costs for 'site based employees'.
- Payments made for training - full time, part time, day or block release.
- Removal expenses up to £8,000, where an employee is required to move home when first taking up employment.
- The provision of a staff Xmas party, up to £150 per head per annum.

- The provision of entertainment by a third party.
- Routine health checks and medical screenings.
- Provision of a mobile phone.
- Childcare provision, subject to certain conditions.
- The payment of incidental overnight expenses (of £5 per night in the UK and £10 per night overseas).

We would recommend that employers consider these items when deciding on their staff's reward packages.

Melinda's Himalaya Challenge Update

A big thank you to everyone who has made a donation. I set myself a target of £3,500 to raise and to date, thanks to the generosity of my clients and contacts, I have managed to find a fantastic £3,353.59. So I have only another £146 to raise so if anyone would still like to provide a donation it will be gratefully received. You can donate online at www.justgiving.com/melindaatkinson or you

can send a cheque to us made payable to 'Farleigh Hospice'.

The training is now underway and our new puppy which is now 4 months old is the extra incentive to get out and do some walking. The expedition is only weeks rather than months away and some of my attention needs to be diverted towards the jobs needed

and making sure my visa application is in place. I am hopeful that I will be able to complete the course and be back to update you on my adventures. Thanks once again - Melinda Atkinson.



Fantasy Football Competition Winners Announced

Many of you will be aware that the firm successfully ran fantasy football competitions for the 2005/06 Premiership season and the 2006 World Cup. These were won by Andy Ellis of Ellis Grant a firm of specialist Law Cost Draftsmen in Wanstead and Peter Beer a corporate bank manager with NatWest in Colchester. Both are pictured receiving their awards from Nick Forsyth. With the start of the new Premiership season our 2006/07 competition has commenced with over 100 teams split into 7 divisions with monthly promotions and relegations. You can see the competition progress

by visiting our website and if you would like to join up will be eligible to do so by contacting fantasy.football@lambert-chapman.co.uk. Nick would like to thank Richard "Tricky" Hamilton and Craig Weavers for all of their efforts in running the league on the Firm's behalf.



Nick Forsyth with Andy Ellis (above) and with Peter Beer (right)



Traders Win Cricket Match

The annual charity cricket match between the Braintree Tradesmen and Braintree Police was played on 20th July 2006 at the Braintree ground. The match, sponsored this year by Lambert Chapman, was won by the Traders by 8 runs in a close finish. Nick Forsyth and Graham McNeill represented the firm on the field with Graham top scoring with 43 and taking 2 for 16 with the ball. During the day 85 people attended the luncheon and we thank those clients and contacts of the firm who made an effort to get along to spend time with us. As usual the beneficiary is a Braintree based charity known as "Chances of Braintree", a playgroup for children aged 2½ to 5 with learning difficulties and we hope that over £1,100 will be raised.



Gill Meets Institute President

After reporting in the last edition that Gill Philpott had won the "Everybody Counts" award for a member in practice. Gill's big presentation night arrived and following a splendid dinner at the Chartered Accountants Hall in Moorgate Place she received her award from current Institute President Ian Morris with whom she is pictured. Once again we extend our congratulations to Gill for all of the work she puts in on behalf of her charity Barrow Farm Group Riding for the Disabled.



Exam Successes Delight the Firm

There was an air of nervous tension around the offices the Friday before the results were released and we were delighted to hear on the Monday that Dan Drysdale and Tracey Yeo had passed their final exams to become affiliated members of the Chartered Association of Certified Accountants. This followed the news that Andrew Hingston had passed his final examinations for the Association of Taxation Technicians. The three have all been with the Braintree Office throughout their accounting careers and add to the qualified staff we set out in a previous edition of Snapshots.



the Sunday supplements in full, telling us young whippersnappers what's wrong with the world and why it was so much better in their day.

Everyone enjoys talking to Uncle Audley - when they get a word in - and generally spends most of the time trying to point out the inaccuracies about which he talks in an effort to keep the reporting straight down the middle.

Uncle Audley has been contributing articles on a range of subjects including opening a bank account, The LibDem's tax proposals, the cabinet reshuffle, farming and political loans and donations. He has developed a strong following from those already aware of his wit and strong argument. The Grumpy Old Men are not out of nappies where Audley is concerned. If you have not yet enjoyed a tale from Uncle Audley perhaps now is the time to visit our website.

John Blasts Away the Opposition at Handelsbanken Event



Lambert Chapman's Maldon based partner John Smith-Daye let loose with both barrels, literally, when he triumphed at the finals of the Top Gun 2006 event on Thursday 3rd August 2006, organised

by Chelmsford-based Handelsbanken. Justin Grainger (Branch Manager) was ably assisted by his colleagues Tim Paddon (Corporate Account Manager) and Ray Bugg (Individual Account Manager) in organising a number of evenings over the past few months, bringing together professional colleagues from throughout Essex to shoot clays at the Fennes Estate near Braintree. John had been successful in winning his heat the previous week, and is now proud to boast two trophies for his efforts, being crowned Top Gun of Top Guns 2006 at the essential after-shoot dinner held at The Kings Head in Gosfield. Grateful thanks should be recorded to Handelsbanken for hosting the events, and to Tracey, Roger and Kevin, instructors from the Braintree Shooting Ground, for guiding all of the participants in their shooting.

Firm Enjoys Twenty20 Win at Chelmsford

Billed as a clash of the titans, as any match is between teams supported by Paul and Nick, the firm enjoyed an evening of cricket at the Twenty20 match between Essex and Yorkshire. Unfortunately, for Nick, the Tykes were defeated and a good evening was had by all those present, particularly Martin Leach, a client of the Maldon office, who won the Essex Yorkshire quiz and received his prize bottle from Nick Forsyth.



Snapshots Quiz Winner

The World Cup Snapshots quiz has been drawn and won by Clive Flinders from Barclays Bank who requested a Togo shirt as his prize. The quiz drew 16 entries in all of which 9 were correct. Of these a

large proportion came from Barclays Bank who used a team meeting or some internet training wisely to produce all the answers! The answers are set out on our website within Firm News.



Clive Flinders, Duncan Forsyth and Richard Hamilton presenting the Togo Shirt

Uncle Audley

Everyone has an Uncle (or Great Uncle) Audley; he's the well read old chap who sits quietly in the corner until a couple of brandies have set in and then recounts in a rant



Our congratulations go to Stephen Jones and his wife, Caroline, on the safe arrival of their daughter, Amelia, who caught both parents out by arriving a few weeks early!

