



FACT SHEET INFORMATION

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The story so far . . .

Once upon a time, many years ago, J.A.B. Heaton began to practise as a Chartered Accountant in Park Square, Leeds. In those days, they had 'office boys' the first of which being William Lumb. He so impressed J.A.B. that he suggested to him that he should leave to join a bigger firm in order to obtain the qualification of Certified Accountant, with the understanding that, having qualified, he would return and become a Partner. It was whilst he was away obtaining his qualifications that Bill met George Lisle.

In the early days of World War Two, George Lisle, who had by then qualified as a Chartered Accountant, joined the firm whilst awaiting his call-up to the Forces. J.A.B. recognised his ability and said to him "there is a place here for you when you come back". After service with the Commandoes and the Seaforth Highlanders, George Lisle did return and completed the creation of the Firm name "Heaton Lumb Lisle".

About this time, young Jack Heaton, J.A.B.'s son, had left his Lancaster with Bomber Command to set about completing his qualification as a Chartered Accountant. He always maintained that the Examiners that year must have been a poor lot, because they let him through with a Pass. This proved most fortunate because, when J.A.B. died suddenly in 1948, Jack was able to join with Bill Lumb and George Lisle in a most happy and longstanding Partnership.

During subsequent years, Leslie Horsfield, previously Manager in Horsforth, but now relocated to Pudsey, joined the firm straight from School, as did David Lewis, who subsequently qualified as a Chartered Accountant and as a Member of the Institute of Taxation. When the time came for Bill Lumb and George Lisle to retire, David was able to take over the reins and joined Jack Heaton in Partnership for a short period until Jack's retirement in 1990.

Angela Carr joined the Firm in 1987, having qualified with a larger firm, becoming a Partner in 1990. By then, we had forsaken the "Big City" and had established ourselves in Pudsey, where George Lesiak is our Small Business Manager, with subsequent expansion to Idle in Bradford where the office was managed by Stephen Hinchcliffe who became a Partner in May 1999.

Rapid growth over this period resulted in the need to move office in Pudsey to our new premises on Richardshaw Lane which has enabled us to expand further with the acquisition of the Morley Practice previously run by David Wiles.

Throughout all these years we have been most fortunate in having had many long serving and loyal members of staff, with George and Steve gaining their Accountancy qualifications with us. We are also proud to say that we have many Clients for whom we have acted for successive generations and some who still remember Jack Heaton "when he was a lad".

Over this period we have progressed from quill pens, propelling pencils, fountain pens and typewriter to the age where the computer rules "OK". We have adopted the most modern techniques enabling us to give our Clients the best advice and highest quality service, so that we move into the new Millennium with confidence and a great tradition behind us

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1	The Budget	<i>March 2010</i>
1A	Budget Special – Emergency Budget	<i>June 2010</i>
2	Independent Taxation	<i>April 2009</i>
3	Forms P11D	<i>April 2008</i>
4	Employed or Self-employed?	<i>April 2008</i>
5	P.A.Y.E. Problems	<i>April 2009</i>
6	Value Added Tax	<i>May 2009</i>
6a	Value Added Tax Changes	<i>November 2008</i>
10	Statutory Maternity Pay	<i>April 2007</i>
13	Hire Purchase - Buy or Lease?	<i>August 1995</i>
14	The Single Market & VAT	<i>May 2009</i>
15	Starting a New Business	<i>April 2009</i>
16	Agricultural Flat Rate Scheme - VAT	<i>January 1993</i>
17	VAT Registration of Racehorse Owners	<i>March 1997</i>
18	Small Company Audit Exemption	<i>April 2008</i>
19	Year End Tax Planning - 2009/2010	<i>April 2009</i>
20	Inheritance Tax Planning	<i>April 2009</i>
22	Self-Assessment - Self Employed	<i>April 2002</i>
23	Self-Assessment - Keeping of Records	<i>April 2008</i>
24	Self-Assessment - Employers	<i>April 2003</i>
25	Corporation Tax Computations and Return	<i>April 2009</i>
26	Capital Gains Tax Reliefs (Individuals)	<i>April 2008</i>
27	Stakeholder Pensions	<i>April 2006</i>
28	Help for New Business Start-Ups	<i>April 2005</i>
29	Taxation of Company Cars and Expenses	<i>June 2010</i>
30	Tax Relief on Investments	<i>April 2008</i>
31	Value Added Tax Flat Rate Scheme	<i>January 2010</i>
32	Tax Savings of Incorporation	<i>April 2009</i>
33	Travelling Expenses	<i>March 2007</i>
34	Company Vans	<i>April 2008</i>
35	Rental Income	<i>August 2005</i>
36	Construction Industry Scheme - Contractors	<i>April 2007</i>
37	Construction Industry Scheme - Subcontractors	<i>April 2007</i>

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FACT SHEET NO 1

THE BUDGET

24TH MARCH 2010

PERSONAL TAXATION - RATES AND ALLOWANCES

2010/2011		2009/2010	
Taxable Income	Rate	Taxable Income	Rate
* 1 - 2440 (Savings only)	10%	1 - 2440 (Savings only)	10%
0 - 37400 (Earned/Pension)	20%	0 - 37400 (Earned/Pension)	20%
37401 - 150000	40%	Over 37400	40%
Over 150000	50%		

* The new 10% starting rate for savings income only applies when the taxable non-savings income is below £2440.

ALLOWANCES

Personal Allowances:-	2010/11	2009/10
Personal Allowance	6475	6475
Reduction of relief by £1 for every £2 of income over	100000 **	N/A
Blind Person's Allowance	1890	1890
Age Allowances:-		
Single Person (Over 65)	9490	9490
Married Couples Allowance (over 65 at 5/4/2000 – in 2010/11 see over 75 relief)	N/A	6865 ***
Higher Allowance Single Person (Over 75)	9640	9640
Higher Married Couples Allowance (over 75 at 5/4/2000)	6965 ***	6965 ***
Reduction of relief by £1 for every £2 of income over	22900	22900
Other Allowances:-		
Rent-a-Room Relief	4250	4250
Inheritance Tax Threshold - with effect from 6th April - (frozen until 2014/15)	325000	325000
Capital Gains Tax Exemption Limit		
- Individuals	10100	10100
- Trustees	5050	5050
Pension Scheme Contribution Limits		
- Annual (frozen until 2015/16)	255000	245000
- Lifetime (frozen until 2015/16)	1800000	1750000
Self Employed NIC Contributions		
- Class 2	2.40 p.w.	2.40 p.w.
- Class 4		
Lower	5715	5715
Upper	43875	43875
Rate up to Upper Limit	8%	8%
Rate above Upper Limit	1%	1%
Class 2 NIC Small Earnings Exemption	5075	5075
Wife's Wages Limit	109.95 p.w.	109.95 p.w.
National Minimum Wage (from 1st October)		
16-17	T.B.A p.h.	3.57 p.h.
18-21	T.B.A p.h.	4.83 p.h.
over 21	T.B.A p.h.	5.80 p.h.
** The effective tax rate on income between £100000 and £112950 is 60%		
*** Tax relief is restricted to	10%	10%

CORPORATION TAX

From	1st April 2010	1st April 2009
Small Co's Rate	0 - 300000 21%	0 - 300000 21%
Marginal Relief	300001 - 1500000 29.75%	300001 - 1500000 29.75%
Main Rate	1500000+ 28%	1500000+ 28%

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VALUE ADDED TAX

The Annual VAT Registration turnover limit is increased to £70,000 (£68,000) and the De-registration limit is increased to £68,000 (£66,000) from 1st April 2010.

VAT Scales Rates in respect of private fuel will increase, from the first VAT Return after 1st May 2010. Details will be included with the next VAT Return issued.

From April 2010 all VAT Returns, for businesses with turnover in excess of £100,000, must be filed on line and payment made electronically.

ENTREPRENEURS RELIEF

The lifetime limit for entrepreneurs relief is increased to £2M (£1M) per taxpayer with effect from 6th April 2010.

INDIVIDUAL SAVINGS ACCOUNTS (ISA's)

From 6th April 2010 the ISA limit will increase to £10,200 (£7,200) 50% of which can be in cash.

RELIEF FOR TRADING LOSSES

Losses up to £50,000 p.a. incurred by companies for accounting periods ending between 24th November 2008 and 23rd November 2010 and by sole traders/partnerships for tax years 2008/2009 and 2009/2010 can be carried back and set off against profits in the previous 3 years.

CAPITAL ALLOWANCES

Where plant & machinery and commercial vehicles are purchased after 1st April 2010 for companies and 6th April 2010 for other businesses 100% allowances will be available up to £100,000 pa (£50,000).

The list of energy saving and water efficient assets qualifying for enhanced allowances has been extended. Details will be published later this year at www.eca.gov.uk

Tax allowances for business cars will be calculated by reference to their CO² emissions. Those with emissions of up to 110g/km qualify for 100%, between 111g/km and 160g/km 20% and all others 10%.

ALREADY ANNOUNCED

- ♦ Industrial and Agricultural Buildings Allowances will be phased out over a 3 year period from April 2008.
- ♦ The enhanced R & D allowance is increased to 175% (150%)
- ♦ The Revenue approved mileage rates for re-imbursment of fuel in company cars has changed.
- ♦ Directors wishing to pay a minimal wage in order to pay NI contributions need to continue to receive £5,760 – the rates have remained unchanged this year.
- ♦ Tax relief surrounding furnished holiday lets (FHL) will cease on 6th April 2010 – thereafter FHL income will be treated as normal rental income.
- ♦ The Business Payment Support Service (BPSS), which enables tax to be paid by instalments in cases of hardship has been extended.
- ♦ Stamp Duty threshold for 1st time buyers of residential property has been doubled to £250,000 until 25th March 2012.

A 'LOOK AHEAD'

April 2011 - For individuals with taxable income in excess of £130,000, or £150,000 including employer pension contributions, relief for pension contributions will be tapered so that those earning over £180,000 will receive basic rate relief only. However, there are anti avoidance measures to prevent individuals increasing their pension contributions in excess of their normal regular pattern prior to implementation.

