Business Matters

News & Information from Leftley Rowe and Company, Chartered Accountants — Winter 2006/07

LeftleyRowe

Leftley Rowe and Company
Chartered Accountants
Registered Auditors

Tax-saving opportunities:
time to take advantage

Tax planning should be a year-round process, but since some opportunities expire at the tax year end, 5 April is a key date.

Here are just some of the strategies you might wish to consider before 5 April 2007. And remember, the sooner you discuss your circumstances with us, the sooner we can act, and the greater the opportunity to save money.

Claim capital allowances

Capital allowances are the tax deduction your business obtains for depreciation and losses on disposal of assets – usually cars, plant, machinery and equipment – used in the business. The end of the tax year on 5 April 2007 and the end of your accounting year will govern when tax relief can be claimed. A purchase just before the end of the current accounting year will usually mean the allowances are available a year earlier than would have been the case had the purchase been just after the year end. Where applicable, the disposal of an asset just before the year end will accelerate a deduction (balancing allowance), whereas a disposal just after the year end will defer a balancing charge (an addition to profit).

Care needs to be taken – the date expenditure is incurred is critical to the timing of tax relief. Ask us for details of the rates and allowances available to your business.

Extracting profit

The question of whether it is better to take a salary/bonus or a dividend is still one that needs careful consideration and advice. A dividend is paid free of NICs, which would typically cost 13.8% or even up to 23.8% in combined employer and employee contributions. The effect can be a considerable saving but there can also be an increase in the value of the shares of your company if valuation is ever necessary (e.g. for inheritance tax). 5 April 2007 is your last date for paying a 2006/07 dividend, and higher rate tax on that dividend will not be due until 31 January 2008. Talk to us now about this and other ways to extract profits from your business tax-efficiently.

Tax-free savings

Gains and most income in Individual Savings Accounts (ISAs) are tax-free, and they are ideal for saving small, regular amounts. With a limit of £7,000 on annual savings, don't forget that you have until 5 April 2007 to make your 2006/07 ISA investment.

ASK FOR OUR HELP – BEFORE 5 APRIL

Capital allowances, profit extraction and tax-free saving opportunities are just a few of the areas where we can help you, before the year end. Make sure you also contact us to discuss such matters as:

- Keeping tax rates as low as possible across the family
- Keeping business taxes to a minimum
- Minimising the tax on the sale of your business
- A tax-efficient remuneration package
- Reducing national insurance costs
- Reducing the tax cost of company cars
- Reducing the tax on your estate
- Making the most of tax-free saving opportunities

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IN THIS ISSUE

Maximise the tax relief on your pension contributions

You and your company (as your employer) can both pay contributions into your registered pension scheme. However the tax implications of the contribution coming directly from your own bank account or being paid by the company are quite different.

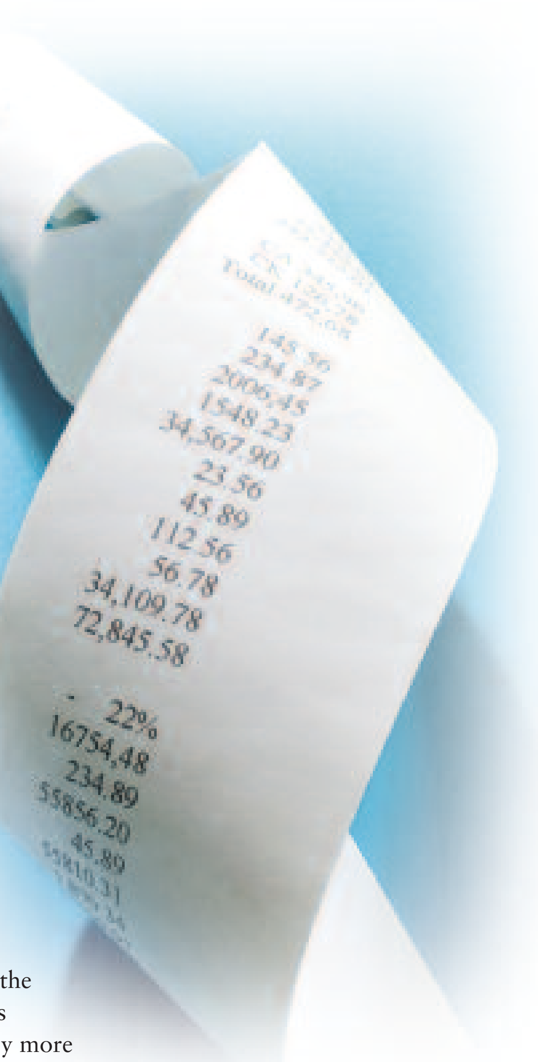
If you want £1,000 to be invested in your pension scheme, you pay in £780 and the pension scheme reclaims £220 from the Government. This represents the basic rate tax you have paid on that income. However this tax rebate ignores the national insurance contributions (NIC) paid at up to 11% by you as an employee, and at 12.8% by the company as your employer.

