

SHIPSHAPE



Plain sailing?

Navigating your way around higher taxes

Special Feature

Lessons in capital gains tax from the MPs' parliamentary expenses scandal

Client Profile

Inspiring confidence in youngsters around the world with Sail Training International

News and Views

Avoiding the new 50% tax rate and comparing taxes around Europe

Money Matters

Extracting profits from a business tax efficiently with EFRBS

For further information, please contact one of our offices:

LONDON

10 Orange Street
Haymarket
London
WC2H 7DQ

T +44 (0)20 7312 0000
F +44 (0)20 7312 0022
E advice@shipleys.com

GODALMING

3 Godalming Business Centre
Woolsack Way
Godalming
Surrey
GU7 1XW

T +44 (0)1483 423607
F +44 (0)1483 426079
E godalming@shipleys.com

SAFFRON WALDEN

Market House
10 Market Walk
Saffron Walden
Essex
CB10 1JZ

T +44 (0)1799 521301
F +44 (0)1799 523854
E saffron@shipleys.com

BIRMINGHAM

2nd Floor
3 Brindley Place
Birmingham
B1 2JB

T +44 (0)121 698 8566
F +44 (0)121 698 8600
E advice@shipleys.com

www.shipleys.com

If you have any suggestions for topics you would like to see covered in *Shipshape*, or have any comments about its content, please contact Stuart Dey at our London office.

T +44 (0)20 7312 6528
E deys@shipleys.com

Shipleys LLP is a member of AGN International, a worldwide association of separate and independent accounting and consulting firms.

More detailed information on tax changes is available on our website at www.shipleys.com

Registered Auditors.

Regulated by the Institute of Chartered Accountants in England and Wales for a range of investment business activities.

In this issue

Managing Principal's Comment

Do the maths – we're facing a demographic time bomb page 1

News and Views

Lessons from the parliamentary expenses scandal page 2

Avoiding the 50% tax rate page 3

Final stages of the Companies Act page 4

How does tax in the UK compare with the rest of Europe? page 5

Tax News

Tax relief on pension contributions page 6

Tax amnesty on offshore savings page 6

Interest on overpaid taxes page 6

Scale rates for day subsistence page 6

Company cars advisory fuel rates page 6

Employee share options page 7

VAT page 7

Shipleys News and Services

Personal affairs checklist page 8

Company formation tool page 8

Shipleys in the news page 8

Exam results page 8

Client Profile

Sail Training International page 9

Money Matters

Extracting profits with EFRBS page 10

Do the maths

We're facing a demographic time bomb



The financial crisis has heaped pressure on an already perilous trend in public finances. And in the face of an aging population, the issue isn't going to go away in a hurry. Where do we go from here?

When the Bank of England extended quantitative easing by another £50bn in July, it admitted that the recession has been deeper than previously thought. At the same time the Finance Act has confirmed the raft of measures introduced in the Budget targeted at high earners, including the new 50% income tax rate and restrictions on tax relief for pensions. But how much will these bring to the Treasury? Not enough, by anyone's calculations.

The bigger picture – baby boom boom!

Looking further ahead, there are some deeply troubling issues that are far from resolved. The baby boomer generation is nearing retirement, which means the working population is about to shrink dramatically. Today there are almost four people of working age for every person over 65. But in 50 years, this is predicted to be just two. Advances in medical science and longer lives result in even higher costs for the NHS. Predictions show that it will cost some 80% of GDP just to keep the NHS ticking over – clearly not a viable option.

This smaller working population is going to have to pay for, among other things, the pensions of an ever growing army of civil servants, most of whom are still fortunate enough to be in final salary schemes, but where there is already an almost completely unfunded shortfall of approximately £1.3 trillion. The more people there are drawing a pension, the more demand there will be on Government resources – taxpayers' money. It's a demographic time bomb waiting to explode.

Where will the money come from?

