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## TRUSTS UNDER ATTACK

One of the more surprising aspects of the Chancellor's Budget on 22 March 2006 was the attack on trusts, as Nigel Shaw explains.

Since December 2003 HM Revenue & Customs (HMRC) have been consulting on the modernisation of the Taxation of Trusts and during this consultation process various changes have been discussed with the professional bodies. This year's budget announcement on aligning the Inheritance Tax (IHT) treatment for trusts was therefore unexpected, as its introduction had not been part of the consultation process.

HMRC have announced that, subject to certain specific exemptions, gifts into all trusts will be immediately chargeable to IHT and those gifts over the nil rate band of £285,000 from 6 April 2006 will attract an IHT charge of 20%. Previously gifts into Accumulation & Maintenance (A&M) trusts and Interest in Possession (IIP) trusts were exempt from IHT if the donor survived for seven years.

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### New Team Member at G&E Wealth Management

Garbutt & Elliott are pleased to introduce a new member to the G&E Wealth Management Ltd team. Consultant, Ian Chalk, becomes the third member of the team, joining Financial Services Administrator Melisa Broadbent and Consultant, Jeremy Gibbs.

Jeremy Gibbs commented: "We are delighted to welcome someone of Ian's proven calibre to our team. These are dramatic times in the pensions and wealth management industry, with radical changes in the pipeline, and we have responded by creating an experienced team that can provide quality, independent and bespoke advice to our clients.

2006 marks Ian's 20th year in the financial services industry. During his career, Ian has advised both individuals and businesses alike. The size of business has varied from SMEs to large multinational companies. Some of you may well recognise Ian, who in his spare time is the trumpet player with local party band 'Huge'.

The new tax year will bring new challenges with the introduction of the 'Pensions Simplification' legislation and the new choices available to our clients. In particular, strong demand for commercial property continues to be a popular choice for those seeking bespoke pension funds. In addition, our clients are requesting investment advice to benefit from the current strong growth in worldwide stock markets. We have a robust portfolio

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*From left to right, Melisa Broadbent, Jeremy Gibbs & Ian Chalk*

Trusts Under Attack continued

New trusts set up from Budget Day will also be subject to an IHT charge of up to 6% of the value of the trust fund every ten years and when capital is paid out to beneficiaries. The new rules will also apply to trusts in existence as at Budget Day but will not come into force until the current interest in the trust comes to an end.

These changes will not just apply to lifetime gifts but also to trusts set up under Wills and these will need to be reviewed to ensure that Wills are still tax-efficient. Trustees of IIP trusts and A&M trusts will also need to review the effects of the proposed changes but will need to be careful if they wish to amend the terms of the trust as there are anti-avoidance rules to prevent 'abuse' of transitional provisions.

The Chancellor is clearly wishing to increase further the yield from IHT. Despite HMRC stating that trusts are suitable vehicles for holding wealth on a 'tax neutral' basis the Chancellor now feels they should be attacked. The Budget demonstrates that he now has trusts clearly in his sights.

## Summary of Key Changes in IHT treatment for Trusts

1. The proposed new rules for IHT in trusts do not kick-in unless the value of the assets exceeds the nil rate IHT threshold which is:
 

|          |           |          |
|----------|-----------|----------|
| Tax year | 2006 - 07 | £285,000 |
|          | 2007 - 08 | £300,000 |
|          | 2008 - 09 | £312,000 |
|          | 2009 - 10 | £325,000 |
2. The new rules apply only to trusts and their creation – not to gifts to individuals.
3. The new rules treat all trusts as Discretionary trusts – "relevant property" trusts for IHT purposes.
4. Existing IIP trusts are not affected providing these remain unaltered and no further assets are invested.
5. A&M trusts will need to alter the age when a child takes an absolute interest to age 18 and not be extended to older ages.
6. The transitional rules apply to existing trusts and will allow beneficial IHT provisions to apply.

Despite the attack on trusts clients should bear in mind that they are still an excellent tax planning technique. With the right advice and full regard to each individual's circumstances trusts will continue to play an important role in tax planning for many years to come.

Please note we have a paper on 'Modernising the tax systems for trusts' on our website at: <http://www.garbuttandelliott.com/taxnews.htm>

Our advice to clients is that Wills, IIP and A&M trusts will need to be reviewed to check the effects the changes will have.

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## Motor Software Companies Move Into Top Gear

Garbutt & Elliott Corporate Finance team have brokered a merger between two of the United Kingdom's most innovative motor software companies, one of which is based in Knaresborough.

The Universal Training Co Ltd (UTC) of Knaresborough has joined forces with q.bit Systems Ltd of Berkhamsted in Hertfordshire to

create a new company called q.bit (Holdings) Ltd.

This new company will now provide a comprehensive range of software and data products for motor dealers across the country, designed to improve efficiency, cut costs and provide value for money for both car dealers and their customers.

UTC provides a deal optimisation software programme called Track, which enables car dealers to swiftly compile a comprehensive financial package for customers purchasing cars, while q.bit provides a series of cutting-edge software and data products which allow dealers to efficiently administrate their business.

