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BUSINESS UPDATE

WINTER 2005

Failure to claim rate relief

April 2005 saw significant rises in rates bills for many businesses. However at the same time, to soften the blow, a new Small Business Rate Relief was introduced.

How does it work?

Businesses occupying a property with a rateable value of below £5,000 get 50% relief and this decreases by 1% for every additional £100 of rateable value up to £9,999. In addition the bill is calculated using the small business non-domestic rating multiplier (41.5p).

Furthermore businesses with rateable values of between £10,000 and £14,999 (£21,499 in London) have their liability calculated using the small business multiplier.

So what's the problem?

The relief is not given automatically. Businesses must apply to their Local Authority on an annual basis.

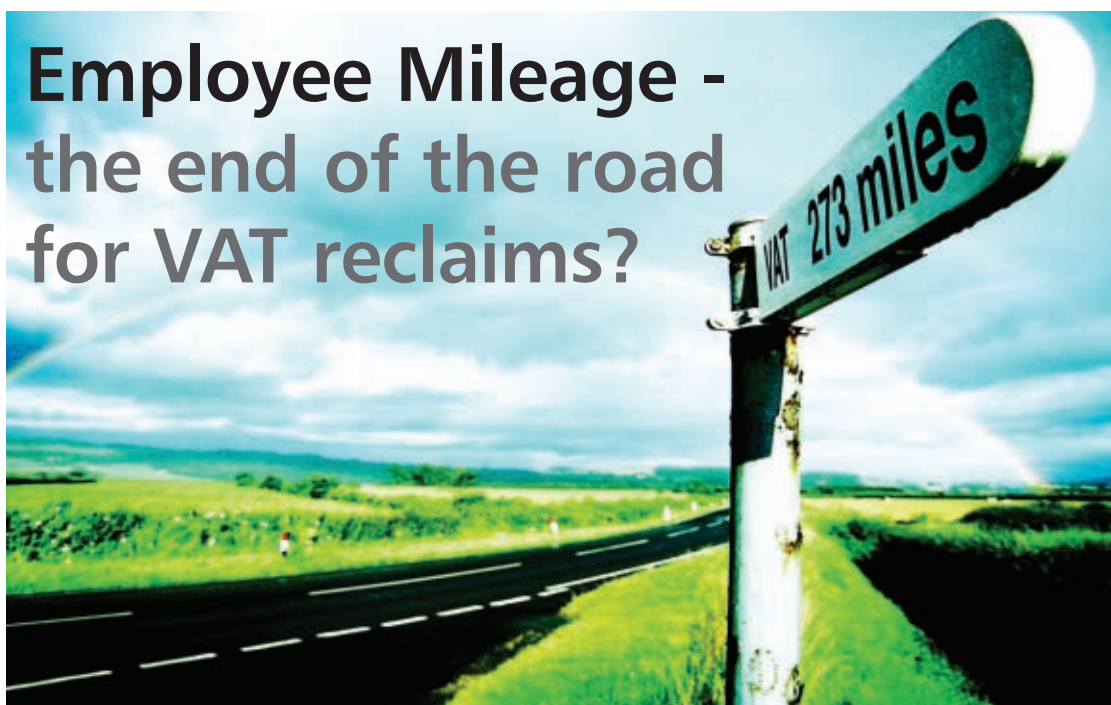
The Federation of Small Businesses reports that 22% of businesses across England have not applied for the relief even though they are entitled to do so.

Where can I go for further information?

Try www.mybusinessrates.gov.uk if your business is based in England. Those in Wales, Scotland and Northern Ireland are advised to refer to their central or local authority.

In Northern Ireland refer to www.ratecollectionagency.cymru.gov.uk in Scotland go to: www.scotland.gov.uk and in Wales www.wales.gov.uk

Employee Mileage - the end of the road for VAT reclaims?



Customs are expected to issue revised guidance on procedures for reclaiming (input) VAT on employees' mileage expenses. This follows a European Court of Justice ruling that businesses should not reclaim the VAT element of reimbursed employee mileage allowances because EU law says that businesses must have a valid VAT invoice to support the claim for input VAT recovery. Since an employee is not a taxable person there is no valid VAT invoice.

The system used by many UK businesses where employers pay employees for their business mileage using a mileage rate will have to change, although the detail and timescale has not yet been announced. Typically a business paying an employee 40p a mile for 100 miles, being £40, would recover input VAT of £1.79. This is the VAT

element of the fuel costs of say 12p per mile. Suggestions are that businesses may have to stop claiming back VAT on mileage payments altogether, or may have to introduce a system where the business itself pays for the fuel and employees repay the business for the private miles they travel. Fuel cards or business credit cards could be used but this would create additional administration for the business and potential benefit in kind issues for the employee.

