

# the**business**

## **Full speed ahead** A motoring success story

### **Netting the best income**

Maximise your profits

Plus tips after Northern Rock  
and the Pre-Budget Report



# Welcome



We hope you had a wonderful summer. Endless days of sunshine and warm, balmy evenings? No, not here either. Never mind. You can start thinking about Christmas shopping now instead, if you can bear to!

Thank you to all who have sent me messages of congratulations on my recent promotion to partner at CLB Littlejohn Frazer. I am looking forward to new challenges, as well as meeting and working alongside more clients to help them grow and develop their businesses.

In this issue of *The Business* we have a special feature on the dynamic car dealership, Hills Motors. We'll steer you through the various challenges they've faced and explain

how we were able to help and advise them along the route.

We also introduce you to the managers who head up essential business services within the Business Advisory team – company secretarial, outsourcing and pensions administration – and look at the outcome of the recent Arctic Systems tax case and its potential effect on owner-managed businesses.

Please keep on sending us your thoughts on topics for future issues: this helps us to keep the newsletter on target for you.

**Cheryl Mead, Partner**  
**Business Advisory Services**

## Pre-Budget Report – the key issues

**Chancellor Alistair Darling presented his first Pre-Budget Report on 9 October.**

While acknowledging recent uncertainty in the global markets, Mr Darling emphasised that the UK economy remained strong, and that the Government had met all its fiscal rules. Notwithstanding this, the Chancellor revised economic growth forecasts for 2008 downwards, from 3% to 2-2.5%.

### Relevant points

Key measures of interest to business owners include a series of reviews aimed at simplifying the tax system for businesses and the self-employed, as well as proposals to allow local authorities in England to set a business rate supplement. The Chancellor also confirmed that the main rate of corporation tax will fall by 2%, to 28%, from next year.

### Capital gains, foreign nationals and IHT

The capital gains tax system will also be subject to reforms, introducing a single rate of 18%, with the stated aim of ensuring that private equity bosses pay a 'fair share'.

A number of perceived 'loopholes' for non-domiciled taxpayers will be examined and changes made so as to discourage use of the remittance basis, particularly for the less wealthy foreign visitor. The changes will affect how tax is collected from foreign nationals following seven years of UK residence. They also mean that days of arrival in and departure from the UK will be counted as days 'in' for tax purposes. Income tax allowances for unremitted foreign income over £1,000 are

also affected. The Chancellor made a much-anticipated announcement on inheritance tax, revealing that the potential threshold for married couples, civil partners, widows and widowers, will increase to £600,000, rising to £700,000 by 2010.

### Other matters

Other significant announcements include the introduction of a new aviation tax in 2009, which will tax individual flights rather than passengers. There will also be increased investment in health, education, transport, and science and technology.

*Please contact Barry Luscombe on 020 7369 4504 or [bluscombe@clblf.com](mailto:bluscombe@clblf.com) for specific advice about how these announcements might affect you or your business.*

## Business News

### Demand takes off

In response to rising demand from business travellers, London City Airport, close to our Canary Wharf offices, has applied for planning permission to increase the number of take-offs and

landings by around 50% by 2010.

The higher volume of activity would allow passenger numbers handled by the airport to rise from 2.4m last year to around

3.9m. At the same time, the airport management estimates the expansion would increase the number of jobs supported directly and indirectly by City Airport operations to 3,000 – an increase of 1,000.



# A Rock and a hard place

**The problems suffered by Northern Rock have been a reminder of the potential pitfalls for those with money in a bank or building society account, reports Rob MacKenzie.**

Whilst the Government eventually stepped in to alleviate account holder fears, the scare should have alerted every deposit holder in the UK to the lack of financial security with bank or building society accounts.

The Financial Services Authority (FSA) announced on 1 October that if a banking institution were to get into financial difficulties and the Government had decided against intervention, the maximum protection from the Financial Services Compensation Scheme would be 100% of the first £35,000 in the account. This is the position regardless of whether you have £35,000 in your account or £35 million. So what's the answer?

