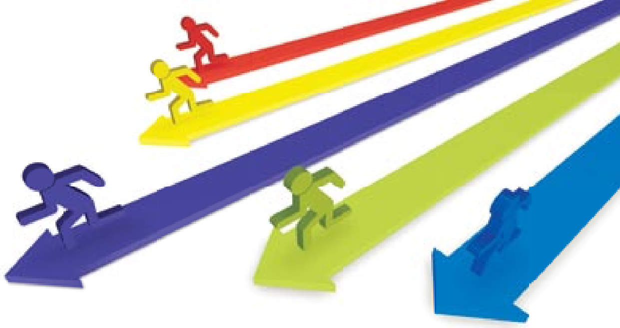
NEWBY CASTLEMAN FORWARD THINKING ADVICE

CHARTERED ACCOUNTANTS



FRONTLINE

AUTUMN 2010

PENSIONS – THE TIDE IS TURNING

In recent years good news about pensions has been thin on the ground but, at last, the tide has turned. In a consultation document the Government is proposing a number of radical and innovative solutions that will overcome many people's concerns and prejudices.

Those people who accumulate larger than average pension funds by retirement have long had an aversion to purchasing an annuity wherein, on their death and that of their spouse, the capital is lost to the annuity fund with no prospect of any monies passing down to the next generation. In addition, whether you want it or not, you are obliged to commence taking the pension by age 75.

For most people, annuity purchase is the right way to secure a pension income as the size of their fund may restrict their options. However, in recent years the Government has encouraged the development of 'third way' annuity products that will see the residual fund, on death, paid out as a lump sum less a tax charge.

It is also possible to draw your pension out of your 'pot' whilst leaving the funds fully invested, a concept known as Pension Fund Withdrawal (PFW). However, death post age 75 under PFW could see 82% of the fund disappear in tax. Happily the Government now propose to reduce that to 55%.

In addition, they are proposing to abolish the requirement to commence drawing a pension by age 75 which opens up the possibility of passing onto your children your pension fund net of a 55% tax charge.

The real gem in the consultation document is the ability to treat your pension fund like a 'hole in the wall' and make lump sum withdrawals (subject to Income Tax of course) for any purpose like holidays, a new car, extension etc. You will have to demonstrate a certain minimum level of income from other pension sources (which will include the State Pension) that will ensure you will never qualify for means tested benefits. The current limits that restrict how much you take out of your pension pot each year will effectively be abolished. You could therefore, if you wish, exhaust your pension fund before death. If you accept the general principle that pension saving, with all its attendant tax benefits, is principally to provide you with an income in retirement without the fear that the capital is lost on death, it is difficult to imagine a more flexible regime than what is being proposed.

In summary, the proposals include:

- To allow investors to pass the residue of their pension to dependants.
- To allow accelerated payments out of the fund including second lumps sums from age 55.
- There will no longer be any age by which you have to annuitise.
- Tax free cash does not have to be taken by 75.
- A uniform tax charge of 55% will be applied to lump sum death benefits paid from pensions in drawdown.

Newby Castleman (Financial Services) Ltd is an appointed representative of Greyfriars Asset Management LLP

WEST WALK BUILDING
110 REGENT ROAD
LEICESTER LE1 7LT
T: 0116 254 9262
F: 0116 247 0021
E: INFO@NEWBYC.CO.UK

ELTHAM HOUSE
6 FOREST ROAD
LOUGHBOROUGH LE11 3NP
T: 01509 263 500
F: 01509 234 811
E: LOUGH@NEWBYC.CO.UK

3 PELHAM COURT
PELHAM ROAD SHERWOOD RISE
NOTTINGHAM NG5 1AP
T: 0115 960 6078
F: 0115 960 9879
E: NOTTM@NEWBYC.CO.UK

2010 EMERGENCY BUDGET REPORT HIGHLIGHTS

The 2010 Emergency Budget announced a series of sweeping changes to the tax system, which are likely to have an impact on the majority of UK taxpayers. Some of the key announcements are outlined below.