National Insurance Contributions for employers, employees and the self-employed will all increase by 1% on all earnings above £6475.

A TIMELY REMINDER

Do not forget the important filing dates this year:-

19th April	Payment of final 2009/10 PAYE liability
19th May	File 2010 P35 (CIS36) and P14's
6th July	Forms P11d
19th July	Payment of Class 1A NIC
31st July	Second payment on account for 2010/11

THIS SUMMARY HAS BEEN PREPARED VERY RAPIDLY AND MAY CONTAIN CERTAIN ERRORS FOR WHICH WE CANNOT BE HELD RESPONSIBLE



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UPDATE

FACT SHEET NO 1A

BUDGET SPECIAL

22ND JUNE 2010

CORPORATION TAX

From April 2011 the Small Companies Rate (companies with profits below £300,000) will be reduced to 20% (currently 21%). The Standard Rate of corporation tax for larger companies will be progressively reduced from 28% this year to 24% in April 2014 with a consequent reduction in the marginal rate. A more detailed program for reform of Corporation Tax will be published in the autumn.

CAPITAL ALLOWANCES

From April 2012 the Annual Investment Allowance threshold for capital expenditure on plant and equipment will be reduced from £100,000 to £25,000. Careful planning will be needed when considering capital expenditure.

In addition the standard rates of writing down allowances will be reduced by 2% to 18% for normal plant and 8% for integral fittings and high emission cars.

VALUE ADDED TAX

As was widely predicted the main VAT Rate will increase to 20% on 4th January 2011. The flat rate scheme percentages will also change on the same day.

The procedures adopted when the rate increased in January this year will apply.

NIC HOLIDAY FOR NEW BUSINESSES

Most new businesses set up after 22nd June will benefit from a reduction in employer NIC's of up to £5,000 per employee in respect of the first 10 employees taken on. Full details will be published in due course. It is intended that the scheme will start no later than September 2010 although it remains subject to EEC approval.

TAX AND NATIONAL INSURANCE CONTRIBUTIONS

From April 2011 the following changes will apply:

- Personal allowances, for those under 65, will be increased by £1,000 to £7,475pa
- The threshold beyond which higher rate tax becomes payable will be reduced to ensure that higher rate tax payers do not benefit from the increased allowance
- The upper earnings threshold beyond which lower rate NIC's are paid will also be reduced. This will have the effect of reducing NIC costs for high earners.
- The threshold beyond which employers pay NIC's will increase by an extra £21 pw.

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CAPITAL GAINS TAX

For disposals on or after 23 June 2010, which do not qualify for Entrepreneurs Relief, all net capital gains will be added to other income and taxed at either 18% or 28% depending on whether they fall below or above the higher rate income tax threshold.

Any gains already made will be excluded from this calculation.

The capital gains tax rate for trusts will be increased to 28%

The annual exemption limit will remain and will be index linked from April 2011.

ENTREPRENEURS RELIEF

The lifetime limit is increased to £5M from 23 June

FURNISHED HOLIDAY LETS

The furnished holiday lettings rules will now not be withdrawn from 1st April 2010 as originally announced and will continue to include European Extended Area properties. However some minor changes are likely in future years.

PENSION SAVINGS

The complex rules restricting tax relief on pension contributions paid by higher rate tax payers, introduced by Alistair Darling, and due to come in to effect in April 2011 will be replaced by a simple reduction in the annual contribution limit. Full details have yet to be announced but it is likely that the annual contribution limit will fall from £255,000 to between £30,000 and £45,000.

The 'anti-forestalling' legislation for pension contributions will remain in effect this year.

The existing rules that create an effective obligation for self administered pension schemes to purchase an annuity for members who reach 75 will be abolished from April 2011. In the meantime the age threshold is increased to 77 for those who have not reached 75 by 22 June. This change will also apply for the purposes of the Inheritance Tax charge that currently applies to members who die after aged 75.

CONCLUSION

Although this budget was preceded by a series of leaks there were still a few surprises, not just on what was said, but what was not said. There was no announcement on the practice of paying dividends in lieu of salary and the increase in capital gains tax was not as bad as feared.

A TIMELY REMINDER

Do not forget the important filing dates this year:-

6 th July	File Forms P11d
19 th July	Payment of Class 1A NIC
31 st July	Second payment on account for 2010/11
31 st Oct	File paper SA Return
31 st Jan 11	File electronic SA Return

THIS SUMMARY HAS BEEN PREPARED VERY RAPIDLY AND MAY CONTAIN CERTAIN ERRORS FOR WHICH WE CANNOT BE HELD RESPONSIBLE



FACT SHEET NO. 2

INDEPENDENT TAXATION

6TH APRIL 2009

Independent Taxation was originally included in Nigel Lawson's 1988 Budget and finally came into effect on the 6th April 1990 with Husband and Wife being treated separately for both Income Tax and Capital Gains Tax purposes.

A married couple now each have their own, non-transferable, Personal Allowance, and for those born before 6th April 1935 a Married Couples Allowance which can be allocated to either husband or wife, and each have lower rate and basic rate tax bands.

Since December 2005 these rules also apply to members of Registered Civil Partnerships.

If you fall within any of the following categories you may be able to take action to save Income Tax.

1. Couples where either has income over £43,875 while the other has little or none.
2. Couples where one has a more modest income while the other has income less than £6,475.
3. Couples where at least one is over the age of 65 and either of their incomes are in excess of £22,900.

WHOSE INCOME IS IT?

In establishing the level of each spouse's income, it is important to identify who will be treated as receiving any particular item of income. The following is a brief guide:-

- C Income arising on savings accounts in joint names will be allocated equally irrespective of how much each has contributed to the capital.
 - C Income arising on savings accounts in one name, will be allocated to that spouse, even if the capital came from the other spouse.
 - C Income from employment will be allocated to the spouse in that employment.
 - C Income from investment property in joint names, can, by election, be allocated in proportion to how much each spouse contributed to the capital, or failing election will be allocated half each.
 - C In most cases income from dividends on company shares, will be allocated to whoever is the shareholder, or equally, if in joint names.
-

WHAT ACTION IS TO BE TAKEN?

It is important that a married couple's affairs are properly structured, in order to take best advantage of the taxation system and careful planning must be undertaken at all stages.

- C If the high income earner is in business, on his/her own account, it might be possible to pay the low earner a wage up to the National Insurance limit of £5,715 p.a.
- C Transfer income earning investments to the low earner. Any such transfer must be unconditional and the income arising must actually be paid to the low earner.
- C If the high income earner is a shareholder in a family limited company transfer up to half of the shares into the name of the low earner, so that any dividends paid will go to the low earner. This might change in future.
- C For couples where one was born before 6th April 1935, in view of the fact that Married Couples' Allowances is reduced by reference to the husband's income, it is desirable to reduce his income to below £22,900 by any of the above steps. For Civil Partnerships the allowance is restricted by reference to the highest earners income.

OTHER CONSIDERATIONS

Wherever possible, every taxpayer should have taxable income of at least £5,715.

Charitable Deed of Covenants and Gift Aid donations are treated as paid by the person taking out the original deed or making the gift and unless that person has taxed income of at least the gross amount of the deed, the Inland Revenue will seek to recover income tax from that person.

TAX ALLOWANCES

Personal Allowance			£6,435	
Single Person (Over 65)			£9,490	
Married Couples Allowance (at least one over 65 at 5/4/2000)			£6,865	(Restricted to 10%)
Higher Allowance Single Person (Over 75)			£9,640	
Higher Allowance Married Couple (at least one over 75 at 5/4/2000)			£6,965	(Restricted to 10%)
Lower Rate Tax Band	£1 - £2,440	10%		* See below
Basic Rate Tax Band	£1 - £37,400	20%		
Higher Rate Tax Band	Over £37,400	40%		

* Only applies where taxable non-savings income is under £2,440

THIS IS INTENDED TO BE A BRIEF GUIDE AND DETAILED ADVICE SHOULD BE OBTAINED BEFORE TAKING POSITIVE ACTION. IF YOU REQUIRE ASSISTANCE PLEASE MAKE AN APPOINTMENT AS SOON AS POSSIBLE.

At the end of each tax year employers are required to advise the Inland Revenue of any expenses or benefits provided to any director with a "material interest" in the company or any employee whose remuneration (including benefits and reimbursed expenses) was at the rate of £8,500 or more during the year. This information must be given to the Revenue by completing the form P11D for each such individual. These forms should reach the Inland Revenue on or before 6th July each year and copies, or summaries thereof, should be handed to your employees so that they can include the relevant details on their Self Assessment Tax Returns.

In view of the modest earnings limit of £8,500, which includes the value of any benefits and expenses, most employees, whether directors or not, who receive benefits in kind or reimbursed expenses are affected.

Which Employees Earn at a Rate of £8,500 or more?

To calculate whether an employee requires a form P11D in relation to expenses reimbursed or benefits provided it is necessary to:-

- (1) ascertain gross pay;
- (2) deduct ordinary annual contributions to an approved pension fund, exempt profit related pay and any contributions to an approved charitable payroll giving scheme;
- (3) add on the sum of all expense payments relating to the employee, even where the expenses in question will be fully tax deductible;
- (4) add on the taxable value of all benefits provided to the employee including the appropriate fixed car and fuel scale benefits, medical benefits provided, etc.

If the result amounts to £8,500 or more a form P11D should be completed for the employee in question (unless no entries fall to be made thereon). Where an employee joined during the year it is necessary to identify the annual rate of earnings for the period of the employment (or any part thereof) to consider whether a P11D is required.

Wives and other close relations of directors, and members of their household, are also included within this definition even if their remuneration is less than £8,500.

VAT

The amounts to be shown on a form P11D should include VAT - even though the employer may recover all or part thereof.

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Company Cars

The tax charge is based on a percentage of the cars manufacturers list price (including the cost of extras) graduated by reference to the cars CO² emissions for those cars which were registered on or after 1st January 1998. The tax charge for cars registered prior to that date is calculated using a fixed percentage depending upon the car's cc.