The Government could simply introduce new legislation offering guaranteed protection. But this is extremely unlikely to happen. If you have substantial funds, you could spread your money across many different accounts and financial institutions. The drawback here, as well as the sheer administrative hassle, is that many banks and building societies offer significantly higher rates the more money you have in your account.

## Investment option

An alternative for some may be to consider the protection offered by

the Policyholders Protection Act 1975. This is available to investors who hold investments with insurance companies, where it is possible to continue investing in funds accounts, but via an investment bond wrapper sometimes referred to as a Collective Investment Bond.

As well as potentially benefiting from a more favourable tax regime (investment bond interest accumulates gross), should the investment company go bust your assets within the investment bond are protected to 90% of the underlying value, irrespective of whether the value is £35,000 or £35 million.

*For further information, please contact Rob MacKenzie on 020 7369 4544 or email [rmackenzie@cblf.com](mailto:rmackenzie@cblf.com)*



**Rob MacKenzie** is head of wealth management. He specialises in offering pension and investment advice to our private and corporate clients.



## Legislation digest

By Stacey Aggrey

### Required information

The first Company Law Amendment Directive is now in force. On your website and your business emails you must include: company registration number; place of registration; and registered office address.

### Good to go?

If you transfer a business as a going concern (TOGC), under contracts entered into on or after 1 September 2007, some changes in the rules will apply. In most cases, the seller of a TOGC will keep the records of the business. However, if the transfer to the buyer includes the seller's VAT registration number, the seller will be required to pass the VAT records on to the buyer.

### Less work, more play

The new working time (amendment) regulations mean that from October 2007 the statutory minimum annual holiday entitlement will rise from four weeks (20 days for those working a five-day week) to 4.8 weeks (24 days). Employees will qualify for the increased entitlement as soon as they start work. The entitlement had been scheduled to rise to 28 days in 2008, but this further increase has been postponed to April 2009.

Days off for bank and public holidays can be included in the entitlement total. (In England there are eight bank holidays in the year.)



# Full speed ahead for thriving motor company

**Twelve years ago, successful family motor business Hills of Woodford was looking for new accountants. *The Business* traces their long and fruitful partnership with CLB Littlejohn Frazer.**

In December 1995, partner Derrick Tout received a call out of the blue from the owner of Hills of Woodford. The business combines sales, servicing, MOTs, repairs, bodywork and a fleet division. CLB Littlejohn Frazer had been recommended by another of Derrick's clients, also in the motor trade, but there were three other accountancy firms in contention.

The premises looked impressive: a garage in Woodford Green, Essex, and a large Toyota and Lexus dealership. The meeting went well and after follow-up calls CLB Littlejohn Frazer was appointed to act for the company - providing accounts, audit, tax and company secretarial services.

## Family tradition

Every member of the Hill family who has ever run the family

business has been called Richard – for three generations. Richard Malcolm Hill started out in 1905, fixing bicycles and carrying out general mechanical repairs at his workshop in Woodford.

He was succeeded by Richard 'Norman' Hill, who called the meeting 12 years ago and was responsible for expanding into sales in the 1950s. Now his son Richard 'Martin' Hill is managing director of a thriving business employing 170 staff at four centres across Essex and Hertfordshire. Quite a success story. It's also one of the few motor dealers that is entirely self-funded, not needing to borrow money.

"Norman Hill also wanted us to act for him and his family on tax issues," explains Derrick. "I felt

there was much we could do to advise him in running his business."

## Major challenge

But there were other challenges on the horizon. Lexus – the luxury division of Toyota – was restructuring its dealerships and asked all to reapply, submitting business plans with projections. "I sent in one of my partners who specialised in preparing such plans and was a qualified consultant under the former DTI Enterprise Initiative Scheme," says Derrick. The partner worked closely with Hills Group Principal Ashley Humphries to prepare the plan and its presentation to Lexus.

