

Newsletter



Andrew Webster
Limited

Husband & Wife Companies The Arctic Systems Case

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Newsflash...

A new release of WebsterAccounts - our professional Online Accounting Service - is due on the 14th of July 2005.

This is a hardware release and involves the installation of a new server at our office.

This will ensure that we continue to provide a safe and secure online environment and also improve the response time of the system.

This Newsletter is produced by Andrew Webster Limited. For comments, contact the editor at amit@tax.uk.com

The HM Revenue & Customs are challenging the tax planning of setting up companies in which both husband and wife are shareholders.

This is applicable where income has been split between the partners to ensure that both have sufficient income to use their basic rate band

The HMRC have been successful in the courts in challenging one arrangement in the case of **Jones v Garnett**. They are using this victory to push back the boundaries beyond those shown in the case itself. The taxpayer has gone to the Court of Appeal so all the information below may be overturned in the future

The HMRC are arguing that there was effectively a gift of income (called a "settlement") and that this is not effective for tax purposes. The income is still taxed on the person who made the gift. The settlement legislation was introduced to prevent a person being able to transfer income to another person in order to avoid higher rates of tax.

A settlement can include "any arrangement" to transfer income and the HMRC are using this wide definition to include the circumstances where an individual reduces their normal commercial salary in order to allow a company to pay larger dividends part of which will be paid to another person.

♣ What is definitely caught?

If a business operates such that only one partner is active and the other does almost nothing in the business, then it is not acceptable

to have a 50-50 split of the income with the active partner taking a low salary and the balance of profits then distributed as a dividend.

♣ What is definitely acceptable?

If the facts and income flows reflect that the business is a commercially run joint venture, then it is unlikely that any income will have arisen under a settlement. If both partners are fully involved in the business then there is clearly no problem.

♣ What if we get caught?

The effect of the settlement legislation is to treat the income arising to the non-working partner as if it arose to the working partner. Generally this will remove the tax benefits and so the structure is ineffective.

♣ How do we get out if caught?

In most cases, where someone accepts that they are caught, it will be advantageous to wind-up the company and to substitute some alternative structure to maximise the tax benefits going forward.

♣ Are Husband & Wife Companies now a bad idea?

Undoubtedly, much greater care will now be necessary before recommending this structure. However, there are many occasions when this arrangement is tax efficient and commercially appropriate. The HMRC accepts that in most cases, it is perfectly acceptable tax planning and not avoidance caught by the settlement legislation.

For a more detailed note, please visit the website at www.tax.uk.com. If you feel, you might be caught by the Settlement Legislation, please give your Account Manager a call.

KEY DATES

- **31st July 2005**
2nd Payment on Account for 2004/05
- **30th Sept. 2005**
Tax Return Submission deadline for HMRC Calculations
- **5th October 2005**
Deadline for notifying HMRC of new sources of income.
- **18th October 2005**
Pensions Simplification Seminar 1 (tbc)
- **19th October 2005**
Pensions Simplification Seminar 2 (tbc)
- **To be Confirmed**
Cambridge Biotech Consortium Workshops.

" The take up of Online Accounting in the UK is on the rise. For 24/7 safe and secure access to your account - Consider using **WebsterAccounts** - Our Professional Online Accounting Service"

Landlines & Mobile Phone Costs For Companies, Sole Traders and Partnerships



The HM Revenue and Customs (HMRC) take the view that the monthly charge and any free minutes associated with a phone in your name are a personal cost.

Therefore you can only claim for the actual cost of business calls where they exceed the free minutes.

For example: An employee working out of the office uses a mobile phone to keep in touch with the office. The phone is mainly used for business calls. The phone tariff includes up to 10 minutes of free calls per month. In one month she pays £22, which is the rental charge only, because her total calls, all of which were business calls, amounted to 8 minutes. No deduction can be permitted because no expense has been incurred in making the business calls. The following month she pays £28, which is £22 for rental and £6 for calls. In the month she

made calls totalling 40 minutes, of which 30 minutes were for business and 10 minutes were private. A deduction should be permitted for the cost of business calls. The amount that can be deducted is £4.50, which is 75% of the call charges, because 75% of the total call time was made up of business calls. However you need to back this up with some analysed statements

The simplest solution would be to get the phone bill in the name of the company; this way the cost is fully deductible (including personal calls) for the company. The downside is that some phone companies charge more for a business line.

Sole Traders and Partnerships: The regulations are similar to those above except that you can apportion any of the fixed fees including line rental by the percentage of business versus personal calls. However, it may be simpler to have a separate business line to avoid any issues with the HMRC.

Have you considered the following ?

A few pointers from our team

1. You may have been issued with simplified returns this year and should be aware of the risks associated with filing one of these compared to normal self-assessment.
2. The Civil Partnership Act 2004 comes into force on 5th Dec 2005 – this applies to same sex couples and they should consider undertaking a tax planning exercise before then as there will be an impact on most of the taxes.
3. It is worthwhile to consider the impact of the April 2005 Tax Bulletin regarding the transfer of goodwill from sole trader/partnership to company in exchange for loan account.
4. It is important to consider the impact of pre-owned assets rules on gifts between unmarried couples.
5. The number of Online Accounting users in the UK is rising and it is worth considering using **WebsterAccounts** - Our Online Accounting Service to have greater control over your accounts - 24/7.

