

Newsletter January 2010

Happy New Year...

This, our first newsletter for 2010, includes a few ideas for self employed businesses in the run down to the end of the current tax year on 5 April 2010; two updates from HMRC on tax claims and penalties for late payment of PAYE; a few notes on the change in VAT to 17.5% on 1 January and finally your options if you are considering making charitable donations this year.

As all our self assessed clients will be aware, the deadline for filing your 2009 SA returns is the end of this month. If by chance you have still not sent in all the information we need to complete your return, now would be a good time to respond please - time is running out. All returns filed electronically after the 31 January, apart from those where the tax is overpaid, will be penalised!

Our next newsletter will be published on 4 February 2010.

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Year end tax planning April 2010

There are a number of year end tax planning issues that it may be productive for you to look at before the end of the current tax year 5 April 2010 (individuals and self employed).

The list we have added to this article is not comprehensive - if you would like to discuss your individual circumstances, please contact us as soon as possible as action may need to be taken before the end of the tax year.

Individuals

- Have you maximised your ISA investments this year?
- Have you maximised your pension contributions?
- If possible have you utilised your capital gains tax personal exemption? £10,100 2009 -10.
- If your employer still pays for the private fuel used in your company car you can effectively avoid the car fuel benefit charge if you repay your employer for the private fuel before the end of the tax year. It may be worth crunching the numbers as the tax benefit in kind is expensive and the private fuel refund may be less.
- For Inheritance Tax purposes each person can give £250 a year to any number of recipients, as well as £3,000 annually over and above that. They can also make regular gifts out of their income (not capital) that should fall to be exempt.
- If you are married or in a Civil Partnership and one partner/spouse has a much lower level of earned income, consider transferring income producing assets to the lower income earner. With income tax rates due to rise to 50% next year savings could be significant.

Self Employed

- If you are carrying stock on your balance sheet at cost and it is now worth less than cost, you could revalue, reduce the stock to its current realisable value. This will reduce your trading profit in the current year or increase your losses; it will also reduce your tax bill or increase any loss relief carry backs.
- If you are about to invest in new vehicles or equipment you should work out the most effective purchase date.

Should you commit to the expenditure before the tax year end or afterwards? If your trading year end is 31 March this could make a significant difference. It may help you avoid wasting personal tax allowances or maximise the benefits of loss relief carry back.

- If you are considering the sale of a business or business property which will create a chargeable gain for capital gains tax purposes you might be advised to delay contracts until after 5 April 2010. Any tax payable on gains made on or after 6 April 2010 will not be due for payment until 31 January 2012. Tax payable on gains on or before 5 April 2010 will be due for payment a year earlier, 31 January 2011. At present CGT rates are still 18% with the generous Entrepreneurs' Relief of 10% on sales of qualifying business assets - up to a lifetime maximum of £1m chargeable gains. In his recent Pre-Budget Report the Chancellor made no mention of increases in the 18% rate 2010. However, there is always the possibility that CGT rates may be increased in the 2010 Budget....
- Consider your pension options. Could you make additional contributions before 6 April to reduce your higher rate tax this year? But beware of the anti forestalling provisions if your income is more than £130,000.
- Are you able to bring forward revenue expenditure, repairs to equipment, redecorating the office, that will help you to reduce profits or increase losses for carry back?

As indicated in the opening to this article the ideas outlined above are by no means all the options you may have to minimise the amount of tax you pay this year. The key is to bring your current management accounts up to date and weigh the various options. Please call if we can help.

HMRC updates

Tax repayment deadlines

HMRC have recently published the deadline dates for making claims for a repayment of tax. If you have outstanding claims which need to be sorted out make sure they are resolved quickly. The deadlines for tax years 2003/04 and onwards are:

within self assessment

2003/04 - 31 January 2010
2004/05 - 31 March 2010
2005/06 - 5 April 2010
2006/07 - 5 April 2011
2007/08 - 5 April 2012
2008/09 - 5 April 2013

Filing payroll forms P45 and P46.

Larger employers, 50 or more employees, already have to file these forms online. From April 2011 all employers will have to file starter and leaver forms online (P45 and P46).

PAYE/NIC New Late payment penalties from 6 April 2010

All employers will be subject to the new late payment penalties from May 2010. This includes payments of:

- Tax
- National Insurance Contributions (Class 1, 1a,)
- Construction Industry Scheme deductions
- Student Loan deductions.

The penalties payable will be calculated as follows on the amount of the late monthly or quarterly payment:

- On the first late payment in a tax year - no penalty
- Between 2 and 4 late payments a year - 1% (ignoring the first late payment in the year)
- Between 5 and 7 late payments a year - 2% (ignoring the first late payment in the year)
- Between 8 and 10 late payments a year - 3% (ignoring the first late payment in the year)

HMRC also have powers to charge penalties at 5% if an amount is outstanding for 6 months and again at 12 months.

