jamescowper
Accountants & Business Advisers

WINTER 2010

perspective

JAMES COWPER SHORTLISTED FOR 'ACCOUNTANCY FIRM OF THE YEAR' AWARD

AccountancyAge AWARDS 2010 FINALIST

James Cowper has been shortlisted for a top award in the prestigious annual Accountancy Age magazine awards programme.

The firm has been shortlisted in the tough 'Medium Firm of the Year' category and is the only Thames Valley and South Coast accountancy firm to make the shortlist.

Steve Clarke, Managing Partner at James Cowper said: "We are absolutely thrilled to have been shortlisted for this important award. The Thames Valley and South Coast have not escaped the cold economic climate of the past 18 months and James Cowper, alongside many of its clients, has emerged in a strong position to capitalise on post-recession growth.

This is recognition for all of the hard work and effort everyone at James Cowper has put into ensuring the firm is the first choice for businesses and individuals needing top quality advice."

The nomination follows Private Client Practitioner, a respected trade magazine, identifying James Cowper as one of the top 25 accountancy firms for providing advice to high net worth individuals and families, and Citywire magazine naming Private Client Director Mark Herson as one of 10 private client accountants wealth managers should know.

STRENGTHENING OUR TEAM

We are delighted to announce the appointment of Alan Poole as a Business Services Director, specialising in audit and business assurance.

Alan joined the firm in late September after twelve years with Grant Thornton, and brings a wealth of experience of working with entrepreneurial businesses of all shapes and sizes across a wide range of industries, including many larger and AIM listed businesses.

Alan works closely with his clients to build effective and lasting relationships. He places great emphasis on giving pragmatic and practical advice to businesses.

Commenting on his appointment, Alan said: "I am delighted to have joined James Cowper. The firm is one of the strongest in the Thames Valley with a terrific reputation and an enviable client base. I have been made to feel extremely welcome here and I look forward to developing my career further and to contributing to the firm's continued growth."

Managing Partner Steve Clarke adds: "We are delighted to announce the appointment of Alan. He has a terrific reputation and top flight experience in acting for some of the biggest names in the Thames Valley. He will be a real asset to the firm and its clients and we all look forward to working alongside him."

You can get to know Alan better on page 8.

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Benchmarking for profit

An increasing number of companies have used benchmarking in recent years to improve company profitability. But how do you get started?

There are a variety of different benchmarking methodologies, but a typical five step process is as follows:

What are we going to benchmark?

Many activities can be benchmarked, both at overall company performance level and at individual operation level. It is perhaps most useful to concentrate on the key areas which are likely to both improve customer relations and profitability. These might include speed of service or stock levels. It is important to be able to measure effectively, and also not to try to benchmark too many things at once.

Who will we benchmark against?

It may be obvious who to benchmark against, or it may be necessary to do some research. Customers or industry specialists may be able to point you towards the leaders in a particular field, or it may even be that in a larger company different parts of the company can be compared.

Where will we get the information from?

In some industries information may be readily available in the form of surveys and there is usually a lot of publicly available information. For example much useful information is available for solicitors. A number of publishers also produce guides to particular industries which in some circumstances are very informative. However often the best information can be obtained from companies within your industry with whom you do not directly compete - this often works for businesses with a geographic focus. It is important to identify the right companies to approach - you may learn little from a company which is poorly run and unprofitable.

How do we analyse the information?

It is usually worth considering restricting the amount of information to analyse so that you are able to make meaningful comparisons based on manageable data. It goes without saying that it is necessary to compare like with like.

How will we use the information?

The point of benchmarking is to improve performance. Carrying out a benchmarking exercise might prove very satisfying or alternatively it may make people defensive if the comparison highlights areas for improvement. In either case you need to consider action carefully or the time spent benchmarking may be wasted. An action plan should be derived and monitored and the project needs to be seen as a realistically achievable challenge.

Benchmarking should ideally be carried out periodically. The business world is changing rapidly, and benchmarking is a way of ensuring that your business not only keeps up with the competition, but stays a step ahead.

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Are you ready for Clarified ISAs?

What are they?