VALUE ADDED TAX (VAT)

As widely anticipated, an increase in the standard rate of VAT was confirmed, and will see the main rate rising from 17.5% to 20% on 4 January 2011. The move is expected to raise more than £13bn a year by the end of this Parliament.

CAPITAL GAINS TAX (CGT)

A new 28% top rate of CGT has come into effect for gains realised after 22 June 2010, where an individual has total taxable income and gains of more than the basic rate limit for income tax (£37,400 for 2010/11). The lifetime limit for Entrepreneurs' Relief, which reduces the effective CGT on qualifying gains to 10%, has been raised from £2 million to £5 million. Please see page six for more information on the changes.

PERSONAL ALLOWANCE

With the aim of protecting lower earners from the squeeze, the income tax personal allowance will rise to £7,475 in April 2011, removing around 880,000 people from the requirement to pay any income tax. However, higher rate taxpayers will be prevented from reaping the benefits of the changes by means of a reduction in the basic rate limit for 2011/12.

NATIONAL INSURANCE CONTRIBUTIONS (NICS)

Employers will see an increase in the threshold at which they start to pay national insurance contributions, which will rise by £21 a week above indexation. In addition, qualifying new businesses in targeted areas of the UK will enjoy a national insurance 'holiday' of up to £5,000 for each of the first 10 employees hired within the first year of business.

CORPORATION TAX

Corporation tax will be reduced to 27% from April 2011, with a further series of 1% cuts taking place each year until the rate reaches 24% in 2014. The small profits rate will also be cut from 21% to 20% from April 2011.

SMALL BUSINESS FINANCE

In a bid to improve access to finance for small businesses, a new Enterprise Capital fund of £37.5 million is being introduced, and the Enterprise Finance Guarantee will also provide £200 million of additional lending until 31 March 2011.

PENSIONS

The Government has announced plans to review the pension system, with a view to accelerating a rise in the state pension age to 66 for men, and phasing out the default retirement age. The link between the state pension and earnings will be restored, and pensions will rise by the highest of the increase in average earnings, prices or 2.5%.

The requirement to buy an annuity (or otherwise secure an income) by the age of 75 is to end from 2011/12. In the interim the age has been increased to 77 for those who had not reached 75 before 22 June 2010.

CHANGES TO THE BENEFITS SYSTEM

Next year will see a cut in Tax Credits for households earning more than £40,000 a year. Child Benefit has been frozen for three years, but for those with lower incomes the child element of the Child Tax Credit will rise by £150 above inflation. In addition to the phasing out of the Child Trust Fund, new maximum limits will be introduced for Housing Benefit.

Meanwhile, state benefits will in future be linked to the lower consumer prices index of inflation (CPI), rather than the retail prices index (RPI).

Other announcements included a series of proposed changes to capital allowances to take effect from April 2012, plans to replace Air Passenger Duty with a per-plane aviation duty, and the creation of a new Office of Tax Simplification.

For more advice on how the Coalition Budget measures could affect you and your business, please contact us.

THE INCREASE IN VAT – WHAT YOU NEED TO KNOW

As announced in the Emergency Budget, the standard rate of VAT is set to rise from 17.5% to 20% on 4 January 2011. It is hoped the additional revenue generated from the increase will help to reduce the UK deficit. The change will undoubtedly have a significant impact on many businesses, with the cost of implementing the new rate expected to cost UK firms millions of pounds in administration fees.

APPLYING THE HIGHER RATE

The rate of VAT that businesses charge depends on the date that goods or services are supplied. For VAT purposes this is the date that goods physically change hands (or a service is completed); or payment is received; or an invoice is issued – whichever is the earliest. The rules are modified in certain situations, including when there is a change in the standard rate of VAT.

For any sales of standard-rated goods or services that take place on or after 4 January 2011 businesses should charge VAT at the new rate of 20%. As a consequence, firms currently calculating their VAT using the VAT fraction of 7/47 should use the new fraction of 1/6 from 4 January 2011.

Zero rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at the reduced 5% rate, such as domestic fuel and power, are not affected by the change.

