The Greenback Alan LLP Newsletter

WINTER 2007/08

the bottom line

Welcome to the Winter edition of the bottom line, our accounting and taxation newsletter. This edition deals with the imminent changes to capital allowances, joint ownership of property and News in Brief.

Major Changes to Capital Allowances

In his last Budget speech, Gordon Brown announced certain changes to capital allowances for plant and machinery and to Industrial Buildings Allowances and Agricultural Buildings Allowances.

Summary of the changes to capital allowances for plant and machinery

In the short term on a positive note, the 50% first year allowance (FYA) for small businesses and 40% FYA for medium sized businesses continue to be available for expenditure incurred on plant and machinery before 6 April 2008 for the self employed or 1 April 2008 for companies. However, major changes are proposed for 2008/09 and these are outlined below:

- the rate of writing down allowance (WDA) for plant and machinery will be reduced from 25% to 20%;
- the rate of WDA on long-life asset expenditure will increase from 6% to 10%;
- the rate of WDA on certain fixtures integral to a building, such as central heating, lighting and air conditioning, will be set at 10%; and
- a new Annual Investment Allowance (AIA) will be introduced for the first £50,000 of expenditure on plant and machinery.

Obviously, a reduction in the WDA for plant and machinery and, in particular, the changes to the WDA for certain fixtures integral to a building, is generally bad news for businesses.

What is the AIA?

The AIA will apply to expenditure incurred on plant and machinery on or after 6 April 2008 for the self employed or 1 April 2008 for companies. It will not be available for expenditure on cars but will be available for most types of plant and machinery, including integral fixtures.

The annual allowance will be £50,000 per 12 month period and all qualifying expenditure up to that level will qualify for a 100% allowance. Anything over that will fall into the normal capital allowance pools at either 10% or 20%.

However, as the AIA only applies to expenditure incurred from next April onwards, an apportionment of the £50,000 limit may be required if the accounts year straddles April 2008. For example, a company with a 31 December 2008 year end will only be entitled to an AIA of £37,500 (9/12 x £50,000).

Are you a winner or a loser?

This depends on how much you spend and what you spend it on. For example, if you spend £10,000 per annum on plant, then you will be a winner. Currently, a small business would obtain a 50% FYA (£5,000) but then have to write the balance off at 25% per annum in future years. With the AIA, all of the £10,000 would be fully written off in year one.

However, if you spend £200,000 on air conditioning, you will be a loser. Currently, a medium sized business would receive a 40% FYA (£80,000) and then a 25% WDA per annum in future years. Under the new rules, the AIA will only amount to £50,000, with a 10% WDA on the balance of £150,000. This would give total capital allowances for the year of £65,000, being £50,000 AIA plus £15,000 WDA.

What these simple examples illustrate are two things in particular:

- the timing of the expenditure either pre or post April 2008 may have a significant effect on taxable business profits; and
- together we need to ensure that all your capital allowance claims are up to date by April 2008 and that all possible items are included in what will become the 20% 'pool' of plant and machinery.

The rules are complex but we would be delighted to help you plan the most effective way of coping with the changes. Please contact us for further advice, particularly in the next few months when making decisions on acquisitions of plant and machinery.

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Summary of the changes to Industrial Buildings Allowances (IBAs) and Agricultural Buildings Allowances (ABAs)

There are two major changes to both IBAs and ABAs:

- from 2008/09 WDAs on industrial buildings (including hotels) and agricultural buildings will be gradually phased out, with final withdrawal of both regimes by April 2011; and
- to prepare the way for final abolition, most balancing adjustments (which, for example, can arise on the sale of an IBA or ABA) are generally withdrawn from 21 March 2007.

Whilst some businesses may benefit from the second change if they sell an IBA or ABA in the near future (there will be no claw back of allowances previously given), the first change is bad for all businesses concerned.

The rates of WDA are to be reduced over the period from April 2008 to April 2011 when the allowances will disappear. The value of the WDAs (either 4% of original cost or the recalculated entitlement following a purchase/sale) will be reduced as follows:

- 75% of entitlement in 2008/09;
- 50% of entitlement in 2009/10; and
- 25% of entitlement in 2010/11.

So what should you do now?

Please get in touch with us as soon as possible to discuss how we can maximise any allowances for your business.

Joint Purchasers of Property

Where joint purchasers are buying a property, consideration should be given as to the basis on which they will hold the property. This will affect what happens when the property is sold, if one party no longer lives at the property or if either party dies.
Joint purchasers may hold a property as 'beneficial joint tenants' where both legally own the property and neither owns a specific share in the net sale proceeds. It is assumed that these are shared equally. One party's interest cannot be left in their will to a third party and on death the property automatically vests in the survivor regardless of what the will states. This is the most common form of ownership by married couples although some inheritance tax saving wills require property to be held as 'tenants in common'.

Ownership as 'tenants in common' means that the parties own the property jointly but for example, when the property is sold, each owns a specific share of the net sale proceeds as agreed between them. The parties can leave their interest to a third party in their will. The third party can apply to the Court for an Order for sale of the property which can require the other party to sell up and find alternative accommodation. However, the will can be worded such that the survivor can continue to reside at the property for as long as he wishes. Ownership as tenants in common is often used if a property is purchased by unrelated parties for investment or business purposes, by married couples in conjunction with professionally drawn wills to save inheritance tax, if one or both partners have children from a previous relationship that they wish to benefit in the event of their death or where one party contributes a greater share of the purchase price and it is agreed that should the ownership end, both parties will benefit in proportion to their original contribution.

If you are purchasing a property with another party you should ensure that you own the property in the most beneficial way.

STOP PRESS

Recent Government announcements in relation to changes in Capital Gains Tax and introduction of entrepreneurs relief, income shifting legislation and changes to taxation of non domiciles will be included in a Special Edition Newsletter in due course.

NEWS IN BRIEF

Penalties For Illegal Workers

With effect from 29 February 2008 there will be increased penalties for employers who hire illegal workers. Employers who knowingly hire illegal workers will face an unlimited fine and prison sentence. Employers who negligently hire illegal workers will face a maximum fine of £10,000 for each such worker. The amount of the fine will depend on factors such as the thoroughness of the identification checks carried out and whether the employer has received any penalties or warnings in the previous three years.

New Advisory Fuel Rates

From 1 January 2008 the rates at which employers can reimburse employees for business travel in their company cars, or require employees to repay the cost of fuel for private travel in company cars, without tax or NIC implications, have increased to the following:

Engine Size	Petrol	Diesel	LPG
1400cc or less	11p	11p	7p
1401cc to 2000cc	13p	11p	8p
Over 2000cc	19p	14p	11p

New Financial Thresholds

For accounting periods beginning on or after 6 April 2008, new thresholds have been introduced to define small and medium sized companies. The new thresholds should also be used when considering the previous period. (Current thresholds are shown in brackets).

= Small company

Number Of Employees	50 (50)
Turnover (Not More Than)	£6.5m (£5.6m)
Balance Sheet Total (Not More Than)	£3.26m (£2.8m)

= Medium- sized company

Number Of Employees	50 (50)
Turnover (Not More Than)	£6.5m (£5.6m)
Balance Sheet Total (Not More Than)	£3.26m (£2.8m)

The same thresholds apply to groups where figures net of intercompany transactions are used. The audit thresholds are to be increased in line with the above.

Companies Act 2006

The Government announced in November 2007 that the commencement date for most of the provisions of the Companies Act 2006 due to be commenced on 1 October 2008 would be put back to 1 October 2009 to give Companies House sufficient time to amend its systems.

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, Nick Nicolaou or Alex Green.

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