

# Taking Account

MARSHALL ROCHE  
Newsletter – Autumn 2007

## NORTHERN ROCK – THE FALLOUT

Regular readers will know that we have, for some years, had concerns over the apparent buoyancy of the UK economy. Accountants are not known for their over-optimism, mainly because people expect us to point out financial pitfalls. In the past, you could also rely on your bank manager to apply the same steadying hand on your finances, but since they discovered that they could make money out of throwing all that to the wind and lending as much as they could, *some banks seem to have forgotten the meaning of the word “prudent”*.

All this came to a head with the need for Northern Rock to go cap-in-hand to the Bank of England. This led many investors to queue for their money back and panicked the government into pledging tax-payer money to guarantee deposits (for a limited period).

*This quelled the panic, but the sight of the first run on a UK bank in nearly 150 years was enough to strike fear into the hearts of bankers and politicians alike and tighter lending has to follow.* Banks will also have to charge more to cover the additional guarantee to be provided under a new investor protection scheme.

Watching the news of Northern Rock, many will have been thinking that ‘bricks and mortar’ make even more sense for your savings (ie. if the banks are ‘dodgy’), but as the banks return to common sense lending and the amount of money available to borrowers reduces accordingly, the number of people in a position to pay current property prices will diminish. *The fallout for the property market and, with it, the rest of the economy, could make the problems of Northern Rock investors seem like a walk in the park.*

For those who do have substantial funds in banks and building societies, the advice is to restrict the amount in any one account to £35,000, which is now fully protected. *However, if you still think ‘bricks & mortar’ is safer, don’t forget that if you were to put your £35k down as a deposit on a flat for £140k and property prices were to fall 25%, you would lose every penny of your £35,000...*

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## When is an expense not an expense?

If you incur a valid expense for your business, then it should be allowed for tax purposes, shouldn't it? Unfortunately, this is not always the case.

Many small businesses incur some expenditure entertaining customers. This is an understandable activity and could be more cost-effective than "scattergun" style advertising. However, whilst the advertising would be allowed for tax purposes, the entertaining is not. ***This rule was introduced many years ago in order to counter the abuse of entertaining as a cover for just having a good meal out with someone with whom you might do business in the future – as if?!***

The Inland Revenue has also started to challenge expenses that are not recorded when they are incurred. Self-assessment legislation requires taxpayers to keep a record of all matters relating to their tax affairs. If the first time that expenses are recorded is some time after the event, they may challenge the claim. This position has been adopted with regard to wages paid to a taxpayer's wife – ***as these were not clearly identifiable payments, separate from drawings, and were not recorded at the time, the Inland Revenue position is that they should not be allowed for tax purposes in the accounts.***

The solution is to record all income and expenses as you go.

## Who do they think you are??

Under current legislation, all accountants are required to carry out the same identity checks that banks use when you open a bank account. We have in the past tended to rely on the fact that we accumulate various bits of information with your personal details, but have been warned that we must obtain the specific documents as required by law.

Therefore, as we prepare tax returns over the next year, we shall also be reviewing the information we hold on file and, if we ask you to bring in your passport/driving license etc, ***please bear with us – we are as disgruntled about this additional bureaucracy as you are...***

## Trading on eBay

If you sell your old clothes, toys etc. on eBay, then there are no tax implications. However if you buy goods (from wherever) and sell them again, then this is trading and must be accounted for in your tax return.

If you already have a VAT registered business, you will also be required to declare VAT on your eBay trading. There are rules that enable you to simply pay VAT on the profit, but the important thing is to be aware of the need to do something.

If you have traded on eBay and would like further advice, please get in touch with us.

## ***Tax returns...***

*Each year we ask people to let us have their accounting records, tax return information etc. in order to prepare tax returns well in advance of the January deadline. Each year we end up working long hours in January to meet the deadline, possibly causing some to wonder what all the fuss was about. However, sooner or later, we shall simply have to turn some people away and the chances of finding anyone else in a position to take it on so late look slim.*

**Therefore, if we have not yet had your tax return information for 2006/07, please would you let us have this without delay, to ensure that we get a bit of time off over Christmas and you don't get a penalty for a late tax return...**

## ***Minimum wage***

*As from 1 October 2007, the minimum wage levels are as follows:-*

*16/17 yrs old; £3.40 : 18 – 21 yrs; £4.60  
Age 22 and over; £5.52 per hour*

## ***A sign of things to come..?***

*After 24 years of smoke-free offices and never once having to ask clients to refrain, the law now requires us to put up 'No Smoking' signs. We regard this as an insult to the intelligence of our clients, but we have been threatened with substantial "on the spot" fines if we do not comply. (Note that the same applies to your work-place and vehicles – even to your home if you have workers or customers visit you there – for further information on this see :-*

[http://www.smokefreeengland.co.uk/files/everything\\_u\\_need\\_new\\_sf\\_law.pdf](http://www.smokefreeengland.co.uk/files/everything_u_need_new_sf_law.pdf))

*At £1,000, the maximum fine for not having a No Smoking sign is five times the maximum penalty for lighting up inside the building. And if we were to stand by and let you light up, our maximum penalty rises to £2,500!*

***So beware – a sinister precedent has been set – stand by for new laws that penalise the innocent more than the guilty, for failing to take action to prevent the crime in the first place...***