All new cars registered on or after 1st April 2001 have the CO² rating recorded on the car's log book. For cars registered prior to that date the information can be obtained from the Society of Motor Manufacturers website (<http://www.smmt.co.uk/co2/co2.asp>).

Fuel for Company Cars

Strict "fixed-scale" rules apply to the benefit in kind in respect of fuel. A taxable benefit will arise if any private fuel is paid by the employer. The taxable benefit can often exceed the cost of the fuel.

In order to avoid this charge, and the associated Class 1A National Insurance, the employer must maintain sufficient records to clearly demonstrate that the employee pays for all private fuel used.

Company Vans

Employees provided with company vans, which are available for private use, will be assessed on a flat rate of £3,000 plus a £500 scale charge if fuel is provided for private use. Company vans in which the employee's private use is purely incidental to business use are exempt from this charge. (Refer to Fact Sheet 34)

Pool Cars and Vans

The use of pool cars and vans do not need to be reported although few vehicles actually qualify as pool vehicles and, in particular, any vehicle that is regularly taken home by any employee is NOT a pool vehicle.

Mileage Allowances, Travel and Other Expenses

Any such allowances paid must be included on form P11D even if they are paid for business purposes, unless they are paid strictly in accordance with the approved rates published by the Inland Revenue or under a dispensation (see below).

Round Sum Expense Allowances

Strictly speaking, any amounts paid as a round sum allowance should be subjected to PAYE and tax deducted upon payment although if this is not the case they should be included in the P11D.

Telephone

If the company pays either all or part of a home telephone bill on behalf of an employee details of the total amount paid, even if some is properly in respect of business use, should be shown on form P11D. Where the employer pays the Rental it will almost always give rise to a benefit.

If the telephone bill is in the Company's name Class 1A employers National Insurance is payable on the benefit in kind. If the private use of the telephone is substantial the Class 1A will be payable on the whole of the amount paid not just on the business proportion.

If the telephone bill is in the employees name Class 1 employees and employers NIC should be paid under the normal PAYE rules when the telephone bill is settled by the employers. Please therefore ensure the telephone is in the company's name.

Mobile Phones

Mobile telephones no longer qualify as a benefit in kind (but only one per employee). However, care does need to be taken, as if the contract is in the name of the employee and the bill is paid by the company, or 'top-up' cards are provided for use in the employees own 'pay as you go' phone, a benefit in kind charge WILL apply. 'Blackberry' style phones, for this purpose, are classed as computers and not mobile phones (see below).

Computer Equipment

From 6th April 2006 if computer equipment is provided by an employer to an employee and the private use thereof is 'significant' a taxable benefit arises of an amount equal to 20% of the market value of the equipment when it was first made available to the employee. The employee must then claim a deduction for the business use proportion on his Income Tax Return.

The same rules apply to Broadband costs with the benefit being the annual connection charges. If, however, the contract is between the Broadband supplier and the employee but paid for by the employer, the full amount is taxable on the employee and no tax deduction will be available for business use.

Whether private use is 'significant' or not will depend on the facts of each individual case.

Use of Employees Home for Business

Provided that the employee is required to use his home for business purposes he can receive up to £3 per week (£2pw prior to April 2008) without this being reported on form P11d.

Interest Free, or subsidised, Loans to Employees

This normally applies to Directors who 'borrow' money from their Company. Any loan made by a Company to a Director or employee which, at any time during the Tax Year, is in excess of £5,000 needs to be reported to the Inland Revenue on form P11d. The Director will pay tax on the notional interest, at Inland Revenue published rates, on the outstanding loan. If this applies we will need details of the amount(s) concerned and the dates of payment.

Vouchers

This includes the provision of any vouchers, including season tickets, that can be exchanged for money, goods or services. Prepaid mobile telephone cards are, however, exempt provided they are specifically provided for an employer-supplied mobile phone.

Credit Cards

Where a credit card (either the employee's or the Company's) is used by an employee to settle an account, the gross sum involved must be shown on the P11D in the normal way, unless fully reimbursed by the employee, even if it is for business expenses. The employee can then make a claim for tax relief for business expenses.

Living Accommodation

A benefit arises where living accommodation is made available to a director or employee.

Personal Expenses

If the company pays the personal expenses of the employee both employees and employers Class 1 National Insurance Contributions must be paid under the normal PAYE rules and the amounts including VAT should be shown on the form. If the invoice is in the company's name then again it must be shown on the P11D but only Class 1A will be payable.

Entertaining

The employer must declare the full cost of each individual's entertaining expenditure. Entertaining includes hospitality of any kind together with expenditure on business gifts. It also includes any other type of payment that is specifically made by the employer for entertaining; this could be either by meeting the employee's bills or by reimbursing him for the expenditure.

Assets Transferred to Directors/Employees

Any asset sold or transferred to an employee must be disclosed even if full market value has been paid for the asset.

Business Trips

If the employee's spouse and family accompany the employee on a business trip, the full expenses incurred are to be included.

If the "business trip" is a disguised holiday, i.e. a sales conference carried out overseas with a minimum of meetings, the whole of the expenses incurred are likely to be treated as a benefit.

Christmas and other Functions

Where the employer bears the cost of an annual Christmas party or similar function, which is open to the staff generally, provided that the cost does not exceed £150 per head for each member of staff and a guest, this need not be shown on the form. This concession applies to more than one function provided that the annual total of £150 is not exceeded.

Dispensation

It should not be forgotten that, where it can be shown that employees receive regular reimbursement of expenses incurred wholly for business purposes and which do not give rise to any taxable benefit, the Revenue may grant a dispensation so that these items do not have to be recorded on a form P11D. This can save a considerable amount of time (though the necessary records still have to be maintained).

Claims by Employees

Unless the employee takes action, by making a claim under Section 336 ITEPA 2003 for relief in respect of business expenses, he or she will pay tax on the GROSS amount of benefits and expenses shown on form P11D even though some of those amounts will have been expended for purely business purposes.

Keeping of Records

Under Self Assessment the Inland Revenue expect employers to keep detailed records of all benefits and expenses paid to employees and to include full details on forms P11D each year.

Also if an employer is relying on exemptions due to the amount of employee useage it is important to maintain and publish company policies regarding employee useage and to monitor the same.

Penalties

Substantial penalties could be due if forms P11D are submitted incorrectly and, in addition, the Inland Revenue will expect the employer to meet the cost of the tax lost by the Revenue caused by the errors concerned. This is likely to be for the last 6 years and the total cost could, therefore, be significant.

Class 1A National Insurance

Most of the benefits recorded on forms P11d are now subject to Class 1A National Insurance which is a liability of the employer. The total should be paid to the Inland Revenue by the 19th July using the special payslip provided. Details should not be shown on form P35.

IF YOU REQUIRE ANY FURTHER INFORMATION ON THIS SPECIFIC PROBLEM AREA, PLEASE DO NOT HESITATE TO CONTACT US.



Local Tax Offices, PAYE Audit Offices and Inland Revenue Special Offices are all now actively pursuing employers for extra PAYE liabilities where they are of the opinion workers have been wrongly treated as self-employed. So much so they now employ specialist 'Status' teams to review the employment status of self-employed workers.

The Inland Revenue has traditionally tried to re-categorize self-employed workers as employees wherever possible and will usually take their investigations back six years. This can mean a tax and national insurance bill of more than £30,000 for just one highly paid consultant wrongly treated as self-employed. Employers have, however, only very limited rights to recover tax and national insurance from their employees.

What Constitutes Employment or Self-Employment?

The Inland Revenue have created a Web based 'Employment Status Indicator' which can be accessed at www.hmrc.gov.uk/calcs/esi.htm although great care should be taken in accepting the results as they are, generally, biased in favour of 'employment'.

Official definitions of employment status are unhelpful but over the years a number of tests have been devised by the courts to establish whether an individual is an employee engaged under a contract of service or self-employed under a contract for services.

These tests can be briefly summarized as follows:-

INDICATIVE OF EMPLOYMENT

INDICATIVE OF SELF-EMPLOYMENT

Level of Control

Subject to a lot of control over the type of work done and how, where and when it is done.

Has some say in the type of work accepted and how, where, when and by whom the work is done. Can refuse jobs. Use his own skills, doesn't need training or supervision.

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INDICATIVE OF EMPLOYMENT

INDICATIVE OF SELF-EMPLOYMENT

Is There an Independent Business?

Works exclusively for one person, takes no financial risk, remuneration not greatly affected by fluctuations in work, profit or cash flow. Receives fixed salary. Gets holiday pay, statutory sick pay, statutory maternity pay. Uses employer's tools and equipment and works on employer's premises.

Employer meets the costs of expenses. Individual paid irrespective of the quality of the work done.

Can demonstrate that he is running an independent business with several customers. No pay for days not worked. Must arrange own pension. Will provide own tools and may send someone else to do the work. Registered for VAT. Submits accounts. Gets paid on invoices rendered. Pays own expenses.

Has own business insurances. Advertises his services. Runs the risk of not being paid if the job is done badly. Puts the job right in his own time, at his own expense.

Level of Integration

The worker will be closely integrated with and identified by customers as part of the business. May have own office and supervise other staff. Carries business cards in the company name.

Will be linked more closely to a particular task than to the business as a whole. Is seen as an outsider providing a service to the business from without.

Risks and Obligations

The worker has no risk of financial loss.

There is risk of financial loss (bad debts etc) but can benefit from completing work sooner.

The employer is obliged to provide work to the worker and the worker is obliged to undertake that work.

There is no obligation to provide work or for the work to be done.
Can supply other people to undertake the work.

These tests are by no means exhaustive and the weight to be given to any one will vary depending on each worker's circumstances. The problem can be made more difficult when two individuals work side by side doing very similar jobs but only one is treated by the employer as an employee. The Revenue will invariably seek to re-classify a self-employed individual as an employee if he has done the same job for that employer in the past and was then treated as an employee.

Sub-contractors

These rules apply to any 'sub-contractor' who does not pass the self employed test even though that sub-contractor might have a CIS Certificate. Extreme care needs to be taken in this area.

