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Work in progress - what's all the fuss about?



There has been considerable alarming comment in the press on the valuation of work in progress. This follows technical amendments to Reporting Standards, which

now form the basis, not only of accounts preparation but also, of the Inland Revenue's approach to profit assessment. Professional practices, such as solicitors, could be affected.

Alarmist stories have been circulating saying that £millions of extra tax will have to be paid on this new method of valuation. But, is this really true?

The principle remains that work in progress should be valued at the lower of cost or net realisable value. That value should exclude the element of partner

time representing the partners' profit share. This principle continues to apply to Limited Liability Partnerships and to unlimited partnerships. This is how work in progress has been valued for years in professional partnerships, particularly since the rules changed regarding cash accounting. So, what has changed?

This latest technical amendment covers situations where work has been completed under contractual arrangements and there is a right to consideration e.g. when a property transaction has been completed.

Normally, that work will be invoiced as soon as it has been completed but not before. No client will pay for half completed work. However, if the work has not been invoiced at the accounting date, then the full value of the contract should be included as work in progress. If the contract has not been completed at the accounting date, then the normal

work in progress principles will continue to apply. This also applies to contingency fees.

For most professional partnerships, the present basis of valuing work in progress will fall comfortably within the revised definition. However, contractual terms will need to be reviewed and must be in accordance with the valuation basis taking into account the nature of the work involved.

Where completed work is billed promptly and work in progress is valued in accordance with established principles, there should be no difficulties. Of course, there may still be businesses where billing is tardy and they need to sharpen their act! We would be delighted to give appropriate advice.

For more information contact David Nye on 01442 220712 or email david.nye@hhllp.co.uk



Inheritance tax - back to basics

The increases in property prices in the last decade have meant that the vast bulk of our clients' estates will now exceed the nil rate band. Based on our experience, it is clear that, what used to be considered fairly straightforward planning must be undertaken with great care to ensure that it has the best possible chance of working effectively.

We have developed considerable expertise in advising private clients and working with their solicitors in a number of complex situations. However, we often find that the simplest exemptions are being under utilised or not utilised at all. We believe that the most underused exemption is the 'regular gifts out of income' or 'normal expenditure' exemption.

Many clients are unsure about making significant gifts of capital either to intended beneficiaries or to trusts. Is it wise to give children in their 20's significant lump sums? What might happen in the event of a marriage breakdown? Might the capital be needed to pay for nursing care? If a trust is established, what are the annual maintenance costs? Will the donor survive long enough for the gift to be effective? What are the Capital Gains Tax implications of a gift? And so on.

The same clients may be very happy to give away (either directly or to a trust) surplus income. The normal expenditure exemption specifically covers this situation. Transfers are exempt if:

- ◆ they are made out of the donor's normal expenditure,
- ◆ they are made out of income, and
- ◆ after allowing for all transfers forming part of normal expenditure, the

donor is left with sufficient income to maintain his or her usual standard of living.

This exemption can apply to many clients who may be expecting a more complex solution. The wealthy client with a significant investment portfolio may well find himself from month to month, and year



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to year, with surplus income and therefore, probably, an increasing estate. There is no requirement for the gifts to be of the same amount. There is a requirement that they are habitual, or intended to be habitual. Since the gifts must demonstrably come from income, it is likely that such gifts would be made in cash.

As usual, careful documentation is essential. Typically Hillier Hopkins draws up schedules with the donor laying out the individual's post tax income and outgoings. The donor then commits in writing to give away some, or all, surplus income, perhaps to an individual or to a trust. We have established discretionary trusts to receive such payments, noting that the tax treatment of one-off gifts to discretionary trusts is very different. Payments of monthly premiums to a life policy clearly show the intention to make regular payments. (Note that 'income' produced by withdrawals from insurance bonds is not income under general law, despite the tax treatment of

withdrawals above the 5% level.)

Like nearly all inheritance tax planning, its efficacy is unlikely to be tested until the death of the donor. It is therefore very important that good documentation is in place to demonstrate that the various conditions have been met. In some cases it is advisable for the donor to exchange correspondence with the donee and their professional advisers on an annual basis.

Out of the ordinary uses might include:

- ◆ Instead of gifts from grandparents to an A & M trust, regular gifts out of income
- ◆ Voluntary maintenance to an ex-spouse
- ◆ And other circumstances where Potentially Exempt Transfers would normally seem the route to follow.

Conclusion

The normal expenditure exemption is significantly underused. As Mr Brown's attitude to tax planning seems to harden, advisers should ensure that they are taking full advantage of the non-provocative routes available to them. Failure to accurately document an arrangement as satisfying the three main tests, both at outset and in many cases annually, will mean that some simple planning might fail.

For further details contact Ben Sherwood on 01442 220713 or email ben.sherwood@hllp.co.uk

Don't mention the words 'strategic planning'



Read by few and implemented by none

The term 'strategic planning' has most of us glazing over with visions of slick consultants who provide us with documents the size of 'War & Peace'. These documents are destined for a shelf, serving only as a constant reminder that we tried, but somehow failed, at strategic planning.

Occasionally, someone takes down the document, dusts it off, gets confused by the management speak, and returns it to its resting place. Time marches on and, before you realise it, even the relevant parts of the plan, the actions, are out of date, due to the lack of implementation.

What makes our approach to planning more valuable?

Colin Howe has a unique perspective on **'Managing the professional practice'**. As managing partner of Hillier Hopkins LLP, Colin can empathise and offer practical advice on implementing plans and managing change.

