NEWBY CASTLEMAN
FORWARD THINKING ADVICE
CHARTERED ACCOUNTANTS

SUMMER 2011

FRONTLINE

CELEBRATIONS AS FIRM HITS SIXTY NOT OUT

You may not know it but this year Newby Castleman has something in common with the popular cultural figures from Walt Disney's version of Alice in Wonderland, Dennis the Menace and The Archers in that we are all celebrating our 60th anniversary.

However whilst the characters from the much-loved Wonderland, Beanotown and Ambridge are works of fiction, the success of Newby Castleman during this time is very much a fact and we remain as forward thinking as ever.

Over the past 60 years the firm has grown from just a handful of employees in one office, to one of the leading chartered accountancy practices in the East Midlands, with over 80 members of staff at our Leicester head office plus a further 25 at our two branches in Loughborough and Nottingham.

During this time we have seen British society change immeasurably, with eight different Governments, 13 Prime Ministers and countless changes to financial policies and tax regulations. We have also had to adapt to the fast paced growth in technology, but we have taken this all in our stride and emerged stronger than ever. As a result, more and more businesses have selected us as they look for that accountancy firm which can lead the way personally.

The firm as we know it today was first formed as J Castleman & Co in 1951 and was based on King Street in Leicester. In the 1960s it merged with another Leicester-based company, Newby Dove & Rhodes to provide the firm with its current name, Newby Castleman.

We moved to alternate premises on West Walk and De Montfort Street as the company progressed, before arriving at our present head office on Regent Road in Leicester over 30 years ago.

Chris Castleman took over as Managing Partner in December 1997, following the death of his father and he, along with his brothers Stephen and Mike and the rest of the Partners, have overseen the continued development of the firm thanks to acquisition and organic growth.

More recently we took on a brand new look following a re-branding exercise which saw brand new interior and exterior signage featuring a fresh, innovative logo installed at our head office on Regent Road, which also underwent substantial internal refurbishment. The re-branding of our two branches in Loughborough and Nottingham is also due to complete soon.

Chris Castleman comments, "We are delighted to be celebrating the firm's 60th anniversary throughout 2011. Since it was established nearly 60 years ago it has certainly developed a solid pedigree within the region, which is something we look to build on. During this time we have strived to retain the caring and personal touch, not just amongst our clients but also our employees. This is clearly reflected in the long service provided by so many members of staff, some of whom have been with the firm for over 40 years.

"Whilst there is no substitute for experience we also place huge importance on recruiting and training young people and have, for a number of years, run our successful trainee scheme which allows talented and enthusiastic graduates and school leavers to watch and learn from our senior members of staff as they begin their careers in accountancy."

He added, "Whilst looking back at these 60 years with pride, we will continue to move forward with confidence and there's no reason why Newby Castleman won't be here in another 60 years."

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EXTRACTING INCOME FROM A FAMILY COMPANY

When determining the most tax-efficient way to extract funds from a family company, there are a number of factors that need to be considered. For instance, the most efficient route will depend on the differing rates of income tax, corporation tax, national insurance contributions (NICs) and capital gains tax (CGT).

From 6 April 2011 the rates of Class 4 and Class 1 NICs increased by 1%, while on 1 April the main rate of corporation tax fell by 2% and the small profits rate decreased by 1%. Income tax rates remain unchanged. Here we consider what the changes could mean for family companies.

BONUS VERSUS DIVIDEND

In the main, the profit extraction debate centres on whether it is more efficient to draw a salary or to pay a dividend – each has its merits.

From the company perspective, money paid by way of a bonus or salary is deductible for corporation tax purposes. However the company, as employer, is also liable to pay employer's NICs (13.8%). The bonus or salary is taxable in the hands of the recipient (under PAYE) and primary Class 1 NICs are also payable.

