

Finelines 45

The Newsletter of Lubbock Fine Summer 2008

Small Beer - £200 billion

By Neville Pereira, Financial Services Director
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Neville Pereira.

You may have assumed that Individual Savings Account (ISA) limits are small beer.

An ISA is a tax-privileged means of investing £7,200 (2008/2009) each year without incurring income or capital gains taxes on the proceeds. For higher rate taxpayers, there is an income tax incentive as there is no further income tax liability on dividends received within ISA investments, with interest from deposits and from corporate bonds attracting a 20% tax credit. However, stocks and shares ISA investment managers may not reclaim the 10% tax credit on dividend income which potentially acts to reduce the attractiveness of equity investments within ISAs to basic rate taxpayers.

The downside is that there is no tax relief on money put into ISAs upon entry (unlike contributions to a

pension scheme). ISA providers who invest in pooled equity funds also make charges which can reduce the attractiveness of these investments but by investing each year, substantial funds can be accumulated outweighing the costs.

An ISA is not to be regarded as an investment in itself but a tax-privileged wrapper.

Some 16 million adults in the UK - one in three of us - have accumulated nearly £200 billion in ISAs since their introduction in 1999. They allow investors to withdraw a tax-free income or make capital gains in the future and should form a part of all investors' portfolios.

With all the changes to the various different investment vehicles, it has been difficult for many people to understand what exactly they hold and what options are available. Help is now at hand by means of a recent clarification of the rules allowing individuals to consolidate their various holdings.

Historically, Tax Exempt Special Savings Accounts (TESSAs) and Personal Equity Plans (PEPs) were introduced by the Conservative government in 1989-90. These were tax-free savings plans which worked in a similar way to ISAs and allowed for more generous annual limits.

TESSAs were basically savings accounts, investing in cash deposits with no capital risk. A total deposit of £9,000 into a TESSA, spread over a five year period allowed the capital - but not the interest - to be rolled over into another TESSA at the end of the term. In this way the rolled over capital could continue to earn tax-free interest. PEPs were the equivalent of today's equity ISAs. The allowances were investments of up to £6,000 a year into a general PEP and up

to £3,000 a year into a single company PEP, which invested in the shares of one company. Therefore £9,000 a year could be invested in total in PEPs.

Since the introduction of ISAs in 1999, investors have not been able to add to their PEPs although they have been allowed to retain the tax status of PEPs and may switch managers without losing the tax-free income and capital gains facility.

The new Labour government allowed TESSA savers to continue their contributions until the account reached the end of its term. It also introduced the TESSA-only ISA (TOISA), so savers could roll the capital into an ISA without affecting their annual allowances. The last TESSAs matured on 5 April 2004.

Since their introduction, and up until 6 April 2008, ISA investors had been able to pay the full £7,000 annual allowance into a stocks and shares maxi ISA, or into two mini ISAs in which up to £3,000 could be invested in cash and the remaining £4,000 invested in stocks and shares.

From 6 April 2008 the mini and maxi elements were removed leaving just a single ISA wrapper where up to £7,200 can be invested including £3,600 in cash. Therefore there are now only two types of ISA: cash ISAs and stocks and shares ISAs. A cash ISA allows an individual to save up to £3,600 per tax year tax-free with one provider. The remainder of the £7,200 annual allowance may be invested in a stocks and shares ISA with the same or a different provider.

A stocks and shares ISA allows the taxpayer to invest up to £7,200 per tax year. If that taxpayer has a cash ISA in the same year, any funds saved in the cash ISA will reduce the allowable amount for investment into the stocks and shares ISA. It is possible to switch cash ISA savings into a stocks and shares

ISA, and transferring all or part of the previous years' cash ISA savings into a stocks and shares ISA does not affect your annual ISA allowance. Although you may transfer funds in a cash ISA into a stocks and shares ISA, you may NOT transfer investments in a stocks and shares ISA into a cash ISA.

