

Share Options



A recent decision in the Court of Appeal (Mansworth v Jelley), which went against the Inland Revenue, may have a surprising and unexpected impact on the capital gains tax treatment on the sale of shares obtained on the exercise of unapproved options. It may also apply to options granted under an approved scheme if income tax was suffered on the exercise.

Following the court's decision the Inland Revenue said they would not appeal against the decision. However, they have introduced a provision in the 2003 Budget, which reverses the effect of the courts decision.

This loophole has been closed with effect from 10 April 2003

This decision means that where you have suffered an income tax charge on the exercise of an option you will potentially be able to make substantial capital gains tax savings for previous years and

save capital gains tax in the future.

The following example illustrates the changes: ~

An unapproved option over 5,000 shares was granted with an exercise price of £3 per share. The option was exercised and the shares immediately sold when the

share price was £9 per share. As you can see from this example the courts decision has created a £30,000 capital loss that can be offset against other capital gains arising in the year or carried forward and relieved against future gains arising. We currently have claimed capital losses totalling £10 million on behalf of existing clients.

If you have ever exercised options and suffered income tax on the exercise this will be of benefit to you. It is a highly complex area but substantial tax savings can be made. If you would like more information or this affects you, please contact Debbie Wilson on 01442 220710 or email debbiew@hillierhopkins.co.uk

	OLD TREATMENT	NEW TREATMENT*
Income taxable on exercise:		
Market value on exercise 5,000 shares x £9	£ 45,000	£ 45,000
Less: Option exercise price 5,000 shares x £3	15,000	15,000
Amount liable to income tax	30,000	30,000
Capital Gain on sale: ~		
Sale proceeds 5,000 shares x £9	£ 45,000	£ 45,000
Less: Market value on exercise 5,000 shares x £9	45,000	45,000
Less: Amount subjected to income tax (see above)	N/A	30,000
Capital gain/(loss)	nil	(30,000)

*For all exercises on or before 9th April 2003

Seminar Dates 2003



INVESTMENT OR DEALING IN PROPERTY?

8th May - Aylesbury Office
Five key questions on property purchases

10th Sept - Hemel Hempstead office
Stamp Duty pitfalls

14th Oct - Aylesbury office
Stamp Duty pitfalls

To suit most professional schedules the workshops are being held at both our Hemel Hempstead and Aylesbury offices. Refreshments are served at 8.00am with the presentations concluding at 10.30am.

PRESERVING YOUR WEALTH

15th May - Moor Park Golf Club
Rickmansworth Herts WD3 1QN

The seminar will cover topics including: aspects of inheritance tax planning, new pension legislation and extracting value from your business. Reception is at 4.15pm. The formal presentations will start at 4.30pm and finish by 6.30pm.

'MARKETING WITHOUT THE JARGON... MAXIMISING YOUR COMPANY'S MARKETING POTENTIAL'

20 May:
Marketing Professional Services: The Marketing Plan

16 July:
Advertising Effectiveness

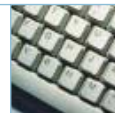
23 September:
Direct Mail for Professional Services

13 November:
Effective Management for Marketing

Held at our Hemel Hempstead office between 4.30pm and 6.00pm, all our marketing workshops cost £60 per person, which includes refreshments and handouts.

For further information please contact Virginia Mead-Herbert on 01442 269341 or e-mail info@hillierhopkins.co.uk

Supporting customers



Whether you are waiting in a queue for helpdesk support or for an engineer to make an onsite visit, computer problems cause a great deal of inconvenience and expense to businesses.

There is another way.

Provided you have Internet capability we can remotely dial into your computer and guide you through most problems. Our expertise covers most desktop systems including the

Microsoft Office suite of applications and specific accounting software packages.

'Supporting customers in any location'

For a demonstration please contact Rob Woodcock on 01442 220770 or email robw@charteredit.co.uk



When was your last check-up?

Security, safety and confidentiality are paramount in today's business world. Are your IT systems adequately geared towards the protection of your business? Chartered IT Solutions Limited ensure your systems are up-to-date and run effectively to eliminate any potential threats, allowing you to remain focussed upon your customers.

To arrange a free health-check please telephone 01442 220770.

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News update from Hillier Hopkins Spring 2003 - Incorporating Budget News

Modernising the Taxation of Property

The following changes, in date order of implementation, have been announced in the Budget: -

Stamp duty

From 10th April 2003

Stamp duty abolished on all non-residential property transactions in the 2000 Enterprise Areas

From 15th April 2003

The anti avoidance measure on stamp duty announced in the 2002 Budget relating to transfers of property out of a group has been extended from two years to three years. A loophole to this measure has been closed whereby the clawback could have been avoided by transferring the land into a connected company before selling the original company together with the connected company.