ANTI-FORESTALLING LEGISLATION

The Finance (No.2) Act 2010 included anti-forestalling legislation to prevent the 17.5% rate applying to supplies of goods or services that are provided on or after 4 January 2011.

The legislation prevents forestalling by introducing a supplementary charge to VAT of 2.5% on the supply of goods or services where the customer cannot recover all the VAT on the supply, and one or more of the following conditions are met:

- the supplier and customer are connected parties;
- the value of the supply (and any related supplies made under the same scheme) exceeds £100,000. But this does not apply if the prepayment or issuing an advance VAT invoice is normal commercial practice;
- the supplier or someone connected to the supplier funds a prepayment for the goods or services; or
- an advance VAT invoice is issued where payment is not due in full within six months (except hire purchase invoices issued in accordance with normal commercial practice).

The supplementary charge to VAT is due on 4 January 2011 and must be accounted for on the supplier's VAT return covering that date.

THE FLAT RATE SCHEME

Introduced in 2002, the VAT flat rate scheme is designed to simplify VAT for businesses with an annual turnover up to £150,000, tax exclusive. While the rise in VAT will not change the £150,000 threshold, it does affect the flat rate scheme sector flat rates, which have been recalculated. A selection of the new rates is displayed in the table below.

Category of business carried on	Appropriate percentage (from 4 Jan 2011)
Retail of food, newspapers, confectionery	4
Pubs	6.5
Sport or recreation	8.5
Hotel or accommodation	10.5
Entertainment or journalism	12.5
Photography	11
Estate agency	12
Hairdressing	13
Legal services	14.5
Computer and IT consultancy	14.5

A full list of the recalculated sector rates can be found on HM Revenue & Customs' (HMRC) website: **www.hmrc.gov.uk/budget2010/vat.htm**

THE IMPACT ON CONSUMERS

The increase in VAT will undoubtedly have an impact on consumers as well as businesses, assuming that retailers pass on the rise. While those goods classed as 'essential' will remain free from VAT, the price of many items will become more expensive. According to some analysts, the 2.5% VAT rise will typically add at least an extra £33 a year to the average consumer's supermarket shop.

If you have any queries regarding the change in the rate of standard VAT, please contact us. We will be delighted to assist you.

OFFSHORE ACCOUNTS – WHERE ARE WE NOW?

Following the end of its New Disclosure Opportunity (NDO), which offered taxpayers a facility to disclose savings and investment income from abroad, HMRC has followed through with its plans to pursue those individuals who it believes have undisclosed income or gains. Here we examine the current situation.

For a number of years HMRC has committed considerable resources to identifying undeclared liabilities hidden in offshore accounts. To this end it has provided a number of disclosure opportunities, initially in 2007 and more recently from 1 September 2009 to 4 January 2010, offering reduced penalties in return for people revealing their undisclosed offshore accounts and liabilities. With the exception of the specialist Liechtenstein Disclosure facility, the disclosure opportunities have now ended.

HMRC is not only interested in any undeclared interest. More importantly, it is interested in any deposits into the account which may represent undeclared sources of income and payments out of the account. It will then seek to establish whether these, in turn, have been invested in income-producing assets in respect of which the associated income has not been declared. The Revenue is also on the look out for evidence of money laundering.

GATHERING INFORMATION

Using its legal powers, HMRC has obtained details on offshore bank accounts from over 300 banks and financial institutions and is now pursuing those individuals who either did not notify their intentions to disclose under the disclosure facility, or made a notification but not a disclosure. Tax officials are also continuing to use their powers to obtain more detailed information on offshore accounts and assets via the European Savings Directive, which exchanges information about interest payable to residents of other EU countries.

WHEN HMRC CALLS…

As always, honesty is the best policy and where liabilities remain undeclared it is always better to contact HMRC before it approaches you. The penalty regime is more lenient on those who come forward and co-operate than on individuals who seek deliberately to evade. Where an approach is made by letter, again it is advisable to provide the information requested in a timely manner.