He is able to demonstrate, objectively, how setting goals and devising action plans to achieve those goals are essential in today's dynamic business environment. Colin says: "There is an excess of jargon used to describe commonsense business principles. Without establishing a clear plan that 'everyone' in the practice is committed to, you will find yourself, year on year, discussing why the plan didn't work, and then setting the same plan for the following year".

"There is no magic wand, no clever management speak, involved in my approach. I focus on supporting you, in identifying the key elements of the plan, and demonstrate how, by applying sound principles, it is possible to actually 'make it happen'".

How do you get started?

From May we will offer workshops*, which provide a practical overview of the process, and from these 'taster' workshops you will be able to book bespoke planning days for your practice.

At the end of your bespoke planning day you will be provided with a one-page plan, which identifies the key steps your business needs to take. The option is then yours to select the extent of support required to ensure implementation of the plan.

For further details of the workshops please e-mail planning@hhllp.co.uk or call Colin Howe directly on 01442 220738 (*CPD Accredited)

The money laundering regulations - don't risk prosecution



From 1 March 2004, all solicitors' practices became subject to the Money Laundering Regulations. All legal firms had to have procedures in place to identify new clients and report relevant suspicions to the National Criminal Information Service (NCIS). All the partners and staff in the firm had to be trained in their own and the firm's obligations under the Proceeds of Crime Act 2002 Part 7 and the 2003 Money Laundering Regulations. Failure to set up these procedures and

to provide training carries a maximum penalty of two years imprisonment and an unlimited fine for the Money Laundering Reporting Officer and the firm.

One solicitor has already been sent to prison for inadvertently not complying. Financial institutions have been fined up to £2 million for non-compliance.

Throughout January and February, we have been providing training, predominantly in-house, to partners and staff of firms of solicitors to ensure compliance with the Regulations. We have also provided training to Money Laundering Reporting Officers (MLROs) on their specific duties and provided them with documentation to ensure that they fulfil their obligations under the Regulations.

Non-compliance is not an option, nor are half-hearted attempts at compliance. If you have used computer-based or audio based training, are you sure that your partners and staff fully understand their own and the firm's obligations? Should any of your partners or staff risk prosecution for not reporting a suspicion, a possible defence is that they were not properly trained in the Regulations, in which case it is the MLRO and the firm that risks prosecution instead.

If you have not yet set up your procedures and/or trained your partners and staff then please contact Graham Sherling on 01923 809407 or email sherling@hhllp.co.uk

Tax efficient purchase of property? Meet the team



When people purchase property they need to consider the after-tax return to ensure that they can justify the purchase price. At Hillier Hopkins, we have a team of tax specialists to advise on all aspects of property ownership.

Graham Sherling heads the Property Tax Group. He looks at all the tax aspects so that the different interlinking taxes are considered when recommending how property should be owned and how the purchase price should be structured. Where specialist advice on a particular aspect is required, the relevant specialist within the Group is asked for their input. Graham coordinates the whole process.

Graham's specialist area is Stamp Duty

Land Tax. In December 2003 and January 2004, we ran two seminars tailored specifically for solicitors, to bring them up to speed on the new legislation. The two events attracted over 50 delegates.

Robert Twytle specialises in VAT, a very complex area of property tax. Of particular interest is the use of Transfer of Going Concern to avoid VAT on purchase, thereby potentially reducing Stamp Duty Land Tax and improving cash flow.

Jackie Johnstone is our Capital Allowances specialist. Up to 22% of a commercial property purchase price could possibly be treated as plant or fixtures and fittings, accelerating the tax relief available on the purchase price of a property.

Martin Culshaw is our Capital Gains Tax specialist and he can advise on the best way

to structure the ownership of a property to achieve the lowest possible capital gains tax liability, thereby improving the after-tax return on a property.

Ben Sherwood, our Financial Planning specialist can advise on the advantages and disadvantages of using a pension fund to purchase property and advising on which type of pension fund to set up for the purchase.

David Nye, our Trust specialist can advise on how trusts can be used to purchase property, particularly from an inheritance tax point of view.

If you or your clients need advice concerning the tax implications on the purchase of a property, please contact Graham Sherling on 01923 809407 or email graham.



SARs - get immunised

Last year saw the recognition worldwide of the frightening effect of SARs - a deadly malady previously known only to solicitors holding client money. The invidious effects of these Rules on the daily working lives of solicitors was hitherto unappreciated by those outside the legal profession but have any changes been

made to lighten your load? No!

I regret to say that the Solicitors Accounts Rules, true to form, show no sign of relenting, not even by a penny! Accountants carrying out the examination of your client account are not required to express an opinion as to the truth and fairness of your client accounts but must state whether they are satisfied that you have complied with the Rules throughout the year. As we know, this is almost impossible!

Your best chance of survival from SARs is to ensure that you are well immunised by employing a skilled cashier and alerting fee earners to the constant danger of dropping their guard. Ensure that annual boosters to your protection are made by working with your accountant. Solicitors and accountants make a strong team for healthy business.

For more information contact Cathy Leach on 01442 220746 or email cathy.leach@hhllp.co.uk

Expert advice & services to professionals Morning workshops 2004*

◆ Investment & Insurance for Elderly Clients

Wednesday 9 June
10 pitfalls and how to avoid them.

◆ Trustee Investments

Wednesday 7 July
Trustee responsibilities and risks after Trustee Act 2000.

If you are interested in attending any of the workshops, please email solicitors@hhllp.co.uk to reserve your place.

(*CPD Accredited)