From 1st December 2003

1. Abolition of stamp duty on transactions involving property other than land, shares and interests in partnerships. This basically covers book debts and other receivables.
2. The new self-assessment regime for stamp duty.
3. Zero rate of stamp duty for commercial property increased to £150,000.
4. After consultation, the

following is proposed for new leases. Lease duty on new lease agreements will be simplified to 1% of the discounted net present value of rent due under the lease. No duty will be payable if the net present value is less than £150,000 for non-residential property and £60,000 for residential property. Future rents will be discounted at the rate of 3.5% per annum. 5. VAT will be excluded from treatment as consideration for the new lease provided the landlord has not opted to charge VAT by the time the lease is granted.

Further consultation

Anti-avoidance powers regarding stamp duty to discourage the transfer of properties into companies in certain circumstances.

Capital gains tax

From 6th April 2004

A more generous capital gains tax regime for let property used in a business, extending business assets taper relief to let property used by unincorporated traders.

For more information please contact Graham Sherling on 01923 809407 or email grahams@hillierhopkins.co.uk

Stability after the War?

As I write this, momentous events are occurring in Baghdad and we are absorbing the implications of the Chancellor's 2003 budget.

Both of these have contributed to economic uncertainty and hopefully we will now see more positive indicators with stability at the stock exchange and in the housing market.

Is your business in a fit state to take advantage of improved economic conditions (or indeed to react if they do not improve?) Do you have a clear vision of where you would like to be in 5 years time?

A large number of businesses fail, or do not achieve their full potential, because they do not plan. I am not talking here about the annual budget dusted off once a year for the bank manager. For any business which has ambitions to grow or develop a focussed strategic plan is essential.

This plan does not have to be complicated, indeed in concept it is very simple, 'where are you trying to get to and how are you going to get there?'

We are very excited about a new product we are able to offer clients called the



COLIN HOWE,
MANAGING PARTNER

'Strategic Planning Toolkit'. This is a structured, but flexible way of assisting you to develop your own plan. A qualified facilitator will lead discussion on your personal and business goals, setting your objectives based on these goals and developing 'bite sized' action plans to move you in the right direction. We then stay with you to make sure the agreed actions happen!

The starting point for this is to take all the owners away from their 'office routine' for a day and get them to focus on strategic issues.

The good news is this process is risk free to you... we ask you to pay us what you think the day was worth.

If you think your business would benefit from this process please contact either Colin Howe (01442 220738) or Richard Malone (01923 809405). We would be happy to come and explain the benefits in more detail.



Aylesbury office: 01296 484831 Hemel Hempstead office: 01442 269341 Watford office: 01923 232938
www.hillierhopkins.co.uk



Payroll



Out with the old and in with the new

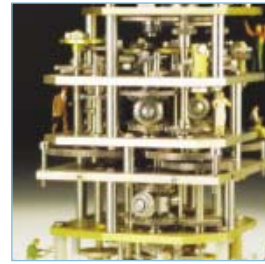
The new 2003/04 tax year has now begun and your brain is near overload having to complete 2002/03 returns and taking in all the new and revised legislation introduced in the 2003/04 tax year.

The 2002/03 year end procedure of completing forms P35, P38A, P14 and P60 should be a simple exercise, as long as everything reconciles and all employee information is available. According to the latest 'Employer's Bulletin' some of the most common errors made are: using the

wrong version of form P14, missing or incorrect NI number, tax credit payments and funding detailed incorrectly on form P35, NIC earnings in columns 1a-1e recorded incorrectly, to name a few.

Money Saving Tip: you may be able to use the FREE Inland Revenue P14 form, instead of using your payroll supplier stationery that you have to pay for.

For 2003/04 legislation is revised on NIC rates/thresholds and Maternity Pay/Leave. Paternity Pay/Leave and Adoption Pay/Leave is also introduced.



Corporate Protection

Is your business safe?

Of course it is part of normal business practice to insure the physical assets of a business such as premises, contents and vehicles. Increasingly, however, it is being realised by responsible business owners and managers that inanimate objects do not constitute a business. People do.

For the majority of small to medium sized owner managed businesses the death of such a person can have major consequences, quite apart from the sadness that such a loss inevitably brings.

What will happen to the firm's network of contacts, its fund of expertise or that most intangible of assets, the firm's goodwill? In addition how will the bank, customers, shareholders and even other members of staff react to the event?