Cash ISAs have proved far more popular than equity ISAs. Currently some £120bn is invested in cash ISAs, compared with £80bn invested in equity ISAs, even though the cash component has lower investment limits.

In addition, the cash element of TOISAs can now also be used to invest in stocks and shares. The merging of PEPs with ISAs has provided many investors with an ideal opportunity to review their holdings in these tax-privileged products as the two can now be brought under one umbrella. Considering the many rule changes applicable to both investments, now is a good time to be reviewing both types of holding and rebalancing the overall portfolio.

Historically PEPs were designed primarily for investing in shares with part of the annual allowance set aside for investment in a single share which carried with it a significant risk. During the many privatisations and demutualisations of the 1990s, together with a rising stock market, investors were obliged to invest in individual shares. ISAs replaced PEPs in 1999 which allowed smaller amounts to be invested and therefore a more balanced asset allocation with a greater spread of risk as different pooled funds were selected.

The above scenario has led to an imbalance between PEPs invested, to a large extent, in individual shares principally in the UK and pooled funds in ISAs where overseas exposure is permitted. Taking all of this into account, the change in rules allows individuals to blend and amalgamate their different portfolios into one.

Client Profile

The Young Persons' Concert Foundation

Historically, PEP rules allowed only a modest overseas element. Conversely, ISAs can invest in overseas stocks. For a taxpayer invested only in PEPs, the majority of their assets will be vested in a few shares and all of them invested in the UK. For those who have not reviewed their PEPs since inception, they may be in poor performing funds from investments made some 20 years ago. Before rushing to transfer PEPs, care should be taken to ensure that the charges and asset allocation is correct and appropriate, and of course, it is imperative that the tax-free nature of the investment is not lost.

Considering that PEPs can now be rolled over into ISAs and cash can also be transferred from TOISAs and cash ISAs themselves, this is an ideal time to rebalance portfolios and take into account current macro economic conditions to spread or reduce risk.

Many providers also now allow platforms for access to hundreds of funds provided by different investment managers. The freedom to switch between the funds and managers whilst retaining the ISA status is also now an option. This means that investors may take a more active role in the management of their portfolios and it allows them to take into account changing market conditions to spread investment risk.

Whilst the initial amounts invested into ISAs may be annually small, over a period of time they yield substantial tax free funds. It is imperative that the right advice is sought before taking the next step.

This article is for information only and professional advice should be taken in advance of any changes to your affairs. For further information and advice please contact Neville Periera nevilleperiera@lffs.co.uk or speak to your contact partner. ●

Lubbock Fine Financial Solutions LLP is an appointed representative of City Gate Money Managers Limited which is authorised and regulated by the Financial Services Authority.

The Young Persons' Concert Foundation ("YPCF") has been a Lubbock Fine client since before its inception. 'In fact, I attended the inaugural steering committee meeting prior to the charity even being set up', says Lubbock Fine partner Jeff Gitter, 'and it has been fantastic to be a part of its successful development.'

In what must be a unique music charity, their mission is to build young music audiences for the future. Promoting live music to young people in schools and in the community, the YPCF educational programme of live orchestral music aims to help young people appreciate and, most importantly, enjoy music.

YPCF was established as a registered charity in 1982 with a driving principle that no child should be deprived of access to live music. The brainchild and project of Geoff Love, the arranger and conductor, YPCF has taken live music to over 700,000 young people through its free workshops and concert programmes. Groups of young professional YPCF musicians visit schools throughout the country, demonstrating their instruments and developing children's skills in music, starting with percussion for younger children, leading onto string, woodwind, brass and percussion ensembles, which in turn leads on to full orchestral performances.



The Foundation is particularly proud of its long and successful history of working with schools for children with special needs. These include schools for blind and deaf children as well as for those with autistic spectrum disorders, all of whom benefit enormously from access to live music.

Jeff Gitter explains, 'As one of the earliest clients in our ever expanding not for profit sector, we have been involved in all aspects of the Foundation's activities. As the contact partner, I attend all board meetings and advise on all sorts of financial matters. Our work also includes dealing with the Charity Commission and advising the trustees on what can and can't be done.'

