

PRE-BUDGET REPORT HIGHLIGHTS

Director Adrian Widdowson comments on the main points to note from the Chancellor's Pre-Budget Report.

Chancellor Gordon Brown delivered his Pre-Budget Report on 10 December 2003, an event that is now at least as important as the annual spring Budget. Here we note some of the "highlights" of the Report, with explanations of a few of the major items.

Highlights

- Private companies and their shareholders may no longer be able to benefit from the tax differences between salaries and dividends;
- Research and development tax credits and other allowances are to be improved;
- More businesses are to benefit from 40% and 100% first year capital allowances;
- VAT anti-avoidance rules are to be tightened up;
- There will be changes to the taxation of trusts.

Dividend -v- Salary

Over the past few years, the Government has introduced measures to encourage smaller businesses to incorporate, culminating in the introduction in 2002 of a 0% band of corporation tax for the first £10,000 of profits.

With the right combination of salary and dividends from the company, a sole trader transferring his business to a limited company could save as much as £3,500 on profits of £25,000.

The Government has clearly realised the potential of a loss of tax revenue through this route. Savings arise by taking a substantial amount of the profit of the company out in the form of dividends, rather than

salary, thereby avoiding National Insurance contributions. Also, to the extent that dividends fall within an individual's basic rate band, they are "tax free".

In the Pre-Budget Report there is a suggestion that the Government wishes to make the choice between dividend and salary tax-neutral for owner-managed companies. This must mean taxing dividends drawn from such companies as if they were salary, although there are no details about how this will be achieved.

This proposal could have a major impact on large numbers of businesses that have incorporated over the past few years.

Research and Development

Following consultation earlier in the year, the Government is putting forward a revised definition of research and development for the purposes of giving tax relief to companies working in that area. The proposed new definition will replace the current requirement for 'novelty' and 'innovation' with a new test based on whether the work shows an 'advance in technology or science'. This should lead to more scope for companies carrying out development work to claim the enhanced tax reliefs that are available.

Small and Medium Sized Company Thresholds

Small and medium sized businesses (not just incorporated companies) can claim 40% first year capital allowances on plant and machinery. Small

businesses can also claim 100% first year capital allowances on information and communication technology items, such as computers.

The turnover and balance sheet limits for qualification as small or medium sized are set to double for periods ending after January 2004. The timing of this change means that a significant number of businesses will already be in a period to which the new rules will apply.

Trust Capital Gains

A number of changes are being made to the taxation of capital gains in relation to trusts. These are largely driven by anti-avoidance considerations. The changes affect:

- Gifts hold-over relief on transfer of assets into a trust where the settlor or his or her spouse can benefit;
- Use of trusts to claim private residence relief for gains on the sale of second homes;
- The rate of tax on income and gains in a trust;
- Inheritance tax planning using the "home loan" scheme.

This is just a small selection of the points arising from the Pre-Budget Report. For more, please visit our web site at www.garbutt-elliott.co.uk/prebudget.htm



Adrian Widdowson
Director of Taxation
awiddowson@garbutt-elliott.co.uk

RETIREMENT PLANS...



It is with sadness we announce that following a period of ill health, our Director Colin Foster has reluctantly decided to take early retirement from day to day involvement with the firm, with effect from 31st December 2003. Colin will however be staying on as a director of the Holding company for the next few years.

In almost 39 years with G&E, Colin has seen the firm grow from 3 Partners and 5 chargeable staff to its present size. In his final years at school, Colin wasn't certain which career he would follow, being

torn between being an Electrical Engineer, or an Accountant. His elder brother became the former, and to Bob Elliott's relief at the time Colin became the first Articled Clerk, joining Garbutt & Elliott back in 1965, and becoming a partner in 1975. Colin was instrumental in our move to our present Monkgate offices, not by design but quite by chance after falling through the floorboards at the Red House, during a game of 'office football' - where the ball was a piece of typing copy paper (glued to hold it together), and the goal was a large central window overlooking the rear of York Theatre Royal!