Dividends, meanwhile, are paid out of retained profits and as such they are not deductible for corporation tax purposes, but there are no NICs to pay on dividends. Further, there is no additional tax to pay when received by a basic rate taxpayer. Higher and additional rate taxpayers effectively pay tax at the higher or additional dividend rates of 32.5% and 42.5% respectively (extra tax of 25% and 36.11% of the net dividend). When paying dividends it is important that the company has sufficient distributable profits and dividends are properly declared in accordance with company law requirements. Dividends have to be paid to shareholders in the ratio that they hold shares unless there is a waiver or different classes of shares. Bonuses can be allocated as the directors wish.

To maintain benefit and state pension entitlement, it may be advisable to pay a small salary of between the lower earnings limit and secondary threshold for NIC purposes (between £102 and £136 per week for 2011/12).

IMPACT OF TAX RATES

Falling corporation tax rates (26% main rate and 20% small profits rate from April 2011), and rising NI rates, swing the pendulum in favour of dividends. From April 2011, the combined rate of employer and main rate employee NICs (13.8% + 12%) is higher than the small profits rate of corporation tax (20%), meaning that the NIC savings associated with a dividend outweigh the loss of corporation tax relief. However, there is no substitute for conducting a thorough assessment before taking action, as this is the only way to reflect all aspects of an individual's personal circumstances.

CAPITAL VERSUS INCOME

Although options for extracting profits in the form of capital may be limited, with CGT rates currently at lower levels than income tax rates, combined with the availability of the CGT annual exemption, where the opportunity to withdraw capital is available, this is likely to be an attractive option from a tax perspective.

Please note, this is an abbreviated summary and, as ever, it is important to consider the wider commercial goals of the company. Please contact us for advice.

REVISED FUEL RATES AND MILEAGE ALLOWANCES

HMRC has issued new fuel advisory rates, which apply to all relevant journeys made on or after 1 June 2011.

The advisory fuel rates apply to company cars only and are accepted either for employers reimbursing employees for the cost of fuel for business mileage, or for employees reimbursing employers for the cost of fuel for private mileage.

The rates are usually revised in December and June, although HMRC can issue new rates if fuel prices fluctuate by 5% or more from the published rates. The new rates can be viewed on the HMRC website.

The Government has also revised the approved mileage allowance payments (AMAPs) rates, which apply for employees using their own vehicles for business journeys.

As announced in the 2011 Budget, the higher rate increased from 40p per mile to 45p with effect from 6 April 2011. The higher rate applies for the first 10,000 miles of business use – the rate beyond 10,000 miles remains at 25p. It is the first time any of the rates have risen since 2002.

NATIONAL MINIMUM WAGE RATES TO RISE

The Government has confirmed that the main adult rate of the National Minimum Wage (NMW) will rise by 15p – or 2.5% – to reach £6.08 later this year.

In addition, the NMW for 18-20 year olds will rise by 6p to £4.98 an hour, while the rate for 16-17 year olds will climb by 4p to £3.68 an hour. The minimum hourly rate for apprentices will go up by 10p to £2.60.

The decision was based on the recommendations of the Low Pay Commission and is expected to apply to more than 890,000 of Britain's lowest-paid workers.

Under a new scheme, which came into effect on 1 January 2011, employers who deliberately pay their staff less than the NMW may now have their breaches publicised by the Department for Business, Innovation and Skills.

More information on the NMW is available on the Business Link website: www.businesslink.gov.uk

ALLEVIATING THE VAT HEADACHE – ADVANTAGES OF THE FLAT RATE SCHEME

Accounting for Value Added Tax (VAT) can be a time-consuming and cumbersome procedure. However, for many small businesses the flat rate scheme not only offers the opportunity to reduce the administrative burden, but also the opportunity to save money.

HOW DOES THE SCHEME WORK?

Under the flat rate scheme businesses pay a certain percentage of their 'flat rate' turnover (see below) to HMRC as VAT each quarter. The flat rate percentage used depends on the type of business. The rates applying from 4 January 2011 can be viewed on the HMRC website.

Unlike standard VAT accounting the business is not required to work out the difference between the VAT charged to customers and that paid on purchases. The flat rate percentages are calculated to ensure that a comparable amount of VAT is paid to HMRC.

WHO CAN JOIN?

