



Client Newsletter – August 2007

1. Recent MSC legislative changes
2. Why VAT registrations are taking so long
3. Discretionary Will Trusts (courtesy of financial advisors, LEBC Group)

First up, how the new **MSC legislation** raises the quality of IR35 appraisals.

Our freelance clients will have noticed a few tweaks to their accountancy services over the past few weeks. This is in response to the new MSC rules and the detailed guidance that HMRC have sent out. Although we specifically can retain a registered office facility for our clients, out has gone the ability for us to act as company secretary for smaller entities (although bizarrely, and unfairly, we can act as secretary for our larger clients) and in has come a much stricter regime on IR35 appraisals.

In January 2008 we will be carrying out our annual IR35 **red, amber, green** classification of IR35 status for clients. We will send out questionnaires to those affected clients, asking a series of questions on their relationships with their end clients. Together with your ongoing contract reviews we will be able to advise of the level of exposure to IR35, which each company must declare for or against at the end of the tax year in a payroll report to HMRC.

Our staff have handled many IR35 enquiries by HMRC for our clients and are as good as any at assisting and advising in this tricky area. To date we have fortunately handled all inspections of IR35 in our clients favour and we focus a large segment of our business in this niche area. Getting it wrong can add 20% to an annual tax bill, so it is an issue we take very seriously. We do of course remind our clients who have taken up our IR35 appraisal service to be diligent in sending us a copy of any new contract they receive for IR35 review.

Delays with VAT registrations

HMRC have warned that there is unlikely to be any respite in the substantial delays being experienced with VAT registrations. Theresa Middleton, a director at the Revenue warned at a recent Chartered Accountants Tax Faculty that it was likely to be the autumn before any improvement was actioned. As such they are advising for business not to chase any applications.

HMRC are also stating at present that VAT registration can take anywhere from 2 – 24 weeks with the average time taken to process an application coming in at around 10-14 weeks. Reasons given for these unprecedented delays are the clamp down on carousel fraud, revenue staffing issues and the increased incorporation levels attributed to the recent MSC legislation!



Saving Inheritance taxes

On a lighter note, a member of our panel of Financial Advisors has kindly provided an article for us discussing the benefits of **Discretionary Will Trusts** - a simple way to reduce the liability of inheritance taxes.

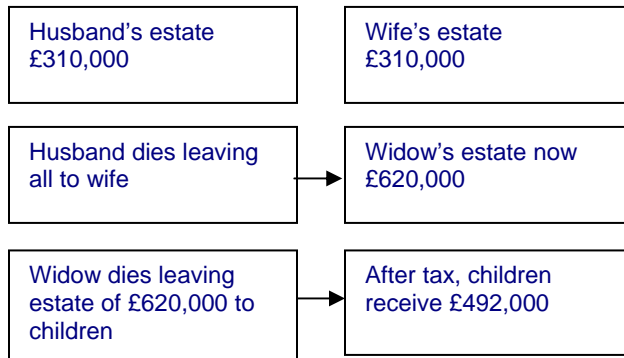
A discretionary trust is a flexible type of trust for married couples that can be included in your will and may substantially reduce your inheritance tax liability. Whilst both husband and wife each have an inheritance tax allowance on the value of their assets before the tax becomes payable (£300,000 in the 2007/08 tax year) in many cases couples leave all their estate to the surviving spouse, quite often simply because it is perceived to be the “done thing”, thereby not using their own inheritance tax (IHT) allowance. Transfers between spouses are exempt from inheritance tax, so when the first spouse dies there is no tax to pay if all the assets are left to the surviving spouse.

However, upon the death of the second spouse the combined estate is subject to tax, with only one IHT allowance taken into account.

The use of a discretionary trust allows full use to be made of each spouse’s allowance. (Note: The trust only comes into effect after the first death).

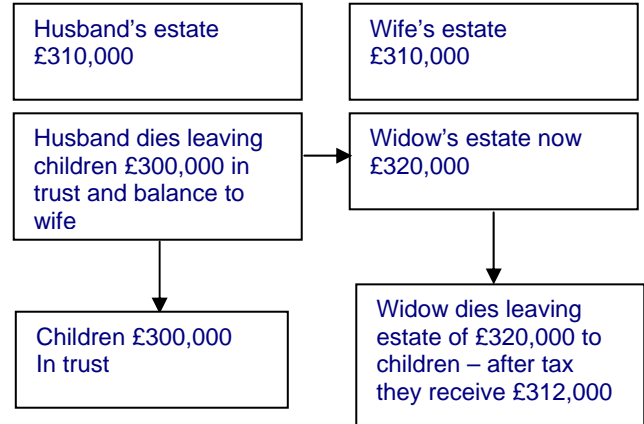
The example below shows how having a discretionary will trust can save a considerable amount in inheritance tax.

Without the use of a discretionary will trust



Widow's estate	£620,000
Less nil rate band	£300,000
Taxable	£320,000
Tax at 40%	£128,000

With a discretionary will trust



Widow's estate	£320,000
Less nil rate band	£300,000
Taxable	£ 20,000
Tax at 40%	£ 8,000

So, without using the trust children receive a total of £492,000

Using the trust they receive a total of £612,000

A saving of £120,000 in inheritance tax!



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There are just four simple requirements to set up such a trust:

- You must be married
- You must own your family home jointly with your spouse
- The property must be owned as “tenants in common” which ensures that both husband and wife own their own defined share of the property under the will
- Your home should be worth as much or more than the current inheritance tax nil rate band (£285,000 in the 2006/07 tax year) to provide a tax benefit

However, there are other considerations to take into account and it is well worth seeking independent financial advice.

Should you wish to find out more information about discretionary will trusts, or any other pension or investment ideas, we will be happy to put you in touch with Barry Pearce of the LEBC Group.

The next newsletter instalment will be mailed out in November and will approach any issues that have arisen in the coming months. Of course if there are any areas of your services that you wish to discuss please contact your personal accountant.

All the best

Nasa Consulting