With a general election due next year, it seems that the country is just biding its time. Whoever wins, there is a need for long term sustainability. No government would be brave enough to lower taxes in these circumstances; on the contrary, taxes are destined to continue rising. In particular, indirect taxes are widely expected to increase, with some commentators anticipating VAT rising from its current temporary rate of 15% to 20%. Every additional 1% of VAT theoretically puts about an additional £5bn into the Chancellor's coffers.

Notes on a scandal and more

In the midst of all this, the great irony of the parliamentary expenses scandal seems to have been lost on many of our MPs. So we thought it only right in this issue of *Shipshape* to delve a bit deeper into the murky world of so-called 'flipping', both to set the record straight on exactly what some MPs have been up to, and as a useful guide to the underlying tax issues.

Elsewhere we look at what you can do in these belt-tightening times to make the most of your personal or business finances? There's an update on the tax planning implications of the 50% tax rate, details of a new 'amnesty' for people with undisclosed offshore income, and in our regular *Money Matters* column we explain how companies can use a complex type of pension scheme – Employer Financed Retirement Benefit Scheme – to their advantage.

Finally, our cover story takes inspiration from Shipleys client Sail Training International, which fosters teamwork and leadership in young people all over the world through its annual Tall Ships Races. Bon voyage.

Guy Fisher
T 020 7312 6566
E fisherg@shipleys.com



Those flipping MPs!

Behind the parliamentary expenses scandal

Although a bill aimed at cleaning up Parliament after the MPs expenses scandal quickly became law, it will be quite some time before we all forget about the outrageous claims for clearing a moat, dry rot, a church donation, a bath plug, a Remembrance Sunday wreath and that now infamous duck house!

The revelations in *The Daily Telegraph* earlier this year rumbled on for weeks and weeks. The responses of MPs under scrutiny ranged from denials of any wrongdoing or claims to have been acting within the rules, to “I have made a ridiculous and grave error of judgement – I am ashamed and humiliated and I apologise”. Almost £500,000 of expenses have been repaid, often attributed to “inadvertent errors” or “for the avoidance of doubt”.

Second homes

Much attention has been focused on MPs with second homes. The ‘additional costs allowance’ (worth up to £24,006 in 2008/09) reimburses MPs for expenses wholly, exclusively and necessarily incurred when staying overnight away from their main UK residence for the purposes of performing their parliamentary duties. It does not cover expenses incurred for purely personal or political reasons.

This additional costs allowance can be used not just for hotel bills but also for expenses relating to second homes. It covers not only mortgage interest payments and utility bills, but also stamp duty, furnishings,

white goods, decorations and refurbishment.

Quite rightly, there was widespread outrage at the claims for mortgage interest on homes which had been sold or where the mortgage had already been repaid. MPs also came under fire for moving their designated main residence between a constituency home and London accommodation bought to perform parliamentary duties – known as

inspector will look at the facts and make a decision. Any profit on selling a house which is not a PPR will be taxed at 18%.

Several Labour MPs, including former Cabinet ministers Hazel Blears, Geoff Hoon and James Purnell, faced questions over their tax liabilities on home sales. All insisted they had acted within the rules under which MPs can nominate the same property as their principal residence for tax purposes

“...MPs can nominate the same property as their principal residence for tax purposes and their second home for expenses.”

‘flipping’. It is alleged that this enabled MPs to do up one house at the taxpayers’ expense and then nominate another and start the process again. In some instances the MP sold a property shortly after doing it up – and kept any profit.

What about capital gains tax?

The position for MPs and anyone else who has only one home is normally straightforward. Any capital gain on its sale is exempt from tax because it is regarded by HM Revenue & Customs as the principal private residence (PPR). If you purchase a second property – perhaps a cottage on the coast or a flat in town near the office, then you can determine which is the main residence for capital gains tax (CGT) purposes by informing your tax inspector within two years. If no PPR election is made, then the tax

and their second home for expenses. Despite voluntarily repaying more than £13,000 to the tax authorities, Hazel Blears’ behaviour was condemned as “totally unacceptable” by Gordon Brown.