Typically, to provide you with £780 to pay into your pension scheme the company must pay you a gross salary of £1164, on top of which it also must pay £149 in employers' NIC. You have to pay £128 in employee's NIC on your salary of £1,164, giving a total NIC bill of £277. This NIC cannot be reclaimed by you or the pension scheme.

When your company pays £1,000 directly into your pension scheme it pays no NICs on that contribution, so £277 is saved. The pension fund cannot reclaim basic rate tax on the company's contribution, but it has received the full £1,000 required to be invested. So it is far more tax-efficient for your company to pay contributions into your pension scheme than for you to do so directly.

Until 6 April 2006 the amount your company could pay into your pension scheme was limited to a percentage of your salary, dependant on your age.

Since 6 April there is no limit to the amount your company can pay into your pension scheme. However, the tax relief available will be constrained by two factors.



First, the company's tax relief will be subject to the general requirement that the payment must be wholly and exclusively for business purposes. Relief on large 'one-off' contributions may have to be spread forward into future years.

Secondly, you may be subject to a personal tax charge of 40% to the extent that the value of your fund in its scheme year increases by more than the annual allowance (£215,000 for 2006/07).

Because of the flexibility of available investments, it is often considered preferable for a company to operate its own self-administered pension scheme rather than using personal pension schemes.

Contact us for more information and advice.

WORK ISSUES

Extended rights for working parents

The Work and Families Act came into force on 1 October 2006, paving the way for new rights for working parents in respect of maternity and paternity leave and pay, and those caring for sick or elderly relatives.

The legislation will:

- Extend statutory maternity and adoption pay from six to nine months from April 2007, with the aim of allowing a year's paid leave by the end of the Parliament
- Extend the right to request flexible working to carers of adults from April 2007
- Give employed fathers a new right to take up to 26 weeks of additional paternity leave, some of which could be paid if the mother returns to work
- Remove the additional 'length of service' qualifying condition for additional maternity leave, so an employee qualifying for ordinary maternity leave also qualifies for additional maternity leave.

The Act also aims to reduce the administrative burden for employers, and includes measures which will:

- Allow an employer to maintain 'reasonable contact' with an employee who is on maternity or adoption leave
- Extend the period of notice that an employee must give regarding changes to their intended return to work date.

National insurance: don't pay too much

If you have some self-employed income as well as salary from another job in which you are employed, you could be paying far too much in national insurance contributions (NIC). This can also apply if you work as an employee or director for two independent businesses.

There is a cap on the level of NIC each individual has to pay per tax year at the main rate, which is based on annual level of earnings of £33,540 (for 2006/07). If your salary from one job exceeds this level, you should only be paying the extra 1% NIC on your self-employed income, not the full 8% due for Class 4 NIC plus £2.10 per week for Class 2 NIC.

If you act quickly you can apply to defer the Class 2 and 4 NIC payable for 2006/07 on your self-employment, by completing a form CA72B which can be downloaded from the HM Revenue & Customs (HMRC) website at: **www.hmrc.gov.uk/leaflets/ca72b.pdf**

This form must reach the NIC deferment office of HMRC by 5 April 2007 to be effective for 2006/07. You should also apply to defer payment of NIC on your self-employed income for 2007/08 by completing a separate form CA72B for that tax year, if appropriate.

When your deferment application has been accepted you should receive a form CA2703 from the NIC deferment office. You need to keep this confirmation safely with your Tax Return records. When you complete your Tax Return form to report your self-employed income don't forget to tick box 3.95 on the self-employed pages to confirm that deferment of Class 4 NIC has been granted.

At the end of the tax year, there will be a general 'reckoning up', when your overall NIC liability can be calculated and we can advise you on the net balance due to, or from, HMRC.

If you are employed by two different organisations you may pay too much NIC on your second salary, where your total earnings from both jobs exceeds £33,540. You can apply to defer the Class 1 NIC on your second salary by completing form CA72A, which can also be downloaded from the HMRC website at **www.hmrc.gov.uk/leaflets/ca72a.pdf** (Note the slightly different web address). The form must be submitted by 14 February 2007.

You may have already paid Class 2 NIC by direct debit for 2006/07, but this can be reclaimed by writing to the NIC Refunds Group at the HMRC in Newcastle. You can also reclaim overpayments of Class 1 or Class 4 NIC made in earlier tax years. However you may have to provide evidence of the salary you received, the NIC deducted from it and the other NIC charges you paid, as HMRC may not necessarily have kept full records of payments made.

When and how to register for VAT

Even if you have a relatively small business, it is important to keep an eye on the level of your total sales to be sure they have not exceeded the compulsory VAT registration threshold. If you are late in registering for VAT you may have to pay a large fine and a lot of overdue VAT, plus interest.

When to register

You should register for VAT when your sales (those which would be subject to VAT if you were VAT registered) exceed £61,000 in any twelve month period.

