HAZLEWOODS LLP

BUSINESS ADVISERS & CHARTERED ACCOUNTANTS

Estate Agents Focus

Spring 2007

In this edition:

Market commentary - Remember my friend Icarus?

Introduction

Welcome to the latest edition of Estate Agents Focus.

Contents:

Market Commentary - Remember my friend Icarus	Page 2
Can you afford to be ill?	Page 3
The future's bright... the future's green	Page 4
Child and Working Tax Credit - an update	Page 5
The December 2006 Pre–Budget Report	Page 6
The Benefits of the Alternative Investment Market (AIM)	Page 7

Market commentary - Remember my friend Icarus

What's he on I hear you ask?! Who is this geezer Icarus?

Well I have to admit I never thought I would resort to Greek mythology to pass comment on the state of the housing market. I can assure you I was never a classical scholar! But somehow this simple tale seems apt today.

Daedalus was a famous architect, inventor and master craftsman. He fled to Crete from Athens after he had murdered his apprentice who he feared would surpass him.

He then fell out with the king of Crete and decided he had to leave the island. The king however controlled the sea around the island. So Daedalus built a pair of wings for himself and his son, Icarus. These wings were made of wax and feathers.

Before they set off Daedalus warned his son not to fly too close to the sun, and not too close to the sea. Too close to the sea and the wings would become too damp, too close to the sun and the wings would melt. All good fatherly advice!

They set off and to start with all went well. Then Icarus got carried away by the thrill of flying and flew too close to the sun god Helios. The Sun God melted his wings and he crashed into the sea and drowned. The Icarian Sea, where he fell, was named after him.

So what does this story have to do with the housing market? Well you can think of it as a warning from history!

Some of the fundamentals for the housing market have been quite encouraging. Taken nationally there is a continued shortage of housing units being built of approximately 50,000 to 90,000 a year. Household formations continue to grow due to net immigration, divorce and increased longevity.

So far so good.
So what bothers me?

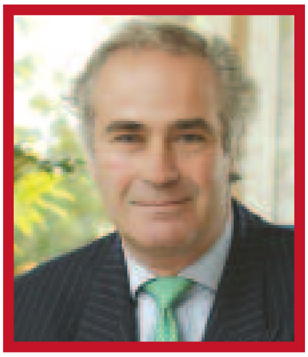
It is really quite simple. It appears that since 2001 the price paid for homes by first time buyers has doubled. Other property prices only rose by 75%. 50% of first time buyers had to borrow from their parents in 2005. It was only 10% in 1995. In addition the number of first time buyers has fallen to the lowest level since 1980. We all know what happened next.

In short, this is an increasingly distorted market.

In addition we seem to have a posse of overenthusiastic lenders vying with each other to pick up market share. We have products that offer lending based on 5 or even 6 times salary, 125% loan to value and mortgages with a 57 year term. I was intrigued as to the maths for a 57 year mortgage. At 5% with a loan of £100,000 the interest would be about £203,000. Nice work if you can get it.

I admire the financial institutions helping people acquire properties however it does seem to me only facilitating the market to go higher when it is already overvalued in many commentators eyes. I also understand people's desire to own their own property.

But at the end of the day I cannot help but think that a lot of people have begun to fly too close to the sun. The decision by the Monetary Policy Committee to raise rates just turns up the heat a little more.



Jonathan Harvie
LLP Partner and Head of Team
Affiliate Member of NAEA

Can you afford to be ill?

Yes I know we're all immortal, we're as fit as we ever were and we haven't put on a single kilo (a pound in old codger speak!). We're good for another hundred years or more!

How I wish that that were true. Recently I have had two very close friends develop cancer. One friend has been unable to work at all in 2006. Just consider how you and your family would cope if it were you. I bet that many of you don't have proper Permanent Health Insurance.

Consider the facts:

- A working adult is 10 times more likely to be unable to work through ill health than to die before retirement.
- There is a 1 in 6 chance of an adult being incapacitated for longer than 6 months.
- Almost 2 million people are sick and disabled and have been unable to work for over a year.

These are just a few of the many statistics quoted when discussing this vital area of financial planning.

How serious though could this be for you, your family and your business? There is a simple answer, Permanent Health Insurance.

- This type of insurance pays out in the event of an illness which prevents you from working.
- It will pay out between 60%-70% of your income free of tax, until you are able to resume work again or until the plan expires, typically at 50, 55, 60 or 65 years of age.

At least it means you can keep your family "on the road" until you get better.

And what happened to my other friend I hear you ask?

Sadly he died in December. The only consolation was that he had taken out a substantial life policy. He was thus spared the worry of not having made adequate provision for his widow. Can you say the same?