Looking towards retirement, Colin will be fully occupied with his family (who he thanks for being so supportive throughout his illness): wife Joan and his two grown up children - Susan who lives and works in Paris as an accountant, and Michael, who lives and works in London as a Computer Networking

Engineer. Colin was Captain at Fulford Golf Club in 2001 and in recent years has served on the Board of Directors, but is now able to sit back and enjoy his main hobby, something that he can share with Joan. He also claims to 'enjoy' going to the gym - it was a new experience for him, this year.

Colin would like to thank not only his family for being so supportive throughout his illness, but also the Directors and staff at G&E with whom he has enjoyed working over many years.

David Dickson comments:

"Colin is widely recognised as a man with the highest standards of integrity and common sense, with a good deal of knowledge across many business sectors. He has made a great contribution to the growth and development of the firm and will be missed by all of us. It is unfortunate that ill health has forced him to take this decision, but we all wish him well".

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.



Monkgate House 44 Monkgate York YO31 7HF

t 01904 341200 f 01904 341201 e info@garbutt-elliott.co.uk



2 Stable Court Beechwoods Elmete Lane Roundhay Leeds LS8 2LQ

t 0113 2739 600 f 0113 2739 601 e info@garbutt-elliott.co.uk



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www.garbutt-elliott.co.uk

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News

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CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

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- Colin Foster retires
- Stop Press: Congratulations & New Starter

STOP PRESS:



5th February 2004, York Racecourse

Garbutt & Elliott are pleased to be a sponsor of the inaugural Venturefest York 2004 - a major exhibition for the science, knowledge, and technology based sectors. The event is being held at York Racecourse on 5th February 2004. For further details about the event, please see www.venturefestyork.net

Garbutt & Elliott launch new succession planning service

We are delighted to launch our new Business Owner Succession Solutions (BOSS) Service to provide a structured approach to succession in business. The BOSS service provides an in-depth review of where you are now and how to achieve your future aspirations.

Planning for Succession

Owner-managed and family businesses are unique with underlying issues that require owners to look at the complete picture and identify how to:

- Build a stronger business with the highest possible value.
- Plan for financial freedom to fund your preferred lifestyle and retirement, taking into account your personal and family needs.
- Plan for management succession, or for the sale of the business to existing management or a third party.
- Plan and maximise the wealth retention for the family.

When owners of a family business contemplate a change in ownership - selling the business, passing it on to family members, management buyouts, or appointing a professional manager - critical decisions affecting the owners and their families may not be completely addressed.

We understand the issues that owners are facing and we are able to offer an integrated approach to ensure the right result is achieved. This involves creating the right balance across 5 key areas:

- Business Financial Planning
- Personal Financial Planning
- Inheritance Tax Planning
- Management Succession Planning
- Exit / Succession Planning

We will look at some of these areas in more detail, for instance:

Are the successors in place?

Identifying successors is a very important part of exit planning. It takes time and energy to put in place a quality management team that fully understands the business and its operations. The nature of owner-managed businesses often results in the skills and knowledge vesting with the proprietor. An empowered management team needs to be in place and operational in advance of any changes, to ensure the business continues to prosper. This takes time and effort, and necessitates the owner "letting go" of certain aspects of the business. This can be achieved over time by ensuring that good information processes are put in place to enable the owner to oversee the business without having to get involved on a day-to-day basis.

Garbutt & Elliott would like to wish a Happy New Year to all our clients and contacts

If this is not achieved, it can often be one of the biggest barriers to succession planning, especially when the owner wishes to sell. Potential purchasers will be reluctant to take on a business if the owner has the skills, contacts and knowledge all of which will disappear when he / she walks out of the door. Identifying and grooming the future management team requires structured training and development programmes to ensure they are ready and proven to take over at the appropriate time.

In order to make sure you have the right team in place, think whether you can make yourself dispensable in the future. If the answer is yes, then you have probably succeeded.