WHAT THE FUTURE HOLDS

HMRC is continuing to devote considerable resources to tackling the problem and will come down particularly hard on those who use offshore accounts to evade tax. Legislation introduced by the Finance Act 2010 increases the penalties which may be charged for evasion linked to offshore accounts. From the appointed day, the maximum penalty (currently 100% of tax understated) is increased to 150% where the non-compliance arises in a jurisdiction that has agreed to share information with the UK but does not automatically do so. It climbs to 200% for non-compliance arising in a jurisdiction which has not agreed to share information. Thus, the penalty is higher if the account is in a country where it is more likely to stay hidden from HMRC.

HMRC has considerable information gathering powers at its disposal and ignoring requests is likely to make matters worse in the long term. The advice of an experienced professional can be invaluable and may remove a lot of the associated stress, particularly if matters are complex and negotiations are protracted.

SAVING FOR YOUR CHILDREN'S FUTURE

If you are a parent, you are likely to want to set aside special savings for your children. Yet with the Child Trust Fund (CTF) set to be phased out, you may want to review your plans for saving for your child's future.

WHAT'S HAPPENING TO THE CTF?

Soon after taking office, the Coalition Government announced that it would restrict payments to the CTF to help reduce the fiscal deficit. From 1 August, payments at birth were reduced from £250 to £50 and from £500 to £100 for children from lower income households. Children will no longer receive an additional payment when they are seven years old and all payments into CTFs, including those for disabled children, will cease from January 2011.

However, if an account has already been opened, family and friends can still invest up to £1,200 a year. As previously, no tax is paid on any income or gains in the account and the Government will not withdraw the money it has already input.

OTHER OPTIONS

Despite the demise of the CTF, there are other savings options available, some of which are outlined below. However, it is important to consider the tax consequences, so it is recommended that you seek professional advice.

Income tax: All children have their own personal allowance of £6,475 (2010/11), and parents can make gifts to their children and any resulting income will be tax-free as long as it does not exceed £100 a year. There are tax implications where income exceeds this limit, so investing parental gifts may be advisable.

Children's bank or building society account: Setting up an account where the child's name is linked to yours is the simplest way of saving for your child. Known as a 'bare trust', the parent is the trustee and the child is the beneficial owner in respect of interest and capital. The parent has control of the account until the child reaches a specified age, but must apply the funds for the benefit of the child.

Cash ISAs: 16 and 17 year olds can invest up to £5,100 in a cash ISA. You may also wish to use your own allowance to save for them and any income or capital gains you receive will be tax-free.

Children's bonus bonds: These are offered by National Savings and Investments (NS&I); the maximum holding per child is £3,000 in each issue (five year investment term). All returns are exempt from tax, and the £100 rule does not apply.

The above are just some of the available options – for further advice please contact us.

FURNISHED HOLIDAY LETTINGS: A PARTIAL REPRIEVE

Under the Furnished Holiday Lettings (FHL) rules, income received from furnished holiday accommodation has historically been treated differently for tax purposes from rental income derived from other sources. This advantageous situation was set to change for 2010/11, with the announcement that the FHL rules were to be repealed, but a partial reprieve may be at hand...

Plans to abolish the special tax treatment of FHLs were subsequently themselves abolished in the fast-tracking of legislation ahead of the General Election. In the Emergency Budget, the Coalition Government confirmed that the proposed withdrawal of the rules would not take effect, but announced a consultation on changing certain elements of the rules.

THE CURRENT SITUATION

The FHL rules allow qualifying properties to be treated as trading businesses for tax purposes. For a UK holiday home to be considered an FHL for tax purposes, it must:

- be available for commercial holiday letting to the public for at least 140 days during a relevant period (for existing businesses, this is the tax year to 5 April; for new businesses it is the 12 months following the first day of letting)
- be occupied for at least 70 days during a relevant period and be fully furnished to the extent that guests do not need to provide any additional furnishings
- not be occupied by longer term lets for more than a total of 155 days during a relevant period.

Last year the Government extended the treatment to landlords with FHLs inside the European Economic Area.

