

Welcome to the latest edition of 'park life', Moore and Smalley LLP's update for caravan and holiday park owners. I hope that you enjoyed a busy and profitable season and are now ready for a relaxing festive break.



In this issue we have looked at a number of areas of interest to park owners, including:

- ◆ A look at the Chancellor's recently-announced changes to Inheritance Tax and Capital Gains Tax and what they will mean for you.
- ◆ A consideration of the tricky process of accounting for VAT on security deposits when guests fail to attend or damage the premises.
- ◆ A round-up of caravan and tourism news from Lancashire, Cumbria and beyond.

On behalf of my fellow partners and myself, may I take this opportunity to wish you a Merry Christmas and a happy and successful New Year.

Regards

Damian Walmsley
Leisure Sector Partner

WHERE DOES THE CHANCELLOR'S IHT MAKEOVER LEAVE YOU?

One of the headline-grabbing features of the recent Pre-Budget Report was the Chancellor's proposed changes to Inheritance Tax (IHT). However, you should be aware that these changes do not benefit everyone, just married couples or civil partners.

Under the current law, when you die the estate (assets minus liabilities) that you leave behind is entitled to an amount called the nil-rate-band (NRB), which is free of IHT. The NRB for the current tax year (2007/08) is £300,000, above which, IHT is charged on the estate at the rate of 40%. Transfers of property between spouses or civil partners are generally exempt from IHT, meaning that if you die leaving some or all of the property to your spouse or civil partner, you may not have used up your NRB.

The new rules will allow any properties of the NRB unused on the first death to be used when the surviving spouse or civil partner dies. Effectively this means that two NRBs can be used on the second death, which at current rates means a maximum of £600,000 IHT free.

For example, if on the first death, the chargeable estate is £150,000 and the NRB is £300,000, then half (£150,000) of the original NRB would be unused. If the NRB when the surviving spouse dies is, say, £300,000 then the total IHT-free figure is £450,000 (£300,000 + £150,000).

When the changes take effect, married couples and civil partners should consider reviewing their wills as certain provisions they may have made for IHT may no longer be necessary. Unmarried couples, on the other hand, must continue to have an IHT-efficient will and to utilise specialist tax planning advice, as this is the only way to minimise the impact of IHT on their estate.

For more advice on Inheritance Tax, contact Tax Partner, Tony Medcalf on 01772 821021 or e-mail tm@mooreandsmalley.co.uk.

IN THIS ISSUE:

- ◆ VAT on customer deposits
- ◆ CGT Planning - Sell now or sell later?
- ◆ Is your wealth protected?
- ◆ Tourism news round up

WHERE DOES THE VATMAN STAND ON CUSTOMER DEPOSITS?

If a customer pays you a security or reservation deposit to stay at your park and then either cancels the booking at the last minute, or damages their accommodation, it is usually standard practice that you keep part of the deposit in compensation. If you are VAT-registered though, how should you account for VAT on this amount?

The rule on compensation payments is that they are outside the scope of VAT as they are not consideration for a supply. This is as they are usually made as a result of a court order or through an agreement between the two parties involved to compensate the other for loss or inconvenience.

In order to ensure that there has not been a supply for VAT purposes, you should confirm that your agreements allow for an early termination of the contract and include a formula for the payment of compensation (this is usually a payment for loss of earnings known as 'liquidated damages'). If these rights are not set out and you reach a negotiated settlement, then this is likely to be treated as a supply for VAT purposes.

A relevant European Court ruling was made earlier this year regarding deposits paid in advance by a

client on booking a room in a hotel, which was then either deducted from the amount payable for the room or, in the event of a cancellation, retained by the hotel. The court ruled that on these grounds, the deposit was a fixed cancellation charge, paid as compensation for the loss suffered as a result of client default, which had no connection with the supply of any service for consideration. As such, it was not subject to tax.

Finally, taking compensation from security deposits will actually be cheaper for your customers than invoicing them (with VAT applied) for damage caused. For example, if you took £20 out of a security deposit for an individual, this is clearly cheaper than invoicing them £23.50 (£20 + VAT).