In 2004, the International Auditing and Assurance Standards Board (IAASB) began a comprehensive programme to improve its International Standards on Auditing (ISAs). These are the rules which auditors like James Cowper are required to follow when undertaking an audit of accounts. The aim was to improve the understandability of these rules and as a result improve the quality of audits across the globe.

The result is a new set of auditing standards which have been adopted by the UK's Auditing Practices Board - the standard setter in the UK. These are the Clarified ISAs.

So what relevance is this to me?

It is true that these are rules for auditors to follow. However the new rules apply to every audit performed in the UK for financial periods ending on or after 15 December 2010. Some of the new standards will require your auditor to focus on areas that have not been considered or documented in as much detail in the past. Examples of the key areas where changes may take place include the audit of accounting estimates, the audit of related parties and the audit of groups.

What should I do?

Your audit partner/manager will discuss with you the implications of these changes for the audit of your entity. As part of your preparation for the audit you might be required to discuss issues like related parties in more detail and also produce additional information for review by the audit team.

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XBRL Update

Those of you that read my previous piece, 'Are You Ready for XBRL?' will already be familiar with what XBRL is. However, with less than five months to go before implementation date, there is still uncertainty over what HMRC's decision to implement XBRL will actually mean.

Why is XBRL being introduced?

For HMRC, the introduction of XBRL makes a great deal of sense as it allows large quantities of data to be compared quickly with a high degree of automation. For example, if HMRC wished to compare the results of companies within a specific industry; XBRL can do this. This benchmarking could be based on any range of variables and would allow reviewers to spot anomalies and therefore select cases for further investigation.

What can be done to mitigate disruption?

The scale of the change should not be underestimated. However, in reality, the degree of disruption for businesses that have their accounts prepared by an accountancy firm may well be low.

Software providers are currently hard at work creating their conversion programs. At time of press, these products have not been released, however, this will change in the near future. For companies where James Cowper prepares statutory accounts, the conversion process should be reasonably straightforward.

Greater difficulties will arise for companies that currently prepare their own accounts in Word or Excel (although a number of conversion tools are to be launched) or for specialised companies whose accounts differ from the norm. In all likelihood, there will be additional costs incurred in these instances.

Future plans

The introduction of XBRL submissions to HMRC is the tip of the regulatory iceberg. It is almost certain that Companies House will follow suit (in fact users can already choose to submit accounts in XBRL format should they wish to). Further, it is likely that XBRL based submissions will be extended to PAYE, VAT and other statutory forms.

What needs to be done?

If you would like more information on XBRL, please speak to your usual James Cowper contact to discuss how best to arrange the preparation of your accounts and tax return in 2011.

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Public sector spending cuts - survival strategies for companies affected

As the public sector spending cuts begin to bite we have been advising companies affected. The threat is not limited to those directly supplying departments such as the MoD, Home Office and Justice Department but also those further up 'the supply chain'. With up to 500,000 public sector jobs at threat, even retailers may not be immune from the effects.

There is no room for complacency and virtually every business should evaluate what the repercussions could be. For those identifying vulnerabilities, there are generic strategies they can consider adopting as follows.

- Management change - this can be a difficult pill to swallow for owner managed businesses in particular, but the best course may well be to consider appointing a new CEO experienced in turnarounds and/or capable of taking the business in a new direction.

- Stronger financial control - a common symptom of businesses that get into difficulty is that the systems of budgeting, production of timely and accurate management information, cost and cash flow control are not what they should be. Rigour in this area is crucial when the going gets tough!

- Changes to organisational structure - closing loss-making divisions and ensuring reporting lines facilitate more formal reporting procedures.

- Product or market re-orientation - refocusing on markets (such as schools or the NHS) which are less vulnerable.

- Improved marketing - 50% of marketing spend is money wasted. But which 50%?

- Growth by acquisition - difficult for a company strapped for cash but it may be possible to achieve synergistic savings by bringing together two businesses in complementary sectors.

- Asset reduction - disposal of surplus assets may be a crucial source of cash for financially strapped companies.

- Cost reduction - is the most commonly used strategy but is rarely sufficient in isolation because the benefits require time to take effect.

- Investment - fresh capital can provide vital working capital or fund more efficient facilities such as premises, plant, IT or vehicles.