"We were chosen as one of the dealerships and CLB Littlejohn Frazer played a major role in producing the business plan, which Lexus said was one of the best presented to them," explains Ashley. Since then the Lexus Dealership has never looked back

and boasts its own showroom at Woodford. More significantly, it is the number two Lexus franchise in the whole of Europe.

### Next generation

But back to the family. There were succession issues to consider for the day when Richard 'Norman' would leave Hills to son Richard 'Martin'. So Derrick put senior tax manager Barry Luscombe on the case who, with his expertise in inheritance tax and trusts, set up various trusts in preparation for the inevitable day.

"CLB Littlejohn Frazer has a great team of experts working with them. Whether it's employer's liability tax, HMRC or general tax advice, they always 'know a man who can!'" says Ashley.

In acknowledging the above, Derrick is very much aware of his responsibilities under the ethical standards and ensures that each piece of non-audit work is led by the relevant firm's expert.

A few years after Norman's death in 1999, Derrick recommended that Hills set up a holding company, for commercial reasons, to group the various parts of the business. "Working closely with Hills company secretary Mandy Fox, I called in tax partner Ted Brew and the head of our company secretarial department Lorraine Nixon to review and report on how best to re-organise the business," explains Derrick. "Ted prepared a re-organisation plan and submitted and obtained the necessary tax clearances and Lorraine completed the considerable amount of company

documentation needed."

So Hills Group Enterprises was born, pulling all the motor businesses into one company. A separate company was set up to deal in property.

"They are a very effective team," adds Ashley. "Not only are they excellent accountants and auditors, they are also first class financial advisers and particularly useful when we need to get through the complications of an acquisition."

### Time to buy

One example was a Bishop's Stortford Toyota dealership for sale in 2002, with typical purchase problems and long negotiations on price. "Ted Brew and I worked with the lawyers on the sale and purchase agreement, with Ted looking at the tax issues," Derrick explains. "This freed up Ashley and his team to focus on the new premises and start organising the commercial side. Another dealership for Hills."

Around that time, HM Customs and Excise had lost a VAT court case which meant there was a possibility of Hills, along with other dealerships, reclaiming VAT previously paid. Derrick called on VAT partner Bob Jones, who visited Hills, prepared the paperwork and submitted successful claims to Customs on behalf of Hills.

"I think the most frustrating deal we have had to negotiate was our Toyota franchise at Letchworth, as it entailed buying a running company," says Ashley. "Derrick

and his team were very helpful. Working closely with us and the solicitors, they carried out the financial due diligence, checked the nitty gritty details of assets and shares, and obtained a significant reduction in the cost of the acquisition for us. We work very well together and not only does their expertise inspire confidence, they are always ready to assist us when the next business opportunity arises."



For more information about our services, contact Derrick Tout on 020 7369 4562 or email [dtout@clblf.com](mailto:dtout@clblf.com). Derrick acts as adviser to owner-managed businesses, particularly in the motor sector.

## Hills of Woodford - milestones

1905

Richard Malcolm Hill sets up bicycle and general mechanical repairs workshop in Woodford

Hills is expanded to incorporate new and used car sales

1950s

1972

First Toyota franchise signed

Hills becomes the second largest Lexus dealership in Europe

2000

# Netting the best income



**The outcome of a case between an IT services company and HMRC could have implications for tax on 'split income'. The Business offers advice on maximising your net income.**

## Tax: keeping up with the Joneses

**By Barry Luscombe**

Husband and wife team, Geoff and Diana Jones, run IT company Arctic Systems. In July the House of Lords ruled in their favour after a lengthy dispute over tax exemptions. While Diana worked on a small scale for Arctic, Geoff earned most of the profits. He was taking a low salary and the company was paying dividends to the couple equally.