As the scheme is designed to help small businesses, it is only open to those whose estimated taxable turnover (excluding VAT) in the next year is £150,000 or less. Taxable turnover is everything that a business sells that is liable to VAT at the standard rate, reduced rate or zero rate. It does not include exempt sales or sales of capital assets. Please note that this is different from the flat rate turnover, which includes VAT and exempt sales or sales of capital goods.

Once a business has joined the flat rate scheme it is able to remain in the scheme even if the turnover rises above £150,000. However, businesses must leave the scheme once total business income reaches £230,000.

Once a business has left the scheme, it is not eligible to re-join for 12 months.

ADVANTAGES OF THE SCHEME

The main advantage of the scheme is that it greatly reduces the record-keeping requirements, which can save a lot of time. Businesses in the scheme do not need to record the VAT that they charge on every sale and every purchase, as is necessary under the standard VAT regime. It is also much easier to operate as the percentage is simply applied to turnover without the need to work out the VAT that can be reclaimed and that which cannot. In addition, many businesses enjoy the certainty of always knowing the percentage of their takings that will be payable to HMRC.

Furthermore, newly-registered businesses using the flat-rate scheme can benefit from a discount of 1% on the flat rate percentage for the first year of registration. The discount is available until the day before the first anniversary of the date on which the business became VAT-registered.

OTHER POINTS TO CONSIDER

It is important to note that the VAT flat rate scheme may not suit everyone. In fact, it may work out more expensive for businesses that buy mostly standard-rated items, businesses that would normally receive a VAT repayment under the standard rules, or businesses that make a large amount of exempt or zero-rated supplies.

HMRC publishes a ready reckoner to allow businesses to see how much they may pay under the scheme. However, there is no substitute for one-to-one advice, so please contact us.

HOW TO VALUE YOUR BUSINESS

Knowing the value of your business is important for a number of reasons. As we explain below, it's not an exact science, and an accurate valuation will depend on consideration of a number of factors.

WHY VALUE THE BUSINESS?

The valuation process can help to improve the business' real or perceived value as well as assisting you in deciding on the best time to buy or sell.

It may also help you to negotiate better terms and complete any purchase more quickly.

The process can be useful for other purposes as well, such as agreeing share prices, identifying key areas for action, or motivating management.

FACTORS TO CONSIDER

There is no precise formula that applies to all businesses in all sectors, nor even to all businesses within a sector. Instead, an accurate valuation will depend on a variety of factors i.e. the size and profitability of the firm, as well as external influences such as the state of the economy. However, as a starting point you should consider the following points:

The size of the business – larger firms tend to be viewed as less risky and so attract a higher price, even if they are less efficient than smaller competitors.

The prospects for future growth – are sales flat, growing only at the rate of inflation or exceeding it? Buyers sometimes pay more for businesses with high growth rates because they repay the investment more quickly. You might consider selling before turnover and profits level out.

Diversification – if you have a wide 'business mix' it can affect the sale price, since buyers may only be interested in one area or market.

Customer base – the size of your customer base is important, but so is the quality of your customers and the cross-selling opportunities.

Profitability – although generally the higher the profits, the higher the value, some buyers might prefer a business where large efficiency savings can be made.

Cashflow and financial management – the size and certainty of cashflow, and the strength of the balance street and financial management are all vital factors.

Other questions that you may need to ask yourself include:

- Is yours a service business with limited fixed assets, or are stock and equipment a large part of your company's value?
- To what extent does your business depend heavily on the health of other industries or the general economy?
- What is the outlook for your line of business as a whole?

While you will obviously not wish to undervalue your business, it is also important not to overvalue it. An inflated asking price will dissuade buyers, or make them think you are not serious about selling.

Ultimately, the value of your business will be determined by the laws of supply and demand. If there are plenty of willing buyers for your type of business you will get a good price. But you can make your business as attractive as possible and if you can allow buyers to set a price through competitive bidding, so much the better.

We are always on hand to help you with any aspect of your business or personal finances – please contact us to discuss your individual circumstances.

RAISING FINANCE FOR YOUR BUSINESS

Whether you are looking to start a new business or in need of capital to expand, obtaining the right type of finance is crucial.