- Restructuring - renegotiating of loans; agreement of debt write-offs; conversions of debt to equity etc can be a lifeline.

The broader the range of strategies utilised, the better the prospects. Where it is unlikely that the use of such strategies will work, management might look at a range of exit options such as the sale or orderly wind down of the business. For those that choose not to address the issues, the Official Receiver may become their final refuge.

Our Business Recovery and Insolvency team have been running a series of seminars on the options for providers to the public sector. For more information please contact one of our partners below:

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From left to right Richard Warwick, Sue Staunton, Peter Whalley, Sandra Mundy and Tom Russell.

Technology News - Europe's long term strategy for innovation

R&D to create €795 billion extra GDP and 3.7 million new jobs.

Sounds ambitious and undoubtedly it is; but it's what a recent study shows meeting the EU R&D investment target of 3% of GDP by 2020 could generate by the time we get to 2025. Whilst it all sounds a long way off, one only has to think just how long it can take some technologies to move from investment to commercial reward to realise that the time to start working towards these goals is now. The first projects start in 2011.

On 7th October the EC's Innovation Union announced Europe's strategic approach to innovation.

The key elements:

- European Innovation Partnerships will bring together public and private sector stakeholders to tackle key changes to society. The first partnership starting next year is focused on healthy ageing. The Commission will provide seed corn capital.
- 25 key indicators for successful innovation systems have been developed, the "Innovation Union Scoreboard". Universities will also be ranked for innovation.
- Improving access to finance and improving existing European finance schemes. A cross-border VC scheme and cross-border investor matching are proposed.
- Boosting existing initiatives and completing the European Research Area by 2014. This is aimed at coherence of national and European research policies, cutting red tape and running the grants Framework Programme 8 (FP8) through to 2020.
- European Design Leadership Board and European Design Excellence Label to be set up in 2011.
- Major research programmes on public sector and social innovation launching in 2011.
- Proposals for governments to set aside €10 billion per annum to spend on innovations improving public services.
- Legislative proposals in early 2011 to speed up and modernise standard-setting.
- Modernising the European Intellectual Property regime and gaining agreement on EU Patents.
- Reviews of state aid and structural funding. After 2013 structural funds will have greater emphasis on innovation.

The James Cowper view

Any proposal coming out of Europe aimed at spending money wisely and cutting red tape by introducing more legislation will always raise a cynical eyebrow. The proposals are however far reaching; few technology businesses won't be affected by changes to patent law and few would turn down grants or early stage funding. So, we think it's best to leave any natural cynicism behind, ignore the waste within the system and make sure your business is prepared for the changes and gets full access to what's on offer.

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Retiring at 65 - the new rules explained

The Government has announced it intends to scrap the rule where people can be forced to retire at the age of 65.

The ruling, which will come into effect from October 2011, will inevitably mean more people will now work for longer. It should also mean employees are not forced out of their jobs before they feel ready for retirement.

This is seen as good news for the 68 per cent of over 55s who want to work past the current standard retirement age and better news for the 5 per cent who believe that they will be forced out of their jobs when they reach the official retirement age. The thinking is that by working for longer they will have a larger pension pot which will generate a higher pension income for them.

Under the new scheme people will still be able to retire at 65, but they should be beware that following the Government's October 2010 spending review, the age at which the state pension will become payable will rise from age 65 to age 66. This will be phased in between December 2018 and April 2020.

This will have a particular impact on women as the female state retirement age is already part way through a process where it is gradually increasing from age 60 to age 65. Further rises in the state pension age to age 67 by 2036 and to age 68 by 2046 were already planned. The Government will now be reconsidering this, with the likely outcome that these changes will be brought forward.

Employers will be concerned that this rule change will block jobs for young people as older people remain in the workforce for longer. Whilst the Government is trying to solve a problem it has with pensions, it may also simultaneously increase the number of young people looking for work.

If you would like further information please contact Shaun Clarke at Chiltern Consultancy on +44 (0)1494 45144 or at sclarke@chilternconsultancyltd.com

Levels and bases of, and reliefs from, taxation dependent on individual circumstances are subject to change.