HMRC had claimed this arrangement was a 'settlement' and that Geoff should be taxed on his wife's dividends. The House of Lords agreed it was a settlement but decided it was exempt from these artificial taxing provisions since it represented an outright gift between spouses.

Many husband and wife business teams will celebrate that this battle has been decided in their favour. But watch out. Among married couples not protected by the ruling are those whose arrangements allow for the income to be paid back to the main working spouse. Nor will this apply if the non-working spouse's dividends are paid into a joint account.

Even those who are able to rely on this case should keep an eye on continuing developments. The Arctic case has been met with a cold shoulder by the Government, which announced in the October Pre-Budget Report that it will be consulting on draft legislation to take effect from 2008/2009 to address the issue of split income.

## Pensions – why you shouldn't rule them out

**By Mark Quaye**

Arctic's victory over HMRC highlights the age-old practice of shareholding directors choosing the best route to extract profits from their business. This is a combination of dividends, salary and bonus, and pension contributions.

The new ruling may influence company directors to choose the dividends route to maximise net income. But where an individual has multiple objectives a combined approach may be the best solution.

The pension option is often neglected, even though an increased pension contribution is often possible without affecting the director's net income significantly - if at all - and at no extra cost to the business.

Let's take Mr Ambitious (Mr A), who is 35 years old. Somewhat sceptical about pensions, because of a long-term ambition to emigrate to Australia, he has chosen instead to invest in buy-to-let properties. He requires a net income of £70,000, in part to cover servicing costs on his property portfolio.

Mr A's pension misgivings may be reversed if he knew that tax-efficient roll-up of a UK pension can be maintained by transferring the accumulated assets to a recognised pension scheme abroad.

Equally he should remember that a pension can be paid to him gross if he is overseas, subject to the double taxation treaty between the UK and the relevant country.

He would be advised that a minimal salary should be paid in order to keep himself within the state system, as it is definitely too early for him to opt-out of a guaranteed income.

If Mr A had a spouse or partner they could be employed in the business and a similar pattern of payments distributed, improving the profit extraction even further.

### Mr Ambitious

	Before	After
Salary	£34,422	£7,455
Dividend	£59,177	£75,177
Company Pension Contribution	£ Nil	£10,418
Cost of Package	£112,130	£112,130
Net Income	£70,653	£70,653
Extraction Rate (%)	63	72.3

*The extraction rate is total net income plus pension contribution expressed as a percentage of cost to the business of the director's package. In this instance Mr A has maintained his net income requirement and at the same time gained a £10,418 pension contribution. The extraction rate has improved to 72.3% whilst still meeting all his objectives.*

For more information contact Barry Luscombe on 020 7369 4504 or [bluscombe@clblf.com](mailto:bluscombe@clblf.com) or Mark Quaye on 020 7369 4520 or [mquaye@clblf.com](mailto:mquaye@clblf.com)

# The Companies Act 2006

**By Lorraine Nixon**

The Companies Act 2006 – one of the largest pieces of legislation ever placed before Parliament – will be fully in force by October 2008 and has four key objectives:

- Enhancing shareholder engagement and a long-term investment culture;
- Ensuring better regulation and a “Think Small First” approach;
- Making it easier to set up and run a company; and
- Providing flexibility for the future.

The Act uses simpler language than before, making it easier to use, and removes the private company from a number of procedures and regulations.

In the official press release on the day the Act received Royal Assent, the then Secretary of State of the Department of Trade and Industry, Alistair Darling, said the changes introduced by the Act will bring £250 million of savings annually for businesses, including £100 million for small businesses.

Among the key changes are the codification of directors’ duties, the extension of the rights of shareholders to sue directors for negligence and other defaults, and rights to bring derivative claims on behalf of the company in certain circumstances. It also introduces a simplification of the company formation process, measures to allow companies to limit the liability of their auditors, and changes which facilitate e-communications with shareholders.

The Government has published a timetable for the introduction of the Act, with three commencement dates – 1 October 2007, 6 April 2008 and 1 October 2008.

