

Newsletter April 2011

This newsletter is the first of the new tax year, 2011-12, and contains information for readers following the March 2011 Budget. In particular: an interesting observation regarding gift aid donations, a few tax and cars updates, uplift in the CGT Entrepreneurs' Relief and finally an update regarding corporation tax changes.

Our next newsletter will be published 10 May 2011.

[When does a tax rebate trigger a tax liability?](#)

[Claim more for use of your own car?](#)

[Capital gains tax relief doubled!](#)

[Corporation Tax - what changes?](#)

[Tax Diary April/May 2011](#)

When does a tax rebate trigger a tax liability?

If you make donations under the Gift Aid regulations you are basically saying that you are making the donation out of your income after tax has been deducted. The Government then refunds the basic rate tax you have suffered to the charity. These refunds increase the amount charities receive by approximately 25p for every £1 donated.

But what happens if your income for a year changes?

Say you are in business and can make use of present tax write downs to create a tax loss. Say that this loss when carried back to the previous tax year completely covers your taxable income of £50,000 and results in a refund of all the tax you paid. Before you rush out to spend your windfall rebate you might like to consider the following point.

If you had made £2,000 of Gift Aid donations in the previous year, HMRC would have accepted your declaration that the donations had been made out of your taxed income, which they were, and refunded your basic rate tax to the charities. Unfortunately, after your income was covered by the loss relief carry back, your previous declaration is no longer true - you have effectively paid the donations out of gross income as all the tax you paid has been refunded.

The outcome? The £500 of basic rate tax deemed to have been deducted from the net donation made of £2,000 will have to be repaid. HMRC will pursue you for the tax not the charity.

A few changes to tax and charities following the Budget last month:

1. For the first time charities will be able to apply the Gift Aid provisions to money collected in cash, in buckets and tins on the High Street.
2. From 5 April 2013 charities and community amateur sports clubs that receive donations of £10 or less will be able to apply for a Gift Aid style repayment - subject to certain conditions.
3. The present system that allows taxpayers to direct a tax refund to a charity is to be withdrawn.
4. From 6 April 2012 HMRC are considering the introduction of an online system for charities to make Gift Aid claims.
5. The Government has announced the possible introduction of a reduced rate of inheritance tax where 10% or more of a deceased's net estate is left to charity. The proposed reduced rate will be 36% and will apply to deaths after 6 April 2012.

Claim more for use of your own car?

Advisory fuel rates

Prior to the Budget HMRC announced new advisory fuel rates that were introduced on 1 March 2011. They are:

Engine size followed by rate per mile for petrol, diesel and LPG

- 1400cc or less: 14p, 13p, 10p.
- 1401cc to 2000cc: 16p, 13p, 12p.
- Over 2000cc: 23p, 16p, 17p.

These mileage rates are the maximum that HMRC will accept that employers pay their employees for the business cost of petrol the employee has paid for - whether this be in their own vehicles or a company car. Payments in excess of these rates, for the reimbursement of car fuel costs only, will result in benefit in kind issues.

If employees are not reimbursed for petrol they pay for business mileage, or are paid at less than the above rates, they can make a claim direct to HMRC based on the published rates.

Tax free mileage allowance

In the Budget the basic 40p per mile, tax-free allowance for the business use of your privately owned vehicle was increased to 45p. Good news for employees that use their own vehicles for business trips. From 6 April 2011 you can now claim the new rate, 45p per mile, for the first 10,000 miles in any tax year. Over 10,000 miles there is no change, the rate drops to 25p per mile.

Employers are not obliged to pay the full 45p per mile. If they pay a lower amount employees can make a formal claim to HMRC for the difference to be taken into account.

Employers can reclaim part of any payments made to employees as input tax. However the employer will need to retain receipts in line with current legislation.

Does your employer provide private fuel for your company car?

If they do you will both suffer a tax and National Insurance increase. The figure on which car fuel benefits are based is increasing from £18,000 to £18,800 on 6 April 2011.

This tax charge can be eliminated if you repay your employer for any private fuel used. You will need to keep a record of your annual and private mileage to do this. Now that rates are increasing you may well be losing out if you don't make a private fuel reimbursement.

Capital gains tax relief doubled!

If you are selling a business after 5 April 2011 and the proceeds are likely to be in excess of £5m, the Chancellor has just doubled the amount of qualifying gain that will be taxed at 10%. To do this he has lifted the amount of qualifying gains for Entrepreneurs' Relief from £5m to £10m.

You will still have to jump through a number of hoops to ensure you qualify for the relief but this is a considerable bonus to relevant business owners thinking of selling up after 6 April 2011.

This dwarfs the increase in the annual exemption which has increased from just £10,100 to £10,600.

Corporation Tax - what changes?

The Chancellor has proposed the following reductions in corporation tax. Starting on 1 April 2011 the reductions in the main rate are:

- 1 April 2011 - rate reduced by 2% from 28% to 26%
- 1 April 2012 - rate reduced by 1% to 25%
- 1 April 2013 - rate reduced by 1% to 24%
- 1 April 2014 - rate reduced by 1% to 23%

But will this affect most of us?

Smaller companies, those with no associated companies and profits below £300,000 will benefit from just one reduction in the small companies rate; from 21% to 20% on 1 April 2011. If your profits exceed £300,000 but are less than £1.5m a marginal rate of corporation tax applies - the marginal rate is reduced but is still a significant 27.5%!

Readers may also be interested to note that all corporation tax returns filed after 1 April 2011, for accounting periods ending after 31 March 2010, must be filed online using the iXBRL standard. Don't panic. All the major suppliers of tax software to accountants have done their homework and are ready for the change.

However, please note - corporation tax payments made after 1 April 2011 must be made online. Make sure you are up to speed on internet banking. If you need HMRC's payment details and information about the change on 1 April 2011, they can be found at:

<http://www.hmrc.gov.uk/payinghmrc/corporationtax.htm#u>

Tax Diary April/May 2011

1 April 2011 - Due date for corporation tax due for the year ended 30 June 2010.

19 April 2011 - PAYE and NIC deductions due for month ended 5 April 2011. (If you pay your tax electronically the due date is 22 April 2011)

19 April 2011 - Filing deadline for the CIS300 monthly return for the month ended 5 April 2011.

19 April 2011 - CIS tax deducted for the month ended 5 April 2011 is payable by today.

1 May 2011 - Due date for corporation tax due for the year ended 31 July 2010.

19 May 2011 - PAYE and NIC deductions due for month ended 5 May 2011. (If you pay your tax electronically the due date is 22 May 2011)

19 May 2011 - Filing deadline for the CIS300 monthly return for the month ended 5 May 2011.

19 May 2011 - CIS tax deducted for the month ended 5 May 2011 is payable by today.

19 May 2011 - The payroll forms P35 and P14s must be filed by this date - employers late in filing these forms may receive a penalty.

31 May 2011 - Ensure all employees have been given their P60s.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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