Chiltern CONSULTANCY
INDEPENDENT FINANCIAL ADVISERS

GROWING APART PAINS

In recent years there has been a decline in the number of people who choose to marry, but many still do and sadly not all marriages last forever - indeed, the average marriage currently lasts around 11 years. But what happens if the husband and wife own and manage a business?

Somewhat surprisingly in many cases the business relationship survives. Where this isn't the case there are a number of options, including:

- One party leaving the business and being replaced.
- The parties agreeing to divide the business between them.
- The business being sold in its entirety.

In any event, unless the business is actually sold, it will need to be valued. So how is this done?

There are a number of ways that a business could be valued, but pretty much all of them are a reflection of the value that could be generated from future profits or cash generation. For example some industries, such as professional practices, are valued based on turnover and pubs historically were evaluated in terms of the barrelage of beer sold. In most circumstances, however, valuations are based on a multiple of future profits.

Where valuation follows this earnings multiple approach, the first step is to calculate the underlying maintainable earnings. This is usually done by reference to recent profit generation, although longer periods of earnings can be looked at when profitability varies over a longer economic cycle. Adjustments do need to be made, for example to reflect a fair open market salary for the work done by shareholders as they can often pay themselves largely by dividends which are not a deduction from profits.

The resulting profit figure needs to be multiplied by a suitable multiple. This can vary due to a number of factors, including the underlying level of certainty that income can be maintained and the size of the business. Larger and less risky businesses tend to attract a higher multiple. Finally any surplus assets need to be added to the valuation.

Sadly divorce and the valuation of the underlying business that results are a well-worn path and the use of an experienced business valuer can help resolve this issue without too much difficulty.

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THE PROS AND PERILS OF PERSONAL GUARANTEES (PGs)

In uncertain financial times with high business failures and reduced credit worthiness, owners are increasingly being asked to give PGs to banks, invoice discounters, financiers and suppliers.

The ultimate purpose of a PG is to provide a lender with security should a business not be able to pay, although, PGs are often provided to demonstrate commitment to the viability of the business.

For newly established or struggling businesses, often the only way to obtain vital lending or credit is for owners to give PGs on a 'take it or leave it' basis. However, some negotiation may be possible e.g. having a cap on the liability, borrowing less for a shorter period or excluding certain assets.

Where there are multiple owners the guarantee is usually joint and several in which case a lender can choose, if necessary, who it is enforced against. A guarantor who has paid has a right of contribution from the others. It is common for spouses to also give guarantees or alternatively they may agree to relinquish rights to jointly owned property.

Giving a PG is normally a sobering thought. If a guarantee is offered too freely the lender should consider why; has the guarantor given so many that one more doesn't matter, or does he have nothing of value?

If a business fails then the perils for a guarantor in giving PGs are quite clear. If the guarantor does not have ready access to funds then it is normal to discuss a payment plan. Generally lenders do not want to see the guarantor bankrupted as this invariably means that they will receive less. Where a guarantor has given a number of PGs then he may wish to consider an Individual Voluntary Arrangement (IVA) so he can pay back an affordable sum over a period of 3-5 years.

Increasingly lenders are seeking charging orders against individuals' residences to improve their position in the event of bankruptcy as it changes the nature of the liability from an unsecured to a secured debt. If lenders are struggling to obtain payments under PGs then this should provide a better return if subsequently there is a bankruptcy.

We are working with a number of personal guarantors where their PGs have been called on to find an optimal solution for them and the lender. If you are worried about your PG exposure we are happy to discuss this with you.

It is worth remembering that in most cases the liability is repaid and the PG is never called upon. When this happens, as a matter of good housekeeping, the guarantor should request a return of the guarantee.

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Capital allowances cuts, will they affect you?

The June emergency budget announced reductions in the rates of capital allowances available to UK business, which will become effective from April 2012.

The rates of writing down allowances (WDAs) for new and unrelieved expenditure will reduce from 20% to 18% per annum for most items of plant and machinery and from 10% to 8% for long life assets and integral features of a building. The Annual Investment Allowance (AIA) will also be reduced, from the current limit of £100,000 to £25,000.

For companies this may be partly offset by reductions in corporation tax rates but for partnerships and sole traders it is likely that the changes will result in higher tax payments.

