

Newsletter July 2011

Most of the compliance deadlines for filing of payroll returns for 2010-11 have now passed. Many of our readers will already have a valid P11D Dispensation in place. If you have, this greatly reduces the administrative chores required when completing P11Ds for employees and directors. For those of you who haven't applied as yet please read the first article. We also cover the VAT treatment of hot food sales, a reminder of the forthcoming reduction in the Annual Investment Allowance and finally guidance for eBay traders and others – when will HMRC consider your 'hobby' a trade?

The next newsletter will be published Thursday 4 August 2011.

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P11D Dispositions

A dispensation is a notice from HM Revenue & Customs (HMRC) that removes the requirement to report certain expenses to them at the end of the year on forms P11D or P9D. There is also no need to pay any tax or National Insurance contributions to HMRC on items covered by a dispensation.

Once granted, dispensations last indefinitely. However, HMRC reviews them regularly - usually at intervals of five years or less - to make sure that the conditions under which they were issued still apply.

Expenses generally covered by a dispensation are:

- travel, including subsistence costs associated with business travel
- fuel for company cars
- hire car costs
- telephones
- business entertainment expenses
- credit cards used for business
- fees and subscriptions

HMRC strictly apply the dispensation from the date they accept an application, although in most cases they will agree to retrospective cover to the beginning of the current tax year.

The application process is fairly straight forward, complete and submit form P11DX. Do take care in completing the form. If you are at all unsure of the answers to the various questions, or would like us to apply for you, please contact us.

VAT and hot food sales

At present the more you prepare food for consumption, the more likely the supply will be considered a standard rated supply for VAT purposes.

HMRC turned their nose up when an EU case recently came to a different conclusion. A German trader succeeded in having the supply of a hot sausage treated as a supply at a reduced rate rather than a catered supply which would have been subject to the standard rate in Germany.

HMRC continues to view food sold on a takeout basis as a standard rated supply. However a recent UK case has drawn a further distinction:

- Food sold and delivered hot, to be consumed hot, was held to be a standard rated supply, for instance a curry.
- Food sold and delivered hot as part of its preparation, but it is not necessary that they be consumed whilst hot, were considered to be a zero rated supply. For example naan breads, salads etc.

So affected traders could now consider that they are making a split supply, some standard rated, some zero rated.

Now may be a good time to check and make sure that you are not including VAT for the supply of takeaway goods that can now be treated as zero rated. These could also include:

- Cold sandwiches
- Cakes
- Biscuits (without chocolate covering)
- Milkshakes
- Frozen meals
- Yoghurt

100% tax allowance has limited shelf life

At present purchases of qualifying plant and other equipment can be written off against your taxable profits.

Tax relief is obtained by utilising the Annual Investment Allowance. For the current tax year, 2011-12, this amounts to a 100% write off with a limit of £100,000.

As with most opportunities all good things come to an end! From April 2012 the annual limit is being reduced to £25,000.

So if your plans over the next year or so include substantial investment in replacing worn out, or buying new, qualifying equipment, timing is absolutely critical.

Call us if you would like more information about these changes.

When is a hobby considered to be a trade?

HMRC are actively searching the internet for evidence of eBay traders that are consistently selling goods on eBay. They are known to be exploring the use of 'internet robots' to scour cyberspace!

And this activity is not necessarily restricted to eBay traders. What about car boot sales, sales via classified ads? Which raises an interesting question - when does a hobby become a trade, and more importantly, when do any surplus funds become subject to tax?

Generally speaking if you are selling your own private possessions you will not be trading. However you may be considered 'in business' if you habitually buy and sell goods on eBay and/or at car boot events. The list that follows is the published 'badges of trade' that HMRC use when considering this matter.

1. An intention to make a profit supports trading.
2. The number of transactions involved - systematic and repeated transactions support trade.
3. The nature of the goods sold - are the goods only capable of being turned to advantage by being sold? Or do they yield income, or give enjoyment through pride of ownership?
4. Existence of similar trading transactions - was this a one-off transaction or part of a pattern that suggests trading?
5. Changes to the goods - were the goods repaired, modified or improved to sell them more easily?
6. The way the sale was carried out - were the goods sold in a way that indicates trading, or to raise cash in an

emergency?

7. The source of finance - was money borrowed to buy the goods? Were any profits to be used to repay the loan?
8. Interval of time between purchase and sale - goods being traded are usually bought then sold quickly.
9. Method of acquisition of the goods - goods acquired by an inheritance, or as a gift, are less likely to be the subject of trade.

As you can see one or more of these cases could apply to most hobbies.

The current penalty regimen adopted by HMRC precludes sticking your head in the sand. Don't wait for the brown envelope to appear. If you are uncertain about the tax status of your money-making hobby call us now.

Tax Diary July/August 2011

1 July 2011 - Due date for corporation tax due for the year ended 30 September 2010.

6 July 2011 - Complete and submit forms P11D return of benefits and expenses and P11D(b) return of Class 1A NICs.

6 July 2011 - Deadline for submission of new Tax Credit application for 2011-2012, if you want to secure a full year's claim.

6 July 2011 - Deadline for submitting form 42 (reporting of transactions in employment related securities).

19 July 2011 - Pay Class 1A NICs (by the 22 July 2011 if paid electronically).

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

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

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

1 August 2011 - Due date for corporation tax due for the year ended 31 October 2010.

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

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

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

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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