

Botting & Co Ltd News

May 2006

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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 2006.

19 May

File forms and P60, P35, P14 and CIS forms for 2005/06, employers with 50 or more employees must file online. 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 2006.

19 June

PAYE and NIC due for month to 5 June.

5 July

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

6 July

Forms 42 for reporting shares given to employees in 2005/06 must reach HMRC and give copies of forms P11D and P9D to employees.

19 July

PAYE and NIC due for month to 5 July and for 1st quarter 2006/07. Class 1A NIC due for 2005/06.

31 July

Second payment on account of income tax due for 2005/06. Automatic £100 fine for all 2004/05 tax returns still not submitted. 5% surcharge on unpaid income tax and CGT due for 2004/05.

Higher corporation tax for small companies

All companies with profits of up to £300,000 have to pay corporation tax at a flat 19% from 1 April 2006. This means no more tax-exempt profits for companies, and no more fiddly tax calculations when the profits are paid out as dividends.

This is good news as it makes it easier to work out the maximum income you can take out of your company, but does it mean you will have much higher corporation tax bills? Probably not. This change only affects companies with profits of up to £50,000, as when profits topped that figure the tax rate was already set at 19%. If your profits are lower than £50,000 and you were extracting most of any surplus as a dividend, you won't notice much difference either.

So will you pay more tax on your profits as a company compared to a self-employed business? Almost certainly not. Once you take into account the national insurance payable on self-employed profits, plus the higher income tax rates of 22% and 40%; paying corporation tax at 19% is still a bargain. A business making about £25,000 a year can still save tax of over £2,500 by operating as a company rather than as a sole-trader.

However this tax saving does depend on how much salary your company pays you. If you take more than £5,035 as wages in a year the excess carries national insurance at 11% (up to £33,540) plus 12.8% payable by the company. Extracting surplus funds as a dividend is still more tax efficient, and there are also a number of other ways of taking tax efficient benefits from your company which are not available to the self-employed:

- if you have children aged under 16, you can be paid partly with tax free childcare vouchers worth £55 per week,
- If you are older or child-free, a tax and NI free contribution into your personal pension scheme may be more valuable.
- The company can pay for training, which your self-employed business would not get a tax deduction for.

Talk to us about extracting the most tax efficient benefits from your company.



Calculate the best way to extract profits

Tax Tip

A shocking 1 in 4 of PAYE codes have errors in them when first issued by the Revenue, which means the wrong amount of tax is being deducted every month. If your code includes an estimated amount of income, or an unfamiliar benefit, please call us and we will try to sort it out

IMPORTANT NOTICE

The Chancellery has recommended that with effect from 2008, Income Tax Returns are to be filed by 30 September on paper or by 30 November online rather than 31 January for both at present.

This will make timescales even tighter than they are at present and we ask all our clients to get into the habit now of supplying their records as soon as possible after the year end to enable us to prepare and submit their tax returns in good time.

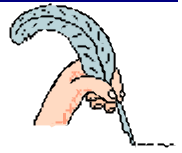
This newsletter is written for the general interest of our clients and is not a substitute for professional advice. Please contact Botting and Co Ltd before taking any action.

Do you need to rewrite your will?

That's assuming you have a will! Almost 75% of people have not drawn up a will, which means someone will have a big mess to sort out when they die. Your husband or wife will not automatically inherit everything on death, so you should make a will at least to ensure your spouse has adequate funds. If you have children it is essential that you think about who will care for them should both parents die.

If you have thought this through, your will may instruct that an accumulation and maintenance (A & M) trust should be set up for either your children or grandchildren, so they do not have to handle money while they are too young to be responsible. Unfortunately the rules concerning trusts have changed from 6 April, so that new trusts for children have to pay out both the income and the capital when the child reaches age 18. The alternative is for the trust to pay an inheritance tax (IHT) charge of 6% every 10 years on any value above the IHT threshold of

the person who supplied the funds, and an exit charge when capital is paid out of the trust.



Be wise,
leave a will

A trust set up for a spouse to have some income while holding the capital for children, called an interest in possession (IIP) trust, will also be hit by the rule change. An IIP trust is commonly set-up when your spouse needs to occupy a property for life, but also want your children to eventually inherit the property. An IIP trust will attract an IHT bill of 40% above the IHT threshold when it is set up on your death, plus a 6% tax charge every ten years.

So if your will includes either sort of provision for your children or spouse we do need to discuss how these potential new tax charges can be avoided. Please clear some time to come and discuss the issues.

Is it safe to pay dividends to family members?

Three years ago the Revenue decided the common practice of sharing income between spouses who run a businesses together was not acceptable. They perused one unfortunate couple (Mr. & Mrs. Jones), through the courts to get the dividends paid to Mrs. Jones taxed on her husband. However the tax professional rallied behind the Joneses, and the Revenue lost the case at the Court of Appeal in November 2005.

Much rejoicing in the land, as we all thought family companies and partnerships would now be left alone to get on with running their businesses. Unfortunately not, as the Revenue have asked the House of Lords to hear the case. This is the highest possible court so it will have the last word, but it may take some years to issue a judgement.

In the meantime we cannot go back to the old ways of giving dividends, or profit shares from partnerships, to non-working

family members with no justification. Each business is different, so the remedies will depend on your own set up, but here are some suggestions:

- When setting up a new business each family member should contribute capital from their own funds.
- Record all the work the non-fee earning spouse performs, even small things such as assisting with marketing, or IT support.
- Where a company is used, all the major shareholders should also be made directors of the company, so they are involved in the decision to pay dividends.
- If there are spare cash reserves consider buying some investments or assets to make the company look more substantial.
- Review the salary taken by the main fee-earner and possibly increase it, or pay more as pension contributions.

Incentives continue for PAYE filing



The old tax year (2005/06) is over, so its now time to file the PAYE end of year forms P14 and P35, and also complete the forms P11D for employees who received benefits in kind or expenses.

Last year over 1 million employers, (or their accountants) filed their end of year PAYE returns online. This was far in excess of what the Revenue expected and it did rather jam up their new computer system. This massive rush to file these forms over the internet online was prompted by the generous cash incentive of £250, given to each small employer who filed online.

Instead of sending out actual cheques the Revenue credited the employers' PAYE accounts with £250, which meant that PAYE was effectively paid upfront for 2005/06. Employers who

wanted to see the colour of the Revenue's money had to wait some months as the cheque approval system within HMRC was rather overwhelmed.

This year the £250 cash offer still stands. So you can collect another £250 as you click 'send' whether or not you also filed your PAYE returns online last year. However the cash offer only applies to *small employers*, who are those that employ less than 50 employees. Anyone who employs 50 people or more is required to file PAYE returns online from the 2005/06 tax year. Small employers will also be required to file these forms online from 2010.

Remember we can do the PAYE online filing for you. But please give us a call in the next few days if you do want us to do this as it takes a short while to set up.