Sections of the Act that took effect from October this year include many of those relating to a company’s directors and those relating to meetings and resolutions. Private companies, for example, are no longer obliged to hold AGMs (subject to any specific provisions in their articles of association) and it is now easier for them to make decisions by written resolution. Requirements for business reviews in the reports and accounts continue, with enhanced reporting requirements for quoted companies. Depending on the company’s articles, the Act now allows trustee shareholders to nominate another person (typically the beneficiary of the trust holding) to exercise some or all of their rights.

We recommend that any company considering taking advantage of the Act’s new provisions seek expert advice in order to avoid being caught out by the transitional regulations that are in place.

*For more information about the Companies Act 2006 contact Lorraine Nixon on 020 7369 4574 or at [lnixon@clblf.com](mailto:lnixon@clblf.com)*



**Lorraine Nixon** has been a chartered company secretary for 14 years. Her clients range from owner-managed businesses to AIM-listed companies.

## Business News

### Gaming watchdog

Under new gambling laws recently introduced in Britain, casinos, bookmakers and online betting operators will be able for the first time to advertise on TV and radio.

To win a licence to trade, however, all gaming operators based in Britain will be required to demonstrate to the new regulatory body – the Gambling Commission – that they meet stringent conditions. Failing to comply with those conditions will result in steep fines and even prosecution.

### Airing grievances

The 15% increase in the number of grievance claims lodged with employment tribunals last year suggests that government rules aimed at resolving disputes away from the courts have failed.

Equal pay claims, led by no-win, no-fee lawyers, have greatly increased the number of tribunals; and the introduction of age discrimination laws last October also led to a flurry of cases.

How can employers best reduce their exposure to litigation? Every company should have a grievance policy, with well-documented grievance procedures, of which all staff must be made aware. Should an employee grievance arise, employers should apply mediation – ideally using external mediators – at the earliest opportunity, aiming to solve the problem long before it turns into a court case.

# Meet the **team**

As accountants and advisers to entrepreneurial owner-managed businesses, the Business Advisory Services (BAS) team is fortunate to be able to draw on the wealth of expertise that CLB Littlejohn Frazer can offer. The BAS team includes specialists in three business-related areas – outsourcing, pensions administration and company secretarial.



## **Karen Egan**

Karen joined the firm in 2005 and has gained wide experience in audit and accounts preparation in a variety of environments, from small family-run companies to large groups. Qualifying in 2006, Karen moved to a supervisory role before becoming outsourcing department manager in July 2007.

The outsourcing department offers a range of services to a varied and expanding client base including management and statutory accounts, regulatory return preparation, and assisting clients with the daily demands of their finance function. The outsourcing team helps clients to make informed decisions by providing them with high-quality information in a timely manner.

Contact Karen:  
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kegan@clbhf.com



## **Richard Leach**

Richard is an experienced chartered accountant in the pensions administration team. He has worked with several notable occupational pension schemes and provided consultancy services to pensions software specialists. Richard also writes on administration issues for *Pensions Week*.

The pensions administration team is experienced in dealing with those pension schemes designed for SMEs, for example Small Self Administered Schemes (SSAS). Introduced specifically to meet the needs of director-shareholders of SMEs, SSAS schemes are bound by the same legislation as the better-known Self Invested Personal Pensions (SIPPs) but are intrinsically more business-friendly, particularly for SMEs looking to raise funds to acquire a commercial building.

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## **Lorraine Nixon**

Lorraine qualified as a chartered company secretary in 1993 and joined the firm in October 1999 to manage the company secretarial department, which provides full, on-going company secretarial services to over 400 companies, ranging from owner-managed businesses to AIM-listed companies.

Our company secretarial department offers a range of services and advice on all aspects of company law and company secretarial practice. The services provided include technical advice on current legislation and procedural aspects of company law; company formations and re-registrations; group reorganisations; capital re-organisations; purchases of own shares and financial assistance; and company searches.

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