A robust business plan is critical

Business planning is an essential element of exit planning. The business needs to have a clear strategic plan to ensure that the value is both preserved and then enhanced. Key indicators of success need to be built into the plan to monitor the progress e.g. sales, margin, number of customers, production efficiency, pre-tax profits etc. These are the areas that have been identified by the business as critical to maximise its future value. The plan needs to address the balance between sales, marketing, production, human resource issues and finance.

Succession needs to be addressed as part of the business plan to ensure that key stakeholders are aware of the intentions of the business. The new owners, whether family or not, will be able to understand the key issues in the business going forward.

So, make sure that your plan is up to date and clearly communicated to all the stakeholders in the business.

Grooming the business for sale

If it is necessary to sell the business then it is often the case that a period of "grooming" is required to ensure that the business is as attractive as possible to potential purchasers. Some of the areas that should be focussed on during the grooming process include:

- "Discretionary expenditure" – It may be possible to identify areas where cut-backs could be achieved, without damaging the short-term profitability.
- Ensure that income is maximised in the run up to a disposal.



David Dickson addresses an audience of clients and contacts at our Breakfast Tax Briefing in November 2003.

- Consider operational issues to reduce possible uncertainties in the purchaser's mind e.g. too heavy a reliance upon the vendor.
- Raise the profile during the period running up to sale.
- Make the most of awards that staff or the business have won. Press coverage is very positive in raising awareness, profile and perception.

Forward planning is therefore of great importance, although there are always "spit and polish" techniques that can be applied in the short-term. The timing of a sale is crucial. As a vendor it is important to consider:

- Personal issues.
- The market sentiment for the sector.
- Competition and opportunities for expansion.
- Financial constraints.
- Taxation - the timing and nature of the disposal needs careful consideration given the continual changes in legislation e.g. whether you should sell the assets or the shares of your business.

Maintaining your lifestyle during retirement

People involved in the day to day management of their company seldom have the time to plan for retirement and the day when they will sell their business. But such planning is critical not only in maximising the potential price obtained for the business and also minimizing tax on the sale, but also in making sure you are financially secure at that time.

Some of the financial planning issues that should be considered are:

- Before any shares are sold it is important that a full review of the pension arrangements is conducted. If an occupational style scheme is in place you will need to ensure that any potential surplus that may arise on early death does not go to the purchasers of your company. Instead you need to ensure that the potential surplus accrues for the benefit of your dependants. There are various ways this issue can be addressed that will give greater flexibility.
- Establishing or enhancing the funding of a self-administered pension scheme can reduce corporation tax prior to a sale.
- The balancing act between salary, dividend, bonus and pension contributions leading up to retirement needs to be managed very carefully.
- The investment decisions that have been made for the past thirty years need to be reviewed. A different investment strategy should be followed in the five-year period leading up to retirement with a possible reduction in risk, and a change to income-producing assets.
- At retirement numerous decisions need to be made in respect of how the pension benefits can be taken, from straightforward annuity purchase (although even this requires an expert to maximise benefits and choices), through to occupational drawdown. Each option has its benefits together with potential downsides.
- Finally, the recent pensions Green Paper is likely to have further implications for anyone

planning retirement. It is vital that anyone providing advice to you in this area is fully aware of the most recent developments so that you can maximise the benefits from what, to many people, is their second largest asset.

We can, of course, steer clients towards the appropriate financial advisors who can advise on these markets.

BOSS experts within the firm are David Dickson, John Kirman and Craig Manson. Craig is currently developing a wealth tracking system to assist clients.

What to do next?

Key questions are: does my business have:

- A clear, well thought out exit strategy and plan?
- A clear, well thought out management succession plan?

If not, we can help.

ARE YOU PREPARED?

The **Money Laundering** provisions as set out in the Money Laundering regulations 2003 and the Proceeds of Crime Act 2002 come into effect on 1st March 2004, with regard to 'Regulated Businesses'.

These include: Solicitors, Providers of Accounting, Taxation or Financial Services, Estate Agents, Antique Dealers, Casinos, Jewellers, Pawn Brokers, Turf Accountants (Bookmakers), Motor Traders, or any business with a cumulative transaction in cash with one entity in excess of 15,000 Euros.