So what can you do?

- When making purchasing decisions, consider whether it is worthwhile purchasing assets on the Government's Energy Technology list (www.eca.gov.uk). Energy-saving plant or machinery and environmentally beneficial plant or machinery still attract 100% allowances in year one.

- Remember that even when WDAs reduce, cars with CO_2 emissions below 160g/km will qualify for WDAs at 18%, as compared to cars with higher emissions which can only be written down at 8%.

- Unless you are in charge of building the London Olympic Park, 2012 may still seem some way off. It isn't too early to start planning though. I would recommend that you consider the timing of your capital expenditure to ensure you make the most of the total of £200,000 AIA allowance available between April 2010 and April 2012. The rules for allocating the AIA between years are complex and unless you plan your expenditure accurately you might miss out. Make sure you speak to us if you are planning any major spend.

- If you are undertaking a sizeable building project make sure you maximise your capital allowances by ensuring you can carve out any items of plant hidden in the building project. It is surprising what might qualify, as illustrated by the decision in JD Wetherspoon plc v HMRC. The company incurred substantial expenditure in converting a dilapidated theatre and two shops into pubs and claimed a sizeable amount as plant. HMRC did not agree and it came before the Tax Tribunal. It was held that although the general cost of tiling is not plant, capital allowances could be claimed on tiles which functioned as "splashbacks". For the ladies, the installation of lighting in their toilets qualified for allowances on the basis that it was intended to create a specific ambience as did the cost of the cubicles. Something to think about next time you get caught short over your pint of beer or glass of chardonnay.

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Oxfordshire Bioscience Network Awards

Sue Staunton was delighted to present the award for Best MedTech Fundraiser to Oxford Immunotec at the recent OBN awards dinner. She was particularly pleased to do so as she had been involved in advising the company in its very earliest years on financial issues.

The company had raised some $26million series D funding, drawing in international funds to further develop the sales and marketing of their innovative TB product. We were also pleased that one of our clients, Organox, a spin out from the University of Oxford in 2008, was successful in winning the award for the best early stage MedTech company.

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HMRC TO TAKE OVER PAYROLL PROCESSING!

Or so the headlines suggest. In reality this is a very long way off, if indeed ever attainable. The headlines come from the HMRC consultation document entitled 'Improving the operation of Pay As You Earn (PAYE)' and here, Nick Butler, Director of JC Payroll Services Limited, outlines HMRC plans and looks at the potential impact on employers.

Since PAYE was introduced in 1944 little has really changed. 66 years ago Mr or Mrs Average had one job or pension and rarely changed jobs, at least not by today's standards. PAYE rules are therefore not well suited to modern business

HMRC's first step to improve efficiencies was the introduction last year of the National Insurance and PAYE Computer Service (NPS). NPS will create a single tax account for all individuals, instead of the previous 12 separate databases, which will contain their employment history, historical earnings and National Insurance record.

With NPS in operation the next stage of the evolution of PAYE, as HMRC see it, is the introduction of Real Time Information (RTI). It is this initiative from the consultation paper which is likely to have a tangible effect on employers in the future.

RTI seeks to gather employee payroll data each month in addition to the end of year returns. The result, it is hoped, is that HMRC can handle job changes and multiple employments during the year instead of changes in tax codes being made retrospectively.

The paper then addresses how HMRC might exploit a working RTI system further and it is this ultimate vision that has attracted so much press. HMRC suggest that once RTI is in operation the next step is for HMRC to perform the actual PAYE and National Insurance calculations as well, under an initiative called 'Centralised Deductions'.

This would be achieved by employers submitting additional data to HMRC each month. On paper this appears a 'workable' concept. In reality I do not believe that HMRC could handle the circa 30 million payroll calculations on a weekly or monthly basis, let alone adding pension payments into the equation!

In summary therefore NPS is settling down after its introduction and a logical progression is RTI. Indeed, given the state of Government finances any efficiencies are welcome. As for Centralised Deductions, I think these are, at best, some way off.

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The Recession - is it/was it a U, V, W or L?