There are special rules that determine whether tax should be deducted from sub contractors and at what rate.

More information regarding the CIS Scheme can be found in Fact Sheet Nos. 36 & 37.



FACT SHEET NO. 5

PAYE PROBLEMS

6TH APRIL 2009

Local Tax Offices and Inland Revenue Special Offices are now stepping up PAYE investigations in all areas of the country. They obviously view this as a lucrative area in terms of tax collection.

CASUAL WORKERS

Casual workers are often incorrectly treated by employers as regards PAYE and this is one of the areas the Revenue finds fruitful to investigate. PAYE investigations are painful and expensive, yet, with timely advice, additional tax, national insurance and penalties may be avoided.

What is a Casual Employee?

As far as the Revenue is concerned a casual employee is someone taken on **for no more than one week and not seen again** in the same tax year. All other employees are regular employees and the usual PAYE procedures must be adopted. Whereas this interpretation is not strictly correct, in law, it is wise to operate on this basis.

If such an employee is paid at a rate below the NIC threshold of £110 per week the employer does not need to ask the employee to sign a form P46, nor is the employer required to prepare a deduction working sheet. He is only required to keep a record of the employee's name, address and pay. These details will be shown on form P38A at the end of the tax year.

If, however, the casual worker is paid more than the PAYE and NIC threshold the employer must consider whether he is aware that the employee has other employment. If he is aware that the employee has other employment he must prepare a deduction working sheet and deduct tax using code BR. National Insurance must also be deducted as appropriate. If the employer is not aware that the casual worker has other employment he must still prepare a deduction working sheet. Tax is to be deducted on a week 1/month 1 basis using the emergency code. Here again, national insurance must be deducted as appropriate.

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Normal PAYE Rules Apply Where:

- a) a worker is employed for more than one week, or
- b) arrangements are made for the worker to do further work at a later date, or
- c) the worker already works for the employer in some other capacity, or
- d) the worker gives the employer a P45, or
- e) the worker works again for the same employer in the same tax year, even though a number of months have lapsed between employment.

Such a worker is not regarded as a casual employee by the Inland Revenue.

OTHER WORKERS

All employees who are not classified as casual (see above) are subject to the Pay As You Earn (PAYE) system.

For an employee earning less than £109.95 per week, Tax and National Insurance need not be deducted PROVIDED that the employee has completed and signed the appropriate certificate on form P46.

All other employees, ie. those who do not sign form P46 or those earning over £109.95 per week, should have a tax deduction card prepared and have both National Insurance and Income Tax deducted from their wages.

If these procedures are not followed the Inland Revenue will collect the Tax and National Insurance lost from you and you will not be able to recover the cost from your employee.

General

PAYE problems can be very costly. Innocent breaches of the rules can lead to an Inland Revenue investigation and this may mean interest or penalty charges on top of underpaid PAYE tax and national insurance. The maximum initial penalty for failing to obtain a signed P46 is £300 **PER FORM**. Furthermore if details are omitted from end of year returns, e.g. forms P35 and P38A, the penalties are substantial. Automatic penalties will apply if year end returns are not submitted to the Inland Revenue by the 19th May.

IF YOU REQUIRE ANY FURTHER INFORMATION ON THIS SPECIFIC PROBLEM AREA, PLEASE DO NOT HESITATE TO CONTACT US.

Under VAT legislation all businesses or organisations whose taxable turnover exceeds £68,000 in the last twelve months are required to register for VAT and are liable to charge and pay VAT over to H.M. Revenue & Customs. This limit is usually increased each year in the budget.

Consequences of Ignoring VAT

It is an offence for any business or organisation to operate with a "taxable" turnover over £68,000 per annum and not be registered for VAT. In such cases a backdated registration can be enforced resulting in a considerable payment of back tax and substantial penalties. Ignorance of the VAT laws cannot be treated as a defence and there are severe penalties for failing to comply with the laws; these are greater if it can be proved that the concern is deliberately failing to comply.

Failure to Register

The penalty for late registration varies depending on how late the registration is. The current penalties are:-

up to 9 months late	5% of net tax due
over 9 months but less than 18 months late	10% of net tax due
more than 18 months late	15% of net tax due

There is a minimum penalty of £50 and all penalties are in addition to the net tax due for the period of non registration. These penalties do not apply to business with turnover of less than £150,000.

Late Submission of Returns

This is commonly referred to as the "Default Surcharge" and arises once a taxpayer has submitted a late Return in any 12 month period, following which Customs may issue a "Surcharge Liability Notice".

Once the "Surcharge Liability Notice" has been issued the taxpayer will incur a surcharge in respect of any late submitted Return during the succeeding 12 months at a rate of the greater of £30 or 2% of the tax due for the period. The surcharge percentage rises to 5% and then in 5% steps for each further default up to a maximum of 15% until such time as four successive VAT Returns have been submitted on time.

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Incorrect Returns

Any errors made on previous VAT Returns can voluntarily be corrected on the current VAT Return without notification to H.M. Customs and Excise provided that the total errors to be corrected do not exceed £10,000 for that Return. For errors totalling over £10,000 separate notification must be made to Customs and Excise and interest will be charged at a prescribed rate. No further penalties arise on these voluntary disclosures.

Should, however, these errors be either discovered by Customs and Excise on a control visit or voluntarily notified to them after it has become apparent that a visit is to be made a Serious Misdeclaration Penalty may be due in addition to the interest. This penalty will be due if the amount of the error is equal to or greater than 30% of the true tax for the particular VAT Return in question and in these cases the penalty will be 15% of the error. By concession Customs do not normally impose the Penalty if the misdeclaration is less than £2,000.

From 1st July 2008 the threshold increases to the greater of £10,000 or 10% of turnover with an overall cap of £50,000.

Likely Causes of Error

Most small businesses have a relatively modest VAT bill each quarter and even a small error can, therefore, generate a Serious Misdeclaration Penalty. Some of the more common areas for errors are:-

Reclaiming VAT on:-

- the purchase of a car or estate car
- private expenditure
- expenditure for which a proper VAT invoice has not been retained

Failing to Account for VAT on:-

- deposits or payments on account received
- private petrol
- the conversion of a van to a car by the installation of side windows
- the sale of a Business Asset, such as a van or other commercial vehicle
- own consumption of goods normally sold by the business
- the sale of Commercial Premises.

Mitigation

The interest and penalty charges for incorrect submission of VAT Returns are automatic and no mitigation or dispensation will be received from Customs.

In respect of the remaining penalties, Customs have no discretion other than if they can be persuaded that the taxpayer had a reasonable excuse for transgressing the rules. In practice it would be very difficult to show a reasonable excuse.

THIS DOCUMENT IS INTENDED TO BE A BRIEF GUIDE TO VAT AND IF YOU ARE IN ANY DOUBT WHATSOEVER REGARDING THIS MATTER YOU SHOULD CONTACT US FOR FURTHER ADVICE.



FACT SHEET NO. 13

HIRE PURCHASE, BUY OR LEASE?

1ST AUGUST 1995

Buying motor vehicles on hire purchase is generally the standard method of arranging their acquisition and beyond the fact that it might be possible to get cheaper interest terms by arranging the facility with a Bank, is the most popular and is the method by which all other possibilities are compared.

From a taxation point of view, tax relief will be available on the interest paid and 25% of the written-down value, subject to a maximum of £3,000 p.a. for a car, with any adjustments being made on the final sale. No maximum applies in respect of vans and commercial vehicles.

LEASE PURCHASE

Lease purchase is a slightly different legal entity to hire purchase but, in practice, is identical.

CONTRACT HIRE

Contract Hire is a method by which you can arrange for the overall control and maintenance of the car or vehicle to be undertaken by a third party, the full cost of which is included in the contract price.

Generally, this is used by businesses which require Fleet Management but are not large enough to undertake it themselves and in respect of employees who undertake regular long distance business trips over a prolonged period.

The price that you pay for the contract generally includes a profit element in respect of the vehicle, a profit element in respect of the management services and finally, a profit element in respect of the repair services and you are, of course, tied to that Company for the length of the contract.

The vehicle would never become your property.

There are tax disadvantages of contract hiring any motor car with an original market value in excess of £12,000. No such restriction applies in respect of vans and commercial vehicles.

Subject to restrictions for cars costing over £12,000 all the contract hire costs incurred in any financial year are tax deductible.

FINANCE LEASE

An outright Lease is almost identical to Contract Hire, with the exemption that you will be liable for all repairs etc., and carries with it the same tax disadvantages for cars with an original market value in excess of £12000, although with a Lease you take the financial risks, if any, of ownership in the diminution of its market value over the period of ownership.

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This might sound like a disadvantage stood alongside Contract Hire but Contract Hire companies are aware of this and build into their prices a margin to ensure that, generally, they do not lose out.

Obviously, this margin is met by yourself.

Prior to 10th April 1991 premiums were allowable for tax purposes in the year in which they were paid. For new contracts after that date, a new system applies which in practice, will ensure that Tax Relief for leases are dealt with in the same way as hire purchase or outright purchase.

VALUE ADDED TAX

For non-VAT registered traders, there are VAT disadvantages of contract hire and lease arrangements and wherever possible, these should be avoided.

For VAT registered traders, there are no Value Added Tax advantages or disadvantages in respect of any of the above, as far as vans and commercial vehicles are concerned, as all VAT paid is recoverable although each has different V.A.T. treatment.

As far as cars are concerned, it is not possible to recover VAT paid on outright purchase or Hire Purchase arrangements, except in extremely limited circumstances. For new leases commencing on or after 1st August 1995, the lease company is able to recover the VAT paid by it on the car purchased which should reduce the monthly instalment payable under the lease. You will only be able to recover one half of the VAT charged on the lease premiums if there is any private use of the car.

WHAT SHOULD I DO?

In view of the tax disadvantages it is not worth leasing a car with an original Market Value in excess of £12000.

Although there is a marginal advantage in leasing cars costing less than £12,000 this could be outweighed by the danger of reclaiming the wrong amount of VAT and the consequent penalties payable thereon.