The Treasury minister Kitty Ussher quit the Government after questions were raised about her tax affairs, although family reasons were cited as the reason for her resignation. The CGT rules are very complicated, but it was reported that she had benefited from some careful planning. If a property has been your PPR “at any time” then the gain attributable to the last three years of ownership will be exempt. Miss Ussher is said to have re-designated her home in Burnley as her PPR for tax purposes a month before selling it, having previously nominated her London flat. The BBC reported that her accountants explicitly told her she could avoid



CGT if she followed a certain course of action; this letter is on her expenses file at the House of Commons.

This is not illegal, but is it right for a public servant to tell the Commons one thing and the tax authorities another and benefit from taxpayer-funded expenses without paying back any tax in return?

A number of MPs have declared they will make voluntary payments to HMRC to compensate the taxpayer. But we wonder how this will work in practice. When MPs submit their tax returns, the correct legal tax liability will be calculated by HMRC and the MPs will either have these voluntary payments set against tax they would otherwise have to pay, or a repayment of tax will be due. Perhaps they are simply working on the assumption that the whole sorry saga will have been forgotten by then. We're not so sure this will be the end of the matter.

Peer nominating house given to his son six years ago

There are perhaps unexpected tax consequences of the gift made by one peer accused of claiming as his main residence (for parliamentary expense purposes) the house he gave his son in 2003. Unless he has paid full consideration for any use he made of it since, this gift is seemingly ineffective in reducing his estate for inheritance tax purposes: he will have reserved a benefit and it will still count as part of the peer's estate for IHT purposes.



Avoiding 50% tax

In light of the new 50% rate of tax on income over £150,000 from April next year, capital gains tax at just 18% looks increasingly attractive, so attention is focusing on how to create gains rather than income. This is not always easy.

Much simpler measures for high earners are to anticipate income which might fall after 5 April 2010 and defer tax deductible expenditure to reduce 2010/11 taxable income. Where possible, this means:

- paying dividends by 5 April 2010, not just after
- voting directors' remuneration by 5 April 2010, if possible
- paying bonuses or commission by 5 April 2010 rather than the following tax year.

A UK resident taxed on the remittance basis might consider remitting income in 2009/10, if they anticipate that remittances afterwards will mean that the 50% rate will apply.

A word of caution for the self-employed

One seemingly attractive idea for the self-employed or partnerships with an accounting date early in the tax year is to change their accounting date to 5 April or 31 March. Although this can move income otherwise chargeable at 50% into a 40% band, it can prove a very expensive action in cash flow terms, especially if profits have increased substantially in recent years. Every case should be examined very closely.

The effect on tax relief on pension contributions under the new forestalling regime should always also be considered, if any action is taken to increase income for 2009/10.

In the *Money Matters* section of the previous issue of *Shipshape* we discussed some of the tax planning schemes available. Bespoke arrangements could be particularly useful in light of the new 50% rate, but all schemes should be approached with caution to ensure they meet individual circumstances. Anyone considering a tax planning scheme to mitigate the 50% rate should speak to us.

Curtain up for final stage of the Companies Act

Significant changes to annual Companies House returns and constitutional documents



The grand finale of the Companies Act 2006 implementation is set to take place on 1 October 2009. The prospect is more than a little daunting, not only because some of the main changes in the legislation are due to come into force, but also because all the paperwork we have become so used to will change significantly – both in name and format.

Although the changes are intended to make the rules more ‘user friendly’ for smaller companies, they will certainly make them more complex.

Changes to addresses on public record

From 1 October, a director may elect to have a service address on the public record instead of his/her residential address. On the face of it, this is good news for directors’ privacy. Unfortunately, however, a company will have to maintain two separate address registers for directors and keep Companies House advised of any changes.