Nigel Pates, the Managing Director of q.bit commented: "The two companies have worked together on an informal basis for a couple of years now and it was clear that there was a synergy between us. It seemed natural to join forces and provide a comprehensive product for the motor retail industry."

Gary Cuthbert, the Managing Director of UTC, agreed, saying: "We use old-fashioned business principles to create a modern software service."



From left to right: Russell Turner, G&E, Gary Cuthbert, UTC and Nigel Pates, q.bit.

Joining forces with q.bit will enable us to roll out a more comprehensive, efficient and attractive package."

Russell Turner, Director, explained: "We were the lead financial adviser in this complicated £6m deal. There was clearly a synergy between the two companies but the negotiations were complex and key tax-planning issues had to be addressed. Ultimately we were delighted to achieve a financial structure and tax-efficient solution which satisfied both parties."

### New Team Member at G&E Wealth Management continued

construction methodology that allows us to match the investments we recommend to our clients attitude to investment risk.

Key services available to our business and private clients include: Executive Pension Schemes, Employee Benefit Schemes, Retirement & Pensions Planning, Investments Advice, Personal and Business Protection, Estate Planning and Healthcare.

G&E Wealth Management Services are provided by G&E Wealth Management Limited, a joint venture company, which is authorised and regulated by the Financial Services Authority.

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## Commentary on the Chancellor's 2006 Budget

This was never going to be a tax raising budget but the Chancellor made it clear that his 10th Budget speech would not be a tax giveaway either. The message seemed to be that any money found from efficiency drives in the Public Sector would go on investment in education. Nevertheless, there was welcome news for families on low income, as Tax Credits were singled out for special enhancement. There was also news of a further grant into the new Child Trust funds, when the child reaches seven.

There was also encouragement in the promise of support for jobs and skills. The increase in the stamp duty threshold to £125,000 will help first-time homebuyers but it was disappointing not to hear of any help from inheritance tax charges for homeowners and those with modest estates. Also, nothing about the enhancement of ISAs, with investment limits frozen and no news of a further extension to their availability.

Small businesses will be pleased with a number of encouraging tax breaks, including higher allowances for capital expenditure and help with the administration of VAT, in raised Annual and Cash Accounting limits. Figures for UK Inward Investment were pleasing to hear and the Yorkshire region will want to attract its own share of that.

Businesses at the Science Parks will have been glad to hear the Chancellor promise help for science, enterprise and innovation, particularly extra funding for scientific invention and discovery. Typically, such businesses seek to attract investment from Business Angels and they will be overjoyed to hear of the doubling in the annual Enterprise Investment Scheme limit. Individual investors will now be able to obtain valuable income and capital gains tax relief on up to £400,000 in a tax year. Venture Capital Trusts should also continue to be a source of funds, although there were some changes to the tax rules that affect them.

There are plans to make Research and Development Tax Credits available to more businesses, making it more generous and so hopefully increasing its uptake. The limit on the number of employees in a company making a claim will go up to 500 (at present it is only 250).

There will be winners and losers among road users, with the overhaul of Vehicle Excise Duty, but with the continuing rise in fuel duties any relief will be most welcome.

The introduction of UK Real Estate Investment Trusts was confirmed. The idea is to create investment vehicles for individuals, enabling them to benefit from a diversified portfolio. This has been welcomed by the Property industry and should encourage more people to become property investors. Similarly, the new Planning Gain Supplement was confirmed. Whilst it is intended that the local community will benefit from this money, it remains to be seen whether it will stifle property development in the region.

The promised review of income tax and National Insurance will hopefully produce more clarity but there is a suggestion that the filing deadline for income tax returns may be brought forward to 30 September for paper (30 November for returns filed electronically). This would have a profound

## York & North Yorkshire Business Succession Planning Initiative

A publicly funded, independent, succession and life planning service is now available to businesses in the York and North Yorkshire Area, for a one-off fee of just £50. The service includes an initial meeting, succession planning diagnostic, development of a Life Plan, and facilitation of specialist tax and financial advice. For further details please contact Russell Turner at [rturner@garbutt-elliott.co.uk](mailto:rturner@garbutt-elliott.co.uk)

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effect on individuals and the tax professionals who help them complete their returns.

Unfortunately, as always with Mr Brown, his speech was light on detail and we were very surprised by some of the content of the press releases. Most dramatic was the attack on trusts, announced without any prior consultation, which is detailed elsewhere in this Newsletter.

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## Corporate Finance Team Hit The £100 Million A Year Deal Mark

Garbutt & Elliott Corporate Finance has recorded £100 million of deal transactions within a year for the first time.

The achievement represents a significant step in the firm's activity in the regional corporate finance market in the last three years since it embarked on a determined drive to widen its geographic reach and enhance the type and value of deals handled.

During 2005 the firm's specialist Corporate Finance team advised on 16 completed transactions with an average value of £6 million and featuring three of its largest ever deals: the disposal of Amber Travel, a sizeable MBO in the vehicle distribution sector and acting for Innovate Logistics on its purchase of Phil Hanley Limited.

