

Newsletter



Andrew Webster
Limited

Pre-Budget 2004

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The pre-budget report has now become the occasion when the Chancellor announces his intentions as regards tax policy. This year, as we predicted, there is an announcement on the reform of the taxation of Small Businesses.

In a welcome change, a comprehensive discussion document has been published at <http://www.inlandrevenue.gov.uk/pbr2004/smallcompanies.pdf> as a prelude to any decision-making. The summary of the difference between companies, sole traders and partnerships is admirably clear but gives no suggestion as to how the law may change. It covers both tax and commercial differences and is an excellent guide to the issues that are relevant in making a decision on how best to carry on your business.

There is also a discussion paper at <http://www.inlandrevenue.gov.uk/pbr2004/small-business.htm> on the introduction of a new small business unit, which will "sit at the heart of HM Revenue and Customs". It appears that this unit will mean that small businesses should deal with only one office rather than two for VAT and the Revenue.

Unfortunately neither discussion paper considers the decision in the recent 'Arctic Systems' case. This

case concerned a computer contractor who traded through a company in which he and his wife, each owned half the shares – so that the dividends could be divided between them to lower their tax liability. They lost their case at the Special Commissioners, so unless their appeal to the High Court is successful her dividends are taxed under S660A as if they were his income – liable at the higher rate.

There is now considerable debate about the tax treatment of businesses where husband and wife share the dividends but only one of them does any work. At the present time we are taking comfort from the fact that the wife was not a director of the company and took no role. This in our experience is relatively unusual. Furthermore the two special commissioners disagreed on the outcome and the case was decided on the casting vote of the more senior. Therefore the chances on appeal may be good.

We do not expect the Revenue to launch a major investigation into this area. We suspect that they will concentrate their energy on the new legislation. It is important that proper documentation is retained to show that both spouses are involved in the business. We would recommend clients affected to have an individual discussion to ensure that they are in a strong position.

Newsflash...

We are pleased to announce the launch of the Beta Test Version of our Online Accounting service for South Africa and Eire which is available to our clients at www.websteraccounts.co.uk

This 24/7 online service is suited to those clients who wish to take more day to day control over managing their own accounts within their business. Please visit the above site online to explore our fully operational UK Service or call us to discuss how you could benefit from these services.

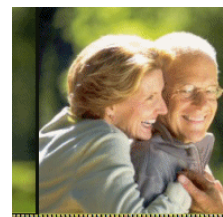
KEY DATES

- **31st January 2005**
Payment of tax for 2003/04 and payment on accounts for 2004/05
- **28th February 2005**
Revenue will impose 5% surcharge on unpaid tax
- **March 2005**
Pre-year End Planning
- **5th April 2005**
End of Tax Year
- **To be Confirmed**
Seminar on Pensions Simplification

Time to Review Your Pensions Contributions

The Inland Revenue is undertaking a complete overhaul of the complex tax rules that apply to retirement provision. A single new tax structure is due to be introduced on the 6th April 2006 which will replace the eight existing sets of rules with one 'simplified' regime. Below is a summary of the main changes:

- *An annual allowance to limit the amount that can be paid into your pension:* For individuals this will be as much as 100% of earnings (maximum of £215,000 pa will qualify for tax relief).
- *A lifetime allowance to limit the amount that can be saved for retirement:* This will initially be set at a fund of £1.5 million, or annual pension of £75,000.
- *New investment opportunities:* Funds will be able to own residential property.
- *New, flexible ways for you to draw your retirement benefits.*



Almost everyone will be affected to some extent by the new rules, and the details given here are only a very brief overview of the changes.

It is important that you review your pension provision now to determine whether you can take advantage of the current funding limits. There may also be a need to protect your existing fund and/or tax-free cash amounts - **Karen Miles**

Karen Miles works with the Rosemount IFA and is a Financial Advisor to Andrew Webster Limited. We will be holding a seminar on Pensions 'Simplification' in the New Year, in conjunction with Rosemount IFA.