Confused? It gets worse. The company itself may now also nominate a Single Alternative Inspection Location (SAIL) for the registers maintained by the company.

These changes mean that the annual return to Companies House will become a lengthy and rather tedious document. It is far more complicated than the old one, which

itself wasn’t particularly easy to understand. For an example of the new return visit www.companies-house.gov.uk/forms/generalForms/363page.shtml

New model articles

Another significant change is the complete revision of the memorandum and articles of association (the constitution of the company) into a single document. It will embrace the features of the new Companies Act and take account of managerial and technological developments of the last century. It will not be necessary for existing companies to change their articles immediately, although it may be advantageous for some to do so as time goes on. Deciding which companies would benefit from early adoption of the new articles will be a question of individual circumstances. New companies will be incorporated with the new model articles.

Teething problems inevitable

Although there is still a lot of ‘legalese’ in the new model articles, they are fairly easy to understand. For most small owner-managed businesses, the new articles will be sufficient without much modification. But for companies where the shareholding and board of directors is a little more complicated, particularly in circumstances where

a joint venture arrangement exists, amendments to the model articles could be required. However, this is likely to be difficult as there are no case law precedents relating to the new model articles to take guidance from.

Finally, and probably most importantly, Companies House is bound to have teething problems understanding and enforcing the new legislation. Furthermore, massive changes are required for their computer systems, so data processing problems are almost inevitable.

If you want to know more about how the new Companies Act legislation will affect your business, or you need any help implementing the changes, please contact:
Robert Ramsdale
T 020 7312 6504
E ramsdaler@shipleys.com



The grass is always greener

How does tax in the UK compare with the rest of Europe?

We often hear large corporates, such as Vodafone, WPP and McDonalds threatening to leave the UK and operate elsewhere, grumbling about the UK's business environment and tax in particular. In recent years we've also seen large numbers of Brits flocking to pastures new for a perceived lower cost of living, better climate and improved quality of life.

The increasing tax burden, particularly on high earners facing 50% tax, coupled with recent changes to non dom rules are encouraging more people to think about upping sticks and moving overseas. As discussed in Guy Fisher's opening article, the situation is only likely to get worse.

But the dreams of a better life in another European country don't always pan out in reality. We are already seeing many of those who moved away returning home.

Tax is obviously only one factor to consider if you're thinking about relocating, but the results of AGN International's recent survey comparing tax and social charges across Europe provide some useful food for thought.

Issues to consider

A key to sustaining, and ideally improving, your standard of living in another country is the ability to retain your earnings level. If local property prices are low, it's a strong indication

that local incomes will also be lower. But then again, you could be on to a winner if you are able to retain your old clients and level of income.

There are also several practical issues to think about. It may not be straightforward to just go and set up business overseas. Compared with much of Europe, the UK is relatively unregulated. Your UK qualifications

gross salary of €100,000 with a new company car costing €40,000 and paying mortgage interest of €7,500 per annum. The results show in which country the individual would be better off, assuming he or she could get the same salary in each country.

The survey makes interesting reading. In the scenario examined for the individual, the UK was fifth

"In some cases the rules seem to be specifically designed to keep foreigners out."

and experience may not be recognised elsewhere and you may have to join a trade association or take exams to prove your skills. In some cases the rules seem to be specifically designed to keep foreigners out.

Comparing the costs

AGN International, the worldwide association of separate and independent accounting and consulting firms, of which Shipleys is a member, recently carried out its annual survey of salary taxes and social security charges, corporate tax, gift and inheritance tax, VAT and parent companies across the continent.

For example, the survey (which covers the taxes and social charges payable in 28 European countries) compared the situation for a married person with two children, earning a

from bottom – only Belgium, Finland, Hungary and Sweden were worse. For this employee, Lichtenstein, Bulgaria, Russia and the Isle of Man leave the most cash in the pocket.