THE TAX ADVANTAGES

Owners of FHLs that meet the necessary conditions can enjoy a range of tax benefits. These include the favourable treatment of losses, which can be set against other income in the same way as trading losses. FHLs can be treated as trading rather than investment properties for capital gains tax (CGT) purposes, making them eligible for Entrepreneurs' Relief, rollover relief and certain other CGT reliefs. In addition, profits from FHLs can count as relevant earnings for pension purposes.

In the case of FHLs, capital allowances may also be claimed on expenditure on plant and machinery. This includes furniture and furnishings in the property, as well as plant and machinery used outside the property, such as vans or tools, but not the cost of the property itself or the land on which it stands.

WHAT THE FUTURE HOLDS

The Coalition's consultation document proposes a number of changes that reduce the benefits of the existing FHLs treatment. These include:

- increasing the minimum period for which the property must be available for commercial letting as furnished holiday accommodation during the tax year from 140 to 210 days;
- increasing the minimum period for which the property must actually be let as furnished holiday accommodation during the tax year from 70 to 105 days; and
- restricting the use of losses from a furnished holiday lettings business.

Draft legislation will be published following the consultation. The measures are expected to take effect from April 2011.

Please contact us for further information.

THE NEW CAPITAL GAINS TAX REGIME

The 2010 Emergency Budget saw the introduction of key changes to the capital gains tax (CGT) regime, including a new 28% top rate of CGT.

There are now two rates of CGT for individuals – a standard rate of 18% and a higher rate of 28%. From 23 June 2010, the rate of CGT payable on gains realised on or after this date depends on the level of the individual's taxable income and post-22 June 2010 gains for the tax year.

The higher rate applies to gains realised after 22 June 2010 where an individual has total taxable income and gains for the tax year of more than the basic rate band for income tax. For 2010/11 this is set at £37,400. In deciding whether the higher rate applies, no account is taken of any gains realised before 23 June 2010. Where an individual's total taxable income and post-22 June gains are below £37,400 the standard rate of 18% applies. All gains realised before 23 June 2010 are taxed at 18%.

The figure for total taxable income and gains is calculated after taking into account all allowable deductions including losses, personal allowances and the CGT annual exemption. Where Entrepreneurs' Relief applies the effective rate remains at 10%.

An individual can choose to utilise losses and the annual exemption in a way that minimises his or her overall CGT liability. This allows an element of planning for 2010/11 in circumstances where pre-23 June 2010 gains are taxed at 18%, but gains arising after 22 June are taxed at 28%. Clearly it is better to save tax at 28% rather than at 18% and, where the higher rate applies, the annual exemption and any losses should be set against post-22 June 2010 gains first. This is illustrated in the following example:

EXAMPLE

Jane realises gains and losses during 2010/11 as follows:

April 2010: Loss £5,000
May 2010: Gain £20,000
July 2010: Gain £40,000

Jane has other income, after deducting her personal allowance, of £30,000 for 2010/11. Her total income and post-22 June 2010 gains are £70,000, which will mean that the higher rate will have effect for part of the post-22 June 2010 gains.

To minimise her overall liability, Jane should set the loss of £5,000 and the annual exemption of £10,100 against the July gain of £40,000, reducing it to £24,900. It does not matter that the loss was realised before 23 June 2010 as it was still within the 2010/11 tax year.

Jane's other income is £30,000, leaving £7,400 of the gain to be taxed at 18%. The remaining £17,500 of the gain is taxed at 28%. Her total CGT liability for 2010/11 is therefore £9,832, calculated as follows:

May gain:	(£20,000 @ 18%)	£3,600
July gain:	£7,400 @ 18%	£1,332
	£17,500 @ 28%	£4,900
CGT liability for 2010/11		**£9,832**

Had the loss and the annual exemption been set against the May gain, this would reduce the May gain to £4,900, but increase the portion of the July gain liable to higher rate CGT to £32,600. This would increase her CGT liability for 2010/11 to £11,342. By utilising the exemption and loss carefully the overall CGT liability is minimised.

The failure to align CGT and income tax rates means that capital is preferable to income where the option exists. This should be taken into account in planning strategies.

For further information and advice, please contact us.