Apart from the above and with the change in the tax treatment of Leases the decision as to whether to lease or buy should now be made, based on the actual cost to you of each option rather than on the tax consequences thereof.

TRADE-IN OF OLD CAR

If the old car was used by the proprietor of a non-limited business for private use or cost more than £8000 if purchased before 10th March 1992 or cost more than £12000 if purchased after 10th March 1992 it is advantageous for the trade-in value of the old car and the purchases price of the new car to be as low as possible.

THIS SUMMARY IS INTENDED TO GIVE A BRIEF OUTLINE OF THE FACTORS IN MAKING YOUR CHOICE AND IF YOU REQUIRE ANY FURTHER ASSISTANCE, PLEASE CONTACT US.

The completion of the single market on 1st January 1993 brought about a major change in the operation of Value Added Tax on goods imported from or exported to another member state of the European Economic Community.

MONETARY LIMITS

The monetary limits referred to in this fact sheet are the current approximate equivalents of the actual limits that are stated in ECU.

It is strongly recommended that if any of the limits are likely to be breached that detailed information is obtained from your local VAT Office.

EXPORTS TO OTHER EC COUNTRIES

Where a VAT Registered trader in one EC Country supplies goods to an unregistered trader in another EC Country, in most cases, the supplier will charge VAT at the rate in force in the Country of despatch.

This VAT will be included in the VAT Return in the normal way.

This will apply until the value of your supplies to unregistered traders in another EC Country in a calendar year reaches a specified threshold - Refer to Distance Selling Arrangements below.

Where a VAT Registered trader in one EC Country supplies goods to a VAT Registered trader in another EC Country the supply will **NORMALLY** be zero rated provided that:-

- C The Customers VAT number is shown on the sales invoice.
- C The goods are despatched direct to another EC Country.
- C Normal commercial documentary evidence is held that the Goods have been removed from the UK.

No VAT will be payable at the frontier.

From 1st January 1993 a UK trader has to prefix his VAT Registration number on his sales invoices to customers in other EC Countries with the letters "GB".

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RECORD KEEPING

An EC sales list must be completed by all traders registered for Value Added Tax in the UK and who:-

- C Make supplies of goods to VAT Registered traders in another EC Country.
- C Send goods to a VAT Registered trader in another EC Country for process.
- C Return goods after processing to a VAT Registered trader in another EC Country.
- C Transfer goods from the UK to another EC Country in the course of business.

Traders with a very low level of EC sales are exempt from this requirement and application has to be made to the local VAT office for permission not to provide the information if:-

- C The total annual taxable turnover of the business as a whole does not exceed £93,500 (being the current registration threshold plus £25,500).
- C The annual value of supplies to other EC Countries is no more than £11,000.
- C The supplies do not include new means of transport (boats, aircraft and motorised land vehicles).

The EC sales list for each calendar quarter (ie. to 31st March, 30th June, 30th September and 31st December) must be sent to HM Customs & Excise within six weeks of the quarter end and show the following information:-

- C The VAT Registration number of the person in the other EC Country to whom supplies have been made, including the two lettered prefix identifying the country.
- C The Calendar quarterly aggregate (total) value of the goods and associated freight and transport services which have been supplied to each customer.
- C An indication where appropriate, that goods have been sent to another EC Country for processing.
- C An indication that goods have been returned to another EC country after processing, together with the value of the process.

IMPORTS FROM OTHER EC COUNTRIES

Where a VAT Registered trader acquires goods from a VAT Registered trader in another EC Country, he must:-

- C Keep records of the goods acquired from other EC Countries.
- C Hold commercial documentation such as the suppliers invoice.
- C Calculate the notional VAT, at the appropriate rate, on the acquisition of the goods and enter it on the VAT Return for the appropriate quarter as though it were VAT on sales.

For goods acquired in the UK from another EC Country the VAT included on the VAT Return as VAT on sales may also be deducted as VAT on purchases provided that:-

- C The goods have been or are to be used for business purposes.
- C The goods are not items on which tax is not deductible.
- C The normal partial exemption rules, if they apply, are observed.

The value on which the above mentioned VAT should be calculated is the contract price for the goods concerned. Where associated services such as packing, transport and insurance costs are separately invoiced, but form part of the contract price, these must also be included.

To convert the value of the purchase into UK Currency one of the following systems may be used:-

- Ⓒ The commercial rate of exchange on the day the calculation is made.
- Ⓒ Some other representative exchange rate agreed with the local VAT Office.

DISTANCE SELLING ARRANGEMENTS

Distance selling occurs when a supplier in one EC Country supplies goods to an unregistered person in another EC Country.

As mentioned above, from 1st January 1993, VAT on sales to none VAT Registered customers in another EC Country will be charged and accounted for by the supplier in the country from which the goods are despatched.

This will apply until the value of distance sales to another EC Country in any calendar year reaches a specified threshold.

Once this threshold has been reached it will be necessary to become registered for VAT in that EC Country and account for VAT on such sales in that country.

Unfortunately, each EC Country has a choice of adopting a threshold of either £25,000 or £70,000. At the present time the following countries propose to adopt the upper limit:-

France, Germany, Italy, Luxembourg, Netherlands, United Kingdom.

The rest propose to adopt the lower limit.

EXPORTS TO AND IMPORTS FROM NON-EC COUNTRIES

The existing system continues to apply in respect of all goods exported to and imported from non-EC Countries.

THIS FACT SHEET IS INTENDED TO BE A BRIEF SUMMARY OF THE VAT LEGISLATION SURROUNDING THE SINGLE MARKET. IF YOU ARE IN ANY DOUBT PLEASE CONTACT US FOR CLARIFICATION.



FACT SHEET NO. 15

STARTING A NEW BUSINESS

6TH APRIL 2009

For most people, the starting of a new business is the most significant change in their personal finances since they started work and a lot of new Rules and Regulations need to be understood in order to avoid difficulties in the first few years.

BUSINESS PLAN

Before you start a new business you must ensure that it will provide you with sufficient income, after payment of Income Tax, to enable you and your family to live.

This is done by preparing a simple business plan which involves itemising details of the business's expected Income and Expenditure and, after allowing for Income Tax and National Insurance (approx 25%), comparing the surplus with your anticipated private expenditure.

BOOKS AND RECORDS

All businesses, of whatever size, need to keep clear and detailed records of all income and expenditure split between Cash and Bank transactions. The Inland Revenue now lay down specific requirements for record keeping - refer to Fact Sheet No. 23.

If the business undertakes substantial Cash transactions, a reconciliation should be undertaken at least once a week between the Cash Balance shown in the records and the Cash actually in hand and any differences identified and corrected. All private and capital expenditure paid through the business should be clearly identified.

ACCOUNTS

We will prepare your annual Profit & Loss Account and Balance Sheet on your behalf which, when completed, will form part of your Self-Assessment Income Tax Return and will be used to calculate your Income Tax liability. These Accounts will be prepared from your records and it is important, therefore, that they contain an accurate record of all your business transactions.

As part of our work in the preparation of your accounts we will ask you to estimate the proportion of your total motor expenses that relate to private journeys, which will include travel from home to work. If private mileage is significant you should consider keeping detailed mileage records during a representative sample period of 3 months.

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You can nominate your own Accounting year end and most businesses choose either the nearest month end to the anniversary of the start of their business or the 5th April. We will advise you on the most appropriate year end for your business.

BUSINESS EXPENSES

Any expenses incurred directly in relation to your business are business expenses although some, such as entertaining, are not tax deductible. You should obtain and keep all invoices for any expenditure for which you want to claim as a deduction for tax and, if in doubt, make detailed notes in your records of the nature of the expenses involved.

Some expenditure can have a dual purpose, for example your telephone at home, and in these cases please keep a separate record of any such expenditure so we can consider the correct treatment when preparing your accounts.

If you work from home you are entitled to a deduction from your profits to cover the additional expenses incurred at home. We normally deal with this by including a fixed sum in your accounts. If you do work from home and wish to claim a deduction please let us know.

If your spouse is not a partner but helps in your business, and is not a taxpayer, you should consider paying a wage up to the National Insurance threshold, currently £5,715. The amount must actually be paid and must be commensurate with the work undertaken.

MOTORING COSTS

Generally, tax relief for motoring costs is calculated using the 'traditional method' outlined below although businesses with turnover below the VAT registration threshold (see Fact Sheet 6) can choose between either method:-

Traditional Method

All costs of running the car are recorded, including fuel, repairs, road fund licence and insurance, and a claim is made for a proportion of these costs based on the estimated amount of business and private miles. In addition allowances can be claimed for a proportion of the capital cost of the car and any hire purchase or loan interest on purchase. It is advisable to keep approximate records of business and private mileage.

Authorised Mileage Rates

Tax relief for business motoring costs is based on Inland Revenue approved rates.

First 10,000 miles in any year	40p per mile
Thereafter	25p per mile

In this instance a detailed mileage log should be kept.

GOODS FOR OWN USE

If your business buys and sells goods and should you take any of those goods for your own use you must pay for them at full selling price and include this with your normal turnover.

DRAWINGS FOR YOURSELF

Most new businesses find it difficult to budget for the Proprietor's own drawings although, if possible, arrangements should be made to transfer a fixed amount every week/month from the Business Bank Account into your Private Bank Account to cover your day-to-day living expenses.

INCOME TAX

You have a responsibility to advise the Inland Revenue immediately you start in business and we will undertake this on your behalf. A £100 penalty will become payable if notification is not made within three months of start.

Income Tax is assessed in respect of Income Tax years running from the 6th April one year to the 5th April in the following year. The Income Tax you pay in any particular Income Tax year is based on the profits shown in your Accounts ending in that income tax year. There are special rules for determining the assessable profit in the opening and closing years of the business.

Your Income Tax liability is due in three instalments there being two equal payments on account on the 31st January during the Income Tax year and 31st July following the Income Tax year end with a final balancing payment on the following 31st January. For example, in respect of the 2008/2009 Income Tax year, the Income Tax will be paid in two payments on account on the 31st January and 31st July 2009 with a balancing payment on 31st January 2010.

The two payments on account are calculated based on your total income tax liability for the preceding Income Tax year and you will receive a notice to pay shortly before each due date. We receive copies of your notices to pay direct from the Inland Revenue and will advise you on your Income Tax liabilities as they arise.

If you expect your liability for the current year to be less than the preceding year, for any reason, we can apply for the payments on account to be reduced, although if it subsequently transpires that further Income Tax is payable interest will be charged thereon.

During the first year of your new business it is unlikely that any Income Tax will be paid as, during that period, neither the Inland Revenue nor yourself will know the amount of your profits. This does not mean, however, that you do not have an Income Tax liability and, after the production of your first Accounts and Tax Return, tax will be due on your profits from the start of your business.

You must, therefore, ensure that you put money aside to pay this income tax.

NATIONAL INSURANCE

All self-employed individuals, who are under Retirement Age, are liable to pay Class 2 National Insurance Contributions even if they already pay National Insurance in their employment.

These contributions are normally paid by monthly Direct Debit via your Business Bank Account and are currently at the rate of £2.40 per week. If your anticipated annual profit is below the minimum limit, currently £5,075 per annum, you can apply for exemption from Class 2 National Insurance although this might affect your entitlement to State Retirement Pension and other Social Security benefits. We will deal with the appropriate documents and submit them to the Department of Social Security on your behalf.

A Married Woman with a valid Married Woman's Lower Rate Certificate is automatically exempt from Class 2 National Insurance.

All self-employed Persons who are under Retirement Age are liable to pay Class 4 National Insurance at the rate of 8% on all profits between £5,715 and £43,875 and 1% above £43,875. No exemption is available in respect of this charge and it is paid at the same time as your Income Tax.

VALUE ADDED TAX

You have a responsibility to register for VAT once your turnover has exceeded £68,000 in any twelve-month period. There are severe penalties for failure to register at the appropriate time.

It is possible to register voluntarily before you reach this limit. Whether this is advantageous or not will depend upon the nature of your supplies and whether they are made predominantly to other V.A.T. registered businesses or to private individuals.

This is an extremely complex area. Fact Sheets Nos.6 and 31 give full details of all the appropriate regulations and are available from our office on request. We will advise you on the need to register for Value Added Tax and complete the appropriate documents on your behalf.

BANK ACCOUNT

All businesses that make payments by cheque should have a Business Bank Account and, as far as possible, only business payments should be made therefrom. Some Banks will provide free banking to new businesses and you should contact a selection of Banks that are convenient to where you live or work to see what they can offer.

INCOME TAX RETURN

The Inland Revenue will send an Income Tax Return to you for completion, in April each year, and this must be returned to them no later than the following 31st January. There are severe penalties if this deadline is missed.

Your Income Tax Return includes details of all your Income whether or not Income Tax has already been paid thereon and it is extremely important that this is accurately completed. We will complete this document on your behalf.

SOLICITOR

You will need to appoint a Solicitor if you are purchasing your business, a property or entering into a Lease for rented accommodation. In addition, if you intend to enter into Partnership with someone else, you will need a Solicitor to prepare a Partnership Agreement.

We can recommend a suitable Solicitor if you do not know of one yourself.

YOUR ACCOUNTANT

As your Accountant, we will advise and assist you in respect of all the above matters and, in particular, will deal direct with the HM Revenue and Customs on your behalf.

It is your responsibility, however, to ensure that you maintain detailed and accurate records of your business transactions as failure to do so will result in the Inland Revenue imposing interest and penalties for unpaid and late-paid Income Tax.

We will be pleased to advise further on any particular matter that requires clarification.



FACT SHEET NO. 16

AGRICULTURAL VAT FLAT-RATE SCHEME

1ST JANUARY 1993

With effect from 1st January 1993, Farmers are now able to apply to be taken out of the scope of value added tax even if their turnover is in excess of the VAT registration limits.

Farmers who make this application will no longer be able to recover input VAT suffered on their purchases and other business expenses.

In exchange for not being able to recover input VAT, the farmer will be able to add to all his sales to VAT registered customers a flat-rate levy currently set at 4%.

This scheme, although entirely voluntary, might prove beneficial to farmers depending on their individual circumstances.

Who can join the scheme?

Membership is restricted to farmers carrying on the following activities:-

- Crop Production
- Stock Farming
- Forestry
- Fisheries
- Processing

Activities once removed from farming, such as dairy co-operatives, will not qualify.

How can I join the scheme?

Provided that you meet the above qualifying conditions application needs to be made on Form VAT98 and will become effective from the date on which it is received by HM Customs & Excise.

You will be issued with a special certificate which contains a unique reference number somewhat similar to a VAT registration number.

What does membership of the scheme mean?

Once a farmer elects to be part of the scheme he no longer needs to complete and submit VAT Returns or indeed account for or reclaim value added tax.

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Instead a flat-rate addition (FRA) at the rate of 4% can be added to all qualifying goods and services made to VAT REGISTERED CUSTOMERS.

The FRA then forms part of your normal turnover and is retained as part of your income.

VAT can no longer be recovered on your purchases and business expenses.

The FRA is to be added to all sales, irrespective of whether you have previously charged VAT on those sales or not, subject to the following exceptions:-

1. It cannot be charged on sales to non-VAT registered persons.
2. It cannot be charged to other farmers who themselves operate the FRA Scheme.

Should I join?

There is no easy answer to this question, as it will depend very much upon your individual circumstances.

It is certainly beneficial from an administration point of view as you will no longer need to keep detailed VAT records or complete VAT Returns.

You must compare the amount of VAT that you are likely to lose in input VAT against the FRA 4% levy that you will receive on all sales to VAT registered customers.

In simple terms for every £100 of input VAT that you cannot recover you will have to make sales to VAT registered customers in the sum of £2,500 to break even.

One final consideration is that once you have elected for the FRA you must remain in the scheme for at least twelve months.

If you require any further information please do not hesitate to contact us.



FACT SHEET NO. 17

VAT REGISTRATION OF RACEHORSE OWNERS

17TH MARCH 1997

An agreement has been reached between the thoroughbred horseracing and breeding industry and H.M. Customs & Excise by which racehorse owners may register for Value Added Tax.

The rules of racing create a framework so that owners can exploit opportunities for increased income through sponsorship and appearance money to a more commercial level.

Owners whose taxable activities exceed the turnover threshold will be liable for VAT registration but Customs may also accept applications from owners seeking voluntary registration.

Customs will accept that the racing of horses can have a genuine commercial purpose and value in promoting business activities and will no longer regard racing as non-business by definition.

It is recognised that the initiatives being proposed by the Industry to encourage income from sponsorship and appearance money will take a number of years to flourish and that adherence to the normal VAT rules may stifle these initiatives. Customs therefore introduced a Scheme which offers registration to all owners who have actually obtained sponsorship.

Sole proprietors can only apply "The Scheme" to racehorses in which they own at least a 50% share.

Input Tax will not be deductible on supplies received before introduction of the Scheme. Input Tax cannot therefore be reclaimed on stock and assets on hand at the beginning of the Scheme but likewise Output Tax need not be accounted for on disposal of the same.

Subject to the normal rules owners are eligible to deduct Input Tax on their business activities. Output Tax has to be accounted for on income e.g. sponsorship, appearance money, prize money (excluding sweepstake/race entry fee element), proceeds of sale or when the horse is diverted to non-business use.

Owners registered under the Scheme will be subject to the normal VAT visits and will have to show that income is being actively pursued. If, at any time, this is not the case the registration may be cancelled and Customs may seek repayment of the Input Tax claimed.

Customs reviewed the scheme in March 1997 and have indicated that the next review will be sometime in 2001/2.

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FACT SHEET NO. 18

SMALL COMPANY AUDIT EXEMPTION

6TH APRIL 2008

In November 1993 Kenneth Clark announced plans to exempt certain Companies from the need to undergo a statutory audit although the regulations did not come into force until August 1994.

In April 1997 these regulations were amended to create just two classes of company:-

- ! Qualifying Companies with turnover below £350,000
- ! Non-qualifying Companies with turnover in excess of £350,000

Since then the threshold has increased substantially and, for financial periods commencing on or after 6th April 2008, the current threshold is turnover of £6.5M.

Qualifying Companies affected by these regulations still need to prepare full annual Accounts, in the format set out in the Companies Act, along with all the usual notes and disclosure requirements, and they should submit those Accounts to the Inland Revenue in the usual way.

Due to recent scandals in the world financial markets all Companies, irrespective of size, are becoming subject to increased reporting and disclosure requirements with the UK adopting International Accounting Standards as required by the EEC. This will undoubtedly increase the work required to complete Company accounts.

Even if a Company qualifies for exemption, the Directors might nonetheless prefer to have a full audit and, indeed, the Company's Bank might insist on one. It is therefore essential that you obtain confirmation from the Company's Bank that they will accept Accounts without an Audit Report, as it might not be possible to complete all the necessary steps for a full audit once the year end has passed.

Can all qualifying Companies apply the Exemption?

No. The regulations provide a list of Companies who cannot benefit from the exemptions. These Companies are:-

- C any company in which at least 10% of the shareholders have issued a notice, in writing, that they require a full audit. Such notice must be received by the company at least one month before the end of the financial year in question
- C public limited companies
- C companies with a balance sheet total (fixed assets and current assets) in excess of £3.36M
- C companies which did not qualify as a small company in the preceding financial year

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- £ banks and insurance companies
- £ certain trade unions and employers' associations

Holding companies and their subsidiaries are subject to group turnover limits.

For accounting periods ending on or after 31st December 2006 Financial Services companies can now qualify for audit exemption provided they meet the remaining criteria.

Procedure

The current threshold will mean that most Companies will now qualify for exemption and, therefore, unless it is specifically agreed that you require an audit we will proceed on the basis that an audit will not be required.

We will organise our work on your accounts in order to comply with the appropriate guidelines issued by the Auditing Practices Board and, whereas these exemptions will bring about some measure of cost saving, it should be remembered that full accounts are still required for presentation to the Inland Revenue and the Registrar of Companies.

If it transpires that you do not qualify for exemption it might not be possible to complete all the work necessary to undertake a full audit which might result in a qualified audit report and will result in increased fees. It is important, therefore, that you advise us if you believe that an audit is required as soon as possible.

EXTREME CARE AND FULL CONSIDERATION OF ALL FACTORS SHOULD BE MADE BEFORE DECIDING TO TAKE ADVANTAGE OF THESE AUDIT EXEMPTIONS.

Tax Planning is a process that should take place throughout the year. However, tax payers often have other pre-occupations and it is not until the approach of the 5th April that attention is given to tax planning.

It should be remembered that once the 5th April has passed, opportunities may have been lost.

GENERAL

- C Pay all arrears of PAYE or NI due for the year ended 5th April 2010, by 19th April 2010.**
WHY: Interest will be imposed on of arrears at 20th April 2010.
- C Submit form P35 - End of Year Returns by 19th May 2010.**
WHY: Penalties will be imposed if P35s received after that date.
- C Submit form P11D - End of Year Returns by 5th July 2010.**
WHY: Penalties will be imposed if P11Ds received after that date.

INCOME PLANNING

- C Transfer of capital, where only one spouse pays tax at Basic Rate or Higher Rate.**
WHY: To increase the income of the lower taxed spouse and utilise unused allowances and bands
- C Where a spouse does not work, arrange for the Company or business to pay for genuine secretarial services.**
WHY: Utilise personal allowances, without paying tax and National Insurance, provide additional income and save tax for the Company/business. This must be actually paid.
- C Pay for all your private petrol, where you do little mileage in a Company car.**
WHY: You will not then be assessed for a fuel charge, which could cost more in tax than the petrol received.
- C Have you kept records of business and private mileage?**
WHY: To substantiate your claim for business mileage to the Inland Revenue.

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PENSIONS AND INVESTMENTS

- C Start a private pension for yourself or other family members.**
WHY: This will reduce your income tax liability, as well as providing future benefits.
- C Invest in an Individual Savings Account (ISA).**
WHY: This creates a fund free of both Income and Capital Gains Tax.
- C Invest in the Enterprise Investment Scheme.**
WHY: Allows tax relief at 20% on investments of up to £500,000 p.a.
- C Ensure your National Insurance Contributions are up to date.**
WHY: To protect your entitlement to State Retirement Pension and other earnings related benefits.

CAPITAL PLANNING

- C Fully utilise the annual Capital Gains Tax exemption.**
WHY: Allow gains of up to £10,100 to be tax exempt
- C Consider transfer of up to £3000 or individual gifts up to £250, or gifts on marriage (up to certain levels).**
WHY: Exempt from Inheritance Tax
- C If you acquire a second residence, elect within two years which property is to be your main residence.**
WHY: Allows for significant tax planning opportunities on future disposals.
- C Make a Tax efficient Will or review existing Will.**
WHY: To reduce the impact of Inheritance Tax.
- C Make Gifts that exceed the annual exemption of £3,000.**
WHY: To start the seven year clock running.

This Fact Sheet is intended to give a brief outline of some of the tax saving points that are available to most tax payers to reduce their Income Tax and Capital Gains Tax liabilities.

If you believe you are in a position to benefit from one or more of these opportunities, please contact us. Whilst tax planning is done as part of the usual work we undertake for you, we might not have sufficient information to enable us to consider all tax planning opportunities.

The current Inheritance Tax threshold, before tax is due, is £345,000.

Even a modest estate valued at £500,000, which is not an unreasonable figure for someone owning their own home, could be subject to the payment of Inheritance Tax of £62,000.

It is, however, possible to make relatively simple changes to your financial affairs to save considerable amounts of Inheritance Tax, provided action is taken now rather than waiting until it is too late.

TAX PLANNING CONSIDERATIONS

Wills

Prior to April 2008 it was common for Wills to include a provision to transfer the value of the IHT exemption in to what was known as a 'Nil Rate Band Discretionary Trust' (NRBDT) on the first death in order to fully utilise the exemption limit. However, this is no longer necessary as any unused exemption on the first death can be transferred to the surviving spouse.

As this is based on the proportion of the exemption threshold not used which is then applied to the then exemption threshold any Wills that still contain a 'NRBDT' should be reviewed.

Equalisation

Divide your assets equally between yourself and your spouse in individual, not joint, names. This will facilitate lifetime gifts (see below).

Lifetime Gifts

Where possible, make regular annual gifts utilising the £3000 annual exemption. There are also reliefs for gifts made in anticipation of marriage and for regular gifts out of income.

Gifts out of Income

In theory, provided that you have sufficient disposable income, there is no limit to the amount that can be given away each year. In practice, however, this relief is more useful for regular payments made direct from an identifiable source of income. Never the less this valuable relief should not be overlooked. Any such gifts need to be properly documented.

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Insurance

In principle, this is simply a method of saving in order to pay the Inheritance Tax on your death. Where your family would find it difficult to pay the liability, an appropriate insurance policy could be invaluable.

Trusts

Subject to the value of the estate being sufficiently large, significant benefits can be obtained from Trust structures.

Pension and Life Assurance Policies

Ensure that the death benefits are either written in trust or are directed away from your spouse, if appropriate.

Company Shares

Ensure that the current share structure maximises the potential to benefit from the existing business property reliefs.

Hiving Off

Whilst retaining the value of current assets, ensuring that future growth arises outside the hands of the older generation.

The Seven Year Rule

Make substantial gifts now. Gifts become totally exempt from Inheritance Tax seven years after the gift, with a sliding scale of relief from year four onwards.

THE TIME FOR ACTION IS NOW. PLEASE CONTACT US IF YOU REQUIRE ADVICE OR ASSISTANCE IN DEALING WITH THIS MATTER.



FACT SHEET NO. 22

SELF-ASSESSMENT - SELF EMPLOYED

6TH APRIL 2009

Under Self-Assessment It is the taxpayer's responsibility to calculate his or her own Income Tax liability and to make payment of that liability on the due dates, although if the Income Tax Return is submitted by the 30th September, the Inland Revenue will undertake these calculations themselves.

Current year basis

Self-employed taxpayers' profits are calculated on a "current year basis" which taxes income in an income tax year based on the profit made in the accounts that ends in that income tax year.

For example, in 2008/2009 a taxpayer with a 30th April year end will pay tax based on the profits shown in his accounts for the year ended 30th April 2008. If his year end was 31st March, it would be the profit shown in the accounts for the year ended 31st March 2009.

Payment of tax

Your Income Tax liability is due in three installments there being two equal payments on account on the 31st January during the Income Tax year and 31st July following the Income Tax year end with a final balancing payment on the following 31st January.

For example, in respect of the 2008/2009 Income Tax year, the Income Tax will be paid in two payments on account on the 31st January and 31st July 2009 with a balancing payment on 31st January 2010.

The two payments on account are calculated based on your total income tax liability for the preceding Income Tax year and you will receive a notice to pay shortly before each due date.

We receive copies of your notices to pay direct from the Inland Revenue and will advise you on your Income Tax liabilities as they arise.

If you expect your liability for the current year to be less than the preceding year, for any reason, we can apply for the payments on account to be reduced, although if it subsequently transpires that further Income Tax is payable interest will be charged thereon.

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Until the start of Self-Assessment there was no legal requirement to keep records for Income Tax purposes, although H.M. Customs & Excise required registered traders to keep records for VAT. Rules introduced in the 1994 Finance Act now mean that all taxpayers must maintain and keep appropriate records.

WHAT DOES KEEPING RECORDS MEAN FOR THE SELF-EMPLOYED?

You will normally be expected to:-

- C record all sales and other business receipts as they are received and retain the record.
- C keep supporting records, for example, invoices, Bank statements and paying-in slips, to show where the income came from.
- C record all purchases and other expenses as they arise and ensure - unless the amounts are very small - that you have and retain invoices for each expense. **Estimates will no longer be allowed.**
- C keep a record of all purchases and sales of assets used in your business.
- C record all amounts taken out of the business Bank account, or in cash, for you or your family's personal use.
- C record separately any expenditure of a capital nature.
- C record all amounts paid into the business from personal funds, for example the proceeds of a life assurance policy, and to keep documentary evidence thereof.
- C keep records that will enable you to ensure that you can separate your business from your personal expenses

This will mean that your business books and records should be complete, accurate, well organised and written up on a daily or weekly basis.

If you have any cash transactions you must regularly balance and reconcile your records, particularly at your year end, and keep details of your calculations.

Unless your business is very small, or has only a few transactions, you should have a separate business Bank account.

You should review carefully your existing records to ensure they meet these new criteria.

SPECIFIC EXAMPLES FOR THE SELF-EMPLOYED

Bank and Building Society Accounts

You need to retain all Bank and Building Society statements, passbooks, cheque books and paying-in books.

Stock and Work in Progress

At the end of your accounting year, you should carry out a stock take to identify the cost of your stock and/or work-in-progress, record the cost, and retain the record.

Personal Drawings

You should keep a record of any money taken out of your business for your own or your family's personal use, although you do not need to record how that money is spent.

Payments to Employees

You will need to continue to maintain records of wages, payments and benefits paid to your employees.

Business Records

All records maintained for your business including invoices, statements and till rolls if used, should be kept.

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WHAT DOES KEEPING RECORDS MEAN FOR OTHER TAXPAYERS?

You will normally be expected to:-

- C keep records of your earnings and benefits received from employment during each tax year. Your employer now has a statutory obligation to provide you with details of your pay and tax deducted (form P60) and of your benefits in kind (form P11d) in sufficient time to enable you to complete your Income Tax Return.
- C keep records, such as statements and passbooks, of Bank and Building Society Interest received.
- C keep details of dividends received on share and unit trust investments or adequate third party evidence thereof.
- C record all details regarding rent received and expenses relating to rented property.
- C keep details of any other investment income received.
- C record all details of any other income received of any nature.
- C keep all certificates of tax deduction in respect of which credit is claimed against your Income Tax liability.

HOW LONG MUST RECORDS BE RETAINED?