The survey also compared the social charges (like National Insurance Contributions) to employers and found that France and Ukraine are the most costly for businesses wishing to operate overseas.

Get professional advice

If you are thinking about working overseas or moving your business abroad, it is essential to seek specific advice particular to your situation. Shipleys can help and put you in touch with the relevant expert from an AGN International member firm.

Tax Matters

A round-up of tax issues which may affect you or your business

Tax relief on pension contributions – the new forestalling regime

In the Finance Act only one significant change was made to the forestalling proposals announced in the Budget. These are designed to inhibit those with incomes in excess of £150,000 intending to increase their pension contributions in anticipation of the withdrawal of higher rate tax relief from April 2011.

The new 'special annual allowance charge' applies for 2009/10 (and 2010/11) to those whose 'relevant income' is £150,000 or more in that year or either of the two preceding years. Relevant income broadly means income chargeable to tax, but adding back personal allowances and all pension inputs, including an employer's contributions, save for the first £20,000, and adding any salary sacrificed under a salary sacrifice scheme made after 21 April 2009.

The special allowance charge is a stand-alone tax charge at 20% of the excess of pension inputs over a special annual allowance. This allowance will be the value of regular 'protected inputs' payable quarterly or more frequently on a basis established before 22 April 2009 or £20,000 – whichever is higher. The charge will probably increase to 30% in 2010/11.

The term 'pension inputs' embraces contributions to personal pension policies and retirement annuity contracts, contributions met by deduction from pay, employers' contributions to defined contributions schemes and benefits accrued in defined benefits schemes.

The only modest relaxation included in the Finance Act relates to

the £20,000 alternative in the 'special annual allowance'. This is increased if the average of 'less frequent than quarterly' pension inputs in 2006/07, 2007/08 and/or 2008/09 exceeded £20,000, up to a maximum of £30,000.

The charge is intended to limit tax relief to basic rate on the excess pension inputs. However, in exceptional circumstances this may extinguish all tax relief on the excess.

Tax amnesty for offshore savings

Individuals with unpaid taxes linked to offshore accounts or assets are being given a second and final chance to settle their tax liabilities at a favourable penalty rate.

Under the Offshore Disclosure Facility (ODF), people who make a complete and accurate disclosure between 1 September 2009 and 12 March 2010 will qualify for a 10% penalty. Those who do not take this opportunity and are subsequently found to have undeclared tax

liabilities are likely to face a 30% or higher penalty. They also run an increased risk of criminal prosecution.

Please visit our website www.shipleys.com for more detailed information and deadlines.

Interest on taxes

HMRC will recalculate its interest rates after the September Monetary Policy Meeting using new formulae. In future these will be based around the Bank of England base rate. Interest on late payments of tax will be at base rate plus 2.5 and that on tax overpayments will be at base rate minus 1, but subject to a minimum rate of 1.5%. A change in the base rate will be reflected in interest rates on taxes after 13 working days.

Scale rates for day subsistence

Where employees incur allowable business travel expenses, HMRC has introduced an advisory system

Company cars – advisory fuel rates from 1 July 2009

Engine size	Petrol	Diesel	LPG
1400cc or less	10p	10p	7p
1401cc to 2000cc	12p	10p	8p
Over 2000cc	18p	13p	12p

Petrol hybrid cars are treated as petrol cars for this purpose. HMRC will also accept the figures in the table for VAT purposes, although employers will need to retain receipts. The rates are reviewed at least twice a year.

The latest rates are posted on http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm



of benchmark scale rates which employers can use to make subsistence payments free of tax and NIC.

To adopt the system, employers should apply to HMRC for a dispensation using form P11DX. Strictly, the dispensation will only take effect from the date of the notice issued by HMRC, but it may be agreed that it can take effect from the beginning of the tax year. For more details visit www.hmrc.gov.uk/briefs/income-tax/brief2409.htm

Employee share options

Following legal advice HMRC has said that its approach to the capital gains tax consequences for employees when acquiring shares by exercising options before 22 April 2003 was wrong.