Without the right owners or key managers an enterprise is likely to fail. In fact the death of one of these individuals is a major cause of business failure in the UK.

This may appear on the face of it to be an unlikely scenario. Surely the chance of one of the company's directors dying is so remote that it doesn't warrant insuring against?

Unfortunately this likelihood is significantly higher than you probably think. The table below details the statistical likelihood of a shareholder or partner dying before they reach age 65.

NO OF MEMBERS OF BUSINESS OR PARTNERSHIP					
Average Age of Shareholder / Partner	2	3	4	5	10
35	28%	39%	49%	56%	81%
40	28%	39%	48%	56%	80%
45	27%	37%	46%	54%	79%
50	25%	35%	43%	51%	76%

Source: Derived from CMI Mortality table (AMBO(2) ultimate) 1997

Even to the youngest and most health conscious of us these figures are pretty scary. So given that we can't cheat death, what can responsible owners / managers do to protect their business should the grim reaper come knocking?

Essentially there are two areas that should be of the largest concern. These are: -

Firstly, protecting the company against the loss of profits that the death of a key individual may cause. Not only will turnover potentially suffer, the cost of replacement, training and maybe upgraded remuneration could also be high. Management must be in a position to move quickly, to prevent competitors taking advantage and placing further pressure on profits.

This means an immediate, unexpected need for cash above and beyond the normal requirements of the firm - to fund the transition and replace lost profits.

Second, ensuring that the ownership of the company remains in the hands of those who are interested / capable of running the business. If the heirs of a deceased shareholder are unlikely to want a stake in the firm, preferring its value instead, then money must be found. The surviving directors may not necessarily have sufficient funds to purchase this

stake and it may instead be sold to a potentially undesirable third party. In the event that the shareholders have arranged for the shares to automatically pass to the remaining owners, who compensates the heirs?

What must not be allowed to ensue is serious financial damage to the firm, or a descent into wrangling. In that direction lies the unfriendly take-over bid, a loss of management control, breakaway enterprises and potential failure. Money to cover the value of shareholdings will be needed immediately.

The cost of protecting the people in a business, as well as the business itself, can compare very favourably with your other insurance needs and the value such protection brings can be very great indeed. Insuring a key employee can cost less than insuring a company car, yet a car is easily replaceable.

Much more important than the cost of the insurance policy itself is the need to ensure that the right people will benefit, in the most tax efficient manner. Having the wrong style of policy or the wrong agreement could result in a large liability for inheritance tax or income tax.

Hillier Hopkins are experts in this field. We will ensure that not only are the insurance policies as cost effective as possible, but also that any potential tax liability is minimised. We will also ensure that any required agreements are constructed properly, reducing the potential for problems in the future.

For further information please contact Kevin Blake on 01442 220728 or email kevinb@hillierhopkins.co.uk

DOES YOUR EMPLOYMENT POLICY STAND UP?

The importance of ensuring your employment policies are regularly reviewed cannot be overlooked. All maternity and paternity policies now need to be amended to accord with legislation brought in on 6 April 2003. In addition, new rules on flexible working also came into force. The flexible working rules state that employers now have a legal duty to consider applications for flexible working. This can be part time work, job sharing, term time work or working from home.

There is specific eligibility for employees and a mandatory procedure and timetable which employers must follow before refusing any request. This includes a meeting and putting in writing reasons for refusing and offering a right of appeal. An employer does not have to produce evidence of its decision.



What if the employer gets it wrong?

An Employment Tribunal can award damages to the employee of up to £2,080 compensation. Beware that it is not safe to assume maximum liability for refusing flexible working is £2,080. This new right will not only result in more claims but it also underpins and facilitates the Sex Discrimination Act where an employee can be awarded unlimited compensation. As a sex discrimination claim, the employer will need to demonstrate any refusal on objective business grounds. Therefore, it is vital that employers ensure they have clear and up to date policies and procedures for themselves as well as their employees.

For further information contact Virginia Mead-Herbert on 01442 269341 or e-mail virginim@hillierhopkins.co.uk

BUDGET BRIEFING

'A-Day' - a qualified hurrah



On December 17 the Inland Revenue issued a consultation document regarding simplifying pensions. We believe that most of the measures in this radical paper will feed through into legislation. Most of the changes are positive for most of our clients. As usual though, care must be taken not to fall into any of the traps that have been (intentionally or unintentionally) laid.