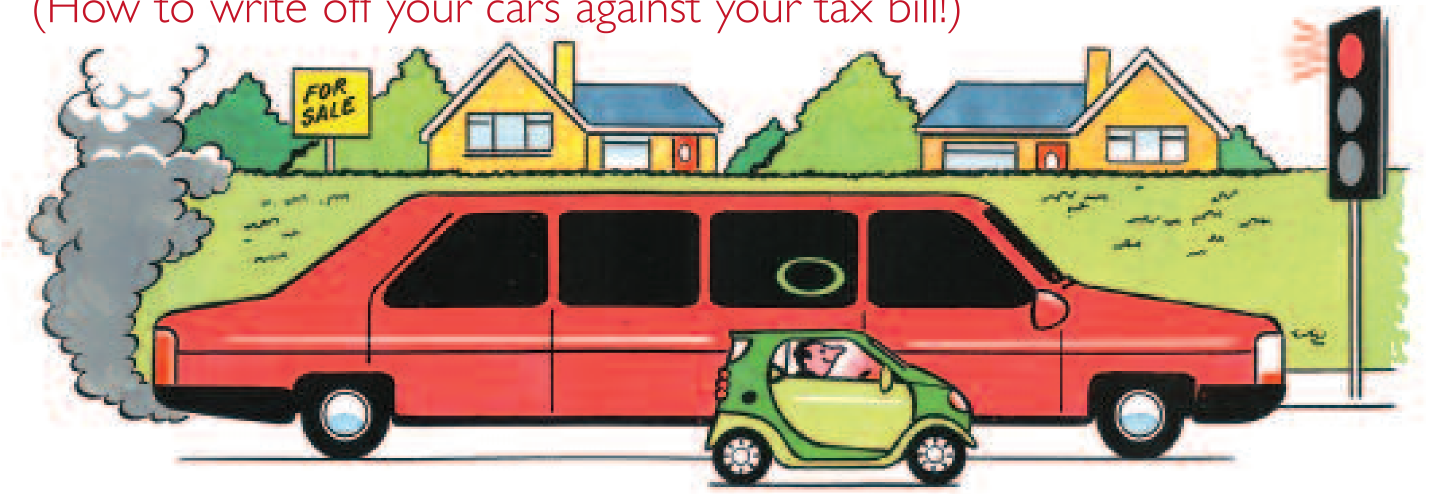
Hazlewoods Financial Planning LLP has access to the most competitive providers in the marketplace and we offer a free, no obligation meeting to discuss both this and all other areas of financial planning.

For further information please contact my Financial Planning Advisor, Stephen Dick on tel: 01242 680000 or e-mail: sid@hazlewoods.co.uk

Stephen Dick
Financial Planning Manager

The future's bright... the future's green

(How to write off your cars against your tax bill!)



Fancy a little free publicity for your business? There's an increasing trend in cars carrying Estate Agents logos, house style and contact details. As far as I know Foxtons were the first to do it with their fleet of minis. I can think of several other firms following the trend.

But now if you choose the right car you can write off the costs of the car IN FULL against your profits for the year!!! Sounds too good to be true – but it is!

Under the scheme businesses can claim up-front tax relief on their capital spending up to 31 March 2008.

The scheme aims to encourage businesses to invest in clean cars and the up-take of natural gas and hydrogen fuels through the cash flow benefits offered by 100% first-year allowances.

100 per cent first-year allowances for cars with low CO_2 emissions

A business can claim 100% first-year allowances on expenditure on a car provided that:

- the car is "unused and not second hand"
- has CO_2 emissions of not more than 120gm per kilometre driven, or is an electric car
- expenditure is incurred before 31 March 2008

So what's the choice?

Actually there's a good choice of small cars. All the major manufacturers produce something that will fit the bill. These include Renault, Peugeot, Toyota, Smart, Audi, Vauxhall, VW, Honda, Citroen and a few others.

So how does it work?

If you buy a green car for say £10,000 you can write the cost of the vehicle off against your tax bill. The tax saving will depend on whether you are trading as an unincorporated business or through a limited company. It will vary between a £4,000 tax saving for a higher rate individual or partner to anything between £1,900 and £3,275 for a company.

When the car is sold there may be a balancing charge dependent on the proceeds of sale.

And it's cheaper for an employee...

It's been getting more and more expensive for employees to be provided with a company car, but the lower the CO_2 emission rating the less the car will cost the employee in tax on benefits in kind. Provide your employee with a green car and assume a CO_2 rating of 120 and the costs to the employee of having a fully expensed car really are reasonable.

See Chart below.

Going green in 2007?

Of course I'm not suggesting that you go out and become a tree hugging hippie overnight but the thought of a fully sign written "green car" that saves you tax, helps your employees and promotes your business seems a worthwhile thing to do. Add the right sticker about your firms green credentials on the car and you'll get even more brownie points with the public.

All in all it's a pretty good reason for going green in 2007.

