

proactive

A Point of Interest
Read more inside

SPRING 2005

Chartered Tax Advisers

You may have noticed that our letterhead has changed to accommodate more than just a new address. The firm's logo now incorporates not only "Chartered Accountants" but also "Chartered Tax Advisers". Four partners and one associate have both qualifications and we are one of only a few firms in the area to be authorised by the Chartered Institute of Taxation to use the designation.

New Associate

To coincide with the move, Amanda Gunter was made an associate. Amanda – who is a Chartered Accountant and Chartered Tax Adviser – has been a member of our award winning tax team for several years. Amanda handles a wide range of personal and corporate tax work and her promotion recognises the key role she has played in the tax department's recent rapid growth.



Winners

Best Tax Team in a Small Firm

We've Moved

An era ended at 4pm on Friday 3 December 2004, when we moved out of our old office on Billetfield in the centre of Taunton. It had been the firm's home for ninety years.

Over the weekend thousands of files were moved, together with our furniture and equipment to our new offices at Blackbrook Park Avenue. The telephone and computer systems were dismantled, moved, reassembled and tested. Hundreds of crates were packed, moved and unpacked. Late on Sunday night, after months of careful planning, the task was complete and at 9 am on Monday 6 December a new era began when the building was opened by Taunton's MP, Adrian Flook.

The old building had served us well but had become too small and the lack of parking and facilities made relocation inevitable. With over 6000 square feet of space, working conditions have been transformed. Teams can now work together rather than being dispersed around the office and we have double the number of meeting rooms.

Our largest meeting room now has a plasma screen for PowerPoint presentations and videoconferencing and a hearing loop is available for clients with hearing difficulties.

Not everything has changed however; the new building has been named, as a permanent reminder of the old, Stafford House.



Adrian Flook with Ian Pinder and the Taunton team outside the new office

A Point of Interest

The Inland Revenue's onslaught against tax avoidance has been so widely publicised that it would be surprising to find them suggesting inventive ways to reduce tax bills. That, however, is precisely what they have now done. Anyone who owns – or is considering acquiring - a rental property should read on.

Until now, the standard advice to anyone who owned a rental property has been that interest was only tax deductible if it was on a loan taken out to purchase or improve the property. And then the Inland Revenue added a new paragraph (BIM 45700) to their internal guidance manuals which changed everything. There has been no change in the law, just in the way that it is interpreted. The change brings significant potential for tax planning.

Take the example of someone who bought a property for £100,000 with a mortgage of £60,000. They now want to spend £35,000 on a Porsche to fulfil a long held dream, but they don't have the necessary cash. If they borrow the money to buy it, will the interest be tax deductible? Surprisingly, the answer seems to be yes.

The Inland Revenue's revised guidance says that the rental business balance sheet will show an asset of £100,000 less the mortgage of £60,000 on one side and the owner's capital account of £40,000 on the other side. If a new £35,000 loan is introduced, £35,000 will be added to the loan and to cash; if the cash is then drawn out, the capital account will be reduced by

the £35,000. The balance sheet will now have £100,000 less borrowings of £95,000 on one side balanced by the owner's capital account standing at £5,000 (being £40,000 less the amount drawn out for the Porsche) on the other. As the capital account is not overdrawn, the interest on the loan will be allowable.

