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LRH NEWS - November 2010



WELCOME

Welcome to the latest issue of LRH News, the newsletter for Lambert, Roper & Horsfield and LRH Wealth Management, which brings you updates and practical advice on issues that may affect you financially.



By David Roper

In this edition, we look at how the number of tax

Our bulletin contains a round-up of tax and financial news and developments that we hope will be of interest to small and family businesses and private individuals.

investigations is set to increase by 3,000%, despite HMRC also facing cuts under the Government's spending review. We also look at pensions, including how they can save you money and reduce your inheritance tax liability. There is also a warning for sub-contractors who risk losing their gross payment status. Finally, an increase in businesses struggling to correct errors on VAT returns has prompted HMRC to issue further guidance.

We hope you enjoy reading LRH News and that you find it useful. We'd welcome your feedback on the content, or ideas for topics that you'd like to see featured in future, so if you would like to comment please email mail@lrh.co.uk or call 01422 360788.

For professional financial advice, tailored to your individual circumstances, on any of the topics covered in LRH News, please contact us.

NUMBER OF TAX INVESTIGATIONS INTO TOP EARNERS SET TO DOUBLE

If you were among those hit by the new 50p top tax rate back in April, then you could now be more likely to receive a rather unwelcome knock on the door from the taxman.



By Nick Frost

Under plans unveiled by the Liberal Democrats at their conference in Liverpool, half of the UK's 300,000 higher earners affected by the top tax rate face having their tax affairs checked over by HM Revenue and Customs (HMRC).

This means that the number of tax investigations will rise from the current figure of 5,000 to 150,000 a year – an increase of 3,000%.

The £900 million drive is designed to crack down on tax avoidance, the legal practice of using existing provisions within the current tax regime to minimise your tax liabilities. This should not be confused with tax evasion, where tax liabilities are avoided by

illegal means, amounting to tax fraud.

Those who 'hide' money in offshore accounts will also come under scrutiny as part of the increased investigations.

As a result of the scheme, the number of criminal prosecutions relating to tax matters is expected to increase five-fold, while the Treasury has announced that it expects the initiative to bring in £7 billion a year by 2015.

While tax avoidance is certainly not illegal, the announcement highlights the importance of seeking professional advice on all tax matters to ensure you do not fall foul of any investigation.

Even if you have nothing to hide, tax investigations can be both costly and time-consuming, particularly for smaller businesses which have neither the time

nor the money to spare.

At LRH, we can advise clients on all aspects of taxation and can help you ensure that all your tax affairs are in order. We can help ensure you do not pay too much or too little tax and, should you find yourself the subject of an investigation, can offer as much assistance as you need.

We are also able to offer tax investigation protection. As with any insurance, everyone hopes they will never need to use it, but taking out cover now could save you thousands of pounds in investigation fees should the taxman come calling – money that could be put to better use in your business.

For more information on any area of taxation, including tax investigations, or to find out more about tax investigation protection, please contact us.



MORE CUTS FOR HMRC IN SPENDING REVIEW

HM Revenue and Customs (HMRC) is set for further cuts to its budget as a result of the Government's spending review, despite the current backlog of cases at the department.



By Denise Thornton

The Chancellor, George Osborne, said that the 15% reduction would need to be paid for through lower administration costs and efficiency savings.

The Government has also pledged that the backlog of PAYE over and under-payments should be cleared by 2012, while the processes that currently give rise to the greatest number of errors, such as PAYE and VAT, will be redesigned.

Not affected by the efficiency savings is the extra £900 million the department has already been allocated over the next four years to tackle tax avoidance.

The Department for Business will see cuts of 25%, although science funding is set to be protected and an extra £250 million has been earmarked for spending on apprenticeships.

Elsewhere in the spending review, claims for Employment Support Allowance are to be limited to 12 months in future, and total household welfare payments will be capped at around £500 per week, as previously announced.

The Working Tax Credit is to be exempted from the cap, although it will be frozen for the next three years, after which it will rise



in line with inflation, using the Consumer Prices Index (CPI). Further ahead, the Government plans to replace various welfare payments with a single Universal Credit over the next two parliaments.

And the previously-announced increase in the state retirement age to 66 will now be brought in by April 2020, some four years earlier than previously planned. Later increases to 67 and then 68 may also be brought forward after a Government review.

The Government confirmed plans to create a 'green' investment bank, with initial capital of £1 billion, while the Department

of Energy and Climate Change will see the money it has available for capital spending increase by 41% over the next four years, although its day-to-day spending will be cut by 18% over the same period.

In total, Mr Osborne announced cuts worth approximately £83 billion with welfare spending seeing an overall reduction of £7 billion and departments seeing their budgets fall by an average of 19%, although health and international aid were protected, with defence and education getting a partial reprieve.

For further information, please contact us.

GUIDANCE REISSUED ON VAT ERRORS

Businesses are being offered further guidance on how to correct mistakes on VAT returns that have already been submitted.



By Nick Frost

HM Revenue & Customs (HMRC) has reissued earlier advice following reports that some companies were struggling with the corrections procedure – in particular, the fact that there are

two methods for correcting errors and, in some cases, the wrong one was being used or both were being used for the same error.

This may result in companies correcting an error twice and either being hit by an unexpected charge after underpaying VAT or being left out of pocket after overpaying.

Errors of less than £10,000, or, if greater, one per cent of turnover, can be corrected on the next VAT return. All others should be corrected by either filling out form 652 or by sending a letter to HMRC.

The confusion appears to be arising when businesses inform HMRC by form

or letter, but then include the correction on their next return as well. As it generally takes around two months for HMRC to process an adjustment, there may have been another return due in the meantime, with the company's accounting systems making the adjustment automatically.

To prevent this from happening, it is worth making a note in any accounting records the VAT adjustment has already been accounted for.

For more information, please contact us.

SWITCHING YOUR PENSION COULD SAVE YOU MONEY

Most people are aware that they can switch their mortgage or credit card to save money, but did you know you can do the same with your pension?



By Paul Smith

At a time when every penny counts, people are more than happy to look for a better deal when it comes to credit cards, but fewer people are switching their pension to a product with lower charges and more options.

Your pension should enable you to enjoy a comfortable retirement, so shouldn't you be making sure you're getting the

most from your savings? It is certainly in your best interests to review your existing arrangements sooner rather than later.

However, saving money isn't the only reason to switch. Modern pension plans now offer a lot more flexibility.

Older-style pension plans generally offer very few options, such as limited – if any – investment choice and no option to stop, reduce or increase payments as your circumstances change. They are also less flexible in terms of when you can start accessing your pension benefits

and what form they can take.

Modern pension plans, however, offer choice and flexibility as standard, meaning you can be as 'hands on' or 'hands off' as you wish.

While switching can offer many potential benefits, it won't always be suitable for everyone, so it is important to seek professional advice to ensure you understand the options available to you.

For impartial pensions advice, tailored to your individual requirements, please contact us.



CAN YOU AFFORD AN INCREASE IN YOUR STAFF COSTS? YOU MAY HAVE NO CHOICE

The Government is proposing to bring in new laws from 2012 that will have a significant impact on every employer in the UK.



Key facts

The framework for these new laws is already in place in the shape of the Pensions Act 2008.

- Employers will, for the first time, be required to automatically enrol eligible employees into a pension scheme.
- Employers will, for the first time, be required to pay pension contributions for any employees who join and stay in the pension scheme.
- The Pensions Regulator will police and enforce these new laws.
- Even if you have an existing

workplace pension scheme, you may have to make changes so that it complies with the new laws.

- Employers can either use their own pension scheme to comply with these new laws or rely on a Government built scheme - the National Employment Savings Trust (NEST) scheme.

It was inevitable that the new Government would look at the auto enrolment regime and the validity of National Employment Savings Trust (NEST) - they always said they would.

And so a review group has been set up and a series of meetings has taken place with consumers, employers and the pensions industry. It's important to point out that auto enrolment is still widely supported and Government are still very

much committed to this route. NEST, on the other hand, is still a grey area.

Do you want to keep control of your employee benefits package or rely on someone else, who knows nothing about your business, to do it for you?

It's up to you:

- You can wait until 2012 and let someone else, who knows nothing about your business, set up and run a pension scheme for your employees; or
- You can set up your own scheme and retain complete control over your benefits package.

These changes are only just over 2 years away - don't leave it too late - contact us now to arrange a consultation.

HOW YOUR PENSION CAN REDUCE YOUR INHERITANCE TAX LIABILITY

Inheritance tax is something most of us would probably rather not think about, but careful planning at the earliest opportunity could reduce the amount your loved ones will have to pay the taxman when you die.



By Keith Lyons

As you may already know, inheritance tax (IHT) is payable on death where the deceased's estate is worth more than £325,000, except where there is a surviving spouse or civil partner. The

amount taken in tax where the estate is in excess of £325,000 is 40%, which at almost half the value is by no means an insignificant figure.

While many people may look at the threshold and think it will not affect them, they may be surprised to learn that the value of their house combined with other valuable possessions such as cars, jewellery, savings and investments or antiques such as works of art, could easily leave them liable to IHT. Often, this is not realised until after the estate owner's death when their grieving relatives are suddenly hit by an IHT bill.

However, there are exemptions, such as gifts, and ways to minimise your liability, such as trusts.

