



JOHNSTON
CARMICHAEL

Fishing News

Spring 2009

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Meet the Fishing Team

The Johnston Carmichael offices in Fraserburgh and Aberdeen deal with approximately 200 fishing vessels and numerous fishing-related businesses, including engineers, food processors, carpenters and shipbuilders. The locations, combined with our skills and experience, mean we are well-placed to advise when it comes to your business.

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Editorial

I would like to extend a warm welcome to the latest edition of our Fishing Newsletter.

Following the significant adverse impact of high fuel costs in 2008 for the Whitefish and Nephrop fleets, they are now facing up to a poor start to 2009. This has been caused by bad weather, rock bottom prices for the catches and the continuing uncertainty over the cuts in "Days at Sea". In addition to these factors, the availability of credit as a result of the credit crunch is now putting more pressure on the fleets.

There is no doubt that it will take time for the industry to recover but, as with all cycles, we will eventually come through it and I know from the dealings we have with our clients, how resilient fishermen can be.

We have a number of clients who are in the process of having new boats built and which will be delivered over the next 12 to 18 months. We should recognise and share the optimism of these skippers, because I firmly believe that there is a worthwhile future for the fishing industry, despite these current difficult times.

The proposed cuts in days at sea mean that vessels will have to look carefully at when they do go to sea, which may well mean that a different pattern of fishing emerges in the future.

If this happens, it is important that it is factored into the repayment terms of the existing bank facilities. We are envisaging to be meeting with our clients and their Bankers when the full impact of the proposals for the days at sea are known.

I hope that you enjoy the articles in this newsletter, which have been designed to give you an idea of what our Fishing Team at Johnston Carmichael have been involved in and how we are continually looking at how changes will affect our clients, so that we can be proactive with our advice. That includes maintaining our close contacts with the industry at the Fishing 2009 exhibition in Glasgow in mid-May.

If you have any questions, we would be delighted to talk with you.

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A list of partners can be found at www.jcca.co.uk

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Preparing to renew or extend bank facilities



No one is immune from the "credit crunch" and for this reason it is almost impossible to beat, but you can do some things to put your business in the best possible position when meeting the bank to discuss renewing or extending facilities.

The banks are tightening their lending criteria at a time when it is difficult to plan ahead, with restrictions on days at sea and quotas as well as a drop in prices for the fish/prawns being landed.

Since the onset of the credit crunch, banks have, in general, been looking to reduce their lending and charging higher margins for the funds they do lend. For businesses with increasing working capital requirements funded by borrowing, this is a time when it is essential that they plan carefully to have enough funding in place to cover expenditure peaks and also to show the banks that they are a sound business investment.

Without reliable plans and cash flow projections, the business is taking the risk that the bank will not understand the need for additional funding, or will take the view that the unknown risks are too high for it to invest. Even if finance is made available, the cost of securing that money could be higher than for a business that puts forward a well-presented plan for the future.

There are a number of things that can assist a business in dealing with their bank:

1. Have the latest annual accounts prepared soon after the year-end
2. Demonstrate that you are aware of what peak borrowing requirements for the next 12 months are likely to be
3. Better still, prepare a cash flow forecast for the next 12 months
4. If an increase in borrowing is required, approach the bank well in advance so that you have time to consider alternative options, if required
5. Utilise alternative sources of finance, such as hire purchase for machinery purchases, and always ask your bank for a quote to compare to the dealer's finance terms
6. Most of the banks have specialist managers who are in a position to maintain good, stable lending facilities to their fishing customers, and it is always best policy to build up a good track record before you need to extend facilities

The key message is that when you are involved in the process of renewing or extending banking facilities, planning and advance preparation can help to make a smooth procedure for all parties involved.



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Capital Allowances – a stealth tax ?

Changes to the Capital Allowance rules will mean that boat owners' tax bills will rise in the future if they can maintain their existing profitability. There have been significant changes in how Capital Allowances work since 5 April 2008, and for boat owners, there are more to come. Getting the right advice on Capital Allowance planning could save you real money.

The tax charge in a set of accounts is made up of two elements; Current tax (real money) and Deferred tax (paper money). The charge in a set of accounts will not change thanks to the new rules but the percentage that is real money will increase as the paper element drops.

