

# proactive

Overseas Accounts  
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SUMMER 2005

## Forthcoming Marriage

Congratulations are due to staff members Sharon Lillycrap and Roger Lake, who have announced their forthcoming wedding, which will take place in September.

## Obituary

The Inland Revenue and H M Customs and Excise officially ceased to exist on 18th April 2005.

Before you break open the champagne though, we should explain that they did so because they merged to become a single new organisation, H M Revenue and Customs (HMRC).

## Contact Details

We moved to our new offices over six months ago and although mail sent to the old address and telephone calls to the old number are still being redirected, this will shortly cease. Would you please note the new Taunton telephone and fax numbers, which should be used from now on:

Telephone: **01823 624450**  
Fax: **01823 444533**



## In the News

Although we are regularly cited in tax and accountancy journals, you may recently have seen us quoted in two national newspapers.

The Times of May 5th carried a full page feature in its business section on the PAYE on line system and quoted tax partner Paul Aplin's views extensively. The feature also included an interview with Hannah Gould, the payroll administrator at A C Mole & Sons clients BRAZZ plc and the Castle Hotel.

Paul was again quoted, this time in his capacity as Deputy Chairman of the Tax Faculty - about which you can read more on page 2 - in the Daily Telegraph business section on May 10th in its "expert views" column and in an editorial about on-line filing in Taxation magazine.

Since filing the UK's first electronic tax return in 1997 we have continued to take a leading role in the development of electronic and Internet filing and have participated actively in the development of HMRC's PAYE on-line system. While the system itself is impressive, we were disappointed by its performance in the run up to the filing deadline in May.

Internet based systems have huge potential for reducing paperwork and speeding up routine processes. Individuals and businesses will, however, only use them to full effect if they are seen to be reliable.



# Tax Faculty

On 12th April, tax partner Paul Aplin became Deputy Chairman of the Tax Faculty. Here, he answers some questions about the Faculty and the impact his role has on his client work.

## What is the Tax Faculty?

The Institute of Chartered Accountants in England & Wales (ICAEW) has around 128,000 members, 11,000 of whom have a special interest in tax. The Faculty acts as a focus for the 11,000 and as the “voice” of the whole membership on tax issues. We scrutinise the Budget, Finance Bill and other legislation and send our views to Government, the Treasury and opposition parties. We also respond to Government tax consultations – over 60 last year – and foster debate on tax issues.

The Faculty can call on a wealth of technical knowledge from its membership which includes most of the country’s leading tax experts. We maintain close high level links with HMRC, Treasury and other tax bodies.

Much of what I do for the Faculty is dealt with from my desk at Stafford House - there is a constant stream of emails about consultations, responses and technical issues - but inevitably I have to travel to London for meetings. I generally travel up on the 6.27 train to Paddington and return either late the same evening or sometimes on the sleeper, arriving back in Taunton at 3.30 am the next day.

## Does it affect my normal client work?

I try not to let it, by having my laptop and mobile phone with me so that, even on the train or between meetings, I can link to the office computer network and stay in touch. My involvement also helps me to keep my technical knowledge bang up to date, which has to be good for my day to day work. My clients are my first priority.

## Is it worth it?

Yes! The Institute is sometimes perceived as being dominated by the Big 4 and by London based firms. I think it is important that someone represents not only the rest of the profession but also the interests of small and medium sized businesses. This helps to ensure that the practical problems our clients face are factored into in the representations the Faculty makes.

For example we have recently made several presentations to Treasury tax policy advisers on the impact of tax measures on

small and growing businesses. Expressing opinions in consultation documents is one thing; sitting in the Treasury building and describing the actual effect of legislation on real (but of course unnamed) businesses is quite another. Life is short and if you want to get things changed you have to talk face to face to the people who can change them.

## Do they listen to us?

Yes, but not of course as often as we would like. Back in January 2004 we gave a presentation to the DTI, and to Revenue and Treasury policy advisers on small business issues. We debated the level at which to pitch it and decided that as the Paymaster General didn’t seem to know what “incorporation” meant we would begin by describing different business structures and their tax consequences. Incredibly basic stuff, but we couldn’t resist smiling when the December 2004 Pre Budget Report included a document half of which described... the tax consequences of different business structures!

It is vital that someone speaks up for the interests of all taxpayers and businesses and the Tax Faculty along with the Chartered Institute of Taxation (of which I am also a member) fulfils that function. I feel hugely privileged to have been asked to take on the Deputy Chairmanship and to be able to play a part.

And do I still find some time to relax? I think the picture answers that one.



The best part of the week: relaxing with Linford and a pint of Exmoor

# Overseas Accounts



It may look inviting, but is it really a tax haven?

Many people think that interest on offshore accounts is not taxable in the UK. UK residents (unless they are not domiciled here) are in fact taxable on interest arising anywhere in the world, irrespective of whether it is sent here.

The European Savings Directive which came into force on 1 July means that details of interest paid will now be given to the UK tax authorities or – in the case some territories – tax will be withheld at rates increasing over time from 15% to 35%. The Directive applies to EU countries and dependencies, including the Channel Islands, Isle of Man and British Virgin Islands. Switzerland has also signed up to the measures. Anyone who has money offshore and has not declared it in the mistaken belief that it is not taxable should seek advice as soon as possible.