Previously HMRC had said that, on a subsequent disposal, their 'cost' was their open market value augmented by any amount chargeable to income tax on the exercise of the option. It has now decided that no deduction falls to be made of, or in respect of, any amount that is chargeable to income tax on exercising the option.

HMRC says those affected by the change may need to make or amend a self assessment return or loss claim provided they are in time to do so. HMRC will apply its new understanding of the law in cases where there is an open enquiry or appeal. The precise reach of this change is under discussion.

VAT News

End of the three-year cap saga?

The three-year cap saga came to an end earlier this year after protracted litigation and a final, but doomed, attempt by Scottish Equitable to get the court to rule that the legislation should be treated as ineffective. The cap itself has now been extended from three to four years (subject to a backstop date of 1 April 2006), providing more time to make back claims and correct errors but also more time for HMRC to assess.

VAT error reporting

The old £2,000 reporting threshold was replaced last year to enable net errors of less than £10,000 or 1% of the Box 6 figure (subject to a ceiling of £50,000) to be adjusted by inclusion on the next VAT return. However, bear in mind that inclusion on the VAT return does not amount to 'notifying HMRC' so you may still get a penalty.

HMRC bank details

VAT payments should now be sent to the HMRC Citibank account (full details on the HMRC website www.hmrc.gov.uk). The old Bank of England account will, however, remain live for the time being.

VAT fraud

Following the introduction of the reverse charge for supplies of mobile phones and computer chips there appeared to have been a reduction in the incidence of Carousel VAT fraud. Sadly it is now clear that the fraud has merely been displaced to another sector (trading in emissions allowances) showing that all businesses need to be aware of the dangers of VAT fraud.

To combat the fraud, zero rating will apply from 31 July 2009 to trading in emissions allowances.

Option to tax

1 August 2009 was significant for any business that owns a property subject to an option to tax as it is the date when the 20-year revocation rules can be used for the first time.

There are also some minor amendments to the law, including the following.

- Automatic six-year revocation will be denied where further supplies will or may arise.
- The 20 year revocation rules have been relaxed to:
 - include capital items with less than £10,000 of CGS adjustments remaining
 - allow revocation to be tied to an event, such as sale of the property, rather than a fixed date.

Charitable buildings

New legislation relating to buildings used by charities will come into force on 1 July 2010 with a 12-month transitional period running from 1 July 2009 during which charities can choose to use either the new or the old rules.

The changes relate to zero rating of the supply or construction of a new building to be used **solely** for a relevant charitable purpose.

'Sole use' under the old rules requires at least 90% qualifying use, whereas the new rules require at least 95% qualifying use.

When calculating this percentage under the old rules there are three prescribed calculation methods to choose from, two of which require permission from HMRC. Under the new rules any fair and reasonable method can be used without permission from HMRC.

For further information about any of the above topics, please speak to your usual Shipleys contact or the VAT team.

Making your life and business easier

At Shipleys we're been making improvements to our website and have created a number of resources designed to assist you in your life and business.

Company formation tool

To set up a new company, quite a lot of information is required as it is necessary to comply with regulations such as the anti-money laundering rules. We've brought together all the questions which need to be answered in one simple form with supporting notes. All you need to do is download it from the resources section of our website www.shipleys.com, fill it in and send it back to us. We'll do the rest!

Another accolade for our charities team

Shipleys' charities team has been given a further boost with the good news that principal Jane Henman has obtained her diploma in charity accounting. She joins Simon Robinson in being able to add the letters DChA after her name.