A-Day is the day when the relevant legislation comes into effect. April 2004 is the target but 2005 may be more realistic. Some points may be changed as the proposals make it to the statute book, but many will not. In summary:

The Good:

- More tax-free-cash for many
- No problems drawing pension while still working
- Scope for larger contributions

The Bad:

- Net tax extraction cost of 60% on overfunders is penal
- Overall limit at £1,400,000 is way too low - and will get lower in real terms
- The annuity at 75 issue has been badly fudged

For further information telephone Ben Sherwood on 01442 220713 or email bens@hillierhopkins.co.uk

VAT Changes



30 years on, VAT yields £60bn which is 17% of government revenues. Despite that fraud, avoidance and non-compliance account for a shortfall of £10bn. Legislation is therefore going to be introduced to tackle these problems and also to give more guidance and incentives to businesses.

A number of avoidance schemes linked to property are effectively closed

The registration levels are raised to £56k and an incentive scheme introduced for those who have exceeded

the limits but failed to register. A number of avoidance schemes linked to property are effectively closed as well as a scheme for delaying the VAT tax point for inter-company transactions.

Custom's powers are increased in relation to the security they can demand from new traders who have a poor compliance record and also in relation to a chain of transactions to ensure that if VAT is not paid they can trace it back to other businesses. Smaller businesses are helped by the raising of the flat rate scheme and annual accounting thresholds are.

For further information telephone Robert Twyde on 01923 809410 or email robertt@hillierhopkins.co.uk

Employment Benefits



Increases to tax free limits were announced by the Chancellor as follows:-

- Long service awards - from £20 to £50 per year of service
- Annual parties - from £75 per head to £150 per head
- Third party gifts - from £150 to £250
- Limits removed on number of designated cycle to work days

Also, employees can receive tax free reimbursement of

incidental costs of working from home. £2 a week can be paid without supporting evidence of cost.

For further information telephone Nicola Davies on 01442 220731 or e-mail nicolad@hillierhopkins.co.uk

Encouraging Innovation



The Chancellor re-affirmed the Government's commitment to using tax-breaks to encourage UK businesses to bridge the productivity gap and increase expenditure on innovation.

After an uneasy nine-day vacuum, it was confirmed that expenditure on information and communications technology by small businesses will continue to qualify for 100% capital allowances until 31 March 2004 - a move which is to be applauded, but will no doubt frustrate the cautious amongst us who went on an IT spending frenzy before the original 31 March 2003 expiry date and may have stretched their cash flow in so doing!

Additionally, the UK is set to introduce the new, increased EU maxima thresholds, used to define 'Small and Medium' businesses, which will increase the number of businesses eligible for 40% first year capital allowances.

Research and Development tax credits have been extended to make it easier for companies to qualify. The minimum R&D expenditure has been reduced from £25,000 to £10,000 and the method of calculating qualifying staff costs has been simplified.

For further information telephone Dominic Preston on 01442 220769 or email dominicp@hillierhopkins.co.uk

Some good news



Surprisingly, there is only one minor inheritance tax change. The nil rate band has been increased by £5,000 to £255,000. This means that there are still opportunities to make substantial gifts which eventually escape tax on death.

There are two anti avoidance measures to tackle the artificial creation of capital losses through the sale of second-hand insurance policies and the avoidance of capital gains tax through the

artificial use of offshore trusts.

There is a proposal to relieve losses on deferred consideration which are not otherwise allowable and also the cancellation of an anomaly regarding taper relief and business assets. Both are modest measures but are to be welcomed.

For further information telephone David Nye on 01442 220712 or email davidn@hillierhopkins.co.uk

Budget Overview



Gordon Brown described his Budget as one that would deliver economic strength with social justice, put Britain ahead of its European partners and bridge the competitive gap with the United States.

But, aside from this political rhetoric, what does the Budget mean to UK business?

There were very few surprises, which has to be good news as it was widely anticipated that there would be tax increases, by stealth or otherwise. Obviously, Mr Brown has opted to defer payment for these by increasing National Debt.

Most of the bad news had previously been announced, the increase in National Insurance, effectively a 2% increase in income tax, being the most important of these.

We anticipated the annual closure of the various loopholes we have been working so hard to uncover over the past 12 months!

There were snippets of good news, mainly to encourage economic enterprise and growth. These include the widening of the relief for R&D expenditure, more generous capital allowances and the introduction of a new scheme to encourage investment in SMEs (currently at the consultation stage).

All in all, Mr Brown does appear to have delivered what he promised; no particularly bad news, some incentives for the entrepreneurs amongst us, but largely he has left things as they were.

For further information telephone Joel Harding on 01923 809414 or email joelh@hillierhopkins.co.uk