You must notify HMRC within 30 days of the period in which your sales first exceed the threshold. This means you need to keep a rolling total of your monthly sales. As each month goes past add the total of the last month's sales to the sum of the previous twelve months and subtract sales for the earliest month. When this cumulative total reaches about £60,000 you should contact HMRC about registering for VAT, as the registration form can take several weeks to process and in the meantime your sales may exceed the limit. If you do not expect your sales to continue to grow once they top the £61,000 threshold, you should still tell HMRC, but you may be permitted to not register for VAT.

You also need to register for VAT if you expect the sales you will make in the next 30 days alone to exceed the £61,000 limit. This can happen where a business is just beginning and receives one or two large orders (be careful not to let the excitement of a big sale land you in trouble with the tax man!)

If you buy an active VAT registered business and intend to run it as a continuing business, you must register for VAT before you can take over the trade.

How to register

VAT registration is normally achieved by completing the form VAT1, which can be downloaded from **www.hmrc.gov.uk** or obtained by calling the National Advice Service: 0845 010 9000. You can also register online on the HMRC website if you have a relatively straight-forward business. Businesses likely to receive VAT repayments must use the paper form for registering.

Voluntary registration

If most of your customers are VAT registered you may want to register for VAT before your sales reach £61,000, so you are not caught out when your sales exceed the registration threshold. This is known as a voluntary VAT registration.

After registration

Once you are VAT registered you must charge VAT on all your sales, although some types of goods carry a zero rate of VAT, and other goods and services (such as letting residential property) are exempt. You can also reclaim the VAT you have paid on your purchases. If you make only a few purchases you may benefit from the flat rate VAT scheme for small businesses, which simplifies the VAT records you need to keep.

Contact us for detailed information and advice about registering for VAT.

Legislation Round-up

Tax system to undergo 'thorough review'

Nearly 30 years after the publication of the influential Meade Report on taxation in 1978, the Institute for Fiscal Studies has launched a far-reaching independent review of the UK tax system.

The new review, 'Reforming the tax system for the 21st century', is being chaired by Professor Sir James Mirrlees, and will bring together leading experts in tax and public economics from across the world.

The Mirrlees Review will examine a number of key tax issues, including:

- The taxation of incomes, expenditure and saving
- Personal tax rates
- VAT
- Environmental taxes
- Business taxation
- Compliance and administration
- The impact of globalisation
- The current state of the UK tax system
- The political economy of tax reform.

Small business taxation will also be an area for specific study by a team of experts.

The review will be jointly funded by the Nuffield Foundation and the Economic and Social Research Council, and the final report is expected to be published in the Spring of 2008.

Stern review highlights opportunities for business

The landmark Stern Review on the economics of climate change has emphasised the opportunities that could be available to those businesses which can provide solutions to the possible threats of global warming.

The review, which was led by Sir Nicholas Stern, highlighted the environmental and economic costs of climate change.

The report warned that failing to deal with global warming will have a catastrophic effect on the environment, leading to significant changes in physical and human geography, with floods, droughts, storms and rising sea levels affecting the basic elements of life for people around the world, and costing the global economy up to £3.68 trillion.

In contrast, the cost of taking action would amount to around 1% of global GDP (equivalent to around £184bn), and the UK's share of the renewable energy market will be worth an estimated £30bn over the course of the next ten years.

The report concludes that an urgent global response is needed to tackle the growing problem of climate change.

WEB WATCH

ESSENTIAL SITES FOR BUSINESS OWNERS

Chartered Institute of Personnel and Development
www.cipd.co.uk
HR website offering information on a range of key employment issues.

Supply2Gov
www.supply2.gov.uk
New Government portal designed to give businesses easy access to lower-value contract opportunities.

Employers Forum on Age
www.efa.org.uk
Employer-led organisation offering advice on age and employment issues, including the new age discrimination regulations.

Exhibitions
www.exhibitions.co.uk
UK trade fairs and exhibitions resource.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

REMINDERS FOR YOUR DIARY

December 2006

30 Last date to file your 2006 Tax Return electronically if you are an employee and wish to have a 2005/06 balancing payment of less than £2,000 collected through your 2007/08 PAYE code.

31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2006.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2005.

January 2007

1 Due date for payment of Corporation Tax for period ended 31 March 2006.

14 Due date for income tax for the CT61 quarter to 31 December 2006.

19/22 Quarter 3 2006/07 PAYE remittance due.

31 First self assessment payment on account for 2006/07.

Capital gains tax payment for 2005/06.

Balancing payment – 2005/06 income tax/Class 4 NICs.

Last day to file the 2006 Tax Return.

February

1 £100 penalty if 2006 Tax Return not yet filed. Additional penalties may apply for further delay.

2 Last day for notifying car changes in quarter to 5 January – P46 (Car).

28 Last day to pay any balance of 2005/06 tax and Class 4 NICs to avoid an automatic 5% surcharge.