Interestingly, if you can argue that you have a reasonable excuse for being late in your payment HMRC may waive the penalty. HMRC define reasonable excuse as something:

- unusual
- that you could not reasonably have known would happen, and which
- you could not do anything to prevent.

If you do experience difficulties in keeping your PAYE payments up to date you can still ring the Business Payment Support Service on 0845 302 1435, or call us and we will negotiate for you.

VAT Rate change 1 January 2010

On the 1 January 2010 the VAT basic rate returned to 17.5%. For many traders who pay VAT on the difference between what they charge on invoiced sales and pay on invoiced purchases and services, changes to accounting software should be fairly straight forward. The more well known software providers should have issued clear guidelines.

However if your VAT quarterly returns end on 31 January or 29 February 2010 they will include VAT collected and paid at both 15% and 17.5%. Care should be taken especially if you use Cash Accounting or the Flat Rate Scheme. Also take care to access the new flat rates which will apply from 1 January 2010; not all the rates will have returned to the same level set at 1 December 2008! You can access the new rates on the HMRC web site at:

<http://www.hmrc.gov.uk/vat/start/schemes/flat-rate.htm#5a>

If you are concerned about the changes you need to make and need help with the first two or three VAT returns in 2010 please call. For those clients who already use our services to produce their VAT returns we will make sure all relevant changes are taken into account.

Readers may also find the following notes useful:

- The new VAT fraction to use if an invoice includes VAT and you want to know the VAT figure within the charge, is 7/47 with a VAT rate of 17.5%. For example to calculate the VAT in a VAT inclusive price of £235 multiply the amount by 7/47, ($£235 \times 7/47 = £35$).
- If you want to increase prices to pass on the VAT increase to customers (e.g. if you are a retailer), multiply the previous VAT inclusive price by 47/46. For example - $£115$ (old price) $\times 47/46 = £117.50$ (new price).

There are also complications if you make a supply of services which span the 31 December 2009, or if you issue a credit note after the 1 January 2010 for goods or services supplied before that date. Please call for more information.

Charitable giving - the options

There are now a number of options to consider when giving or gifting money or other assets to charities. In a nut shell they are:

1. Gift Aid - if you make a cash donation to a charity and sign its gift aid declaration form the amount of your gift is deemed to be received by the charity net of basic rate tax. The charity can subsequently claim back the deemed tax credit and significantly increase the value of the gift. To qualify your donation must be paid out of your taxed income. If you don't pay tax you cannot make a Gift Aid donation. If you are a higher rate tax payer you can claim tax relief at the marginal rate, currently 40%-20%, or 20%.
2. Giving through your pay or pension - effectively the donation will be deducted from your gross pay or pension providing you with full tax relief.
3. Giving assets to charities - if you give UK land, property or shares listed or traded on a recognised stock exchange, to a charity you can claim income tax relief. In most cases these transfers will also be free of capital gains tax charge.

4. Leaving gifts in your will - the amount of the gift will be excluded from the valuation of your estate for inheritance tax purposes.
5. Gift via your self assessment tax return - this is a very cost effective way to gift donations to a charity. You give permission on your return for a tax refund to be made direct to the charity. When HMRC make the payment they add on the tax credit and a 3p supplement. In this way the charity has no additional administrative cost to reclaim the Gift Aid tax.

Tax Diary January/February 2010

1 January 2010 - Due date for corporation tax payable for the year ended 31 March 2009.

19 January 2010 - PAYE and NIC deductions due for month ended 5 January 2010. (If you pay your tax electronically the due date is 22 January 2010)

19 January 2010 - Filing deadline for the CIS300 monthly return for the month ended 5 January 2010

19 January 2010 - CIS tax deducted for the month ended 5 January 2010 is payable by today.

31 January 2010 - Last day for electronic filing of Self Assessment returns for 2009

31 January 2010 - Due date for payment of any balance of self assessment liability for the tax year ending 5 April 2009, plus any payment on account due for the tax year ending 5 April 2010.

1 February 2010 - Due date for corporation tax payable for the year ended 30 April 2009.

19 February 2010 - PAYE and NIC deductions due for month ended 5 February 2010. (If you pay your tax electronically the due date is 22 February 2010)

19 February 2010 - Filing deadline for the CIS300 monthly return for the month ended 5 February 2010

19 February 2010 - CIS tax deducted for the month ended 5 February 2010 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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Principals of the firm are members of the Institute of Chartered Accountants of England and Wales (ICAEW). This body has its headquarters in the UK and its rules of professional conduct can be obtained from its website. Foot Davson is authorised to act as statutory auditor by the ICAEW.

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