Businesses that purchase fuel using fuel cards or company credit cards (where the business meets the cost of all fuel provided to an employee) and where the VAT fuel scale charges of between £35 and £68 per quarter apply to cover the private use, will not be affected by any changes.

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What's in a name?

It may be stating the obvious, but a recent British Chamber of Commerce survey concluded that over 80% of new businesses select a name that simply isn't memorable.

So if you're about to start a new business, how should you go about finding a memorable name?

Not surprisingly you need to spend more than a few minutes making your decision although spending too long can also adversely affect how memorable the final name is. Advice suggests reflecting on a chosen name over a 24 hour period. Any longer and, as the name becomes more familiar to you, it may begin to seem more memorable than it really is.

Take a look at our list of eight tips that follows to see whether you're on the right track to a memorable name for your business.

- 1 Where to start? A concrete or visual noun can help to make a name more memorable. 'Orange' and 'Crown' both work well. Using the name or initials of the owner 'JB & Co' or 'John Brown & Co' is less memorable.
- 2 Generally avoid made up words. They can work well for large businesses - witness Tesco and Asda - but don't help memorability for a smaller business.
- 3 Keep the name short!
- 4 Is it easy to say the name? If it trips off the tongue it will be easier to remember. Consider alliteration (Tim's Tyres) or rhyming (Jones Phones).
- 5 If you expect business from local customers using a location in the name can be very memorable.
- 6 'Stealing' can work if done with care. The similarity between 'Hamleys' and 'Gamleys' is a well known example.
- 7 Avoid unnecessary words in the name such as 'company', 'limited' or 'associates'.
- 8 Beware over elaborate graphics and logos. Remember the mnemonic 'KISS' - keep it simple stupid!

Not only do you need a memorable name but, reports the UK Patent Office, you need to ensure you have adequate protection for the name. The Patent Office is running a 'What is the Key' campaign to help raise awareness of the issue. Further information can be found at www.the-key.biz



Proposed dividends - the new rules

UK companies have always been able to relate dividends declared after the year end but before the signing of the accounts back to the previous year's profit and loss account. However this will no longer be an option under new rules effective for accounting periods beginning on or after 1 January 2005.

The change follows the introduction of Financial Reporting Standard (FRS) 21, Events after the Balance Sheet date and a corresponding change in company law. The two now require that dividends declared after the balance sheet date should not be reported as a liability in the previous year's accounts.

The practical effects of the change

- The directors of a company meet on 1 March 2006 to discuss the accounts to 31 December 2005. On that date they declare a dividend of £1 per share for 2005. As the company's year end had passed when the dividend was declared, the dividend cannot be included as a liability in the 2005 accounts. Instead the dividend will be disclosed in a note to these accounts.

In order for the dividend to be included as a liability in the 2005 accounts, the directors would have had to declare the dividend by 31 December 2005. This requires the relevant statutory procedures to be followed. A directors' meeting should be held and the declaration of the dividend should be minuted.

Tip

*It would be possible for the dividend of £1 per share to be **declared** in*

*December 2005 but not **paid** until March 2006 and the dividend still be included in the December 2005 accounts.*

- This change only concerns the timing of the inclusion of the dividend within the company's statutory accounts. It will have no effect upon when a dividend is actually paid to the shareholders. It will not have any tax consequences.
- If a company's only income is a dividend from a subsidiary, the timing of the declaration of the dividend could be an important issue.
- If a company needs to ensure that part of its profit is distributed each year, the timing of the declaration of the dividend could be a particularly important issue this year. If no interim dividend has been paid, a dividend must be declared by the directors by the year end in order for it to be included in the current year's accounts.
- Finally, following the change in the rules, a prior period adjustment will have to be considered in the accounts for proposed dividends of previous years.

Please get in touch if you would like to discuss the new proposed dividend rules and how they may affect your company in more detail.

Tax credit payments by employers

The Revenue is in the process of phasing out payment of Working Tax Credits through employers and by 31 March 2006 all such payments will be made by them direct.

New claimants are already being paid by the Revenue (since 7 November 2005). For existing claimants the move from employer to Revenue began on 7 November and will be completed by 31 March 2006.

Employers should by now have written to all affected employees (as instructed by the Revenue) to let them know of the changes being made. If you have not yet done so please talk to us urgently or phone the Revenue on 0845 300 3900.

The Revenue has also advised that stop notices should be received for all employees by 20 February 2006 at the latest. Furthermore no credits should be paid by employers to employees after the cut off date of 31 March 2006. If there is a problem with either of these points then the Revenue's advice is to phone 08457 143 143 or of course you could speak to us.

We have to keep our fingers crossed and hope that the changeover works smoothly. Given some of the recent problems with the tax credits system we have to trust that this is possible.