Deals involved companies throughout Yorkshire and Humber, the Midlands and the North West in sectors ranging from IT/telecoms to leisure, from manufacturing to property.

Three years ago average deal size was between £1 million and £2 million and in 2004 the team handled ten transactions.

Recent figures show that deal value in Yorkshire and the Humber during 2005 topped the £1 billion figure, a fall from the record £2 billion of 2004 but still surpassing the total for 2003. There were 50 deals under £10 million, the lowest for five years and a 15% fall on 2004 and a total of 11 transactions in the £10 million to £100 million segment, almost half the level for the previous year.

Richard Feltham, who was brought in as Head of Corporate Finance in November 2002 to spearhead the drive for growth, says:

"Recent statistics show that the number of deals in the region last year worth £10 million or less was at its lowest since 2000, meaning that our figures represent much more than just our 'fair share' of the work that is around. We are now being instructed on an increasing number and range of deals with significantly higher transaction values.

"We have made a number of new appointments and now have a very talented, eight-strong Corporate Finance team across our offices in York and Leeds. We are determined to continue building on the success of 2005 and currently have a healthy pipeline of deals at various stages for this year."

Managing Director David Dickson said:

"The depth of our expertise in corporate finance and the level of experience we are able to commit to transactions gives us a highly competitive edge that has driven our penetration of the mid-tier deals market.

Richard Feltham  
Director, Corporate Finance  
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"We had some very ambitious targets when we embarked on this growth strategy and we are delighted to be ahead of our business projections at this stage."

G&E Corporate Finance Team, from left to right:  
Back: John Stitchman, Jeremy Oliver, Richard Feltham, George Hickman, Adrian Widdowson,  
Front: Tim Mills and Russell Turner



## Outsourced Bookkeeping Services

It is not very often that bookkeeping gets in the spotlight but as Sharon Powell, Bookkeeping Bureau Manager, with over 8 years' experience in this area, comments: "The outsourcing of the core accounting function is not only cost-effective for many of our clients, but also a very beneficial alternative to employing an in-house finance team. We currently act for a wide range of businesses ranging from sole traders, partnerships and not for profit organisations up to large limited companies."

The department offers a wide variety of services including core processing of records, completion of VAT returns, full system reviews and production of timely and informative management accounts. The package can be tailored to your own needs from one individual service to a full accounting function. The work can be undertaken either in our offices or at client's own premises. As a registered BACS bureau we can also offer clients the convenience of making authorised payments direct to their suppliers.

So what do the team find are the most rewarding aspects of their role? Sharon says: "With our in-house expertise we can remove the hassle often caused to clients who don't have the time to familiarise themselves with accounting processes. In our role we get to know a wide variety of businesses and it's very rewarding to see them develop and it's nice to feel part of that success."



The Bookkeeping Team, back left to right:  
Claire Robinson & Lucy Page  
Front Bookkeeping Bureau Manager:  
Sharon Powell, [spowell@garbutt-elliott.co.uk](mailto:spowell@garbutt-elliott.co.uk)

### Property Club Update

In our last issue, I informed clients and contacts about the new property club. Many thanks to those who have responded so far, other enquiries are of course welcome, please contact me at the address below.

Whilst taxation advice continues to be important for our property clients, the current emphasis has shifted to funding, with a number of clients approaching us for help funding developments. We are able to put together a sophisticated

development appraisal, which incorporates profit and loss, cash flow and balance sheet movements to show the key information required by the funders to make a lending decision.

We are able to assist clients in preparing detailed cash flow forecasts, incorporating funding and taxation assumptions to provide funders with sensitivity analysis of the key assumptions to illustrate the pressure which may be placed on

the facility. We are also able to test the bank facility letters and bank covenants to ensure that the facilities being offered are sufficient to allow the full development to take place without running out of cash.

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### STOP PRESS Exam Success

Congratulations to Julia Henderson, Laura Harrison and Martin Davey who have passed their final ACA exams. Congratulations also to Louise Turner who has passed her AAT final exams and Matthew Grant who has passed his ACCA finals exams.

### Retirement

All at G&E wish Maureen White well in her retirement after over 7 years' service to the Garbutt & Elliott Payroll department. Maureen, a lively and much loved member of the team, will be greatly missed.

### Rules Change for VAT claims on Business Mileage

From 1 January 2006, Customs changed the rules that govern how you claim VAT back on business mileage allowances paid to your employees.

The rule change affects those employees who purchase fuel themselves and then make an expense claim based on a mileage allowance of their actual fuel costs.

The mileage claim must be supported by a garage VAT receipt, in order for you, as the employer, to be able to reclaim the VAT back

on the fuel element of the expenses reimbursed. A proper VAT receipt will be required. A debit or credit card slip, which most people are routinely given at the garage, is not sufficient.

This change also affects those employees with company cars, who buy their own fuel, but does not affect the use of employer-provided fuel cards, credit or debit card or garage fuel account, where garage VAT receipts are already required to support a claim.

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Directors and staff in the firm are happy to discuss matters arising from this newsletter, as well as any other issues related to your business or personal financial affairs.



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