'Lubbock Fine has seen us through the best and the worst of times' adds vice-chairman, Ian Dean. 'The firm's reliable and consistent approach, together with their efforts to really understand what underpins us, pays enormous dividends. The partners and staff are always ready with advice and have helped us to understand that in order to be successful, we need to run ourselves as a business.'

Members of the board are experienced in financial management, music production, education and charity management. Luminary presidents have included the late Sir Harry Secombe, Geoff Love and Dame Vera Lynn. The Board of YPCF, currently chaired by Lady Martin, has made great strides in establishing goodwill with schools, teachers and sponsors. YPCF is now extremely well known and acknowledged in terms of both breadth and quality within the education sector.

'It's wonderful to see children interacting with the musicians', says Lady Martin, 'and marvellous to watch them actually touching the instruments and understanding how each one fits into the overall structure of an orchestra. I never fail to be amazed by the positive reaction that we get', she adds.

A recent project has been championed by legendary record producer Sir George Martin, who introduced YPCF to PPL, the music industry organisation which collects and distributes public performance royalties in the UK on behalf of over 3,500 record companies and 47,000 performers. Situated in central London, PPL has provided funding for a series of YPCF workshops in primary schools hidden away in Mayfair, Soho and Covent Garden.

Speaking at the launch of this collaboration, Sir George Martin said, 'the future of music is in the minds of young people – the same young people that YPCF musicians inspire through their workshops and concerts.'



Pictured at the PPLYPCF launch: Jeff Gitter (Lubbock Fine), Sally Needleman (YPCF coordinator), Sir George Martin, Lady Martin (YPCF chairman), Fran Nevrlka (PPL), Ian Dean (YPCF vice-chairman), Sara John (YPCF board member).

What does YPCF need from its funders? In reply, vice-chairman Ian Dean points out that, like many charities, current funders provide only project funding. 'While it is fantastic when we identify organisations that want to fund a single series of workshops in schools, the Foundation has to run itself on almost zero funding for staff. Consequently all activities are run for free by board members, with project management expertise from a freelance coordinator. We would also like to develop new repertoire for use in workshops and concerts, but it is very hard to attract funding for new developments.'

Jeff Gitter explains that there are a number of ways to make donations to registered charities, which differ between companies and individuals. 'Companies can make donations as a deduction from their profit in order to reduce the corporation tax liability. Individuals can use the Gift Aid system which enables the charity to claim rebates from HMRC. In addition, if the donor is a higher rate taxpayer, they can also obtain further tax relief from their gift.'

YPCF has appeared at outdoor venues including the Henley Festival, Trent Park and Radley College, and has also performed at major UK concert venues, from the Royal Albert Hall, London to Symphony Hall, Birmingham, and at the Royal Naval College, Greenwich (before HRH The Duke of York). World famous artists featuring with YPCF have included Sir Paul McCartney, Mark Knopfler, Sir Elton John, Sarah Walker CBE, Sting, Phil Collins, Eric Clapton, Henry Kelly as well as the Huddersfield Choral Society.

Lady Martin says that, 'the work we do through workshops and concerts in schools has an immense reach into the lives of children from every background imaginable. There is no experience like the emotion and sound of an orchestra and YPCF enables that to happen in very ordinary school halls everywhere.'

YPCF is very keen to hear from people with an interest in music, education and/or fundraising who would like to become involved and, perhaps, join the board. If you would like further information on any aspect of their work, please contact special projects coordinator, Sally Needleman on: 01923 859 388. Visit website: www.ypcf.co.uk ●



VAT News

Option to tax - revised rules

Transactions involving land and buildings are normally exempt from VAT but around 20 years ago an election to waive this exemption was introduced. It is commonly described as the 'option to tax'.