With many firms still struggling to access traditional forms of finance, it is also important to consider the alternative options that may be available.

LOANS AND OVERDRAFTS

For the majority of businesses, the principal source of funding has traditionally been in the form of fixed term bank loans and overdrafts. With loans, you know how much you have to pay back and for how long. You may be able to negotiate repayment terms and interest rates, but the need to offer some form of security against the loan can result in even the most well-presented requests for finance being turned down.

Alternatively, you might be able to secure loans from personal sources such as friends and family, although you should ensure that any arrangements are formally agreed and legally binding.

Overdrafts, meanwhile, can provide a flexible means of covering short-term finance needs such as day-to-day business expenses. However, if you are overdrawn for long periods seek professional advice.

Tip: Ask for more than you need. If you underestimate how much money you require it can be difficult to go back to the lender for a second time.

OUTSIDE INVESTORS

Business angels typically invest £10,000 upwards in return for equity. They may also be able to share valuable expertise and advice. However, venture capitalists usually invest substantially more – often in excess of £2 million – in businesses where they believe they will receive a high return on their investment by selling their investment at a certain time.

Tip: Investigate all of the sources of investment available and ensure that you present your company in a way that will attract each individual investor's interest.

GRANTS AND GOVERNMENT SUPPORT

For those that qualify, a Government grant can be a good source of cheap financing. There are numerous grants available for business owners looking to invest in areas such as research and development, regional investment, energy efficiency and the environment, training and logistics. In addition, the **Enterprise Finance Guarantee (EFG)** scheme helps eligible firms that are unable to obtain finance to secure loans of between £1,000 and £1 million.

Tip: Make a good impression by contacting the grants officer personally and prepare a robust business plan to accompany your application.

OTHER SOURCES

Other options that you may want to consider include:

- **Debt factoring** – by releasing cash tied up in unpaid invoices you can generate additional working capital
- **Equity** – you may want to raise finance by selling shares in your company to workers, family, friends, the public or professional investors
- **Leasing or hire purchase** – you can fund the purchase of capital items such as machine tools by hiring or leasing the goods for a long, fixed period at a competitive rate.

Tip: Talk to us! As accountants we can provide advice on running a business.

These are just some of the options that may be available to you, and each has its own benefits and tax implications. For further information and advice please contact us.

SIMPLIFYING THE TAX SYSTEM

Ahead of the 2011 Budget, the Office of Tax Simplification (OTS) published its final recommendations for reforming the UK's tax system.

The OTS, which was tasked with conducting a review of the UK's tax relief system, has identified 47 reliefs which it says should be abolished and 17 which need to be simplified. It proposes that a further 37 reliefs should be examined in greater detail.

The report recommends the abolition of tax-free luncheon vouchers and relief on late night taxis. Others identified for removal include trade union subscriptions and the business premises renovation allowance.

Among those it suggests simplifying are: Entrepreneurs' Relief; principal private residence relief; real estate investment trusts; and the Enterprise Investment Scheme. The OTS also called for a wholesale review of inheritance tax and capital gains tax.

In the Budget, the Chancellor agreed to abolish 43 'complex reliefs' but the most significant announcement for the long-term was the Government's intention to consult on the possibility of 'merging' national insurance and income tax in future years.

NEW MEASURES TO TARGET TAX EVADERS

After conducting a series of campaigns to encourage the disclosure of undeclared income or gains abroad, the Government has introduced new measures to clamp down on tax evasion. Changes include increased levels of scrutiny and harsher penalties for those who deliberately evade tax.

MANAGING DELIBERATE DEFAULTERS

Under the Managing Deliberate Defaulters (MDD) programme, individuals who deliberately evade tax will now be subject to detailed inspection for up to five years. The level and term of monitoring will depend on the seriousness of the offence, but HMRC does not envisage that anyone will be released from the scheme within two years.

There are a variety of ways that HMRC can now monitor a deliberate defaulter's tax affairs. These may include:

- making announced or unannounced inspection visits to carry out pre-return checks of their books and records
- asking for certain records and additional information to be sent in with the individual's tax return
- conducting in-depth compliance checks into all or any part of the person's tax affairs
- observing and recording the person's business activities and cross-checking details in their accounts
- requiring more frequent VAT returns or withdrawing certain favourable VAT schemes such as cash accounting, annual accounting, the flat-rate scheme and retail schemes.

