

# Botting & Co Ltd News

May 2008

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## TAX DEADLINES

### 1 May

New VAT scale charges for fuel used for private journeys in company cars.

### 3 May

Submit forms P46 (car) for quarter ended 5 April 2008.

### 17 May

Use new taxable pay tables for 2008/09

### 19 May

File forms and P60, P35, P14 and pay PAYE & NIC due for month to 5 May.

### 26 May

Last day HMRC will accept forms P14 & P35 without issuing automatic fine.

### 22 May

Electronic PAYE payments for month to 5 May must reach HMRC.

### 31 May

Give forms P60 to all those you employed at 5 April 2008.

### 19 June

PAYE and NIC due for month to 5 June.

### 5 July

Last day to reach PAYE settlement agreement for 2007/08.

### 6 July

Forms for reporting shares given to employees in 2007/08 and forms P11D & P9D must reach HMRC. Give copies of forms P11D to employees.

### 19 July

PAYE and NIC due for month to 5 July and for 1<sup>st</sup> quarter 2008/09. Class 1A NIC due for 2007/08.

### 31 July

Second payment on account of income tax due for 2007/08. Automatic £100 fine for all 2006/07 tax returns still not submitted. 5% surcharge on unpaid income tax and CGT due for 2006/07.

## Tax Tip

If your income is below the level of your personal allowance you can apply for any bank interest you receive to be paid without deduction of tax. Just complete a form R85 and take it to your bank. This is likely to be relevant to people aged over 65, or children.

## Why you need to repay your company

You may occasionally borrow funds from your own company or get the company to pay your personal bills. These payments can lead to your account with the company being overdrawn, so you owe the company a significant balance. This can have expensive tax implications for both you and the company.



**Pay it back  
or pay the  
tax**

### Personal tax

If the amount you owe to the company exceeds £5,000, and you do not pay interest on this loan there will be a benefit in kind tax income charge for you personally. The taxable benefit is the amount of interest you should have paid calculated at the official rate (currently 6.25%), less any interest you actually paid. This calculation of unpaid interest needs to be made at the end of each tax year in which you owed the company more than £5,000, and the benefit must be reported on the annual form P11D.

### Corporate tax

Where the overdrawn balance is still outstanding nine months after the company's year end the company will have to pay 25% of the loan as a corporation tax charge, known as a 'section 419' charge. When the overdrawn balance is eventually cleared this section 419 charge can be reclaimed by the company. However, the company may have to wait some time to get this tax back.

### What to do

If you do owe your company a significant amount there are several ways to deal with this:

- The company could pay a dividend or bonus that is credited to your account with the company which returns that account to a positive balance.
- You could use other personal funds to reimburse the amount you borrowed.
- The company may write-off the loan to you.

### Implications

If you pay higher rate tax the payment of a dividend will create an income tax charge in your hands, with no cash received to pay this tax. The amount of dividend paid may have to be grossed up to give you enough cash to pay the higher rate tax due. There are similar tax implications for a loan write-off. A bonus must be paid under PAYE, so the company will deduct tax and NICs to pay over to HMRC, and must necessarily have the cash to do this.

If you have drawn loans from your company please discuss the situation with us as soon as possible.

## Botting & Co Ltd News

**Jim Downie** retired on 29 February 2008 after a long and happy involvement with Botting & Co, the financial services side of the practice. All of the clients who have been involved with Jim and all of the staff wish him a long and happy retirement. He has promised to keep in touch especially if one of his 'old clients' is unsure of any point.

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.

## How to transfer the IHT nil rate band

Widows and widowers can now benefit from up to two full nil rate bands for inheritance tax (IHT), potentially doubling the amount of their estate that is exempt from inheritance tax. This works by transferring the unused proportion of their deceased spouse's nil rate band to use against their own estate.

The transferable nil rate band only applies where an individual dies on or after 9 October 2007, and that individual's late spouse or civil partner died while the couple were married. If the couple were divorced at the time of the first death the nil rate band can't be transferred. It doesn't matter when the first spouse died.

### Joan and Mac

Joan was widowed in 1945, when her husband Mac left all his assets to her. Mac did not use his nil rate band, which at that time was worth £100. Inheritance Tax didn't exist in 1945, but its predecessor Estate Duty applied with similar rules.

Joan died on 10 April 2008 leaving an estate worth £620,000. Her executors can use her nil rate band worth £312,000, and

make a claim to use 100% of Mac's unused nil rate band. Although the nil rate band was worth only £100 when Mac died, it is now worth £312,000. Joan's estate of £620,000 is thus completely covered by her own and her late husband's nil rate bands that total £624,000.

**You may need to look at old documents**

If you are acting as an executor you need to know whether the deceased was ever married before, and be able to prove it. To claim the transfer of a nil rate band you will need to provide the IHT office with documents such as:

- Marriage certificate of the couple
- Death certificate of the first spouse
- Grant of probate for the first spouse

Copy documents can be obtained from the national general register office, but you need to know the key names and dates first. You will also need to complete some HMRC forms, which we can help you with.

## Cash held by your company



If your company has built up some large cash balances you should review the interest rate it is earning on those deposits. Competition between banks means that even business deposit accounts can pay up to 5.5% on deposits of £25,000 or more. The interest rates paid on personal savings accounts can be higher, but you should also consider how much tax you and the company will pay on the interest earned.

As a basic rate taxpayer you will now be paying tax at 20% on your savings income. If you are a higher rate taxpayer you will pay 40% tax on interest, with 20% deducted by the bank on most types of deposit. Your company on the other hand pays tax on interest at a minimum of 21%, which will rise to 22% from 1 April 2009. Although if your company's profits exceed £300,000, or you control a number of companies, the marginal corporate tax rate could be as much as 29.75%.

## How to correct VAT errors

When you make an error in your VAT return, that under or overpayment of VAT can be worked into your next VAT return, as long as the net error is not more than £2,000. If the VAT difference is more than £2,000 you should write to the VAT office and confess your mistake.

We can help you with this as it's essential to get the error pinned down exactly. The VAT office will normally reply with a demand for interest on the late paid VAT, if the error is a net underpayment of VAT.

The good news is for accounting periods beginning after 30 June 2008 the error-reporting threshold will be raised. The new

limit will be the greater of £10,000, or 1% of the reported turnover for the VAT quarter, subject to a cap of £50,000.

In summary there could be a tax penalty of up to 9.75% (29.75% – 20%) where surplus funds are held within your company rather than in your own name. If you are paying tax at a lower rate than your company it makes sense to extract as much cash as possible, without pushing your total income into the higher tax band. The most straightforward and tax efficient way of extracting cash is as a dividend. Although where there are other shareholders who hold the same class of shares the same rate of dividend must be paid to all those shareholders.

Finally in these difficult times for banks remember the compensation limit for deposits held in UK banks is capped at £35,000 per banking license. So if you hold several accounts with one bank, £35,000 is the maximum compensation you will receive if that bank fails. This compensation scheme does not cover deposits made by companies, only those made by individuals.

Where you have overpaid VAT, perhaps due to a misunderstanding over the correct VAT rate to apply to certain goods (such as tea cakes), you need to reclaim that overpaid VAT from HMRC within three years. The House of Lords has just ruled this three year cap is illegal. Now you have until 31 March 2009 to reclaim overpaid VAT from periods before 4 December 1996 and to reclaim VAT on purchases for periods prior to 1 May 2006. If your business is in this position we can help you to draft the claim.