ADDITIONAL LEAVE FOR NEW FATHERS

A new right to additional statutory paternity pay (ASPP) was introduced earlier this year, which applies to fathers of children due or matched for adoption on or after 3 April 2011.

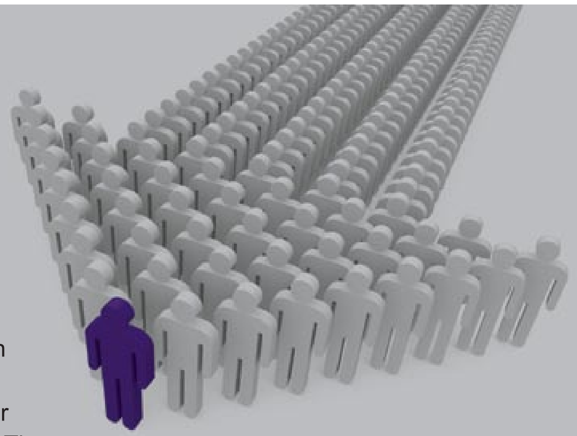
The new right essentially allows women who qualify for statutory maternity leave to transfer a proportion of their leave to their partner, by offering men up to 26 weeks of leave to care for their child if the mother returns to work before the end of her allowed leave period.

Women are currently entitled to take up to 39 weeks of paid maternity leave, followed by an additional 13 weeks of unpaid leave. Under the new system, fathers would be entitled to take the final months of the mother's leave entitlement on her return to work. If taken before the final three months of the maternity pay period, the relevant part of the father's leave will be paid at the statutory rates.

Statutory paternity pay (SPP) is currently payable for up to two weeks, at the lower of £124.88 (2010/11) or 90% of average weekly earnings. Following the changes, SPP will become known as ordinary statutory paternity pay (OSPP).

Note: the Government is considering a new system of parental leave which may involve dropping the new paternity rules. At the time of going to print it is unclear what form the new system will take or when any changes will be implemented.

GOVERNMENT UNVEILS NEW OFFICE OF TAX SIMPLIFICATION



The Government has launched its new Office of Tax Simplification (OTS), with the objective of streamlining the UK tax system and reducing compliance burdens on both businesses and individual taxpayers.

The body has been set up to analyse tax reliefs, allowances and exemptions, and to conduct a review of business taxation with a view to reducing its complexity. The organisation has been requested to produce two reports – the first a review of all 400 reliefs in the tax system to identify those that should be repealed. An interim report is expected to be published by late autumn 2010 and a final report with recommendations will be submitted to the Chancellor ahead of the 2011 Budget. The second report will look at reducing complexity for smaller businesses and finding alternative legislative approaches to the IR35 rule.

The OTS's remit includes UK taxes and duties administered by HM Revenue and Customs, but it does not deal with tax credits or taxes administered by other bodies, nor does it have any influence on setting tax rates.

The organisation is being run by the former Treasury minister, Michael Jack, and the Chartered Institute of Taxation's director of tax, John Whiting.

REVISED CORPORATE GOVERNANCE CODE IS LAUNCHED

The Financial Reporting Council (FRC) recently published a package of measures aimed at encouraging accountability, diversity and improved performance in the UK's top companies.

Under the recommendations set out in the FRC's revised Corporate Governance Code, all directors of FTSE 350 companies will need to be put forward for re-election every year rather than every three years.

The new Code also stipulates that firms should explicitly consider gender and diversity when appointing new board members. It is hoped the changes will diversify the skills and experience in the boardroom, with members elected on merit and against objective criteria.

Other recommendations include aligning more closely the pay of the top executives with the long-term performance of the company and introducing changes to improve risk management in the 350 leading firms.

The revised Code applies to financial years beginning on or after 29 June 2010.

NEW FUEL ADVISORY RATES

The latest advisory fuel rates, which apply from 1 June 2010, are as follows:

Engine Size	Petrol	Diesel	LPG
Up to 1400cc	12p	11p	8p
1401 – 2000cc	15p	11p	10p
Over 2000cc	21p	16p	14p

For advice on tax-efficient business motoring, please contact us.