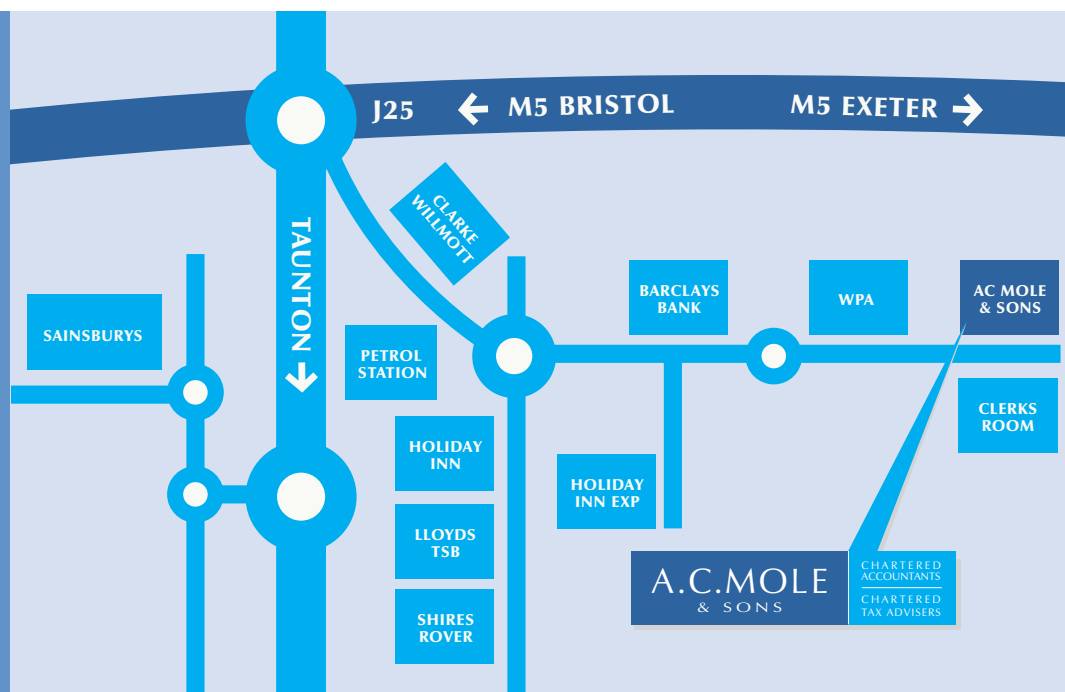


What if you are thinking about buying a new home and renting out your existing one, on which you already have a mortgage? Again, the advice until recently would have been that the interest on the mortgage would not be allowable as the original purpose had been to fund the purchase of a main residence, not to buy a rental property. The Inland Revenue now say that the day you begin renting the property, it enters your rental business balance sheet at its current market value (not the original cost) and that this figure, less the mortgage represents the owner's capital account. Not only can the capital account be drawn out for any purpose but the interest on the loan is tax deductible as long as the capital account does not become overdrawn.

So, if you are still hankering after that Porsche...

Where to Find Us

Our new Taunton office is located just off Junction 25 of the M5. The new telephone number is 01823 624450 and the new fax number is 01823 444533. If you haven't seen the new building yet, please feel free to call in – we would be delighted to show you around!



TeleMedic House

As you will have seen from this issue's cover story, our Taunton office has now relocated to Blackbrook. Our old building has been renamed TeleMedic House by its new owners – and A C Mole & Sons clients - TeleMedic Systems Limited.

TeleMedic Systems designs and produces remote medical monitoring equipment. Their portable VitalLink 1200 unit enables doctors to assess the condition of patients in remote or inaccessible areas where there is no medical support. Whether the patient is a passenger on a plane flying at 38,000 feet, a crew member on a ship at sea, a climber in the Himalaya or a villager in the Amazon jungle, the equipment can be used to transmit vital data to a medical expert anywhere in the world.

The unit is contained in a small case and its user does not need to be medically trained. When it is switched on, voice and screen prompts tell the user how and where to attach the sensors which will monitor heart rhythm, blood pressure, blood oxygen levels and pulse. The equipment then connects via landline, mobile phone or satellite phone to a medical centre so that a professional assessment can be made and guidance given by voice or text messaging. The unit can send and receive still or video images and other electronic files such as the patient's case notes.

Users of TeleMedic's equipment include the US Department of Defense, Boeing, Airbus, the British Antarctic Survey, CNN and the FBI; it has been used at 4300 metres at the Himalayan Rescue Association post at Pheriche in Nepal and was carried by Richard Branson and Per Lindstrand on their attempt to be the first to fly a balloon non-stop around the world. You can find more details at www.telemedicsystems.com.