The rules concerning the option to tax have been thoroughly revised effective from 1 June 2008. These new rules will affect all of those who deal with non-residential buildings, such as:

- Buyers and sellers;
- Landlords and tenants; and
- Developers.

The main changes are:

- Businesses now have up to 6 months (an increase from 3 months) in which to revoke an option to tax, provided certain conditions are met.
- A revocation of the option to tax will be possible after it has been in place for a particular building for 20 years.
- Where a building is to be converted into residential use, or will be used for a relevant residential purpose, such as a nursing home, the option to tax does not apply. However, the purchaser who intends to use the building as a dwelling or for another relevant residential purpose, must now supply the purchaser with a certificate that states this intention. This must be supplied at the time the price of the building is legally agreed. (There are additional rules where an intermediary is involved in the purchase chain.)
- A new real estate election (REE) applies the option to tax to all properties that a business acquires after the REE has been made. This will help businesses who have large property portfolios, such as pub chains.

There are a number of other changes regarding the scope of the option to tax, the appeal process and circumstances where HMRC's permission is required to make the election.

If you are about to undertake a commercial property transaction, even as part of the sale or purchase of a whole business, do speak to your contact partner to check that all the VAT aspects have been fully considered. Mistakes concerning VAT on property can be very expensive. ●

VAT on agency staff

Charities, amongst others, can expect to be hit hard by a change in the VAT rules on agency staff that is due to come into effect from 1 April 2009. The change will particularly affect organisations that are unable to reclaim some or all of the VAT they incur. These include charities, nurseries, care homes and other exempt entities with a social welfare basis.

Currently, under an HMRC concession, agencies only have to charge VAT on the margin they make on supplying workers. From 1 April 2009, agencies will have to charge VAT on the full cost of the staff provided. This will increase the cost of using agency staff by 17.5%.

Many nursing homes and hospices rely on nursing and care workers supplied through agencies due to the difficulty of recruiting permanent staff. If these organisations are registered charities or other exempt entities, and many are, they will not be able to reclaim the extra VAT cost on the agency staff wages. The charities affected will be forced to put up their fees, or try to reorganise the way they recruit staff.

If you have relatives in care homes run by charities, you may need to budget for a higher than inflation increase in annual fees.

If you have any questions about VAT, please speak to your contact partner. ●



Late night taxis

HMRC has introduced stringent new guidelines to define situations where an employee's late night taxi trip home will be taxable, if the cost is met by the employer.

It had historically been assumed by employers that taking reasonable steps to ensure that claims for a tax exempt taxi journey would be based upon 'late night working conditions' where the journeys were fewer than 60 per employee per annum. According to the new guidelines, the late night working conditions are only met in limited circumstances and the figure of 60 merely puts a ceiling on the number of journeys that qualify even where all the late working conditions are satisfied. In essence, the new interpretation means that paid taxi journeys home for employees who volunteer to work late or who are regularly asked to work late will be treated as a benefit in kind. This is likely to cause headaches for many businesses, with legal, financial services and media companies being the most affected. It is also far from clear as to when conditions are and are not being met.

The late night working conditions are defined as:

- The journey is made on an occasion when the employee is required to work later than usual and until at least 9pm
- Such occasions occur irregularly
- By the time the employee ceases to work either (a) public transport has ceased to be available for the journey or (b) it would not be reasonable to expect the employee to use it and (c) the transport is by taxi or similar private road transport.



However, on the subject of public transport having ceased or it is not reasonable to expect the employee to use it, the employer needs to be aware that all forms of public transport available for the employee's journey home must have ceased although HMRC accepts that circumstances may differ where an individual lives outside the city. On the other hand, it has provided guidance that the condition is not met if an employer provides a taxi solely on the grounds that an employee:

- Has to travel in the dark
- Is tired
- Has a heavy bag with him or her
- Travels via an unmanned station
- The frequency of public transport is reduced

HMRC goes on to explain what it considers to be 'usual' or not (i.e. pub or restaurant staff who usually work past 9pm would not qualify whereas a secretary usually finishing work at 5pm who works past 9pm would satisfy the conditions). Further examples are provided in HMRC's guidance but these do not clarify the interpretation of the exemptions at the margins. What is clear however is that the guidance is now far more rigid than previously and it clarifies HMRC's view on how to measure irregularity. This puts more of an administrative burden on employers who will be forced to make subjective judgments without any certainty that they've got it right.

