

Botting & Co Ltd News

July 2006

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TAX DEADLINES

5 July

Final day to reach PAYE settlement agreement for 2005/06.

6 July

Last day to file forms P11D/P9D for 2005/06 with HMRC and issue copies to employees. Also report shares, or share options awarded to employees in 2005/06.

19 July

Cheques for PAYE/NIC for periods to 5 July and class 1A NICs for 2005/06 must reach HMRC.

21 July

Electronic payments of PAYE/ NIC must reach HMRC.

30 July

Company accounts to **30 September 05** must reach Companies House.

31 July

Pay second on tax instalment for 2005/06. Outstanding tax for 2004/05 attracts 5% penalty surcharge. £100 fine for all outstanding 2004/05 tax returns.

2 August

Submit form P46(car) to report new or changed company cars in quarter to 5 July.

18 August

Cheques for PAYE/NICs for month to 5 August must reach HMRC

31 August

Last day to renew Tax Credit claims for 2006/07

19 September

Cheques for PAYE/NICs for month to 5 Sept must reach HMRC

30 September

Submit 2005/06 paper tax return for tax due of up to £2,000 to be included 2007/08 PAYE code.

How to avoid a PAYE inspection

The Revenue PAYE Inspectors are under pressure: each Inspector has to produce a positive result (extra tax due) from at least one employer per week. To achieve this target they only visit small companies (those with less than 50 employees) that are likely to have made PAYE errors or underpaid tax on benefits provided to directors or employees.

How do they know which companies to visit? Well the company accounts can give away a lot of clues. For instance transactions between the directors and the company must be declared in the accounts, and assets that are transferred to directors often create a tax charge if the full market value is not paid.

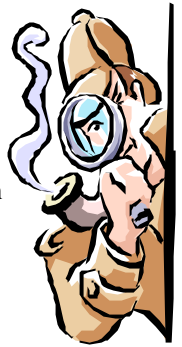
The Revenue will search the notes to the accounts for any unusual assets such as yachts, aircraft or overseas accommodation, which may be used privately by the directors. In fact any hint that there has been a lot of overseas travel can bring the Revenue knocking on your door.

If the company is set up with a subsidiary service company or a connected partnership that might be used by the directors to divert funds away from the main company, the Revenue's suspicions will be raised.

Businesses that regularly use casual workers or temporary staff have a greater chance of making PAYE errors when they deal with lots of different workers. The Revenue are also always on the look out for false self-employed workers (see page 2), as those can be a rich source of extra tax and penalties.

Finally if you are in the habit of paying your PAYE/NI or corporation tax late, this will act like a red flag to the Revenue. Late payment of tax can be seen as evidence of a bad attitude on behalf of the employer, which may indicate that other tax procedures are not being followed correctly.

If you employ less than 50 workers and can avoid all of the above warning signs you have a good chance of not being picked for a visit by the PAYE inspectors. However if the Revenue do want to review your payroll, please tell us without delay!



Don't leave clues in your accounts

Tax Tip

Check your life assurance policies are written in trust and so fall outside your estate on death. Proceeds from mortgage protection policies are commonly paid directly into the estate on death, which means the family may pay tax at 40% on those funds. If the policy is written in trust the proceeds remain free of tax.

Trusts and Wills

In our May newsletter we highlighted the Budget proposals for Trusts set up for children, which would force the trustees to pay out the capital in the Trust when the child reaches 18. The Government has back-tracked to allow such Trusts to hold the capital until the child is 25, if a small tax charge of up to 4.2% is paid.

A Trust set up for a spouse was to be subject to inheritance tax (IHT) under the Budget proposals, but this has been reversed so such Trusts will continue to be exempt from IHT. However there will be IHT to pay if the Trust continues after the death of the surviving spouse. The law is not quite back to the pre-Budget position, so we should review your will and discuss how these potential new tax charges can be avoided.

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.

Treating workers as self-employed can be costly

Some businesses insist that their workers register with the Revenue as self-employed, to avoid the NI costs of being an employer. This tactic may produce savings in the short term, but if the business is investigated by the Revenue, the employer may find he has an enormous back-tax bill to pay plus interest and penalties.

The Revenue are getting smarter at spotting these cheap-skate employers. They read situations vacant adverts in the local press and job centres. Phrases such as 'cash paid for hourly work', or 'self-employed workers required', are an open invitation to the Revenue to crawl over the records of the advertiser to look for workers who should have been put on the payroll.

When the Revenue discover false self-employed workers they don't just demand tax due for the current tax year, they assume similar tax was avoided in the previous six tax years. It is up to

you to prove your casual workers were genuinely self-employed, or earned less than the PAYE threshold (£84 per week). You need to keep a record of the names and addresses of all the workers you use, even if they only turn up for one day, and note exactly how much you paid them.



Employed or self-employed?

When you use self-employed workers ensure the contract requires the individual to sign a mandate for the Revenue to transfer the tax paid as a self-employed person to your tax account as an employer. This mandate to transfer tax paid would only come into effect if the Revenue decide the worker should have been on your payroll, and was not a genuine self-employed worker. This is a new legal safe-guard that needs to be put in place so ask us for details.

Set the records straight

It is important to have complete and accurate business records, not just because it makes the job of preparing your accounts much easier, but good records can significantly reduce the risk of extra tax and penalties being charged if the Revenue examine your accounts or tax returns.



Record and file everything

When the Revenue opens an enquiry into your accounts the Inspector will want to see the original documents from which we drew up the accounts: bank statements, sales and purchase invoices, records of cash takings etc. If he finds these documents do not support all the figures in the accounts or shown on your tax return he will ask lots of time consuming questions.

Say you received an inheritance which you used to pay off your

business overdraft, the Tax Inspector will ask you to prove exactly where the money came from, even if it was initially paid into your private bank account.

Tip

Record the source of all deposits made into your bank accounts (both business and private accounts), to make it clear which are business receipts and which are not.

You can be fined up to £3,000 if your business records are inadequate to support your accounts. The Tax Inspector is unlikely to impose that penalty unless you have deliberately destroyed records, or you persistently fail to improve recording keeping after an inspection. If you are investigated and chose to ignore the Inspector's request to keep better records he may revisit you in a few years time and impose that £3,000 fine.

Are you fit for work?



Get a medical check-up tax free

Generally if your company pays for anything which you will personally benefit from you are taxed on the cost of the goods or service, but there are some useful exceptions for medical related expenses.

Where you use a computer screen for work your company can pay for your regular eye-tests and for the lenses you need to cope with any computer-related eye-strain. This tax-free benefit does not cover the cost of spectacle frames or more complicated prescriptions such as distance or bi-focal lenses. The easiest way to separate out the cost of the eye-test is for the company to buy a number of eye-test vouchers from the optician and give them out to all the employees who qualify.

Private health insurance for treatment in the UK is taxable. However if you travel abroad for business and need medical treatment while you are there, your company can pick up the bill tax free. The same applies if your company pays the insurance premium to cover overseas medical expenses.

Although payments for UK medical treatments are taxable, your company can pay for you to have a routine medical check-up with no personal tax charges. The check-up can be as often as once a year, and there is no limit on the expense that can be covered, as long as no treatments are included. To avoid the Revenue arguing that have arranged the check-up solely for your personal benefit, offer similar medical check-ups to the other senior employees of your company.