" If you miss this opportunity then - in the worst case - you could pay £6,750 in additional tax "

Pre-Year End Planning for Companies

Inclusion of Dividends in Annual Accounts

All company clients need to be aware of the change in rules on the inclusion of dividends in annual accounts. For any accounting years ending after 31st December 2004 you can only include a dividend in the accounts if it was declared during the year. Until now we have been able to include a dividend provided that it was declared before the accounts were approved. This means that we must review your dividends before the end of the company accounting period and before the end of the tax year.

We recommend that we carry out a careful review for you during March 2005 to see what dividend you ought to pay. If you miss this opportunity then – in the worst case – you could pay £6,750 in additional tax. Contact your account manager for more details. You need to have some management accounts to show your level of profits before you can declare a dividend. This is a good time to review whether your accounting system is adequate to give you the information needed.

“By having tax efficient Wills and ensuring that assets are held separately between the spouses, the total IHT bill on an estate could be reduced by over £100,000”

Should I Have a Will?

Quite simply, everyone should have a Will yet many people die without one. Why?

Dealing with death is an unpleasant topic and not one most people want to handle. However, if you don't have a Will, its critical that you understand the implications.

If you die without a Will, the law determines what happens to your property. This process is called **"intestate succession"** Your property will be distributed to your spouse and children or, if you have neither, to other relatives according to a statutory formula. If you have no apparent heirs and die without a Will, it is even possible that the state may claim your estate.

Without a Will, a court will determine who will care for young children and their property if the other parent is absent or unfit.

Do not assume that your spouse will automatically receive your assets upon your death. Unmarried couples are particularly at a disadvantage, as they are not recognised at all in the intestacy rules.

In addition jointly owned property does not eliminate the need for a Will. Although joint property, bank accounts and shares will automatically pass to the survivor, it is possible for both joint owners to die in a common accident. The only way to insure that your final wishes are carried out is to prepare separate Wills.

Only through a Will can you

- ♣ distribute your property as you choose;
- ♣ appoint your own executors;
- ♣ suggest a guardian for any surviving minor children;

A Will can also provide an effective way of minimising UK inheritance tax.

IHT planning through Wills is very attractive, as unlike lifetime gifts or trusts any provision made in your Wills, does not affect your present living standards. It is also relatively straightforward particularly for married couples with children. By including a nil rate band discretionary trust

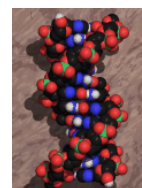
in their Wills and ensuring that assets are held separately between the spouses the total IHT bill on their estate could be reduced by over £100,000.

If you would like any further information please contact our lawyer Liz Hooley for an informal discussion.

BioTech Seminar

We are proud to herald the success of the BioTech Seminar organised and hosted by the Cambridge BioTech Consortium (CBC) in association with E.R.B.I., the biotechnology network for Cambridge and the East of England.

Focussing on the theme of **"Creating Success for BioTech Start-Ups"**,



the seminar provided a forum for talks and discussion on issues concerning start-up Bio-Tech firms. These included Venture Capital funding for Start-ups, Intellectual property, building of HR Infrastructures, maximising investor value with significant discussion on taxation and regulation within the sector.

The event was chaired by Andrew Richards, founder of Chiroscience Plc and Arakis Ltd, who summed up the success of the seminar by stating that **"there are countless sources out there offering advice on theoretical growth strategies for Bio-Tech firms but very few who provide real help in practical terms, particularly at the start-up stage. This seminar, in essence has helped to plug the gap between theoretical and practical perspectives, by addressing the legal, taxation, regulatory and operational issues that a start-up is faced with in its infancy in the real world business environment"**.

Speakers at the seminar included representatives of Prelude Ventures, Mills & Reeve, The Bradfield Group, The PiR Group, the Cambridge Regulatory Services and Andrew Webster Limited.

We are working in association with E.R.B.I. and the CBC to organise further events focussing on funding, taxation and regulation within the BioTech Sector. Details will follow in future newsletters.

Seasons Greetings

Andrew Webster Limited would like to wish all its clients, a Merry Christmas and a Happy New Year.

As always, we do not send personalised greeting cards but instead make a donation to charity.

This year we will donate to the British Heart Foundation, the Carers UK Association - the Voice of Carers and Oxfam.