So, as an employer, what should you do?

Interpreting the guidance wrongly could result in employers having to pay large amounts of income tax, NIC, penalties and interest to HMRC. You will need to carefully consider your late night working conditions and keep records. You would also be well advised to implement and communicate policies with regard to employees' use of late night taxis. Guidance by you will ensure appropriate use by employees of this benefit. Your systems will need to be auditable by HMRC and you will also need to demonstrate that the facts and circumstances of each journey by each individual have been considered.

If you are concerned about any aspect of HMRC's new guidance, please speak to your contact partner. ●

Draconian HMRC inspection powers now diluted

There are changes afoot to the powers of HMRC in dealing with direct tax issues.

Draft legislation published in the Finance Bill on 27 March 2008 was all set to allow HMRC a combination of an inspection power (the right to access and inspect business premises, business assets and business documents) and an information power (the power to require the production of information and documents).

As a result of a consultative process, these powers have been debated and amended in the Finance Bill to effectively relax the legislation which will now be subject to limits and conditions, and introduce at least seven days' notice. The amendments serve to safeguard taxpayers' rights that had previously been overlooked, ensuring that the new powers are used in limited and appropriate circumstances.

In the original draft, the rules would have allowed tax inspectors to enter and inspect any business premises, without notice, to enable any person's tax position to be checked, even through third parties.

The inspection powers are now limited so that tax inspectors may not enter or inspect any part of the premises that is used solely as a dwelling, so the taxman cannot just demand entry to someone's home.

There is now to be notice time of seven days so that businesses will be better prepared for visits. Small to medium sized businesses will benefit most as many lack the resources to comply swiftly with an HMRC inspection. However, the new rules allow for a shorter notice period (or no notice at all) to apply where this is agreed with the occupier or it is approved by an authorised officer of HMRC. This is unchanged from the original draft legislation.

So, the finalised powers are still fairly stringent in areas but there is now guidance and a Code of Practice to ensure HMRC uses its powers proportionately. Will this satisfy HMRC or might it try to obtain the original sweeping powers it wanted at a later date?

Watch this space. ●



Meeting HRH The Princess Royal



Lubbock Fine partner, Pankaj Shah meets HRH The Princess Royal.

Lubbock Fine is proud to be associated with Sense International, a charity working exclusively to meet the needs of deafblind people and their families in developing countries. At the invitation of Sunil Sheth, a trustee of Sense International and a long standing contact of the firm, Lubbock Fine partner Pankaj Shah attended a reception at St James's Palace on 10 March 2008 in the presence of HRH The Princess Royal.

Sense is a smaller charity and the reception was limited to a small number of guests. This didn't stop The Princess Royal making clear her enthusiasm and support for the work of the organisation.

A young, dynamic charity working exclusively to meet the needs of deafblind people and their families in developing countries, Sense International currently operates in East Africa, Latin America, India and

Romania working in partnership with local and national government and other grassroots level non-government organisations to meet the needs of the communities.

The challenges faced by a person who is both deaf and blind are enormous, but as The Princess Royal emphasised, with the right support it is perfectly possible for a deafblind person to learn, to be educated, to develop friendships, to get a job and to lead a quality life.

"The Princess Royal was charming," said Pankaj Shah. "As well as being amusing, elegant and not averse to cracking a joke she is quite obviously extremely supportive of this very worthwhile cause. It was a delight to meet her."

Further details of Sense International can be found on their website: www.senseinternational.org.uk. ●

We're always delighted to feature good news about our clients. If you have something special that you'd like to shout about, please email marketing@lubbockfine.co.uk and we'll try to get your story into our next issue.

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