With the public sector spending review now behind us, all economic eyes focus on the widely accepted slowdown that the UK economy faces in the next few months. Will it be a double dip recession or will we remain on a shallow upward growth curve? What is certain is that much print, paper and now digital megabytes will be wasted dissecting the statistics as they emerge.

However, the other truth is that to an extent we are talking about technicalities where a fraction of a percentage is given huge significance. So does it really matter to Joe Entrepreneur? During the recently ended (?) recession I saw many companies thriving whilst all around us the economists and commentators were describing hell on earth. Equally unusually for a recession, relatively few companies were failing - the key influence on the number of insolvencies has been the extraordinarily low interest rates enjoyed by borrowers, notwithstanding the huge increases in margins imposed by the banks. The consequence of this is that both successful and struggling companies are having difficulties with the availability of working capital. As and when activity levels pick up, the working capital issue will become more acute, particularly if the recovery is variable. This is also when merger and acquisition (M&A) activity will rise significantly as businesses will either have to consolidate to focus resources, or face a very slow and uncertain growth pattern.

As the recovery continues entrepreneurs will want to move forward - standing still is never the right option. Increasingly entrepreneurs are sensing now is the time to exploit their strength. Opportunities definitely exist to acquire distressed assets. There are also situations where groups have decided to focus activities and financial resource away from non-core activities, or where owners have decided they would rather sell than carry on. The retain or sell equation is an interesting issue at present. Given that business values have reduced in recent times, does the risk of holding and the time value of money mean that the right decision is to sell now? More and more owners are saying yes.

All this points to increased M&A activity. However! Currently the essential glue in any transaction - finance - is scarce. In the continuing absence of bank lending, except in situations where there is absolute security, how are these deals going to get done?

The answer is in clever structuring and by using equity finance. The private equity industry remains well funded and increasingly entrepreneurs who have previously sold businesses or have liquid funds available are looking for investment opportunities. Where there is profit to be made, free markets always find answers.

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New rules on pension contributions

Not many months go by without announcements on changes to pension scheme rules, and October 2010 was no exception. However, in this case the announcement was of considerable importance to many pension savers. From April 2011, the maximum tax relievable contribution to an approved pension scheme will reduce from £255,000 to £50,000. Which may sound like a cut, but many pension savers will be celebrating because of the scrapping of the previous government's plans to limit higher tax rate relief for pension contributions. In practice, transitional rules since 2009 have meant that many high earners have been limited to annual contributions of £20,000 if they wish to secure full tax relief, so £50,000 may feel like an increase.

So how will it work? Under draft legislation, any employee can make a pension contribution of up to 100% of salary, subject to the £50,000 cap, and receive full tax relief. Employer contributions are subject to the same cap, but without salary limitation. Even if the cap is exceeded, all is not lost. Unused capacity from the three previous tax years can be taken into account, based on an annual maximum capacity of £50,000.

Example

Natasha makes no personal pension contributions and is a high earner, paying income tax at the 50% rate. In the three years to April 2011, her employer has made pension contributions totalling £120,000. In the year to April 2012, her employer makes a one off contribution of £100,000. Taking into account her £30,000 unused capacity brought forward, and her 2011/12 limit of £50,000, the contribution exceeds the new limit by £20,000.

Natasha suffers a tax charge of £10,000, i.e. the excess contribution of £20,000 at her 50% tax rate.

Similar principles will apply to employees who secure entitlement to increased benefits under final salary pension schemes. There is one exception to the £50,000 cap, that it will be disapplied in the year of death or serious ill health.

A further change is that from April 2012, the lifetime allowance for approved pension schemes is to be reduced from £1.8 million to £1.5 million. Subject to transitional rules for those who had built up substantial pension funds before 2006, tax is charged on an individual whose pension fund exceeds the lifetime allowance when pension benefits are first drawn. For example, under the current rules, an employee who began to draw a pension when his fund was valued at £2 million would have excess value of £200,000. He could choose either to draw that as a lump sum, subject to tax at 55%, or as additional pension, taxable at 25% over and above normal income tax rates.

It remains to be seen how pension funds already valued at more than £1.5 million will be treated when the new limit is introduced in April 2012. It is to be hoped there will be some form of protection against previously unanticipated tax charges.

