

the bottom line

Welcome to the Summer edition of "the bottom line" our taxation and accountancy information newsletter. This edition focuses on current inheritance tax issues and employment matters.

Inheritance Tax Moving Up Brown's Agenda

Buried deep amongst the press releases with the Chancellor's last budget hid an innocuous sounding Budget Notice entitled, 'Aligning the inheritance tax treatment of trusts.' Despite the bland title, this single budget announcement has generated more column inches and debate in the professional community than almost the remainder of the budget combined.

The reason for this unprecedented coverage was the potentially far reaching consequences that the originally proposed legislation could have had. The Society of Trust and Estate Practitioners, one of the UK's leading professional bodies dealing with inheritance tax estimated that the number of individuals affected could run into the millions, whilst the insurance company Skandia put the figure at 4.5million. So what is all the fuss about?

In simple terms, the proposals create an inheritance tax charge on the establishment of many trusts, which was not the case prior to the budget, and provide for further inheritance tax charges every ten years on both

new trusts and some existing trusts. More significantly, it is not only trusts established during lifetime that are affected by these changes. Common trusts, such as those established under wills', and trusts already in existence are also potentially affected by the new regime.

The original measures even restricted the availability of the spouse exemption where gifts were made to trusts for the benefit of spouses unless stringent conditions were met.

The Treasury has now relented on some of the proposals, including the availability of the inheritance tax exemption for spouses and civil partnerships, but the episode raises eyebrows for a number of reasons.

Firstly, it shows that the Chancellor now has inheritance tax firmly on his agenda. In conjunction with the 'Pre-Owned Assets Tax' which will yield its first revenue for the tax year that has just ended, these new measures show that the government is increasingly aware of just how lucrative inheritance tax could be, especially following the

much publicised increase in house prices.

Secondly, as with other measures we have seen from the current government, many of the proposals are likely to be implemented without adequate consultation. Historically this has led to complex and often faulty legislation which creates unintended consequences for many innocent arrangements.

So where do we go from here? At present, the new rules are still being debated in Parliament. There continues to be strong lobbying against what are considered to be the most harmful changes but so far few concessions have been made. We expect the vast majority of the proposals to be implemented as they currently stand marking a significant departure from existing principals.

Whilst the majority of the proposals have received wholly



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negative press the new regime will undoubtedly offer new opportunities, not least of all in terms of capital gains tax planning. Greenback Alan will continue to monitor developments and will keep clients informed of developments through 'The Bottom Line'.

Finally, when the Finance Bill does become law (which is expected towards the end of July) it will be essential to review your own inheritance tax planning arrangements, and specifically the provisions of your wills and any existing trusts to ensure that you maximise any inheritance tax mitigation opportunities and do not fall foul of the new regime.

Employment Matters Working Time Exemption

There has been a revocation of regulation 20(2) of the Working Time Regulations 1998 which previously allowed employers, when applying the 48 hour working week limit, to ignore certain time worked by those whose working hours are partly unmeasured or partly determined by the worker themselves. The biggest impact of this change will almost certainly be on managerial or professional workers who have core contractual hours and agreed that any hours worked over and above this were at their own discretion. This change is implemented from 6 April 2006.

Smoking at Work

From Summer 2007 in England, smoking in all 'substantially enclosed' public spaces will be

banned which includes workplaces and in certain circumstances, company vehicles. Management will have to ensure that all reasonable precautions have been taken to prevent smoking. Breach of the ban can lead to fines of £200 for failure to display 'No Smoking' signs and financial penalties for employers could be as high as £2,500. Regulations are already in force in Scotland.

'Holidays' consultation

The DTI have launched a consultation document which proposes to prevent employers from including bank holidays in workers' statutory leave entitlement. This will effectively result in employees receiving an extra eight days paid holiday by 2009 up to 28 days legal minimum.

NEWS IN BRIEF

Small Firm FSA Audits

The Financial Services Authority is proposing to remove the statutory audit requirement for the small firms it regulates. This will predominantly affect smaller financial advisors, mortgage brokers and insurance intermediates. It is part of a move to reduce regulations where costs outweigh benefits. We will keep you informed when the requirement is dropped.

The Carter Review

Gordon Brown announced in his budget speech in March a surprise plan to bring forward the self assessment deadline. At present, self-assessment returns are prepared to 5 April and need to be filed by 31 January in

the year following. The proposals are to bring the filing deadline forward to 30 September for paper returns and to 30 November for returns submitted on line. The leading accountancy and tax professional bodies are protesting strongly as they do not believe that the acceleration of tax return filing dates is in the public interest. At present these talks are ongoing.

Why 6 April? – An interesting snippet

Why do we have a tax year end starting on 6 April? In the sixteenth century it was calculated that 9 days had been lost since the introduction of the Julian calendar in 46BC and so most of Europe moved over to the new and more accurate Gregorian calendar

in 1582. However, we continued with the old calendar until September 1752 by which time the error had gone up to 11 days.

These missing days were removed entirely from the calendar and in the year of the change, 2 September 1752 was followed by 14 September. The government was concerned about the loss of tax revenues in that tax year and so decided to add the missing days on at the end of the tax year. The tax year at the time started on 25 March which had been the case since the Middle Ages. By adding on the 11 extra days the start of the tax year was taken to 6 April. The things the Government does to increase revenue!!

Contacts:

For further information about the issues raised in this newsletter or if you would like to find out about the range of services that we can offer, please contact Stephen Dabby, Morisha Christy, Tony Sian or Nick Nicolaou.

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