For further information contact Jonathan Harvie on tel: 01452 634800 or e-mail: jh@hazlewoods.co.uk

	Car Benefit			Fuel Benefit			Total for Car & Fuel		
Benefit in Kind	£1,500	£1,500		£2,160	£2,160		£3,660	£3,660	
Basic Rate Tax	22%	44%		22%	44%		22%	44%	
Tax Payable P A	£330	£600		£475	£864		£805	£1,464	
Tax Payable P W	£6.35	£11.54		£9.14	£16.62		£15.48	£28.15	

Child and Working Tax Credit - an update

This is the system where money is paid directly to those who work and are on a low income, or those who have children. Whilst this may not be of benefit for proprietors/partners, staff within the firm may be able to make a claim if they have not already done so.

Remember that a family with children earning up to £50,000 per year is entitled to at least £545 per year, so the form filling is worthwhile. Please show this article to any of your staff who may be able to claim.

Calculation of award

An award will initially be calculated based on the previous year's income. The first £300 of investment income is ignored, and you do get a deduction for losses, pension contributions and gift aid payments. You need to inform H M Revenue and Customs as soon as possible of any changes to your circumstances, and if your income has gone down your tax credits should increase. However, as long as there are no changes other than an increase in your income of up to £25,000, your tax credits claim will not change until the following 5 April.

You cannot make a retrospective claim going back more than 3 months, so for those who are not sure whether or not their income levels will be too high, it is still a good idea to make a protective claim. You may be over-estimating your income, but this can be adjusted once your actual income for a year is known.

Over and under payments

At the end of the tax year, you will be asked to confirm your income for the previous year, and renew your claim for the year going forward. This must now be done by 31 August.

If you have been underpaid, the balance will be paid to you in a lump sum.

Overpayments should hopefully be rarer now that the income needs to increase by £25,000 per year rather than £2,500 to change the award for that year. However, do note that this is usually only where there have been no other changes (e.g. to the number of hours worked, changes in child care or family circumstances), so if there have been other changes, your tax credit entitlement may need to be recalculated, which could cause an overpayment.

Overpayments will usually be collected by:

- reducing the level of credits paid to you going forward. You can appeal against the level of the reduction if this causes hardship.
- issuing a demand for the amount overpaid. You can appeal and request that this is paid back over 12 months or longer in certain circumstances.

In some cases, some of the overpayment may be written off, but you would have to show that the Revenue had made a mistake, and that it was reasonable for you to have believed that their calculation was correct.

Changes since 5 April 2006

- The renewal period has been shortened from 30 September to 31 August.
- The upper age limit has been increased from 19 to 20 for Child Tax Credit where the child turned 19 after 6 April 2006 and is in approved training or full-time non-advanced education that started before their 19th birthday.
- Working Tax Credit should all now be paid by direct payment. Any people still receiving it through their pay should contact the helpline.
- The rates for both Child Tax Credit and Working Tax Credit have increased (see www.hmrc.gov.uk/rates/taxcredits.htm)
- When your income increases, the increase disregarded until the following April is £25,000 (£2,500 before 6 April 2006).

For further information please contact Helen Richmond on tel: 01242 680000 or e-mail: hr@hazlewoods.co.uk.

Helen Richmond
Tax Senior

The New kid on the block

I am delighted to welcome another tax specialist to our Team, Nick Haines.

Nick joined Hazlewoods as an accounting graduate in 1995 and qualified in 1998. He has subsequently specialised in taxation, and gained entry to the Chartered Institute of Taxation in 2000. Nick, a Tax Director, has considerable experience in all aspects on personal and corporate tax. He gives taxation advice to Estate Agents and also specialises in SDLT and tax saving schemes.

Nick is an Affiliate Member of the NAEA.

T: 01242 237661
F: 01242 584263
e-mail: nmh@hazlewoods.co.uk

National Homes Network conference – Kenilworth

I recently attended the NHN annual conference at the Chesford Grange Hotel, Kenilworth. It was a really productive day.

They gave me a 20 minute slot to say a few words on my thoughts on HIPS, its effect on cash flow, the market and what I thought agents should be doing to ensure their businesses are in tip top shape for 2007 and beyond.

I hope that the delegates thought I gave them some good commonsense advice as to how to grow their businesses and at the same time protect them against any market pull back.

If you feel you could do with some help please give Jonathan Harvie a call on tel: 01452 634800 or email: jh@hazlewoods.co.uk

NAEA Conference – Ricoh Stadium

I also attended the NAEA event. Excellent it was too. Two things struck me. At one point the delegates were asked how many of them earned fees from lettings. I was amazed how few did. Even if you only have a link with a lettings agent and receive referral commission it seems a no brainer to me!

