

# Spring Newsletter

## OFFSHORE ASSETS REVENUE ANNOUNCE TAX AMNESTY

Frequently people have “fallen from grace” in the eyes of the Revenue, through actions which they later come to regret. Wishful thinking can often play a part. Overseas Property Agents frequently imply holiday homes are “tax free assets”. Interest receivable can be missed.

Tax losses can easily arise, whether through inadvertence, ignorance or sheer naughtiness.

Historically, the Tax Authorities never got to hear of the ownership of “offshore money”. However, over recent months HM Revenue and Customs have devoted serious effort into finding out about offshore funds through their “Offshore Fraud Target Team”. Acting through the courts and in co-operation with foreign tax authorities, they have forced major financial institutions, including the big UK banks, to provide details of UK residents involvement with:-

- ❖ Offshore Bank Accounts
- ❖ Credit and Debit Card Information
- ❖ Overseas assets and investments
- ❖ Offshore Trusts and Companies
- ❖ Money Laundering Reports.



Apparently the volume of information is so huge that the Revenue expect to collect enormous sums in previously unpaid duty. However, the work involved would require a large proportion of Revenue Tax Investigation resources. As a result, this week the Authorities have decided to offer a limited amnesty, as an incentive for people to “come clean” and bring their affairs up to date. To qualify, appropriate notification needs to be made to the Authorities by 22 June 2007.

No doubt the Revenue will then use the data already in their possession to pursue those who do not take advantage of the amnesty with greater rigour and aggression.

We can advise on preparing that disclosure, which has to be complete in order to qualify for the significant amnesty protection being offered.

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## Budget 2007

The 2007 Budget's affect on small and medium size businesses were far reaching with staged increases to the small companies' rate of corporation tax, an overhaul of the capital allowances regime and changes to Income Tax and NI Bandings and Rates.

These changes have been well documented in the press. Therefore, in this Newsletter we look behind the headlines to find potential opportunities and pitfalls: -



The Capital Gains and Inheritance Tax benefits of holding AIM listed shares could be under threat because the Government has proposed changes to the underlying legislation. However, in discussions with the London Stock Exchange they did confirm "The existing tax reliefs that apply to shares admitted to AIM will continue to apply". Commentators speculate that this could be the beginning of the end for the beneficial tax breaks for AIM shares.



The end of Industrial Buildings Allowances could make the very beneficial "Land Remediation Tax Relief" more accessible.



HM Revenue & Customs' enquiry window will be limited to one year after a Self Assessment or Corporation Tax Return is actually submitted.



Incorporating a business will still have net tax and NI benefits, although these are eroded by the increased rate of Corporation Tax for small companies



Penalties for understatement of tax will be linked to the nature of behaviour that led to the understatement. Suspended penalties will be introduced



There will be no benefit-in-kind for individuals who use overseas property that is owned by their personal company.



There is a significant rise in the upper turnover threshold for businesses that can account for VAT on a cash basis. This could ease cash flow for thousands of businesses.



Individuals will no longer be able to effectively receive tax relief for personal term assurance premiums made through their pension. Tax relief will still be available to companies who make contributions on behalf of their staff and directors

## Employee Securities

Management Buy Outs and Employee Share Schemes represent a highly complex area of tax, but one which can yield significant advantages when transactions are properly structured. For example, a Corporation Tax deduction can be available to the employer related to the benefits provided under Employee Shares Schemes. This links into FRS 20 (see below).

HM Revenue & Customs have been successful with a case before the Special Commissioners. One point of note was that if the terms of a share are included in the Articles of Association (and not a side agreement) then the full consideration received for that share on its disposal should be treated as capital and protected from the Income Tax legislation.

Taking this thinking onwards, presumably this means that inclusion of terms in the Articles will have a direct bearing on the market value of the share on directors/employees acquisition.

## LLPs and Property

For commercial property, ownership through a Self Invest Pension (SIPP) can be a highly tax efficient vehicle and is therefore one adopted by many.

Where this is unsuitable (say because of the new rules on pension scheme borrowing or an involvement of residential liability) a limited liability partnership (LLP) could be an alternative option for property ownership.

Ownership through an LLP maintains the right to capital gains tax taper relief. Also because of its structure, allowing differential voting and equity rights, it could make an ideal flexible vehicle for Inheritance Tax planning where a family wish to pass property through the generations.



## Inheritance Tax Case

The recent Phizackerley case has raised concerns in relation to Inheritance Tax and planning for houses that are joint owned by couples. The case focussed on specific points concerning how the wife's share of the property had been financed, because it could be clearly demonstrated that the husband's resources purchased the house.

HMRC were successful on the points contested. However, it appears that the taxpayer's appellant has other grounds on which to appeal, or it is likely that they will appeal the decision.



## Accounting for Share Based Payments (FRS 20)

All companies that do not qualify for the small entities accounting standard (FRSSE) must start to account for "share based payments" in their accounting years beginning on or after 1 January 2006.

The provision of shares or options over shares in consideration for services needs to be addressed.

Eaves & Co have already provided accounting services to companies that have adopted the standard early. Auditors may feel conflicted in preparing the requisite figures because estimated valuations of shares and options over shares are commonly required.

**Specific advice should be sought before acting in relation to any of the matters outlined in this newsletter**

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