If you feel you might be affected by any of the above issues, please contact your Account Manager for a more detailed discussion.

“A key benefit for the UK firm is that we will now be able to build a network of accountants and bookkeepers in South Africa who can do work for UK clients”

WebsterAccounts launched in South Africa



The Country Club in Johannesburg witnessed the Launch of the South African edition of **Webster-**

Accounts - our professional Online Accountancy Service. The launch took place on the evening of the 17th of March 2005.

Andrew states 'we were delighted to have the opportunity to work with a South African firm of accountants and to deliver them a version of the software for South African businesses. A key benefit for the UK firm is that we will now be able to build a network of accountants in South Africa who can do work for UK clients.

We hope that this will allow us to offer a more cost effective accountancy service to our clients to complement the high quality advice our UK team can deliver'.

Strengthening of South African Ties



We were recently invited to exhibit at the “Create your Own Business In South Africa” Seminar organised by the Homecoming Revolution held at the South African High Commission in London on the 14th and 15th of May 2005.

This follows and builds on the recent successful launch in Johannesburg of the South African edition of Webster-

Accounts, our professional Online Accounting Service, and represents our increased commitment to strengthening our presence and links with the region.

States Andrew, “We were delighted to have been invited to exhibit as it provided an ideal window for us to detail, to a very focussed audience, the range of International and off-shore services that we provide.

This also allows us to build on our considerable success in launching the South African edition of WebsterAccounts, in Johannesburg earlier in the year. “

Promoting Academic Excellence

We have always maintained excellent links with Universities and Academics in the East of England region. We



recently had the opportunity to be involved in furthering the development of young minds on the Marketing & Innovation module at the Anglia Polytechnic University in Chelmsford through the development of a Case Study.

Paul Weeks, Course Director on the Marketing and Innovation Course states, “having worked on a real firm as the subject of a Marketing Case study will prove extremely beneficial to these budding entrepreneurs of tomorrow. We look forward to the support of Andrew Webster Limited on similar projects in the future”

- if you would like us to be involved in similar initiatives or would like further details. Contact Amit Sharma at the office

HM Revenue & Customs

HM Revenue & Customs (HMRC) is the new department responsible for the business of the former Inland Revenue and HM Customs and Excise. They state that as a single department, they will have the added benefit of producing greater efficiencies, reducing the tax gap and providing a greater customer focus. HMRC is responsible for collecting the bulk of tax revenue as well as paying tax credits and child benefit. For further details on the new department, please visit www.hmrc.gov.uk

"We are delighted with the services provided by Andrew Webster Limited as due to the nature of their multi-disciplinary team, they were able to offer us a complete solution in one firm"

"Andrew Webster Limited were instrumental at all stages in negotiating the purchase and the reduced cost of acquisition. They also handled all the necessary legal requirements and paperwork and also helped us with our tax structure"

- Matthew Byatt,
Operations Manager

Delta Aviation

Andrew Webster Ltd gets client off the ground



Delta Aviation is making dreams come true. An Andrew Webster Ltd. Client, Matthew Byatt is the Operations Manager and Joint Owner of Delta Aviation, UK's leading and award winning flying experience specialist. The company operates a fleet of beautifully restored Tiger Moths and other vintage aircraft to provide a unique and exhilarating flying experience. Delta Aviation supplies a number of high street retail organizations and gift experience providers and has won several supplier awards for quality of service.



States Matthew, "We were looking to find a firm which could provide us with a complete solution.

We approached Business Link who gave us the name of three specialist service providers. We met all three and decided to go forward with Andrew Webster Limited as they were the only ones who could provide us with a complete range of services.

We are extremely happy with the services they provided. They were instrumental at all stages in negotiating the purchase and the reduced cost of acquisition. They also handled all the necessary legal requirements and paperwork and helped

us decide and setup our tax structure."

States Andrew, "We have always prided ourselves on this particular aspect of our ability to provide clients with a complete solution in-house. Delta Aviation is one of many clients who have benefited from the synergies provided by our multidisciplinary team."



Delta Aviation was founded in 1993 out of a passion for flight and a desire to make the magical world of aircraft and flying accessible to a wider audience. Operating from prime aerodrome sites throughout the UK, Delta Aviation offers flying experiences including 1930's biplanes, advanced aerobatic trainers and WW2 war birds. Clients are invited to take to the air in vintage aircraft, or fly upside down during an exhilarating aerobatics experience.

For further information and details visit www.deltaaviation.co.uk or call 0870 446 4467.

Delta Aviation operates from: Andrewsfield (Essex), Barton (Manchester), Henlow (Bedfordshire), Leicester (Leicestershire), Netherthorpe (Sheffield), Oxford (Oxfordshire), Redhill (Surrey), Stapleford (Essex) and Sywell (Northamptonshire).

- If you would like to know more about the services provided by our Private Client Department and how we could help your business, please do give us a call.

Welcome Back Jo!



We are pleased to announce the return of Jo Lamberth to the firm following her break from work on extended maternity leave. A Chartered Accountant and Chartered Tax Advisor; she has expertise in a broad range of tax issues and was previously the senior UK specialist in Research and Development Tax Credits at Grant Thornton. Her return further strengthens our multi-disciplinary team.