The other is that the quality of photography in the local press is really poor. With Photoshop there are no excuses. Funnily enough shortly after the conference a friend of mine put their house on the market with a well known local agent. She had to reject their first batch of photographs. Was it lack of thought or lack of pride on the Agent's part? Either way the friend was quite rightly unimpressed!

The December 2006 Pre–Budget Report

The Climate gets a little colder!

At the risk of being political the latest utterances of Mr Brown do seem to be an attempt to grab every last drop of tax revenue. A large slice of anti avoidance measures (or measures designed to counter perceived anti-avoidance) were included.

Alternatively Secured Pensions (ASP's)

The Report included another U turn. It was only a year ago that I provided a speaker for the Manchester NAEA conference to talk about residential property and pension funds. Five days later the Government famously changed its mind.

The latest instalment is the change of heart about Alternatively Secured Pensions (ASP's). I am sure that a few saw ASP's as a disingenuous way of passing money down to their heirs but a lot of people merely saw them as a better way of managing their pension funds and wanted to avoid the purchase of an annuity. If there was to be an IHT charge at the end of the day it was not a problem. What is now proposed seems to be tantamount to confiscation and deeply at odds with any idea of really encouraging people to save for their retirement. Oddly the changes may actually reduce tax revenues accruing to the Treasury over the longer term.

Planning gains supplement

It's well know that we have a shortfall in the number of houses built when compared with the rate of household formation. Kate Barker drew our attention to it. The shortage is one of the factors that keeps pushing house prices ever higher (and the size of houses and plots ever smaller). The Government says it wants to encourage the increase in housing completions. So you'd have thought that they would give every encouragement to the lucky, or clever few, who happen to own land in strategic places to sell.

Instead, although in due course the planning laws may be relaxed, the Planning Gains Supplement (PGS) will reduce the incentive to sell land for development. The rate is expected to be about 20% on the uplift. I would expect many of the landowners to hold the land waiting for a change in Government.

Now where have I put my ticket to Australia!

AIM High

The Benefits of Flotation on the Alternative Investment Market

There is an increasing interest from Estate Agents in floating their businesses on the Alternative Investment Market (AIM).

A flotation on AIM has a number of attractions. The obvious attraction is raising development capital to fund expansion and growth; it may also bring business benefits as a result of raising the profile of the company and offer exit route opportunities for the current owners of the business.

Hazlewoods has close links with a number of financial advisory and broking houses based in the City of London. We are now involved in a continuous flow of AIM listings.

The process is rigorous but simple. The first step is to gain an understanding of your business, its strengths and weaknesses. The next step is to carry out a preliminary review and produce an outline valuation of the business. This would then be "tested" in discussions with members of the investment community.

If the results of the initial review are positive, the more formal flotation process will start. This involves appointing advisers, formal legal and accounting due diligence and the production of an AIM Admission Document.

Overall, a flotation and fundraising is likely to take between 3 and 6 months to complete (although client requirements are often more optimistic). Costs vary but tend to be in the order of £200,000 to £300,000 depending on the size of the company, plus broking commission on funds raised.

If you would like to discuss the possibility of an AIM float further or if you would like your business valued with a view to flotation, please call David Main on tel: 01452 634800 or e-mail: dgm@hazlewoods.co.uk

David Main
LLP Corporate Finance Partner

Would you like to help your landlords? Want to earn some additional commission?

For those Agents who have a lettings department or have an investment department we have produced a leaflet setting out the sort of taxation advice we can give to landlords and investors.

Many a time we meet someone who is involved with property investment who could have really benefited from some tax and commercial advice.

If you have not already received your Landlords leaflet please give us a call.

Should we obtain new clients we are happy to discuss paying a commission based on our first years' fees.

For more details contact Nick Haines on tel: 01242 237661 or e-mail: nmh@hazlewoods.co.uk

Our Estate Agents team are happy to discuss matters arising from this newsletter, as well as any other issues relating to your business or personal financial affairs. The team are based at our Gloucester office.

The services we provide include:

- Taxation - compliance and planning
- Partnership mergers/acquisitions
- Goodwill/share valuations
- Business Plans (including financial forecasts)
- Raising Finance
- Remuneration Planning
- Book-keeping - manual and computerised
- Outsourcing (accounts/payroll)
- Financial Services
- Corporate Finance (buying and selling businesses MBO's/MBI's)
- Corporate Recovery
- Franchising
- Benchmarking (comparative reports for Estate Agents)
- Accounts reports in compliance with the NAEA / ARLA rules
- Inheritance Tax Planning
- Consultancy/Strategic advice
- VAT & SDLT advice

Hazlewoods Estate Agents Team

Gloucester Office:
Windsor House Barnett Way
Barnwood Gloucester GL4 3RT
Tel: 01452 634800 Fax: 01452 371900

www.hazlewoods.co.uk/Estate