If HMRC finds that a person has continued to deliberately evade tax, it may instigate criminal proceedings against that person. From April 2011 where someone has deliberately evaded tax of more than £25,000 HMRC can also publish the person's name and other details.

HARSHER PENALTIES

In addition, on 6 April 2011 new penalties came into force for offshore non-compliance relating to income tax and capital gains tax (CGT). Under the new rules, penalties are linked to the tax transparency of the territory in which the income or gain arises. Where it is harder for HMRC to get information from another country, the penalties for failing to declare income or gains arising in that country will be higher.

All offshore jurisdictions are divided into three categories and the classification determines the level of the penalty that is applied, as shown in the table below. Details of which territories are in 'category 1' and 'category 3' can be found at: **www.hmrc.gov.uk/news/territories-category.htm.**

All other territories (except the UK) are in 'category 2'.

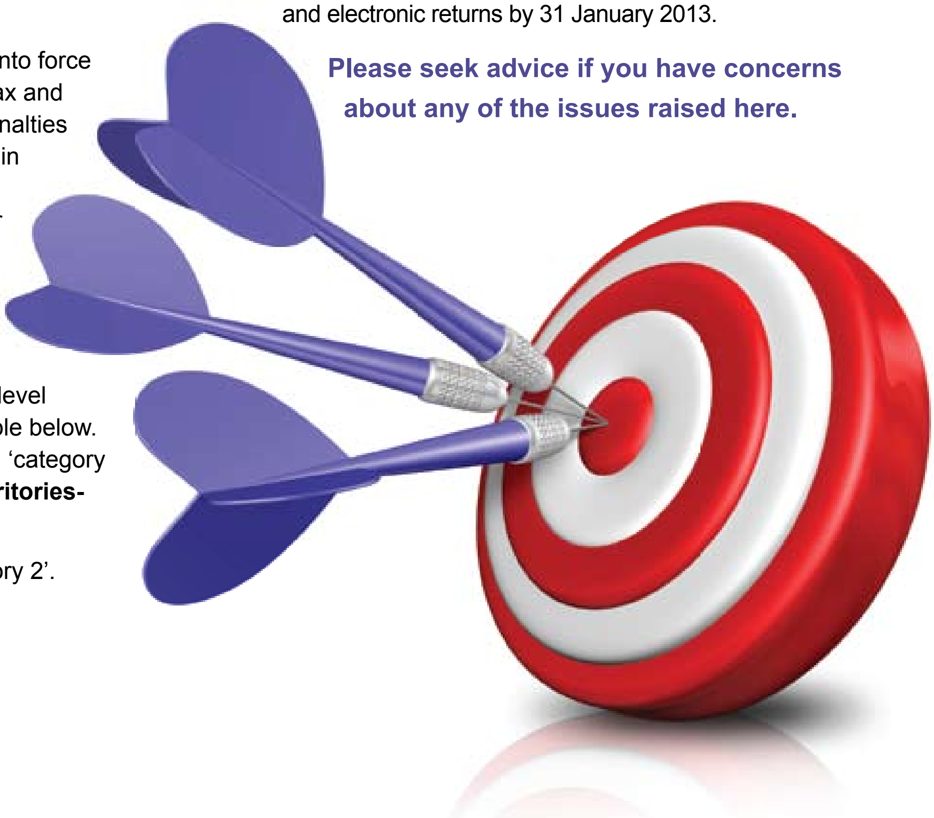
Category	Transparency of territory	Penalty *(from 6 April 2011)*
Category 1	UK Territories with automatic exchange of information on savings with the UK	The penalty remains the same – up to 100%
Category 2	Territories which exchange information on request with the UK Least developed countries without information-sharing agreements with the UK	The penalty is now 1.5 times that due under the previous rules – up to 150%
Category 3	Territories which do not exchange information with the UK	The penalty is double that due under the previous rules – up to 200%

If a person can demonstrate that they have taken reasonable care to get their tax right, they may escape a penalty. Similarly, HMRC may not apply a penalty where an individual has a reasonable excuse for a failure to notify taxable income.