Boats have their own particular rules for claiming Capital Allowances. Until 5 April 2008 a business could claim Capital Allowances up to 25% of the cost of a boat, on a reducing basis. This figure would reduce the taxable profit (Example 1)*. After that date the claim available is only 20% (Example 2)**. Worse still after 1 January 2011 the rate may only be 10% (Example 3)***. What this will mean is that the business will be paying tax much sooner under the new rules than under the old ones. This is not welcome if the business was expecting a tax "holiday" to help pay back the bank borrowing.

The examples show that HM Revenue & Customs (HMRC) is definitely being less generous than it has been in the past. Over the life of the asset you will eventually get the same allowances but it will take a long time to equalise matters.

To continue taking maximum advantage of the rules in Example 2 it will be necessary to categorise the different types of expenditure correctly. These rules allow for 100% allowances on plant and machinery (excluding vessels) costing up to £50,000 in any one business accounting year. Initially this is better than the outcome in Example 1, but once the expenditure on plant and machinery goes beyond £140,000 then the advantage has disappeared.

When we reach 1 January 2011, it will be necessary to take a close look at the expected life of a new boat. If the boat's useful economic life when new is less than 25 years, then we may be able to argue the rules in Example 3 do not apply. However, as HMRC have specifically brought boats into the "Long Life Assets" rules with effect from 1 January 2011 we expect there will be occasions when they will argue the

economic life is greater than 25 years and so impose the reduced rate of Capital Allowances.

According to the HMRC website, "An asset is a long-life asset if it is reasonable to expect that it will have a useful economic life of at least 25 years when it is new. New means unused and not second hand. The 25 year test should be applied to an item of plant or machinery as a whole and not to its component parts."

"If there is expenditure on an improvement to an asset, you should apply the long-life test to the part of the plant or machinery that represents the improvement."

Our Fishing team and our Tax Specialists are already considering what the appropriate defenses might be if HMRC challenge the position.

The Dictionary definition of Stealth includes "a theft" and "a secret procedure or manner". The Government may argue that your tax bill / charge has not risen but your bank balance will tell a different story. It seems to us that the new rules do constitute a Stealth Tax.

Note that, as the rules stand, it seems that if you purchase a vessel second hand the long-life asset legislation will apply if it was reasonable to expect that the asset would have a useful economic life of at least 25 years when it was new. This applies even if the remaining life when it is purchased is less than 25 years.

Getting the right advice will be essential and our expertise will help you retain as much "real" money as possible by claiming the right amount of Capital Allowances. Please contact us if you think you need the benefit of our knowledge.



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Capital Allowance Example

Scenario	Boat cost £1m	Example 1* Pre 5 April 08 rules	Example 2** Post 5 April 08 pre 1 January 2011 rules	Example 3*** Post 1 January 2011 rules
Cost of boat		1,000,000	1,000,000	1,000,000
Year 1 allowances		-250,000	-200,000	-100,000
		750,000	800,000	900,000
Year 2 allowances		-187,500	-160,000	-90,000
		562,500	640,000	810,000
		-140,625	-128,000	-81,000
Tax value after year 3		421,875	512,000	729,000
Total allowances claimed to end year 3		578,125	488,000	271,000
Loss of allowances			90,125	307,125



Changes to filing deadlines and penalties

Fishing vessels and fishing-related businesses which trade as limited companies should be aware of recent changes made to the time limits allowed for lodging accounts with Companies House.

In the case of a private company, for periods beginning after 6 April 2008, you now need to lodge accounts nine months from the year-end, compared to 10 months previously.

The Government has also announced increases in late filing penalties which will apply to accounts lodged after 1 February 2009. These new penalties are:

	Prior to 01/02/09	After 01/02/09
Not more than 1 month	£100	£150
More than 1 month	£100	£375
More than 3 months	£250	£750
More than 6 months	£500	£1500
More than 12 months	£1000	-

New penalties will also come into effect that will see fines doubled if a company's accounts are filed late two years in a row. Therefore, not only has the time allowed for filing accounts been reduced, but the penalties for late filing have also been increased.

This means that it is even more important for companies to keep their accounting records in good order, so that accounts can be prepared quickly and efficiently.