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THE TALE OF THE GREAT TAX CODE FIASCO

The story started in the early part of 2010 with the introduction of a new system at HMRC which they started to use to issue tax coding notices. The transition brought to light "some discrepancies on our existing records and this is resulting in a number of incorrect coding notices being issued". This was a relatively modest assessment of a situation which resulted in thousands of incorrect coding notices being issued and gave no indication of the scale of what was to come.

Then in September it emerged that there was a backlog of cases which required review to identify the extent of underpayment or overpayment going back to 2007/2008, and it became clear that the tax errors affected millions of individuals; an estimated 4.3m have overpaid at an average of £400, while 2.3m are believed to have underpaid at an average of £1,400.

Some letters have already been sent out, with the rest expected to be issued in the run up to Christmas at a rate of hundreds of thousands a week.

The latest approach being adopted by HMRC can be summarised as follows:

- Debts under £300 are being written off
- Debts between £300 and £2,000 will be collected via notices of coding
- Debts in excess of £2,000 will be payable in a lump sum, subject to specific agreement with HMRC

This is something of a fiasco but at least HMRC are now consulting on how to improve the PAYE system, which is clearly creaking in the modern world, over 60 years after its introduction. If effective the proposed changes should eliminate many of the errors which have given rise to the recent problems.

Our advice is to remain vigilant. Any letters suggesting an overpayment or underpayment of tax should be scrutinised carefully, and notices of coding should be checked to ensure that they are correct. This is especially necessary where benefits and expenses are received because even the proposed changes will probably not be able to deal effectively with such situations.

Let us hope that the next chapter in this story has a happy ending.

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Capital gains tax planning in the new era: are you prepared?

The emergency budget in June 2010 introduced some unexpected changes to the CGT regime which must be taken into account when planning and reporting disposals.

In an unprecedented move, the Chancellor introduced a change in tax rate part way through the tax year. Gains made after 22 June are aggregated with income for the whole tax year. If the total figure exceeds the 40% income tax threshold (currently £37,400), a new higher rate of 28% applies to the gains falling above the threshold. This represents a 55.55% tax increase.

The new tiered rates of tax also place a higher premium on ensuring that capital gains are realised by the right person. For many years, it has been beneficial to utilise both spouses' annual exempt amounts (currently £10,100) but there is now an incentive to go further than this and ensure that the gains maximise the lower 18% rate applicable to basic rate taxpayers. Great care should therefore be exercised and any necessary pre-sale planning carried out.

One piece of good news, however, is that you can allocate capital losses and the annual exemption in the most advantageous way to minimise the impact of the new rate.

There is further good news in that the lifetime limit for entrepreneurs' relief has been increased. Each individual can now realise qualifying gains totalling £5m at 10%; previously this was £2m. The relief can apply to the sales of certain business assets and is made even more valuable now that we have an 18% maximum differential in the effective tax rate. Given the changes in the rate of tax and the level of relief, the consequence of getting it wrong is increased accordingly from a maximum of £160,000 to £900,000 per individual.

There has been no relaxation in the stringent qualifying conditions. The brief history of the relief clearly shows that there are major traps for the unwary, and now that the tax risk has increased so significantly, early planning is even more important than ever. But it must be understood that the impact of the new rules goes beyond these matters.

When deferring or holding over capital gains (for example by EIS deferral relief or holdover relief), the tax postponed might only be at 18%, but when the gain is subsequently triggered, tax will be charged at the rate in force at that time. This is a particular issue where gains in the previous three years are being deferred via EIS at 18%, only to trigger at 28% in the future.

Any changes bring with them both threats and opportunities, and the impact of these has become even more polarised as a result of the emergency budget, so advice should be sought to maximise the opportunities.

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Hook Norton Brewery raises a glass to James Cowper

We have recently been appointed by the Oxfordshire brewery Hook Norton to manage its audit and tax advisory work.

Hook Norton Brewery is one of a small number of independent, family owned brewers and boasts a history of more than 150 years. It is renowned for its high quality real ales that include favourites Hooky Dark, Old Hooky and Hooky Gold. Hook Norton Brewery also produces a number of limited edition beers including First Light, Christmas beer 12 Days and Flagship. The brewery's beers were recognised at the World Beer Awards 2010, with its Hooky Bitter being awarded a medal and its Double Stout picking up two awards. The brewery also has more than 40 pubs across the Cotswolds.

