

# Botting & Co Ltd News

May 2007

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## TAX DEADLINES

### 1 May

VAT scale charges for fuel used for private journeys in company cars now based on CO<sub>2</sub> emissions of the car.

### 3 May

Submit forms P46 (car) for quarter ended 5 April 2007.

### 17 May

Use new taxable pay tables for 2007/08

### 19 May

File forms and P60, P35, P14 and pay PAYE & NIC due for month to 5 May. First New CIS monthly return due.

### 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 2007.

### 19 June

PAYE and NIC due for month to 5 June.

### 22 June

Last day to inform HMRC of undeclared income to disclosed in full by 26 November 2007

### 5 July

Last day to reach PAYE settlement agreement for 2006/07.

### 6 July

Forms 42 for reporting shares given to employees in 2006/07 and forms P11D 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 2007/08. Class 1A NIC due for 2006/07.

### 31 July

Second payment on account of income tax due for 2006/07. Automatic £100 fine for all 2005/06 tax returns still not submitted. 5% surcharge on unpaid income tax and CGT due for 2005/06.

## Tax Tip

When you complete your VAT return online you must also pay any VAT due electronically, but HMRC gives you up to 7 extra days to pay. If you allow HMRC to call the VAT payment from your account by direct debit you have up to 10 extra days use of the funds.

## Offshore accounts penalty amnesty

Its amazing how many people still believe that income from outside the UK such as an rents from overseas property or offshore bank accounts is not subject to UK tax, but if you live in the UK and are domiciled here, you must pay tax on all your income wherever in the world it arises.

The Revenue has now received information from many banks about offshore accounts held by UK residents, including detail of the balances held and transactions made through the account. They are matching this information to tax returns that have been submitted but do not have the resources to investigate every discrepancy.

To collect what they believe is large amounts of undeclared tax relating to foreign income, the Revenue is offering a 10% penalty for voluntary disclosure for a limited period to **22 June 2007**. This compares to a penalty of 30% to 50% that would apply to a voluntary disclosure outside this period. However if the undeclared income amounts to less than £2,500 there is no penalty charge. So this 'tax amnesty', as the newspapers are calling it, is not an amnesty at all. There is no reduction in the tax or interest due on the undeclared income, and the Revenue reserve the right to investigate disclosures or prosecute in very serious cases.

To take up the Revenue's low penalty offer you need to inform them you are going to make a disclosure by **22 June 2007**. Then by **26 November 2007** you need to make a detailed declaration of all your outstanding UK tax liabilities for the twenty years up to 5 April 2006. This includes all other taxes that may have been understated such as VAT or NIC, even if they have nothing to do with the offshore income. A full disclosure for twenty years is not an easy task so you may need help with the calculations.

You also need to pay all tax, interest and penalties due on the undeclared income by 26 November. Offshore income received since 6 April 2006 should be included on your 2006/07 tax return, which must be submitted by 31 January 2008.

If you decide not to notify the Revenue before 22 June that you intend to make a full disclosure by November, you leave yourself open to a full investigation where the penalties could be up to 100% of the unpaid tax. Non-declaration of income is a very serious issue, even if it was based on a misunderstanding of the tax law, so please do come and discuss the matter with us before approaching the Revenue.



You may need to search over 20 years of files

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The Companies Act states that a limited company must have its name mentioned in legible characters in all correspondence including letterheads, notices and other official documents, invoices and receipts etc.

From 1 January 2007 the rule has been altered to include websites and emails, which constitute official documents pertaining to the business which must now clearly display the company's name, registered number, registered address and place of registration.

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.

## Should I ditch the company

This is what you may think following the tax changes for small companies announced in the Budget, but it pays to take a closer look at actual amount of tax that will be paid by a company or a sole-trader.

The corporation tax rate for small companies with profits of up to £300,000 has already increased to 20%, and it is due to jump again from 1 April 2008 to 21%, and once more in April 2009 to 22%. These rises mean the tax rate for small companies will be higher than the basic rate of income tax for individuals, which is due to be cut to 20% from 6 April 2008. At the same time the basic rate income tax band is to be stretched in both directions. The lower 10% rate will disappear and the higher 40% rate will start at a higher threshold. So most people on average earnings will pay income tax at just one rate: 20%.

This does not necessarily mean that profits made by small companies will be taxed more than profits made by sole-traders or partnerships, as you need to add in the national insurance

charges (NICs) due. Individuals must pay class 4 NICs at 8% on just about all their taxable profits up to the higher rate threshold, giving a total effective tax rate of 28%, (20% income tax plus 8% NI).



Take a closer look at the tax due

If you trade through a company the profits will be taxed at 22% (from 2009) but you can take out wages of up to £100 per week with no NI charges. Any dividends you are paid by the company are also free of NICs, and will not cost you any more in income tax if your total taxable income is below the higher rate threshold, (about £43,000 from 6 April 2009).

So for a small company the total tax and NI payable is still lower than for a sole-trader, but it does depend on how you take the money out of the company. There are also extra costs involved in running a company, which must be balanced against the tax savings.

## Avoiding benefit charges on company vans

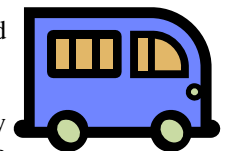
If you drive a company owned van you are now taxed on an extra £3,000 per year, plus a further £500 if the company pays for the fuel. These new scale charges came in on 6 April 2007, but there is a way of avoiding them completely if you keep good records.

Where the van is not used for significant private use, the Revenue will not impose the tax charge on the cash equivalent value of £3,500. Travelling between your home and work is not considered private use for this purpose, as long as you do not deviate to the supermarket on every journey home.

It is crucial that you can prove the van is only used for work related journeys, as otherwise the Tax Inspector will assume

you have used it for personal trips and will impose the tax charge.

Short of having a camera constantly running in the cab, the best way to prove how the van was used is through mileage records. Keep a log of every business journey and a record of regular trips such as from home to work, and compare the total business miles to vehicle's milometer on a regular basis.



Record where it goes and when

## Choice of dividend or bonus



Tax savings depend on the relative tax rates

When you run your own company you have a good deal of flexibility over how and when to extract profits from your business. You may take a basic salary and top up your income with a dividend or bonus once or twice a year. Which of these alternatives is more tax efficient depends on your highest tax rate, and the tax rate paid by your company. But these tax rates are changing (see **Should I ditch the company?** above), so the policy that saved tax previously may not work in the future.

If you pay tax at the basic rate of 22% and your company pays corporation tax at 20%, the tax saved by you and the company combined is significant where those funds are extracted as a dividend. This is because the dividend is free of national insurance and income tax in your hands.

Where the bonus or dividend you receive pushes your personal income into the higher rate tax band (taxed at 40%) there is still a combined tax saving by paying a dividend, if the company pays tax at 20%. However this tax saving will reduce as the corporate tax rate rises to 22%.

If your company pays the higher or marginal rates of corporation tax, (currently 30% to 32.5%) and you are already paying 40% on part of your income, there is no tax saved overall by paying a dividend rather than salary.

Although a dividend is a tax efficient way to extract profits in most cases, there are alternatives. For example if the company uses a property, which is held in your own name, it can pay you a market rent which is free of national insurance. Ask us to look at how you could extract more profits from your company in tax efficient ways.