

Botting & Co Ltd News

September 2005

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TAX DEADLINES

19 September

PAYE & NIC to reach HMRC for month to 5 September.

22 September

Electronic payments of PAYE and NIC to reach HMRC for month to 5 Sept.

30 September

Tax credit renewal forms for 2005/06 must be returned. Submit paper (not electronic) 2004/05 Tax Returns so tax of up to £2,000 may be collected through 2006/07 PAYE coding.

1 October

National Minimum Wage rates increase. Pay corporation tax for small companies with year ending on 31 December 2004.

5 October

Individuals must inform HMRC of new sources of income or gains if no Tax Return received for 2004/05.

19 October

Income tax and class 1B NIC due under PAYE Settlement Agreements for 2004/05. PAYE & NIC due for month to 5 October and 2nd quarter 2005/06.

21 October

Electronic payments of PAYE and NIC to reach HMRC for month and quarter to 5 Oct.

2 November

Submit forms P46 (car) for quarter ended 5 October.

18 November

PAYE & NIC to reach HMRC for month to 5 November.

22 November

Electronic payments of PAYE and NIC to reach HMRC for month to 5 Nov.

When exactly should you pay your VAT?

The obvious answer is at the end of the month following the end of your VAT quarter, but the exact due date depends on how you pay.

Cheque

If you pay the VAT due by cheque, HMRC records the payment on the *working* day the cheque arrives. For the quarter ending 31st March 2006 the due date: 30th April falls on a Sunday. If your cheque arrives on Tuesday 2nd May (May 1st is a bank holiday), the funds will leave your bank account on Friday 5th May and you are not late with your VAT payment.

Online

When you complete your VAT return online you must also pay any VAT due electronically, and HMRC apparently gives you up to seven extra days to pay. For the March 2006 quarter the VAT is due on 7th May instead of 30th April. However 7th May 2006 is a Sunday, and unlike with cheque payments the electronically transferred funds must be in the HMRC bank account on the last working day within the seven day extension, which is 5th May. It normally takes three days to move funds using the Banks Automated Clearing System (BACS) within the UK, which means you need to release the funds on 3rd May. So you actually lose two days with electronic payment rather than gain seven!

Warning

Some bank accounts impose a limit on the amount that can be transferred online, so check with your bank first to ensure that your likely VAT liability can be paid using your normal online banking facility. Also take a print-out of the transaction instruction, so if HMRC claim the funds never arrived you have proof you sent them from your end.

Direct Debit

HMRC now allow you to set up a direct debit (DD) to pay your VAT if you also complete your VAT return online. You still get the extension of the due date by seven days, but the VAT due is taken from your account on the third *working* day after the end of that period. If you have a DD set up in advance of completing your VAT for the March 2006 quarter, the VAT due will leave your bank account on 10th May. That's ten extra days during which you have use of the cash!



Keep a close eye on the calendar

Tax Tip

HMRC has increased the approved mileage rates that can be paid tax free to company car drivers for fuel used on business journeys made after 30 June 2005. As an employer you can pay a higher mileage rate to employees who pay for fuel in company cars.

Botting & Co Office news

Kath Drew joined us on 5th July as a receptionist to work with Sylvia and share the position to cover all holidays.

Tony's 11 month old grand-daughter Grace, who is a frequent visitor to the office, gave us all a scare with her recent illness. She had an alarming swelling on her neck and was treated in York District hospital as well as two different Leeds hospitals. The swelling has now been successfully removed, and thankfully Grace has made a full recovery. However we still await her test results which are not due until October!

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.

The right way to pay dividends

Dividends are free from national insurance and income tax for those with total income of less than about £37,000, which is why most owners of small companies take their profits out as dividends rather than salary. This works well if the dividend is paid correctly, but if the dividend is invalid the amount received by the shareholder will be treated as a loan that can create tax charges for both him and his company.

To pay a legal and valid dividend it is not sufficient just to write 'dividend' on the cheque stub or against the entry in director's loan account. The directors should first review the profits available to pay the dividend, which means working out what surplus cash there is after setting aside amounts to pay creditors and future tax bills. These deliberations should be recorded as a formal board minute, so if the Tax Inspector ever asks, you can prove the cash was there when the decision to pay an interim dividend was made.

If the final accounts for the year have been drawn up and show a



More than just writing a cheque

profit, the directors can recommend that the profits which are not required for investment in the company, can be paid out as a final dividend to the shareholders. The shareholders can either accept the directors' recommendation or suggest a lower figure to pay out. Both these decisions also need to be properly recorded at the time they are made.

When either a final or interim dividend is paid dividend vouchers need to be prepared for each shareholder showing the total due, the tax credit attached to the dividend and the date of payment. The cash can be transferred from the company's account by cheque or bank transfer into the shareholder's private bank account. If the shareholder is a director his account in the company books may be credited with the dividend due to him, but this needs to be done as soon as possible after the decision to pay a dividend is taken.

Does the Revenue think your Tax Return is wrong?

The Revenue seems to be trying to collect additional tax by issuing large numbers of computer generated letters that appear to accuse taxpayers of understating their income (see the Construction Industry letters below). This year the standard letter addressed to small businesses adopts a threatening tone and includes an information sheet that only gives half the story.

If you have received one of these letters you may have the impression that the Revenue has picked up a problem with your last tax return and is warning you not to repeat the mistake, but he doesn't tell you what the problem could be! The best advice is not to panic.

The Revenue's computer has scanned your last tax return and made a comparison with the figures reported for the previous year. If there is a variation in the level of expenses it



Don't be alarmed

automatically generates a standard letter. There are many reasons why your expenses should vary and we normally explain the reasons in the white space part of your tax return. Unfortunately the computer does not read these notes before it hits 'send letter', so the junk mail continues to arrive.

If you need clarification about an item of business expenses please come and talk to us rather than ring one of the Revenue's call centres. We find it is better to have a face to face meeting where we can see the relevant documents, as this avoids such verbal misunderstandings such as 'fork handles' or 'four candles', (as in the famous Two Ronnies sketch!).

Concerns about subcontractors



Regular workers are not always employees

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If you are connected with the construction industry you may have recently received a letter from the Revenue questioning the employment status of your workers, or your own self-employed status. This is a standard computer generated letter and should not be read as a personal message to you or your business.

For example some letters say that your file has been carefully reviewed by the Inspector of Taxes. This is very unlikely as computer generated letters have been sent to all contractors who use the same sub-contractors on a regular basis. Just because you book the same tradesmen for jobs time and again it does not mean those traders must be your employees.

The letter to subcontractors includes a set of six questions and asserts that if you can answer 'yes' to more than one, it is likely that you should be taxed as an employee. This is nonsense as only the actual terms of your contract can determine whether you should be treated as an employee, not six broad and frankly biased questions.

If you are concerned that you or your workers should not be treated as self-employed please ask us to undertake an independent review of your situation. Please do not seek guidance directly from the Revenue as this may well trigger a visit from the employer compliance review team. They will undoubtedly conclude that all your workers should be on PAYE and assess you for unpaid tax going back some years. Such an assessment can be very expensive to challenge once it is made.