For specialist advice on VAT, including our 'VAT healthchecks' which are designed specifically to keep the VATman at bay, contact VAT & Employer Taxes Associate, Stephen Adams on 01772 821021 or e-mail sra@mooreandsmalley.co.uk.



CGT PLANNING: SHOULD YOU SELL YOUR ASSETS SOONER RATHER THAN LATER?

In previous issues we have talked about the measures you should take if considering selling your business, in order to maximise the sale price. Another area that we assist our clients with as part of the sales process, is in minimising the post-sale tax bill. The recent Pre-Budget Report outlined substantial changes to Capital Gains Tax, so if you were considering selling your business, should you do it before the new rules take effect?

Capital Gains Tax (CGT) is the tax paid on profits you make from selling assets such as shares or a business. The tax applies to the excess of profits over a set tax-free level (currently £9,200 of capital gains) per year. Anything over this amount is taxed at between 20% and 40% (depending on the type of asset). For business assets (such as shares or a business) this can be reduced by utilising taper relief which, as long as you have owned the asset for more than two years, when you come to sell you would be subject to a CGT rate of either 5% or 10%.

Under the changes announced by the Chancellor, all capital gains (other than those made by companies) will be charged at a flat rate of 18%. Taper relief on these gains is to be abolished, even if you acquired the assets before April 6, 2008. At the moment, no transitional provisions have been suggested although this point is the subject of

intense lobbying of the CBI and Confederation of Small Businesses, so as they stand at present you could save tax either by delaying or bringing forward the disposal of an asset.

For assets that would currently qualify for business asset taper relief, it is likely that it would be advantageous for you to make the disposal prior to April 5, 2008, in order to qualify for the CGT rate of 10% rather than 18%.

However, if you have non-business assets (e.g. residential property that you rent to private tenants), it makes sense to hold on to these until after April 6, 2008, as the rate of tax on these assets will reduce from between 20% and 40% to just 18%.

If you are in the process of selling your business, or are likely to do so in the near future, you should seek specialist advice as soon as possible in order to consider whether your tax position might be significantly different if the transaction were delayed beyond April 6, 2008.

For more advice on the forthcoming changes to Capital Gains Tax, and how your tax position will be affected, contact Tax Partner, Tony Medcalf on 01772 821021 or e-mail tm@mooreandsmalley.co.uk.

SUNSET PARK SCOOPS COVETED AWARD

Our congratulations go to Sunset Park in Hambleton, near Blackpool, which was recently named as the Holiday Park of the Year in the fourth annual England's Northwest Tourism Awards.

The park was praised by the judges for the work the owners had put in to boosting business by focusing on what makes their park particularly distinctive.



IS YOUR WEALTH PROTECTED?

As an Independent Financial Advisor, we not only look at increasing the personal wealth of our clients but also protecting it. There are a number of steps that you should be considering, if you haven't already, to protect your wealth. Just some of the steps you can take are as follows:



- ◆ Writing a Will and/or checking that your existing Will is up-to-date
- ◆ Equalising your assets with your spouse to utilise both of your tax allowances
- ◆ Putting your life assurance policies in trust so they do not count as part of your estate for Inheritance Tax (IHT)
- ◆ Considering tax efficient investments which are free of IHT after they have been held for two years. These include AIM quoted shares, forestry land, and partnerships or shares in a private business.
- ◆ Utilising Potentially Exempt Transfers (PETs) or Discounted Gift Schemes to pass assets like cash and property to beneficiaries so they do not count as part of your estate for IHT. The earlier you can do this, the more tax-efficient it is likely to be.

To find out more about increasing or protecting your wealth, contact Partner and Head of Financial Planning, Graham Gordon, on 01772 821021 or e-mail gdg@mooreandsmalley.co.uk.

IS THIS THE END FOR THE HOTEL ACADEMY?

A training facility in Ulverston, which was the country's first hotel academy when it opened in 2001, is set to close. Sonia van Blanken, of Kendal, owner of Trinity House Hotel, has submitted plans to South Lakeland Council to convert the Georgian townhouse into residential accommodation.

A spokesman for the academy, which is run by the four-star Lakeside Hotel in Windermere, says the lease has come to an end but they hoped to find alternative accommodation in the Furness area.

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