Capital allowances

As we go to print the recent threatened fuel shortages are still fresh in our minds and the threat of escalating prices a stark reality. This might serve to focus attention a little more closely on energy efficient cars. Since April 2002, a business purchasing a car with CO₂ emissions not exceeding 120 grams per kilometre (gm/km) has been able to claim a 100% capital allowance. In other words the full purchase price can be deducted from business profits in the year of purchase. Back in 2002 the allowance whilst attractive was not a reality for many since very few cars met the emissions criterion. However the list has now expanded and you may be pleasantly surprised to find the Audi A2 1.4 TDI on the list, as well as the Citroen C3, Renault Megane and VW Lupo. Try www.comcar.co.uk for a useful comprehensive list of qualifying vehicles.

A car costing say £14,000 would normally only qualify for a capital allowance in year one of £3,000 (being 25% of £12,000 since £14,000 constitutes an 'expensive' car).

However the Audi A2 1.4 TDI with emissions of 116gm/km would qualify for an allowance of the full cost of £14,000.

Company cars

Since April 2002, company cars have been taxed according to their list price and the CO₂ emissions of the car. A percentage of the list price (generally between 15% and 35%) is taxed dependant on the level of CO₂ emissions.

Diesel cars initially attracted a 3% supplement. However for 'clean' diesels (ie those meeting the Euro IV emissions standards) the 3% supplement was waived. The waiver is now being abolished from 6 April 2006 for all diesel cars registered on or after 1 January 2006. The message is clear - any new diesel company car registered by the end of 2005 will retain the benefit of the waiver even after 5 April 2006. On a £25,000 car the waiver is worth £750 a year in reduced taxable benefit.

Every little helps!

Charity news

Get On Board!

In a joint campaign with TimeBank, the Charity Commission is aiming to raise awareness of trusteeship, increase diversity across trustee boards and help increase the overall number of people volunteering to be charity trustees.

The new campaign 'Get On Board' not only highlights the altruistic benefits associated with being a trustee but also the opportunities for individuals to develop new skills and improve their career prospects.

If you would like to find out more visit www.getonboard.org.uk or follow the link from the Charity Commission's website at www.charity-commission.gov.uk

Click in touch online

The Charity Commission is aiming to make life easier for charities by improving its online services. Branded under the heading 'Click', the new secure services are available

to charities through the Charity Commission's website.

All charities with income over £250,000 should already be able to access 'Click' and it is intended that other charities will have access by the end of 2005.

The online services available include:

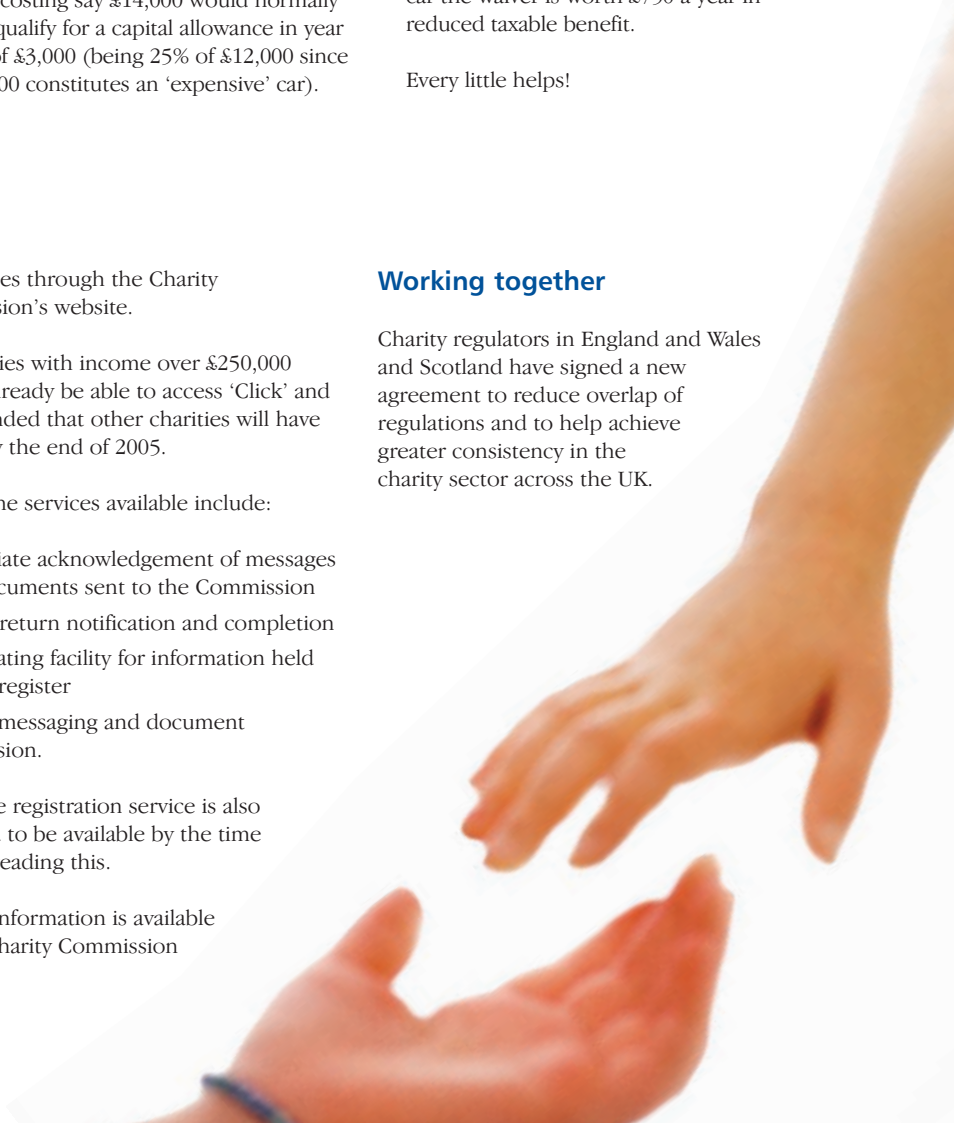
- immediate acknowledgement of messages and documents sent to the Commission
- annual return notification and completion
- an updating facility for information held on the register
- secure messaging and document submission.