Where penalties are due, HMRC can reduce them depending on how helpful the individual is in assisting it to establish the correct amount of tax due.

The first Self Assessment returns affected will be for the 2011/12 tax year, with paper returns due to be filed by 31 October 2012, and electronic returns by 31 January 2013.

Please seek advice if you have concerns about any of the issues raised here.



PHASING OUT THE DEFAULT RETIREMENT AGE

The Default Retirement Age (DRA) will be abolished from 1 October 2011, meaning the majority of people may soon be able to work beyond age 65 if they wish.

Under the new rules, which allow for a six month transition from the existing regulations, employers will be unable to issue new notifications of retirement on or after 6 April 2011. However, during the transitional period, retirements that were already in motion can continue through to completion, provided that:

- a notification of impending retirement was issued prior to 30 March 2011
- a late notification was issued between 30 March and 5 April 2011
- the date of retirement falls before 1 October 2011
- the DRA procedure, as set out in the previous Employment Equality (Age) Regulations 2006 is followed correctly
- the other requirements of the former DRA procedure are met.

Retirements using the DRA will therefore cease completely on 1 October 2011. The provision allowing the short two week notice of retirement also ceased on 6 April 2011.

However, it will still be possible for individual employers to operate a compulsory retirement age, provided that they can objectively justify it. The Department for Business gives two examples of where this might be the case – for air traffic controllers and police officers.

SMES URGED TO PREPARE FOR PENSION CHANGES

Small and medium-sized enterprises (SMEs) are being urged to prepare for the forthcoming changes to the pension regime after new research found that almost a half do not have a pension scheme in place.

According to a new survey by Sage, 46% of the 1,500 small business owners questioned do not currently offer a company pension scheme for employees.

It also found that a third (33%) are unaware of their responsibility to provide a qualifying pension scheme as a result of the changes, while 54% of business owners mistakenly believe the Pensions Act will have no impact on their business.

From 2012 employers will be required to enrol staff automatically into a qualifying pension scheme and business owners must contribute a minimum of 3% of the member's salary.

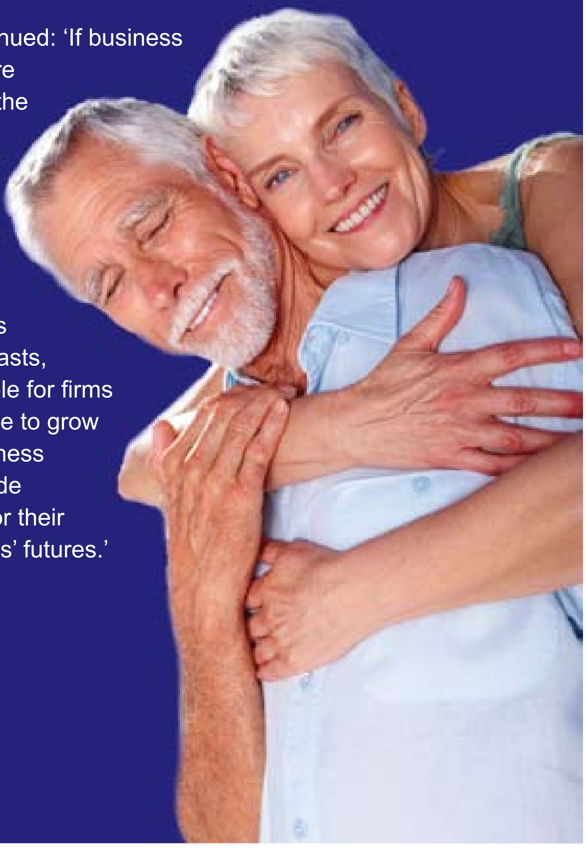
Where the employer does not provide such a scheme, employees must be enrolled into the new National Employment Savings Trust (Nest), a simple low-cost pension scheme that is being introduced by the government.