Exam results

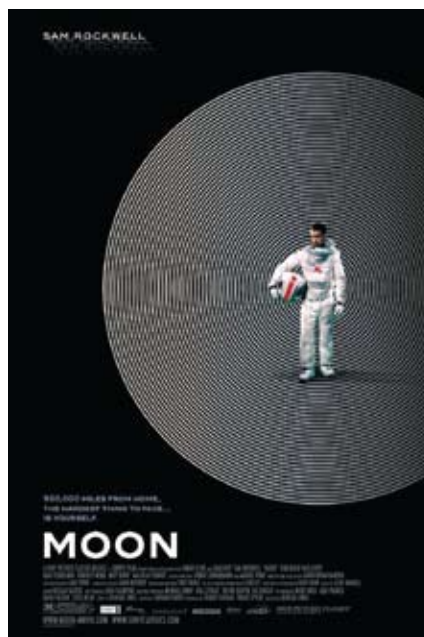
Congratulations to Bepin Solanki (pictured) and Caroline Taylor, who have passed the final stage of the Institute of Chartered Accountants in England and Wales exams to become chartered accountants (ACA). Caroline is currently on maternity leave and we send her our best wishes.

Shipleys in the press

Principal Steve Foster has a wealth of experience working for a wide range of property related organisations and has a regular column in the Royal Institution for Chartered Surveyors' magazine, *RICS Business*, in which he comments on tax and business issues affecting surveyors. Steve's most recent article was entitled "How to retain talent without breaking the bank".

Shipleys in the movies again

Shipleys acted as company accountants and assisted with film tax credits on the current release *Moon*, directed by Duncan Jones and starring Sam Rockwell.



Personal Affairs Checklist

You never know what's around the corner, so in the event of something unforeseen happening, you should make sure your personal details are close to hand and easy for others to find.

With this in mind, Shipleys has created a Personal Affairs Checklist (PAC), which allows you to concisely record your personal information in a single document. The PAC is not a will and should not contain instructions about what should be done with your money or possessions. It is a record of where your key personal records, assets and papers can be located.

The form, which you can download from our website, is designed for everybody and to meet many needs, so you need only fill in those parts that are relevant to you. You can record information such as details of your key advisers, the location of your will, bank accounts and insurance policies. You can also include information such as your employment record, club membership details and funeral preferences.

The completed form will contain confidential information which should not be left lying around. You should keep it somewhere safe – perhaps with your bank, accountant or solicitor, or with someone you trust to hold it in a secure place.

Investing a little time now to complete the PAC could save your spouse, partner, relatives or friends a great deal of time and expense in the future.

To download or print a copy of the form, visit the resources area of our website www.shipleys.com and choose the personal affairs checklist.



Sail Training International

Changing young people's lives

Sail Training International talks to *Shipshape* about its work with youngsters around the world and the annual Tall Ships Races.

Sail Training International is a UK charity formed in 2002 by many of the people who had been involved in running The Tall Ships Races, in order to make a greater contribution to international sail training. It acquired the assets of the International Sail Training Association and was subsequently granted charitable status in 2003. Since then its activities have diversified, and income and staff numbers have tripled. Its members today are the national sail training organisations of 26 countries around the world. Activities now include conferences and seminars, publications and DVD presentations, and international research, as well as the organisation of races and regattas for sail training Tall Ships. Next year there will be four events involving 11 host ports in nine countries.

Developing life skills

The primary focus of Sail Training International's activities and charitable

purpose is the development and education of young people through sail training, and the promotion of international understanding and friendship. The charity was nominated for the 2007 Nobel Peace Prize.

The value, necessity and skills required for both teamwork and leadership are key among these. So too is the development of self-worth and self-confidence. A major international and independent research study, funded by Sail Training International and published in 2006, demonstrated the effectiveness of sail training in delivering these attributes.

"We recently signed a new sponsorship agreement that gives us financial stability for the next four or five years. But all that does is enable us to function with the same level of activity that we have today, and this is our biggest single frustration," says Nigel Rowe, president and chairman. "We are opportunity rich and resource poor, and our current number one priority is to generate additional income from event sponsorship and charitable donations."