As the company's advisers, our role has extended well beyond the production of annual accounts. We have helped the company to maximise the benefit of the new research and development tax allowances introduced in recent years and to gain access to tax efficient funding through the Enterprise Investment Scheme. We have also offered advice and acted as a sounding board for the directors at critical points in the company's evolution.

Close as our relationship with TeleMedic Systems is, however, they have asked us to remind all of our clients that post and packages should be sent or delivered to our new offices at Blackbrook and not to the old Stafford House; anything put through the letterbox there has to be redirected causing inevitable delay.



Budget Stop Press

Gordon Brown delivered his ninth Budget on March 16 and he was clearly in pre-election mode.

The main opposition parties have given some indication of their likely tax policies, with the Liberal Democrats proposing a 50% higher rate of tax for those earning over £100,000 and a local income tax. The Conservatives have set out options for the abolition of CGT or limitation of the rate to 10%; abolition or radical restructuring of IHT, with the threshold potentially being either increased or linked to house prices and the family home perhaps being exempted from tax; reviews are also promised of the IR35, Section 660A and non corporate distribution rate legislation all of which are targeted at small businesses and all of which are widely seen as unfair.

What can we expect to see if Labour is returned to power? Well it might, to use the Chancellor's favourite word, be prudent to review your IHT planning. A policy paper was released before Labour came to power but as yet – after no less than 9 Budgets – no legislation has been forthcoming. It can't last for ever...

Exeter City FC are in their centenary season. It kicked off last May with an exhibition game against the Brazilian masters and will end this May with a game against the Italian masters. Wherever they ultimately finish in the League this will have been a successful season and yet it is a season that many of their supporters thought they would never see.



One Sunday last December, as A C Mole & Sons were moving into their new offices, the draw took place for the third round of the FA Cup. Exeter City were in the hat by dint of two victories against League opposition. When the draw was complete the unthinkable had happened – Exeter City were to play Manchester United at Old Trafford.

When A C Mole & Sons were asked if they would become the Club's auditors a little over a year ago the Club was in a desperate state. Relegated from the Football League after 83 years and with some of the previous directors arrested, the running of the Club had been taken over by the Supporters Trust – a dedicated band of supporters with bags of enthusiasm but minimal experience.

The Trust appointed new directors from among its members and set about the task of rebuilding the Club. Faced with a mountain of debt accrued over years of mismanagement the most immediately pressing need was to secure the Club's short term future. With the help of their professional advisers the new directors successfully negotiated a voluntary arrangement with the Club's creditors. In October 2003 with the burden of debt now manageable the directors began the monumental task of reversing years of neglect in all areas of the Club.

One urgent area of concern was the Club's accounts: none had been prepared for a number of years and the company was being threatened by Companies House with being struck off. Working closely with the Club in difficult circumstances Steve Golby and his team completed and filed all the overdue accounts and the Club is now in compliance with all its statutory filing requirements for the first time in many years.

Managing Director Ian Huxham said "It was not just a question of being behind with our accounts, it was more the fact that given the circumstances our club found itself in we could not find a reputable firm willing to take us on. A C Mole & Sons were not only very capable, they were also willing and we have enjoyed both a professional level of service and an excellent working relationship".



And so to the Theatre of Dreams: Saturday 8 January 2005. 9,000 delirious Exeter supporters made the trip including Taunton partner Nigel Banks and his family, long time City supporters, Trust members and season ticket holders.

The supporters had done their bit. Could the team perform on the pitch? There cannot be many now who are not aware that on the day the team not only played heroically but far surpassed everyone's expectations by holding the mighty Manchester United to a 0-0 draw at Old Trafford and then only losing the reply 2-0 ten days later against a much stronger Manchester United team.

The two games have transformed Exeter City's finances. When all the sums have been done there should be enough to pay off the debts and put the Club back on an even keel. There have been many unexpected spin-offs too – sponsorship income has increased, crowds for League games are up and the Supporters Trust membership has increased tenfold. This alone will generate annual income in the region of £100,000 from membership.

It has been quite a centenary season - here's to the next 100 years!