One way to minimise your IHT liability is through your pension. This, in turn, can



be done in a number of ways, including investing in a pension to increase your death benefits.

You will benefit from an additional contribution from the taxman in the form of tax relief (such as £20 if you contribute £80) and from the age of 55, you will be able to take 25% of your fund as a tax-free lump sum.

Your pension fund, which will grow free from capital gains tax, can be paid to beneficiaries on your death, outside of your estate, thereby reducing the IHT liability on that estate.

Alternatively, investing in a pension on behalf of your grandchildren can also reduce your IHT liability.

In addition to the taxman's contribution, you can put up to £3,000 into a pension for your grandchildren, with this amount being free of IHT. This is a sensible option as it will not only reduce the IHT liability on your estate, but you will be helping cater for your grandchildren's financial future with money that they cannot fritter away.

For further information on pensions and inheritance tax planning, please contact us.

NATIONAL INSURANCE HOLIDAY FOR START-UP BUSINESSES

Start-up businesses can now benefit from a new regional national insurance (NI) holiday unveiled by the Government.



By David Roper

Businesses setting up outside London, the South East and East of England will be eligible for a NI holiday worth up to £5,000 for each of the first 10 employees they hire in their first year of business. This

means a maximum saving on their national

insurance payments of up to £50,000.

The scheme will run for three years. It is estimated that 400,000 new businesses will benefit by having a lower tax bill from employing new staff.

The regional holiday, first announced in the June Budget, is designed to encourage the creation of private sector jobs in regions with high public sector employment.

It is available to new businesses starting between 22nd June 2010 and 5th September 2013.

However, as the scheme itself did not begin until 6th September 2010, eligible businesses can only deduct employer NICs due on earnings paid on or after that date (but before 5th September 2013).

For more information, please contact us.

SUB-CONTRACTORS RISK LOSING GROSS PAYMENT STATUS

If you are a sub-contractor who enjoys gross payment status under the Construction Industry Scheme (CIS), then it is important to ensure that you comply with your tax obligations or face losing this status.



By Keith Lunn

Having gross payment status means that those who are entitled receive payments from their contractors without any deductions. However, continuing

to have this status is dependent on the recipient complying with their obligations as taxpayers or employers/contractors.

If you have gross payment status then you will be subject to an annual review, where HM Revenue & Customs (HMRC) will check whether you – and any partners where there is a partnership – have complied your obligations.

This means that in the 12 months leading up to the review, you must have:

- Completed and returned all required tax returns
- Supplied any information related to your tax requested by HMRC

You must also have paid by the due dates:

- All tax due from yourself or the business
- All your own National Insurance Contributions (NICs)
- Any PAYE tax and NICs due from you as an employer
- Any deductions due from you as a contractor in the construction industry

While HMRC will overlook minor failures, those falling foul of the review will receive a letter telling them that their gross payment status will be withdrawn in 90 days' time, as well as setting out what obligations they failed to meet. The 90-day period is designed to enable the recipient to appeal against the decision and to make any necessary adjustments to the business if an appeal is unsuccessful.

Clearly, switching from being gross paid to being paid under deduction could have significant cash flow implications for businesses if they receive less than the full amount requested or invoiced.

For further information on your tax obligations as a sub-contractor, please contact us.



TAX SPECIALISTS CRITICISE PAPER CUTS

Tax experts have hit out at HM Revenue and Customs' (HMRC) plans to stop issuing copies to tax agents of some mail sent to their clients to help cut costs.



By Denise Thornton

agents and potentially create costs greater than savings.

CIOT Deputy President Anthony Thomas said: "This is a seriously short-sighted move.

"By keeping tax agents less well-

The Chartered Institute of Taxation (CIOT) said that while it supports the need to reduce Government spending, it is concerned that the move will result in extra work for HMRC, taxpayers and their

informed about their clients' tax obligations HMRC are likely to find they lose more money than they save.

"HMRC estimate that not sending copies of PAYE coding notices (P2s) and tax calculations (P800s) will save them £1.25 million. But they have not estimated the cost of dealing with an increased number of enquiries from agents, let alone that of dealing with the higher number of erroneous tax returns which is likely to result.

"It is particularly disappointing that this change is being sprung on taxpayers and their agents with more or less immediate effect and without consultation.

"If they are set on proceeding, then much more effort will need to be put into telling all taxpayers about the changes. At the moment all that is planned is a message on letters from HMRC to taxpayers, but if the taxpayer doesn't read letters obviously from HMRC (which is not uncommon, on the basis that they leave that to their agent) they will not see the message on the letter telling them to show it to their agent."

HMRC says it has tried to look for savings in areas where there will be minimal impact on customers.

For further information, please contact us.



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