High profile attention

The organisation's biggest single opportunity for sponsorship funding is the annual Tall Ships Races in northern Europe, from the Baltic to the Iberian Peninsula. The 2009 races attracted a fleet of nearly 130 sail training vessels (including 24 big square rigged ships), some 7,000 trainee crew members, and literally millions of visitors to the four host ports. These events often attract head-of-state interest – this year the race trophies were presented in St Petersburg by Russian Prime Minister Vladimir Putin.

Shipleys was appointed as auditor when Sail Training International was first established. Since then, in addition to audit services, Shipleys has provided advice on a range of issues from currency exchange management to VAT. "It's been a very effective partnership from our perspective," says Nigel Rowe.

For further information or to find out how you can get involved, visit: www.sailtraininginternational.org

EFRBS explained

These pension schemes can be a tax-efficient way for directors to extract profits from a business



Just about all owner-directors want as much of the profit from their businesses as possible personally. Tax is obviously important, but some tax planning arrangements can be quite hard to grasp. One example is EFRBS (Employer Financed Retirement Benefit Schemes), previously known as FURBS (Funded Unapproved Retirement Benefit Schemes). Let's remove some of the smoke and mirrors and look at how they can be used.

EFRBS are pension schemes. However, although there is a procedure for HMRC to be advised on their formation, they are not 'registered pension schemes', which means they do not enjoy the tax privileges of such schemes, but nor are they subject to their constraints. So let's look at the advantages and disadvantages.

Traditional pension schemes offer tax benefits, but many directors see them as 'dead money' due to the investment restrictions placed on the pension fund trustees, which mean that they can't personally access their own funds until retirement date. Nor can traditional schemes invest in residential property. Both of these factors can be major drawbacks.

The benefits

With EFRBS, there is no corporation tax relief when contributions are paid in, unlike contributions to a registered pension schemes, but neither is there a personal tax or national insurance cost for the member of the scheme, until benefits are paid to him or her.

Benefits, if taken, are subject to income tax.

But the key advantages of EFRBS follow from the fact that the trustees (and the directors can be trustees) are not subject to investment restrictions, so they can lend money to themselves, on arm's length terms, or to the company. In this way the pension income tax charge is neatly avoided.

Even though loans to individual members must be at a commercial interest rate and there is no corporation tax deduction for contributions, loans to members can be tax efficient compared with the alternatives of paying a bonus or dividend.

For example, many directors take a small salary and then pay dividends to take their income up to the limit of the basic rate band. At 2009/10 rates this could give a married couple approximately £87,000 taxed at no more than 21%. Further amounts would be taxed at approximately 41% if dividends or 57% if salary. Using EFRBS, access to further profits below the 'small companies' threshold, normally £300,000, costs the company corporation tax at 21%.

Many director shareholders are using these loans to replace a third party house mortgage, to fund school fees, or to get access to accumulated profits at low capital gains tax rates through a share buy back arrangement. Trustees' investment income can be structured so that the tax rate is lower than for individuals – and it should be remembered that on

a like-for-like basis more money will be invested because the cost of extracting funds from the company is lower than normal.

One area that requires particular attention is inheritance tax. HMRC has recently published its views on the IHT implications of contributions by close companies to an EFRBS. Opinions are divided on the validity of its approach and care should be taken.

With EFRBS, if there is a trick, it is to ensure that proper advice is taken initially and the pension scheme is set up and run properly. There are ongoing costs but these are modest compared to the tax savings and are not linked to fund value. As with all tax planning arrangements, they won't be suitable for everybody and specific advice will be required. If you are interested, please speak to your usual Shipleys contact, Mike Luckett or Stuart Dey.

Detailed advice should be obtained before taking action, or refraining from taking action, as a result of information in this newsletter.

Shipleys LLP is not authorised by the Financial Services Authority but we are able in certain circumstances to offer a limited range of investment services because we are licensed by the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide.