

Business Matters

News & Information from

Winter 2005/06



Welcome to the Winter 2005 issue of our Business Matters newsletter

Time to act! Don't miss out on tax-saving opportunities

With our help and careful planning, you can ensure that your business and personal finances are as tax-efficient as possible ahead of the 5 April 2006 tax year end.

Here are some strategies to consider:

- **Save on capital gains tax (CGT) by deferring gains** – realise gains after the end of the tax year, and delay payment of the tax for 12 months. Split sales across the end of the tax year and make use of two years' annual exemption. Make an outright gift to your spouse or civil partner, who can make use of his or her exemption, too. Delaying a sale can also mean increased taper relief and consequently less tax. Other CGT strategies might include: claiming a CGT loss for assets which have become of negligible value (this can be offset against current year gains or carried forward if you have no gains in 2005/06); and using business losses against capital gains.
- **Save tax by restructuring your company car and fuel arrangements** – you need to consider the tax liability on your company car and fuel provided for private travel and the emissions of

your next car, as well as options such as the currently favourable rules for company vans, and for running your own car and claiming business mileage. Either alternative may save you and your company or employer a considerable amount.

- **Save by investing in a tax shelter** – capital gains tax can be deferred by investment in Enterprise Investment Scheme shares, and investment in these plus Venture Capital Trusts rank for income tax relief (subject to limits). The Film Finance Scheme also offers tax deferral, while ISAs are another option for tax-efficient savings.
- **Save on inheritance tax (IHT) by making sensible gifts** – never give away what you cannot afford, but if IHT is a concern, a sensible gift strategy can ensure that you help your family in your lifetime and reduce the IHT payable on your death.

These are just a few of the many tax-saving strategies that might be available to you.

Talk to us about the best options for you – the sooner you do, the easier it will be for us to help implement them before the 5 April tax year end.

Helping you to grow your business's profitability, and your personal wealth

Tax planning is not just for the year end – we can help you all year round. For example, contact us to discuss:

- making the most of tax-free opportunities
- developing a plan for tax-efficient profit extraction
- keeping business taxes to a minimum
- minimising the tax on the sale of your business
- a tax-efficient remuneration package
- reducing national insurance costs
- reducing the tax on your estate
- planning to minimise VAT liabilities

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For further information on any of our services, please contact us we will be happy to help you

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The Significance of A-Day

'A-Day' is the popular name given to 6 April 2006, the starting date for the unifying rules for all occupational and personal pension schemes that are registered as qualifying for tax relief. The eight existing tax regimes will be replaced by a single universal regime.

Non-registered pension schemes may continue, but without any tax advantages.

Contributions

Under the new rules there will be no limit to the number of schemes an individual may belong to. Most of the contribution restrictions will be replaced by two overall key controls:

Annual allowance (AA)

Annual contributions up to the level of earnings, subject to the annual allowance (or £3,600 gross if greater), will attract tax relief. Contributions above these levels will not receive any relief and there will be a tax charge of 40% to the extent that the increase in pensions savings in a tax year exceeds the AA.

Lifetime allowance (LTA)

This will be taken into account whenever benefits are withdrawn. At the first withdrawal, any funds used in excess of the LTA will be taxed at 25% to the extent that they are used to buy a pension or 55% in the case of lump sum payments.

LTA and AA controls will be reviewed every five years. The levels for the first five years have been set as follows:

Tax Year	Annual Allowance	Lifetime Allowance
2006-07	£ 215,000	£ 1,500,000
2007-08	£ 225,000	£ 1,600,000
2008-09	£ 235,000	£ 1,650,000
2009-10	£ 245,000	£ 1,750,000
2010-11	£ 255,000	£ 1,800,000

Scheme investment

One of the attractions of the new system is the lifting of restrictions on types of investment. It will be possible to invest in more or less anything, including residential property (irrespective of occupant), works of art and vintage cars. However, breach of the rules will be subject to tax charges.

This aspect of the new rules has caused a considerable amount of interest for those contemplating self investing pensions. Borrowing



by schemes to increase investments will be limited to 50% of the fund. In certain circumstances the pre A-Day limit may be considerably higher, so there could be scope for timely tax planning.

Tax free lump sums

All schemes will have the ability to offer members a tax-free lump sum of up to 25% of their pension fund (limited by the LTA).

Benefits

The minimum age for drawing benefits will increase from 50 to 55 by April 2010, although people in schemes with early retirement dates will maintain their rights to draw benefits early. It will not be necessary to retire before benefits can be drawn.

Benefits must be crystallised by age 75. Someone in a money purchase scheme who does not wish to buy an annuity may instead withdraw income from the pension fund, with special provisions for passing on the fund following the death of the member. This new category of Alternatively Secured Pensions was originally intended for those with religious objections to risk pooling. The Government will monitor the situation to ensure that such pensions are not being used for tax avoidance.

Employers

Employers will be able to claim tax relief for contributions paid to a registered pension scheme. Tax relief for exceptionally large contributions will be spread over two to four years.

Administration

The complex approval process for pension schemes will be replaced by a simplified regime requiring registration only. Schemes that were approved schemes before A-Day will automatically become registered schemes. Transitional arrangements will protect pre A-Day pension rights (including rights to lump sum payments).

If you have any concerns about the effects that 'A-Day' might have on your pension arrangements, make sure you contact us.

Business Briefs

Small Firms Loan Guarantee Scheme revised

Following the recommendations of the Graham Review, the Government has changed the eligibility criteria of the Small Firms Loan Guarantee (SFLG) scheme. With effect from 1 December 2005, the SFLG is limited to those businesses which have been running for less than five years.

The SFLG scheme provides a guarantee for loans from banks and specialist lenders for small businesses which would otherwise be unable to secure a loan.

The new scheme also sees the introduction of a new single lending limit of £250,000, and a new turnover limit of £5.6m for all eligible businesses.

New payment method for Working Tax Credit

A major change in the way Working Tax Credit (WTC) is paid is underway, with a gradual switch from payment through the employer, to direct payment by HM Revenue and Customs (HMRC).

Since 7 November 2005, HMRC has been paying all new WTC claims directly into employees' bank, building society or Post Office card accounts without involving their employer. Between December 2005 and February 2006, remaining claimants will be switched to direct payment. HMRC will send 'stop notices' to employers giving them the standard 42 days to stop WTC payments. The Government expects all claimants to be switched to direct payment by 31 March 2006.

With this change in payment method the only remaining tax credit obligations on employers will be to retain tax credit records after the end of the tax year to which they relate, and to answer any earnings enquiries or requests for other information from HMRC.

Preventing employee theft

Stealing by staff members can be an expensive drain on a business. According to a recent study by the Centre for Retail Research, it cost the British retail industry some £1.5 billion last year – making the UK one of the worst countries in Europe for employee theft.

Although the retail and catering trades are probably the most vulnerable to staff theft, there is a risk for many types of business. However, it is possible to minimise that risk by taking some basic precautions.

Safeguard with systems

Good financial systems and records will help you to safeguard against theft. If you can average out cash flow and retail figures over days, weeks or months, you will be able to identify any anomalies, such as unusually low takings at the till. Informing staff that you monitor the finances as a matter of routine could help deter theft.

An effective stock control system can also prevent stealing from the storeroom. If a computerised system is not practical, then you

need to carry out regular stock takes and careful checking of orders and sales.

If you have tills, some simple procedures can prevent common problems. As long as you leave enough change for a £50 note, any surplus notes can be regularly removed. To prevent staff from simply pocketing cash, some retailers like to price items to the nearest 99p, because it forces employees to ring items through the till to give customers their penny change. A system whereby staff have to make a note every time the till is opened without a sale being made can help you to monitor unusual activity.

Take care when recruiting

Check all CVs and references carefully. There might be oddities, such as people who have left their last jobs without notice, or in the middle of a week. If in doubt, talk personally to previous employers. When you hire staff, explain your security and disciplinary policies from the outset.

Keep staff loyal

Disgruntled employees who feel that the company doesn't care about them are more likely to be tempted to steal. Simple perks such as free refreshments, flexible hours and staff discounts can make a great difference. Try to ensure that staff feel they have a stake in the business, and that their thoughts and opinions count.

Keeping control of your motoring costs

Motoring can be an expensive business, particularly with petrol prices soaring. What are the options for business motoring – and how can you save on tax?

If you drive a company car

If you drive a company car and pay for your own fuel, the fuel only mileage rate your company can pay for business journeys, without incurring tax and NICs, has increased from 1 July for cars with engine size over 2000cc. For petrol, diesel and LPG powered vehicles these advisory fuel-only rates are now: 16p, 13p and 10p per mile respectively. The advisory fuel rates for smaller cars have not changed.

This is of some benefit if you drive a larger car. You can ask your company to increase the mileage rate it pays with retrospective effect from 1 July 2005. You can then submit a revised expense claim to claim the extra mileage allowance for all business journeys made since that date.

However, other company car drivers are still disadvantaged, unless the company decides to pay a higher rate based on the actual cost of fuel used on business journeys, rather than HMRC's advisory fuel rates. You will not be taxed on the excess as long as you can show the mileage rate paid is reasonable for local prices and the fuel efficiency of the vehicles concerned.

For example: at a pump price of 95p per litre of unleaded, using HMRC's data for average miles per gallon, the per mile cost for driving a typical 2000cc car works out at 17.69p, rounded up to 18p per mile. This compares pretty poorly to the new advisory fuel rate of 16p per mile for a large car.

Tip: retain the calculations of the actual fuel cost per mile for your company car just in case HMRC decides to examine your expense claims as part of an employer compliance review (the new name for a PAYE audit).

If you use your own car for business purposes

The use of mileage rates is an optional alternative to keeping detailed records of actual expenditure, which might be especially useful for the self-employed. For either method, journeys must be made wholly and exclusively for business purposes.

The relevant mileage rates for cars and vans are 40p per mile on the first 10,000 miles in the tax year, and 25p on each additional mile above this.

Self-employed taxpayers can compute their expenses using a fixed rate per business mile if the annual turnover of their business is less than the VAT registration threshold (£60,000 for 2005/06) when they first use the vehicle. The mileage rate basis must be applied consistently from year to year. It can be changed only when a vehicle is replaced.

If the turnover increases and exceeds the VAT registration threshold, or if the threshold is reduced, then the taxpayer should continue to use the mileage rate basis until the vehicle is replaced.

The mileage rate covers the cost of running and maintaining the vehicle, such as fuel, oil, servicing, repairs, insurance, vehicle excise duty and MOT and also an element to allow for depreciation / capital allowance.

It does not cover costs that are specific to a particular journey, such as tolls, congestion charges and parking fees. These will be allowable for tax purposes where they are incurred solely for business purposes. The taxpayer may also claim the business proportion of the interest on any loan used to purchase the vehicle.





Pre-Budget Report 2005

Most of the headlines following the Pre-Budget Report focused on the economy, with Chancellor Gordon Brown cutting his forecast of UK growth to 1.75% - compared to the prediction of 3 to 3.5% growth he made in the March Budget.

Another headline-grabbing announcement was the news that the Government will use additional revenues from taxation of the North Sea oil companies to help with pensioners' fuel bills.

However, the Report did include a number of significant measures and tax changes, which we have outlined below.

Taxation of small companies and small businesses

To end the perceived abuse of the "zero percent" starting rate of corporation tax, the Chancellor announced that the starting rate will be increased to 19%. In consequence of this change, the complex rules on non-corporate dividends will become redundant.

To continue to encourage investment by small businesses, the rate of first-year capital allowances will increase from 40% to 50% from April 2006.

Value Added Tax

To assist more small traders with their cashflow, the threshold for the VAT Annual Accounting Scheme turnover will be doubled to £1,350,000 from April 2006. Application has been made to the European Commission to have the rules amended to allow the Cash Accounting Scheme turnover threshold to be increased to the same level.

The 2005 Budget intimated that the VAT fuel scale charge would be reformed to follow a carbon emissions basis in line with company car tax and fuel benefit charges.

After consultation, it has been decided that the new system will come into force on 1 May 2007.

Pension simplification

One of the headline features of the forthcoming 'A-Day' pensions legislation is the very wide expansion of items which can be held in Self Invested Personal Pensions (SIPPs), in particular residential property and certain other assets such as fine wines.

Measures will be introduced to ensure that tax relief for all such self-directed pensions is given only to those whose purpose in making the contribution is to provide themselves with retirement income. This will stop individuals claiming tax relief for pension contributions used to fund purchases of holiday and second homes for their or their family's personal use.

The legislation will also remove tax advantages where lump sums are recycled back into funds in order to generate artificial levels of tax relief.

Do please contact us for specific advice about how these announcements might affect you or your business.



REMINDERS FOR YOUR DIARY

December 2005

31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2005

End of relevant year for taxable distance supplies to UK for VAT registration purposes

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes

End of CT61 quarterly period

Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2004

January 2006

1 Due date for payment of Corporation Tax for period ended 31 March 2005

14 Due date for income tax for the CT61 quarter to 31 December 2005

19/20 Quarter 3 2005/06 PAYE remittance due

31 First self assessment payment on account for 2005/06

Capital gains tax payment for 2004/05

Balancing payment - 2004/05 income tax/class 4 NICs

Last day to file the 2005 Tax Return

Last day to pay personal pension premiums and elect for carry back to 2004/05

February

1 £100 penalty if 2005 Tax Return not yet filed. Additional penalties may apply for further delay. Interest starts to accrue on 2004/05 tax not yet paid

2 Last day for notifying car changes in quarter to 5 January 2006 - P46 (Car)

28 Last day to pay any balance of 2004/05 tax to avoid an automatic 5% surcharge

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

WEB WATCH

ESSENTIAL SITES FOR BUSINESS OWNERS

Fraud Alert www.met.police.uk/fraudalert
Offering advice to businesses on how to combat fraud.

Better Backs www.hse.gov.uk/betterbacks
Reducing the impact of work-related back injuries.

Advice Now www.advicenow.org.uk
Information on a wide range of legal issues.

Hazardous Waste www.hazardouswaste.org.uk
Resource dealing with the new hazardous waste legislation.