James Clarke, Managing Director at Hook Norton Brewery, said: "James Cowper were able to demonstrate a very high quality of individual advisers and coordinated expertise married with the personal service that we were looking for."

Our team is being led by Managing Partner Steve Clarke and Business Tax Partner Chris Lee. We are delighted to have been appointed by Hook Norton Brewery and look forward to working alongside James and his team. It is one of the region's flagship companies and has been part of the corporate and social landscape for generations.

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Get to know ... Alan Poole

Alan Poole is a new Business Services Director within our audit team, and here you can get to know him a bit better.

What's your best feature?
Probably calmness - I very rarely get stressed and take most things in my stride.

And your worst?
You'd have to ask my wife that!

Who has most influenced your career?
I guess my Dad for advising me to going into accountancy in the first place.

If you hadn't been an accountant, what career would you have chosen?
Growing up I wanted to be a professional golfer - the only problem being that I am decidedly average at golf. If I had my time again and didn't want to be an accountant, I'd like to do something quite scientific, maybe aircraft design or something like that.

What's the worst job you have ever done?
I worked in a factory for £2.25 an hour during the summer holidays while at university. That wasn't much fun.

What advice would you give to someone starting a career in accountancy?
I'd make sure they understand that it's not all about numbers! It's really all about understanding and working with people and building relationships. I don't think many people realise that at the outset.

What football team do you support and why?
Manchester United, because I was brought up in Northern Ireland!

What is your dream car?
That's an easy one - Aston Martin Vantage - no question.

Do you find it easy to balance work and personal life?
Most of the time, yes.

Email - love it or hate it?
Love it.

What phrase do you overuse the most?
"No worries".

What do you most like about work?
Working alongside intelligent people and coming up against new challenges all the time.

Where would you most like to live?
In an ideal world I'd live in a picturesque village by the sea.

Do you have a business hero?
I admire people who build successful businesses from next to nothing - Richard Branson is the classic example.

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TAX SQUEEZE ON MIDDLE ENGLAND: HOW TO EASE THE BURDEN

We continue to see increases in the tax burden for 'middle England', whether it be the increase in the top rate of income tax and capital gains tax, restrictions in pension tax relief and the upcoming national insurance contribution increases effective from April 2011. Against this background it is all too easy to become despondent, especially at a time when household budgets are likely to feel the pinch, but there remain relatively simple but effective measures that can be taken to limit tax charges.

- Maximise ISA allowances - the limit is now £10,200, £5,100 of which can be in cash. The limits are also set to increase annually in line with the RPI.
- Take advantage of pension reliefs - higher rate income tax relief has not been abolished and both the current and the proposed limits provide a generous tax break.
- Tax benefits of venture capital investing - Enterprise Investment Scheme and Venture Capital Trusts still provide tax-efficient investment opportunities with upfront income tax relief and other tax benefits.
- Maximise lower income tax rates - now that there is an additional top rate of income tax it is even more important to make the most of the lower tax bands within the family by arranging assets accordingly.
- Review borrowings - interest payable on mortgages for your main residence does not attract income tax relief but if you have let properties or your own business it is often possible to restructure borrowings to secure relief.
- Tax-free mileage allowance - employees and directors are able to recover 40p per mile for business mileage (reduced to 25p for any excess over 10,000 miles) travelled in their own car from the business tax-free. Many do not take full advantage of this. What is less well known is that if you recover less than this you can claim the balance as an expense against your tax.
- Business structure - in the right circumstances, transferring your business to a limited company can create a tax benefit. Given the 1% reduction in corporation tax rates from April 2011 announced in the emergency budget, this has become more attractive.
- Extracting value from the company - it is important to keep under review how you extract profits from your company to ensure that this is as tax-efficient as possible, whether it is by bonus, dividend or pension contributions.
- Childcare vouchers - sacrificing salary for vouchers brings benefits for both employer and employee alike and need not be limited for use against pre-school childcare.

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