## Pension Payments

Radical changes are being made to the way pension contributions are treated for tax next year. Personal pension payments made after 31 January 2006 will not be eligible for backdating and if you regularly backdate premiums, you may face problems.

Backdating payments made before 31 January 2006 to 2004/5, may leave no relievable payments in the current tax year (as none can be brought back to it) and the tax bill for 2005/6 will rise. Payments made in the 2006/7 year will gain relief in that year. The only solution to the 2005/6 problem would appear to be to pay higher than normal pension contributions.

We will be highlighting a number of important pension planning opportunities in the next edition of Proactive

## Civil Partnerships

When the Civil Partnership Act becomes law in December it will confer a number of tax privileges currently available to married couples on those who register their relationship as a civil partnership. This will include inheritance tax and capital gains tax reliefs for transfers between partners, but there are potential tax traps as well.

Civil partners will have only one principal private residence exemption between them rather than one each at present and they will be “associated” for a number of tax purposes, including the small companies rate and the Enterprise Investment Scheme. Tax advice should therefore be sought by anyone contemplating a civil partnership.

## Husband and Wife Businesses

**A recent tax case has serious implications for many husband and wife businesses.**

Mr and Mrs Jones each held one share in Arctic Systems Limited, which supplied Mr Jones services as an IT specialist. In 1999, the company’s income from the supply of Mr Jones services was around £90,000. It paid Mrs Jones a salary of £3,600 for administrative duties and Mr Jones a salary of just under £7,000. The balance of around £60,000 was then paid out to Mr and Mrs Jones as dividends.

The Revenue contended that by drawing a low salary Mr Jones had left a significant amount to be diverted by way of the dividend to Mrs Jones, saving him higher rate tax. The dividend, they said should be taxed on Mr Jones rather than his wife who actually received it. Their view has been vigorously opposed by the tax profession (notably by the Tax Faculty and The CIOT) but now has the endorsement of the High Court. The decision is being appealed but all husband and wife businesses should review their positions.

The degree of exposure will vary according to individual circumstances but some general points can be made. The most vulnerable situations will be those where one spouse generates all or substantially all of the income but draws a low salary, enabling a dividend to be paid to the non earning spouse and avoiding higher rate tax. Companies with significant assets and partnerships where the individual partners are exposed to significant financial risk are less likely to be attacked as are those where both spouses had previously been active in the business. Careful consideration needs to be given to the level at which salaries, dividends and profit shares are set.

# The London Press Club

*London Press Club* Three years ago we were appointed accountants and tax advisers of the London Press Club, which can trace its origins back to 1882. Many distinguished figures have been involved with the Club and over the years it has been situated in many parts of London, all associated with the press.

It moved into its current premises in the St Bride Institute next to the historic journalists' church of St Bride's in the spring of 1999. The Club currently has about 500 British and overseas individual members, as well as a dozen corporate members.

The famous annual London Press Club Awards Luncheon features awards for Scoop of the Year, Business Journalist of the Year, Broadcasting Journalist of the Year, Consumer Affairs Journalist of the Year and Daily and Sunday Newspaper of the Year. Winners have included Martin Bell, Sue MacGregor, Andrew Marr, Matthew Parris, and Keith Waterhouse. Guests of honour at these awards have included Prime Minister Tony Blair, who in 2001 chose the occasion to announce to the world that he had begun to wear reading glasses, thereby giving the Club itself a worldwide scoop.

Individual members come from a wide spectrum of the media including national and regional journalists, editors, broadcasters, cartoonists and photographers. We were delighted to be asked to accept this prestigious appointment.

## Frank Gillard

We have acted for many clients associated with journalism and the media but perhaps none was better known than legendary broadcaster Frank Gillard, a client for many years until his death in 1998.



Frank Gillard reporting the end of the War in Europe, Kassell, 1945

Born in Tiverton, he worked as a school master before becoming a freelance broadcaster. He joined the BBC in 1941 and became a distinguished war correspondent. His first hand report of the disastrous Dieppe raid in 1942, when more than 3,000 Canadian troops were killed, wounded or captured was heavily censored, to his life-long disgust. He broadcast reports from the D Day landings in June 1944 and later broke the news of the link-up between US and Soviet forces at the River Elbe in 1945. He believed in reporting from the front line. In his own words:

"I felt that I was only safe in reporting what I could see with my own eyes. I really wanted to be certain that I was telling people about something that I knew about from first hand experience. I trained with the troops and knew what it was like to have a shell exploding right beside us, and men dropping dead at my feet. This didn't happen often but if you are a war correspondent, you naturally go to the area where action is taking place. You are bound to be exposed continuously to these dangers. You accept that."

He became a good friend of Montgomery and towards the end of the war in Europe they had a wager on when it would end: Frank said June, Montgomery July. Although Frank's guess turned out to be the more accurate, he decided to frame the Field Marshall's cheque rather than cashing it and it remained in his study until his death. Earlier in the war he had given Monty a pet dog, which Monty named Hitler – he named another one Rommel – but the dog died on the last day of the war in Europe when, ironically, it was run over by a tank.

After the war he became the managing director of BBC Radio, overseeing the creation of Radio 1, 2, 3 and 4 and was the driving force behind the creation of BBC local radio. He was made an OBE in 1946 and a CBE in 1961.

His name lives on in the annual Frank Gillard awards, which recognise the very best in BBC local radio.