If you believe you are a regulated business, you will hopefully have made arrangements to satisfy the new regulations within your internal procedures. If you have not we shall be pleased to offer guidance.

Please contact our Money Laundering Officer, Director John Kirman at the York office or on jkirman@garbutt-elliott.co.uk



John Kirman
Director
jkirman@garbutt-elliott.co.uk

Finance For Growth

– a success story for On-line Instrumentation

On-line Instrumentation, a specialist manufacturer of high quality analytical testing equipment for the dairy industry, has completed a finance-raising initiative with a consortium of Business Angels to fund an ambitious development programme.

The company, which has been trading for three years, has raised around £250,000 to be used to recruit additional staff, increase market share and expand into new export territories. It aims to achieve an operating profit in excess of £1 million within three years.

On-line Instrumentation manufacture a range of innovative testing and analytical equipment utilising infra-red and laser light scatter technology, developed by an American scientist who was part of a Nobel Prize winning team.

The management team were advised in the deal by Richard Feltham of Garbutt and Elliott Corporate Finance who comments:

"On-line Instrumentation produces a range of innovative and highly technical equipment and has a management team who have been widely respected in the industry for many years with ambitious plans for growth and development. I am delighted we were able to raise the finance they required by drawing together a number of organisations and our own network of individuals who look to invest in promising businesses like

this. Indeed, two investors from our own informal network of Angels helped to fund this deal. This is a quality early-stage business with all the credentials for success. This also shows that it is possible for businesses to secure funding in the often difficult range between £20,000 and £500,000."

The funds were provided by York Business Development Ltd (YBDL), through the York Technology Growth Fund, a consortium of Business Angels, including members of YABA (the Yorkshire Association of Business Angels) and more traditional bank finance.

Clive Benson, Managing Director of On-line Instrumentation, said the new funds would enable the company to hire additional staff and undertake a strategic marketing drive to identify and penetrate new markets.

"We have a range of tremendous products that deliver real benefits to the dairy industry and now we have the funding in place to enable us to attack new markets and increase our customer base. The investment amounts to a real expression of confidence in our future and gives us that added incentive to succeed."



Richard Feltham
Director
rfeltham@garbutt-elliott.co.uk

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CHRISTMAS QUIZ GOES ONLINE!

This year we have dispensed with the traditional booklet and put our annual Christmas Quiz Question Paper and Answer Sheet on our website www.garbutt-elliott.co.uk

The Cocktail has a mixture of quizzes and brainteasers that are guaranteed to keep the family occupied over the festive period. The winner (with most correct answers) will receive a £50 Winerack voucher. Please send your completed answer sheet to our York office by Monday 2nd February 2004.

If you would like extra copies of the printed sheets for family or friends who do not have access to the Internet, please contact Tony Tarpey at our York office.

CONGRATULATIONS

Exams...

Congratulations to Ian Kent in our Leeds office who has successfully completed the final exams for the Association of Chartered Accountants (ACA).

Congratulations to Martin Davey in our Audit Department who has recently passed his Taxation Exam – the final exam in the Professional Stage ACA Exams. He has now started to concentrate on the Advanced stage exams.

Baby...

Donald Inglis, a manager in our Business Services Department, and his wife Elizabeth are now the proud parents of Annalie Rachel Inglis. Annalie was born on 25th November at 7 minutes past midnight, weighing 7 lb 10 oz. Many congratulations to both.

Wedding...

Jason Love, also a manager in our Business Services Department, married Nadine Lewis in October in Nadines' home area - Bromborough, The Wirral. Following the wedding, they enjoyed honeymooning in Monte Carlo!

NEW STARTER

Simon Kettlewell

Simon joined the firm in December after graduating from the University of Durham with a degree in Economics with French. He has joined our Audit department, working for director Alan Sidebottom's team. He plans to start studying towards his Association of Chartered Accountants exams this year.



David Dickson
Managing Director
ddickson@garbutt-elliott.co.uk



John Kirman
Director
jkirman@garbutt-elliott.co.uk



Craig Manson
Director
cmanson@garbutt-elliott.co.uk