An online registration service is also expected to be available by the time you are reading this.

Further information is available on the Charity Commission website.

Working together

Charity regulators in England and Wales and Scotland have signed a new agreement to reduce overlap of regulations and to help achieve greater consistency in the charity sector across the UK.



AIMing high

2005 sees the 10th anniversary of AIM, the London Stock Exchange's market for growing companies. Since its launch in 1995 more than 1,900 companies have been admitted and more than £17 billion of capital has been raised.

The requirements for admission to AIM are less onerous than the main market with no requirement for a three year trading record and no need to place 25% of the shares in public hands. Furthermore the AIM structure is designed to support the requirements of smaller, growing companies.

The decision to float your company on AIM will mark a major milestone in its development. It can be exciting but also stressful and time consuming. Neither is it a cheap exercise; initial costs are likely to run into hundreds of thousands of pounds. There are many potential advantages as well as disadvantages and these are summarised below.

Advantages

- Access to a large pool of capital especially given the keen interest on the part of institutional investors.
- Possibility of financing expansion by use of shares as an 'acquisition currency'.
- Creation of a market in the company's shares together with an objective market valuation.
- Provision of an exit route for existing investors.
- Ability to broaden the shareholder base.
- Enhancement of the profile and image of the company.
- Ability to motivate employees by creating a share scheme.
- Tax breaks for investors.

Disadvantages

- Closer public scrutiny of the company and its performance.
- Increased accountability to shareholders for the directors.
- Institutional shareholder pressure on dividends and short term profitability.
- Uncertainty of market conditions which may affect the share price.
- Need to comply with regulatory requirements.
- Possible loss of control.

To find out more see
www.londonstockexchange.com/aim

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Data protection

The Data Protection Act (DPA) aims to protect the rights of individuals regarding personal information stored about them. Personal information may be either factual information, such as a date of birth, or an opinion about an individual.

The Act also imposes a number of obligations on organisations that process personal information. In particular, compliance with the eight principles of good information handling which we have summarised below.

The eight principles of good information handling

Data must be:

- fairly and lawfully processed
- processed for limited purposes
- adequate, relevant and not excessive
- accurate and up-to-date
- not kept longer than necessary
- processed in accordance with the individual's rights
- stored securely
- not transferred outside of the European Economic area unless there is adequate protection of the information.

There are also a number of additional guidelines - particularly with regard to the recruitment and retention of staff, and staff monitoring in the workplace. These are set out in the Employment Practices Code, which can be accessed from the Commissioners web site. See www.ico.gov.uk/cms/DocumentUploads/ICO_EmpPracCode.pdf

The Information Commissioners Office (ICO) must be notified (annually) that personal data is being processed. The notification fee is currently £35 per annum. Notification should be made direct to the ICO in Wilmslow, Cheshire. You do not need to involve a third party to perform notification on your behalf.

You may not need to notify if for example you only process personal information for staff administration purposes such as payroll and personnel. If you are not sure whether your business should notify, then contact the Information Commissioner direct (either phone 01625 545740, or email: mail@ico.gsi.gov.uk or check the ICO website www.ico.gov.uk) and they can give advice. Your trade association or professional body may also publish guidelines regarding Data Protection.

Beware of bogus Data Protection organisations - there are a number of these operating and a full list of such organisations can be found on the ICO website (www.ico.gov.uk/eventual.aspx?id=4016). If a bogus organisation makes contact you are advised not to reply or make any payment to them but instead advise the local Trading Standards office.