The changes will begin to take effect in October 2012, with the largest employers joining first and the smallest joining by September 2016 and contributions from staff and employers will also be phased in.

'Business owners need to understand how and when this new reform will impact their firm,' said Kathryn Shankland, product manager in Sage's Small Business division.

'Even companies that already offer a pension scheme to their employees may still need to change processes, as there is a new minimum requirement that all pensions must adhere to'.

She continued: 'If business owners are aware of the changes early enough and factor them into their plans and forecasts, it's possible for firms to continue to grow their business and provide support for their employees' futures.'



INCREASE IN LATE FILING PENALTIES

A new penalty regime for late filing and late payment of income tax through Self Assessment has now come into effect.

Under the new framework, which applies to 2010/11 tax returns, the penalties for submitting tax returns late have risen significantly. It means that a return filed six months after the deadline could attract a fine of at least £1,300.

According to HMRC, the old £100 penalty failed to act as a deterrent. It hopes the new harsher penalty system will therefore encourage people to 'submit returns as soon as possible'.

The new penalties for filing tax returns late are as follows:

- **Day one** – Individuals will be charged an initial penalty of £100, even if they have no tax to pay or have already paid all the tax owed
- **Over three months late** – Individuals will be charged an automatic daily penalty of £10 per day, up to a maximum of £900
- **Over six months late** – Individuals will be charged further penalties, which are the greater of 5% of the tax due or £300
- **Over 12 months late** – Individuals will be charged yet more penalties, which are the greater of 5% of the tax due or £300. In serious cases people face a higher penalty of up to 100% of the tax due.

Meanwhile, the penalties for paying tax late are:

- **30 days late** – Individuals will be charged an initial late payment penalty of 5% of the tax unpaid at that date
- **Six months late** – Individuals will be charged a further late payment penalty of 5% of the tax that is still unpaid
- **12 months late** – Individuals will be charged a further late payment penalty of 5% of the tax that is still unpaid.

The above penalties are levied on top of the interest that HMRC will charge on all outstanding amounts, including unpaid penalties, until payment is received.

If you have any questions or concerns about the changes, please contact us.

A BUDGET FOR BUSINESS?

The Chancellor's Budget on 23 March included a range of measures intended to boost enterprise. Here we provide an overview of some of the key points for businesses.

Corporation tax: The main rate of corporation tax fell by 2% to 26% in April – not by 1% as previously announced. The main rate of corporation tax will be reduced to 25% for the financial year commencing 1 April 2012 and to 24% for the financial year commencing 1 April 2013, before reaching 23% by 2014.

Business regulations: The Budget confirmed the scrapping of £350 million of business regulations and the introduction of a three-year moratorium on new regulations for firms with fewer than 10 staff.

The measures included revoking regulations that would have given parents of children up to the age of 17 the right to flexible working hours from April 2011. The Government has also abolished plans to extend the 'time to train' regulations to companies with less than 250 members of staff.

Prior to the Budget, the Government had announced its intention to reduce health and safety red tape by ending automatic health and safety inspections in medium and low risk industries. Health and safety inspections will instead focus on high risk sites such as energy, nuclear sites and chemical industries.

Business rate relief: The Government intends to offer up to 100% business rate discount for five years to businesses located in any of the 21 new Enterprise Zones. In addition, the small business rate relief 'holiday' will be extended by one year from 1 October 2011.

The Enterprise Investment Scheme: The Enterprise Investment Scheme (EIS) and Venture Capital Trusts will be reformed. This includes raising the rate of EIS Income Tax relief to 30% from April 2011 subject to State Aid approval.

Entrepreneurs' Relief: The Chancellor announced that the lifetime limit for Entrepreneurs' Relief would rise from 6 April 2011 to £10 million. The increased limit applies only to qualifying disposals on or after that date.

Research and Development (R&D): The additional corporation tax deduction given to SMEs for qualifying R&D expenditure has increased from 75% to 100%, giving a total deduction of 200%. This applies for expenditure incurred on or after 1 April 2011. A further increase to 125% will have effect for expenditure incurred on or after 1 April 2012.

Please contact us to discuss how the Budget announcements may affect you and your business.