

# Well Worth a Look

Tax planning generally seems to revolve around mitigating direct taxes such as corporation tax and income tax. VAT is often seen as the poor relation in this respect.

However, spending a little time looking at various VAT schemes can help your business save on cash flow, admin time and even VAT itself.

## See if the following ideas might be beneficial for you:

- Cash Accounting - account for VAT based on cash receipts and payments in each period rather than by reference to invoice dates. This means that you don't have to pay VAT on your sales until your customers have paid you. If you suffer a bad debt, you will have had automatic VAT bad debt relief by not having paid over the VAT on this irrecoverable amount. Businesses with an annual turnover of up to £1.35m (ex VAT) can use this scheme.
- Annual Accounting - pay regular VAT instalments during the year and then balance up at the end. Only one VAT return per year has to be completed, two months after the end of your VAT year when you also make any balancing VAT payment. Again, businesses with an annual turnover of up to £1.35m (ex VAT) can apply for this arrangement.
- Flat Rate Scheme - a fixed % is applied to your VAT-inclusive turnover to work out how much VAT you owe each period. There is no need to analyse out the VAT on your sales and expenses and which should therefore simplify your accounting procedures. The fixed % is based on the trade classification of your business. For a business registering for VAT for the first time, the % is reduced by 1% for the first twelve months. It can be quite possible for some businesses to save over £1,000 per year in reduced VAT bills under this scheme. To join, your annual turnover must not exceed £150,000 (ex VAT) or £187,500 (inc VAT).
- On-Line Reporting - submitting VAT returns on-line brings with it a 7 day extension to the normal filing deadline. A condition of on-line filing is that any VAT liability must be paid by electronic means. However, the payment deadline is also extended by the same 7 days and which can help cash flow over the relevant month-end.
- Continuous Supply of Services - for regular supplies of services, a 'request for payment' can be issued to the customer to trigger payment. On receipt of the cash, the supplier then issues a VAT invoice and VAT is then accounted for. This can be a way of benefiting from VAT cash accounting for larger businesses, particularly professional services firms and certain construction companies.

Please contact **David Butterworth** for further details



"Sign it with 'Yours sincerely' - that will confuse them!"

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# PRECIS

THE W&S CLIENT BRIEFING

## All Change for Companies

The new Companies Act 2006 introduces a range of important changes for limited companies and their directors.

These are being phased in over the next year or so and directors will need to familiarise themselves with the new regime and their revised duties and responsibilities.



### Some of the key points to note include:

- The role of company secretary will not be required from April 2008
- Following on from this in October 2008, all companies will have to have at least one actual person as a director and cannot just have a corporate director. All individual directors will have to be at least 16 years old.
- The presently cumbersome process of reducing a private company's share

capital through Court approval is to be relaxed from October 2008. From then, a special resolution supported by directors' solvency statements will suffice.

- At the same time, the prohibition on companies providing financial assistance for the purchase of their own shares is to be abolished.
- A new standard set of Articles of Association will be introduced from October 2008. These will be set out in clearer language to reflect the



"I'm looking for someone who will take responsibility for my mistakes."

basic constitution and operation of the company. As part of this change, the Memorandum of Association will become a historic document, simply recording the company's incorporation details. Neither the Articles nor the Memorandum will need to state the objects of the company.

- The filing deadline for accounts of private companies will reduce from ten months to nine during 2008. In addition, only small groups (and not medium-sized groups) will be exempt from preparing and filing consolidated accounts.
- Directors are to have clearer statutory duties to act in a way which they consider is most likely to promote the success of the company for the benefit of its shareholders as a whole, having regard to all appropriate factors.
- From October 2007, private companies will generally no longer need to hold an AGM, although shareholders still have the right to receive accounts. Also, all shareholder meetings can be on a 14 day notice period unless the Articles state otherwise.

Please contact **Michael Bland** for further details.

## Spread the word

If you know any friends or contacts who might benefit from our services, please ask them to call us. We will be very happy to meet and discuss their requirements with them on a free and no-obligation basis, to see if we can help.



# Balance Sheet Blues?

You often hear people say 'Billy is a good lad, he can read a balance sheet'. But what does this actually mean and is it important?

A basic understanding of a set of accounts is knowledge well worth having for anyone involved in business. It will help you with your own figures, but also assist when dealing with third parties. If you are in conversation with suppliers, customers, financiers etc, feeling a degree of comfort with accounts can enhance your confidence and credibility and help get what you want out of a situation.

One problem is finding time and the right person to guide you through the jargon and focus on the key aspects. For example, are you au fait with these points by reference to your own accounts:

- What exactly is working capital and have we got enough?
- Is our gearing level good or bad?
- Has our liquidity improved on last year?
- What is our break-even level of sales per month?
- Are we making an adequate margin on our sales?
- How long are our customers taking to pay on average?
- Are we paying our creditors too quickly?
- Is our stock turning over fast enough?
- Are we financing our capital assets in the best way?
- Do we take too much money out of the business?

A good way to get up to speed is to have a teach-in with an experienced business adviser. The essential financial ratios and key performance indicators can be explained using your own accounts. It may be that your accounting systems need improving to give you more accurate and reliable data on a regular

basis. Once you have the required knowledge you will be able to use this information as a platform for decision-making. This will help ensure your business is heading in the right direction.

Please contact **Am Hayer** for further details.



"And how's business with you?"

# Back to the future

More seasoned readers might recall the halcyon days of MIRAS when you could claim tax relief on mortgage interest.

Well, has Gordon Brown quietly re-opened this particular door for certain people?

Take the following example. Tony, having recently retired, decides to move house. He wants to buy a new home but also keep his existing one and rent it out as an investment property. The new house will cost £300K whilst the existing one is worth £400K and has no mortgage on it. Someone has suggested to Tony that he could borrow £300K on his current property, use these funds to buy the new house and claim full tax relief on the interest charges. Is this right?

With careful planning, the answer is yes. Tony has created a property rental business and has injected his existing property into this at its current value of £400K. A simple balance sheet at this point would show the property as an asset at £400K and Tony's capital as the corresponding equity of £400K. If a mortgage of £300K is then taken out and withdrawn by Tony from the business (to buy his new home), the balance sheet then shows:

Please contact **Colin Barratt** for further details.

	£'000
Property	400
Mortgage	(300)
Net assets	<u>100</u>
<b>Tony's capital:</b>	
Introduced	400
Drawings	(300)
Net equity	<u>100</u>



"Remember the good old days when you could shuffle papers around on your desk?"

The Revenue's internal guidance states that as long as Tony's equity in the business remains positive, the interest on borrowings will be tax-deductible against income from the business. In other words, the mortgage interest can be offset against rents received even though the actual mortgage funds have been used to buy Tony's new home! There is no specific requirement for the monies raised to be used in the business.

