

Botting & Co Ltd News

March 2006

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TAX DEADLINES

19 March

PAYE & NIC due for month to 5 March must reach the Revenue.

22 March

Budget Day. Electronic payments for PAYE must reach the Revenue.

31 March

Submit CTSA return for year to 31 March 2005.

1 April

Corporation tax rates increase to 19% for small companies. Small business may claim 50% capital allowance on new equipment. Turnover threshold for leaving VAT annual accounting and cash schemes £1.35 million.

5 April

Last day to: create capital loss in 2005/06, realise capital gains within £8,500 exemption.

6 April

Start of new pensions regime. New PAYE codes and new style form P46, must be used. Earnings disregard for Tax Credits increased to £25,000.

19 April

Cheques for PAYE & NIC due for: 2005/06 IR35 deemed salary; month to 5 April; and 4th quarter 2005/06 must reach the Revenue.

21 April

Electronic payments for PAYE must reach the Revenue's account.

3 May

Forms P46 (car) for changes in quarter to 5 April 2006 to reach HMRC.

19 May

PAYE & NIC due for month to 5 May. PAYE forms P14 and P35 for 2005/06 must be submitted, and employers with over 49 employees must submit these forms online.

Pension schemes for small businesses

We are all geared up for big changes to the pension rules from 6 April 2006, but the Chancellor has changed his mind at the last minute about property. The latest position for small businesses is that you will be able to run your own pension scheme (a SIPP or SASS), but that scheme will not be able to buy residential property, or goods such as vintage cars, boats, fine-wines or racehorses.



Your own SIPP or SASS will be able to invest in *commercial* (i.e. non-residential) property or in a new type of collective investment for property called a Real Estate Investment Trust (REIT). Buying shares in a REIT for pensions may not be tax efficient for an individual but it could make sense for a pension fund that does not pay tax on its income or gains. If you would like to control your own pension fund please call us to talk through the options.

The other big change is that your pension contributions will not be restricted by the level of your earnings. Currently contributions to a pension scheme are limited to the amounts that qualify for tax relief. For a personal pension the tax relief is capped at a proportion of your earnings, from 17.5% to 40% depending on the your age at the time you make the contribution, and there are different rules for company schemes or old style Retirement Annuity Policies. Although someone with no earnings can contribute up to £3,600 per tax year with basic rate tax relief.

From 6 April if you make a large capital gain you can pay all the proceeds into a pension fund, if you wish. You will only get tax relief on 100% of your earnings for the tax year (capped at £215,000), but the pension fund will grow tax free and will be largely protected from your creditors.

Your employer will be able to pay up to £215,000 into your pension scheme, as long as the payment can be justified as being required for the purposes of the business, rather than just to benefit you personally. This is a difficult judgement to make and the Revenue's guidance is not clear, so we should talk it over before your company makes any significant pension contributions.

Tax Tip

If you are planning to buy an expensive piece of kit it may be worthwhile postponing your purchase until April 2006. A new 50% capital allowance will apply for small businesses for equipment purchased in the 12 months from April, which will allow you to receive tax relief for the full cost in a shorter period.

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We would like to welcome a new member of staff **Tim Stephenson**, who is currently studying for his AAT level 4 exams.



Barrie Coxon has been appearing regularly in our news lately and he has just got engaged to his fiancée Louisa. Everyone at the office wishes them every future happiness together.

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.

Is your property business a trade

When you invest in let property for the medium to long term the Revenue view this as a fairly passive activity, and do not allow you all the tax reliefs that would apply to a trading business such as a shop. If you turn over your properties more frequently, or are actively involved in managing other people's properties the Revenue may say you are actively trading.

For example: you buy a dilapidated house for £90,000 and spend £30,000 over four months on repairs and modernisations, with the intention of selling the property as soon as possible for a profit. The Revenue will treat you as a property developer and tax the profits you make as trading profits. This has advantages and disadvantages:

- All your gains made on selling properties will be taxed as income profits;
- You cannot set the your capital gains exemption against these capital gains;
- You may need to register for VAT;

- You must register the business with the Revenue within three months of starting;
- The value of your property business is exempt from inheritance tax;
- Indirect or abortive expenses connected with buying or selling properties are tax deductible;
- If you trade in your own name:
 - Class 2 and 4 NIC is payable on the business profits;
 - Any losses made can be set against your other income.
- If you trade through a company:
 - Your shares qualify for business asset taper relief on disposal.

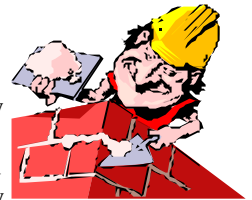
If you think your property letting is a trade please come and talk to us.

Construction Industry Scheme changes

If you work in the construction industry you may have been invited to a seminar held by the local tax office. The Revenue officers are putting on these events to explain the system of CIS cards is going to change to one based on electronic returns and telephone checking. We thought this would happen from 6 April 2006, but unsurprisingly the new computer system is not ready so the start date of new CIS has been pushed back to 6 April 2007.

That doesn't mean you can relax, as the Revenue are already checking up on whether construction workers should be on the payroll. When you take on a new worker you have to check whether the job you are asking him to do is a genuine self-employed contract, or whether his responsibilities and duties mean the worker is an employee. Just because a sub-contractor has a CIS card it does not mean that he should

be treated as self-employed for every piece of work he does. Ask us to review your workers' contracts if you are worried that the Revenue may try and reclassify them as employees.



Can you tell if he is self-employed?

We have heard that the Revenue are refusing to renew CIS6 certificates where the business has been late with a few PAYE or CIS payments. The Inspector of Taxes is permitted to ignore such late payments if the company is generally on time with all its other tax returns and tax payments. If you are refused a CIS certificate on these grounds we may be able to challenge the Revenue on your behalf.

VAT on business mileage and error disclosure



Keep a VAT receipt for fuel

Do your employees ask for VAT receipt when they fill up their cars with fuel for a business journey? Since 1 January 2006 you are not permitted to reclaim VAT on fuel used for the business unless you hold a valid VAT receipt.

The VAT on the receipts submitted by employees with their expenses claims will not exactly match the amount of VAT you reclaim as some of the fuel may have been used for private journeys, and the amount reimbursed to the employee is usually a fixed rate per mile. It does not matter if the VAT receipt is in the name of your employee rather than the business, but you must keep the original receipt. Some receipts may cover two VAT periods where the fuel is purchased near the end of a VAT quarter.

If you make a mistake in your VAT records, what should you do? Perhaps you have missed an invoice from the total for the quarter, or double counted some purchases. If the amount of VAT connected with the error is less than £2,000, the missing VAT can be added or subtracted from the VAT due on your next VAT return, and no interest is payable.

If the VAT connected with the mistake is more than £2,000 you must declare the error to HMRC separately on form VAT652, or by letter. If you confess to the error voluntarily you will not be charged a penalty, but interest may be due if VAT has been underpaid. Ask us for guidance if you have any doubts about the VAT treatment of unusual transactions.