Recent legislation has been designed to make things simpler for shareholders of private companies, as they no longer need to have a Company Secretary, hold an annual general meeting and are now able to make most decisions by written resolution, rather than formal shareholders' meetings. If a company's article of association includes more demanding requirements, then the company may not be able to take advantage of many of these simplifications.

If you require any help maintaining your records, or with any of the issues discussed, please do not hesitate to contact us.



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Spread your net wider to access a great choice of retirement planning options

Increasingly, Self Invested Personal Pensions (SIPPs) are becoming the pension of choice for investors seeking to take control of their retirement planning. However, taking this route is likely to have higher cost implications due to the flexibility and choice built into these types of contracts.

Graham Burnett, Director at Johnston Carmichael Financial Services, answers investors' most commonly asked questions and highlights an exclusive arrangement for clients of Johnston Carmichael Financial Services with a leading SIPP provider.

What is a SIPP?

Self Invested Personal Pensions offer more control and a wider investment choice than most traditional pensions. With the same great tax benefits as other pensions, they are one of the most tax-efficient ways that anyone can save for their retirement.

What's the difference between a SIPP and a Private Pension?

SIPPs Stakeholder Pensions and Personal Pensions are all loosely called "Private Pensions" since they are taken out by individuals. They all work in a similar way in that they all get the same favourable tax treatment. The main differences are the investment choices and the charges.

Stakeholder Pensions are the simplest Private Pensions. They have the least investment choice and their charges are capped. They are designed for those who want very simple Private Pensions and do not need the flexibility of the greater investment choice a SIPP provides.

Personal Pensions offer more investment choice than Stakeholder Pensions and do not have a cap on charges. They often include links to funds from external investment houses, such as Invesco Perpetual and Jupiter.

SIPPs provide the ultimate in investment choice, with virtually unlimited access to investment house funds, shares, investment trusts and also cash options. Unlike Stakeholder Pensions, their charges are not capped and whilst there are low cost SIPPs available, the choice and flexibility they provide does mean they are often more expensive than a Stakeholder Pension.



I already have pension plans and don't want another

With old style Personal Pensions, if you wished to diversify your investments, it was likely that you had to buy a new pension. Therefore, it was common for people to have several Private Pension Schemes.

However, with a SIPP you can have all the investment choice and diversity that you need in one place with one plan. Therefore, a SIPP can be a great foundation for all your pension planning and perhaps, the only pension you might ever need. It may make sense to transfer other pensions you have into your SIPP to consolidate them. This could make your retirement planning simpler and easier to manage and reduces paperwork. This should only be considered once you have consulted your independent financial adviser.

Since October 2008, you can now also transfer protected rights pensions into a SIPP. These are the pensions created when individuals contracted out of SERPS (the State Earnings Related Pensions Scheme), now S2P (State Second Pension), although this is unlikely to affect many fisherman.

You need to be careful that you will not incur any excessive penalties when you transfer one pension to another, and that you will not lose any valuable guarantees or benefits. Again, advice should be sought prior to making any transfer or switch.

Exclusive terms for Johnston Carmichael Financial Services', funded by Cofunds

Johnston Carmichael Financial Services has exclusively negotiated special terms for their clients who wish to transfer their pension arrangement to the SIPP Centre/Cofunds facility.

To find out more regarding these terms, please contact your usual Johnston Carmichael contact who can arrange an appointment with one of our advisers.



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Johnston Carmichael Financial Services Limited is authorised and regulated by the Financial Services Authority. This article is for general guidance and is based on our understanding of current pension legislation that is subject to change. Professional advice should be sought before acting.

Flexibility comparison		
Type of investment	Personal Pension	SIPP
Collective investment funds	X	✓
Unit trusts	X	✓
OEICs (Open Ended Investment Companies)	X	✓
Investment trusts	X	✓
Insurance company managed funds and their range of funds run by other managers	✓	X
Stocks and shares on a recognised stock Exchange	X	✓
Individual UK equities	X	✓
Overseas equities, e.g., US or European shares	X	✓
UK gilts	X	✓
Bonds and other fixed interest securities	X	✓
Other investments	X	✓
Bank accounts	X	✓
Cash and deposit	✓	✓

Fishing News

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