

Botting & Co Ltd News

July 2005

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TAX DEADLINES

5 July

Last day to reach PAYE settlement agreement for 2004/05.

6 July

File forms P11D and P9D with HMRC and give copies to employees. Return form P11D(b) for class 1A NIC due for 2004/05. Submit form 42 if shares or share options provided to employees or directors, in 2004/05.

19 July

PAYE and NIC due for month to 5 July and for 1st quarter 2005/06. Class 1A NIC due for 2004/05.

30 July

Private companies with year end 30 September 2004 must file accounts at Companies House.

31 July

Second payment on account of income tax due for 2004/05. Automatic £100 fine for all 2003/04 tax returns still not submitted. 5% surcharge on unpaid income tax and CGT due for 2003/04.

2 August

Submit forms P46 (car) for quarter ended 5 July 2005.

19 August

PAYE & NIC due for month to 5 August.

19 September

PAYE & NIC due for month to 5 September.

30 September

Paper version of personal Tax Return for 2004/05 to be submitted so tax due of £2,000 or less can be collected through 2006/07 PAYE coding. Tax Credits renewal form must be returned.

VAT schemes: good, bad or useless?

There are three HMRC sanctioned VAT schemes that Customs claim make life easier for small businesses, but do they really achieve this? Under all of these schemes you charge the same amount of VAT to your customers, but change the timing or amount of VAT you pay over to Customs.

Flat Rate Scheme

When you complete your VAT return you ignore all your purchases, except for single items over £2,000, and pay a flat percentage of your gross sales as VAT to Customs. This may save you money if you make very few purchases, so have very little VAT to off-set against VAT charged on your sales. However the flat rate varies for different trades from 2% to 13.5%. If the flat rate applied to your gross sales is too high you will lose out under the flat rate scheme by paying out more VAT overall. Before you sign up to the scheme we need to compare the VAT you would pay outside to the VAT payable inside the scheme. Our verdict: good for a few traders, but not for everyone.

Cash Accounting

You operate VAT as normal but only record sales for VAT purposes when the payment arrives and purchases when you pay the bills. This means you never have to pay over VAT on sales which you haven't been paid for. That is the only advantage. The downside is that your accounting records must be adjusted to produce accounts on the non-cash accruals basis. Our verdict: almost useless.

Annual Accounting

This scheme works like a budget account for your total VAT liability. You pay nine equal instalments of VAT within the year and a balancing payment two months after your business year end with your annual VAT return. This reduction in form filling, (one form instead of four) and the extra month to pay the balance of VAT due are the only pluses. By making on account payments you may pay more VAT during the year than you would by making quarterly payments and returns. Our verdict: bad scheme.



VAT schemes may be bad

Tax Tip

The Revenue promised £250 to all businesses who filed their PAYE forms online. This cash is about to be released, but you must wait for a letter from the Revenue telling you to either claim a cheque payment or credit against your next PAYE bills. If you chose the credit you can knock £250 off your next PAYE payment to the Collector of Taxes.

News from Botting & Co Ltd

We have two new members of our professional staff: Michael Green who is a Chartered Accountant with 20 years experience in both industry and practice and Jane Drapper who specialises in Personal Tax. They have both settled in well and will provide the office with an expanded range of expertise which should augur well for the future.

This newsletter is written for the general interest of our clients and is not a substitute for professional advice. Please contact Botting and Co Ltd before taking any action.

Family funding for University

Supporting your child at University for three, four or even five years is a huge financial commitment, so it would help a great deal if your business could sponsor him or her. There is a tax rule that lets an employer pay a tax free scholarship of up to £7,000 per academic year, or £15,000 from 1 September 2005, for an employee who studies at a recognised college or University.

Unfortunately the tax law does not let parents save money by getting their employers to pay scholarships to their children, unless the money is paid through a special trust fund available to all employees. Under an anti-avoidance rule an employee is deemed to receive the benefit of any scholarship or maintenance expenses paid by their employer to a member of their family or household.

However if your child should work for the business of a more distant relative, perhaps an Uncle, Grandparent or cousin, and

you and your spouse are not also connected to that business, they can receive the study support completely tax free. The scholarship can cover the student's rent, subsistence, travelling expenses, and perhaps a book grant, but not their tuition fees. The student can get a loan from the Student Loan Company to cover those.



Expensive education

The employer should ask the student to complete regular itemised expense claims to support the amounts paid out. The student needs to be employed by the business before the course starts, perhaps over the three month summer break, and the employment contract must continue during term time. The student must also actually attend the college full-time for at least 20 weeks per academic year, but the course content does not have to be related to their job at all.

Reducing the IHT due on death

When somebody dies the sad job of sorting out their belongings usually falls to the closest relatives. If the deceased owned anything of value such as property, the relatives will have to assess how much it is worth to obtain probate and make an account to the Revenue.



Inheritance tax applies if the deceased's estate; that is everything he owned at death, plus any gifts made in the last seven years, assets which he used but had given away at any time in the past, and the share of any jointly owned assets, totals £275,000 or more. However even if no inheritance tax is due because the total value of the total value of the estate is less than £275,000 (for deaths after 5 April 2005) an account must be made to HMRC on form IHT200 or IHT 205 for small estates.

Any inheritance tax due must generally be paid within six

months of the date of death, so there is no time to waste in getting the assets properly valued. The assets must be valued at their fair market rate, not the maximum achievable selling price, or the insurance value that represents the cost of replacing new items for the old. The estate agent or surveyor should be asked to assess the property as it existed on the date of death with no alterations made, not his optimistic guess of what the property would sell for in a few months time after cleaning up. You do not want to pay inheritance tax on the Estate Agents' inflated view of a rising market.

Completing the form IHT200 can be tricky but it should not be rushed as the deceased's Personal Representatives (which may be you), can be held liable for any mistakes. Contact us as soon as you need to deal with a deceased person's estate.

Tax and VAT offices have merged

The Inland Revenue and Customs & Excise have merged to form one new department: HM Revenue & Customs (HMRC), which is responsible for all national taxes, tax credits, customs and duties. In the long term HMRC will be restructured so all taxes are dealt with together, and the tax staff work in units dedicated to the type of taxpayer they deal with. So small businesses will be handled by the SME and employers unit. This may lead to greater understanding by tax officials of the problems facing small businesses, but it may not.

There will be efficiency savings too, which may mean that some local tax offices will close to be replaced by central processing of tax returns, and remote call centres to deal with all telephone enquiries. We hope that some face-to-face contact will remain, but in future taxpayers may need to make an appointment to see a tax officer, as currently is the case with VAT inspectors.

At present the two old departments are operating as before although there is more information flowing between former VAT officers and former Inland Revenue Inspectors. Investigations are still currently handled along tax lines, so a corporation tax inspector will not ask questions about VAT issues, although if he discovers a potential VAT problem he may call in his VAT specialist colleague. Any HMRC officer who contacts you will state clearly what tax, duty or tax credit the enquiry is about.

The contact points for the new HMRC specialists and local offices have not changed and are still grouped by function previously carried out by C&E or the Inland Revenue. The new website: www.hmrc.gov.uk incorporates all the information previously held on the old C&E and IR sites with the helpline numbers listed under 'contact us'.