The rules for retaining records are complex and to be on the safe side the following should be used as a guide:-

- Self-Employed - all records must be kept for at least six years plus the current year
- Other Taxpayers - all records must be kept for at least three years plus the current year

WHAT IF I USE A COMPUTER?

If your records are kept on a computer you will still have to keep the original paper records, unless they are kept on microfilm, together with the computer printouts produced.

WHY DO I HAVE TO KEEP RECORDS?

The simple answer is because the law now says that you should.

In the past, the Inland Revenue would only investigate your Income Tax affairs if they had reason to believe that you had not declared all your income on your Income Tax Return. This might have been because they had been informed by a Bank or Building Society that interest had been paid to you which was not included on your Income Tax Return or because they had identified a specific problem with your accounts.

From the 6th April 1996, the Inland Revenue will also select a number of taxpayers at random for detailed investigation.

If you are selected in these circumstances, you will be asked to produce your records to the Inspector of Taxes. It is extremely important therefore that your records are properly maintained and kept for the appropriate periods.

WHAT HAPPENS IF ADEQUATE RECORDS ARE NOT KEPT?

The rules allow for a penalty of up to £3000 in respect of each failure to maintain or retain adequate records in support of an Income Tax Return, although this penalty is not automatic.

No penalties will be charged in respect of any failure to keep records which occurred on or before 5th April 1996.

ALTHOUGH WE CAN ASSIST YOU BY ADVISING YOU ON THE ADEQUACY OF YOUR RECORDS, IT IS YOUR PRIMARY RESPONSIBILITY TO ENSURE THAT YOU ADHERE TO THESE REGULATIONS AND FAILURE TO DO SO WILL RESULT IN THE IMPOSITION OF PENALTIES AND THE INCURRING OF UNNECESSARY PROFESSIONAL FEES. IF YOU HAVE ANY DOUBTS ABOUT ANY OF THE ABOVE PLEASE CONSULT US AS SOON AS POSSIBLE.



FACT SHEET NO. 24

SELF-ASSESSMENT - EMPLOYERS

1ST APRIL 2003

Self-assessment has imposed a number of further obligations on employers to provide details of earnings and benefits to their employees to enable those employees to complete their own Self-Assessment Tax Returns.

P45 (Employee leaving)

The latest version of form P45 must be used. Part 1 is sent to the Revenue, Part 1a is kept by the employee and Parts 2 and 3 are handed to the new employer.

In addition to cumulative pay and tax, employers will need to enter details of pay and tax for "this employment" (unless they are the same as the total pay and tax).

P60 (Annual statement of pay and tax deducted)

Form P60 must be given to the employee by 31st May after the end of the tax year.

P9D and P11D (Annual statement of expenses and benefits in kind)

The time limit for submitting forms P11D is 6th July.

Employers will have to give P11D information to employees who were in employment at the end of the tax year by 6th July.

Employers are also obliged to provide the information to employees who left during the year, but only on receipt of a written request within three years. (It is probably more convenient to provide it automatically while the information is currently available).

Employers are free to choose how to provide the information to employees, although the information provided must include a calculation of the actual benefit in kind. It is not obligatory to provide a copy of the form itself, although it will be easier if you do.

Further information on the completion of Form P11d is contained in Fact Sheet No. 3.

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FACT SHEET NO. 25

CORPORATION TAX RETURNS

1ST APRIL 2009

Corporation Tax Self Assessment (CTSA), applies to all Limited Companies, Clubs and Associations. All such organisations are required to submit a Corporation Tax Return (CT600), to the Inland Revenue within 12 months of their financial year end, although it should be remembered that the Corporation Tax liability is payable 9 months after the year end.

Whereas we complete both the Corporation Tax Return and the computations on your behalf it remains your responsibility to ensure that they are both complete and accurate. If you have any doubts about the contents of either of these documents please contact us.

CORPORATION TAX RETURN (CT600)

The Corporation Tax Return normally consists of four pages and summarises your taxable profit and corporation tax liability as shown on the corporation tax computations. This is your formal return for corporation tax purposes and should be signed by an authorised person. If the Return is incorrect, or if it is filed late, interest and penalties might be payable.

CORPORATION TAX COMPUTATIONS

Complex computations can contain 12 or more individual sections although most consist of less than half that number. If your computations do not include some of the following sections it is because they do not apply in your circumstances this year.

1. Net Trading Profit

The profit or loss, as shown on your accounts, is adjusted for items of expenditure which are not allowed as a deduction for tax purposes. Some items, such as depreciation are allowed in a different way, whilst some, such as entertaining, certain legal fees, fines and penalties are not allowed at all. It is important that these adjustments are correct and you should, therefore, advise us if you consider any are inaccurate.

Investment income, such as rent and bank deposit interest, is also adjusted as it does not form part of your trading income. It is, however, taken into account in determining your total income.

Capital Allowances and Balancing Charges in respect of capital assets, such as cars, vehicles and equipment, are given before arriving at the **Net trading Profit/(Loss)**.

2. Profits Chargeable to Corporation Tax

The net trading profit and investment income are adjusted for any losses that are available.

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3. Corporation Tax Liability

Businesses with taxable profits below £300,000 p.a. pay tax on the proportion of profit arising in the following periods at the appropriate rate:-

Up to 31st March 2007	19%
1st April 2007 to 31st March 2008	20%
1st April 2008 to 31st March 2010	21%
1st April 2010 to 31st March 2011	22%

Businesses with taxable profits in excess of £300,000 p.a. pay Corporation Tax at 28% less 'Marginal Relief', if profits do not exceed £1.5M. Prior to 1st April 2008 this rate was 30%.

The above thresholds are divided equally amongst companies under the same control. Credit is given for any tax suffered by deduction at source on investment income.

4. Corporation Tax Refund

If you have suffered a tax loss this year you may be entitled to a repayment of tax and possibly a 'repayment supplement' (interest).

5. Loss Relief

Any trading loss in this year can be used to reduce any other profits or gains made in this year, or last year, or be carried forward against future trading profits from the same trade. Losses incurred in accounting periods ending between 24th November 2008 and 23rd November 2010 can be carried back and set off against profits in the previous 3 years. Less generous rules apply to rental and capital losses which can only be used to reduce profits of a similar nature in the same or future years.

6. Capital Allowances

Periods up to 31st March 2008

Capital Allowances, at the rate of 25% of the written down value (cost less allowances already given), are available for most motor cars costing less than £12,000 (see below), vehicles and equipment purchased for use in the business. For 'small' businesses the allowances in the year of acquisition for plant and equipment, which includes commercial vehicles, is increased to 50%.

Periods between 1st April 2008 and 31st March 2009

The first £50,000 of expenditure on plant and equipment, including commercial vehicles and assets for leasing, purchased by any business will qualify for 100% annual investment allowance (AIA) in the year of purchase.

The £50,000 limit is apportioned for accounting periods of less than 12 months or that span the 31st March and is divided amongst group and 'related' companies.

Any plant that already qualifies for 100% allowances in its own right (see below) is excluded from the £50,000 limit.

Writing Down Allowance (WDA) at the rate of 20% is then available on any remaining expenditure, together with the cost of most cars costing less than £12,000 (see below) and the written down value (cost less allowances already given) from earlier years. This is reduced to 10% in respect of plant which is 'integral' to a building (i.e. air conditioning, sanitary ware, etc.)

Periods between 1st April 2009 and 31st March 2010

Expenditure in excess of the £50,000 referred to above qualifies for 40% first year allowances (FYA). The written down value of assets from previous years qualifies for a 20% writing down allowance (WDA).

Expenditure on motor cars is dealt with separately (see below).

Special Plant qualifying for 100% allowances

Enhanced 100% allowances are available for "small" businesses for expenditure on new energy saving plant and equipment purchased after 1st April 2001 and new environmentally beneficial equipment (primarily water saving) purchased after 1st April 2003 by any size of business. Details of the equipment concerned can be found on the Internet at www.eca.gov.uk - if you believe you have bought such equipment this year please let us know.

Motor Cars - up to 31st March 2009

Cars costing over £12,000 are dealt with separately and in those cases the maximum allowance is £3,000 per car.

Motor Cars - from 1st April 2009

Capital allowances for motor cars are calculated by reference to their CO² emissions. Those with 'Ultra-Low' emissions (see below) qualify for 100%, between 111g/km and 160g/km for 20% and all others 10%. There are no balancing adjustments on sale.

Ultra-Low Emission Cars

Enhanced 100% allowances are available on 'Ultra-Low' emission cars (below 110g/km if purchased after 1st April 2008 or 120g/km if purchased prior to that date).

Short Life assets

Each short-life asset, i.e. an asset with an expected life of less than 5 years, has a 'pool' of its own, and qualifies for writing down allowance of either 25%, 20% or 10% depending on its nature and when it was purchased. This does not apply to cars.

Disposals

The proceeds from all disposals during the year are deducted from the value of the 'pool'. Any asset, or pool, that is completely disposed of during the year creates a 'Balancing Charge' (profit) or 'Balancing Allowance' (loss) which is taxable or allowable, as appropriate.

7. Capital Additions and Disposals

Full details of capital additions and disposals which affect the claim for capital allowances need to be supplied to the Inland Revenue.

8. Research and Development Expenditure

Revenue expenditure on research and development might qualify for additional allowances or tax credits if the total exceeds £10,000.

9. Industrial Buildings Allowance

Industrial Building Allowance, at the rate of 4% per annum of the original cost of an industrial building is available. An industrial building is, generally, any building, not being an office, in which goods are subjected to a process, or stored prior to or after being subjected to a process, or used for the transport of goods that have been subjected to a process.

This allowance is being reduced by 1% pa from April 2008.

10. Agricultural Buildings Allowance

Similar allowances are available for agricultural buildings.

11. Mineral Rights

Complex rules apply to mineral rights and if these apply to you we will advise you separately in this regard.

12. Notes

Details of Directors' salaries, bonuses and benefits in kind should be notified to the Inland Revenue.

Any associated companies that you have might affect the rate of corporation tax paid. If this section is incorrect, or is blank and you do have associated companies, please advise us. An associated company is a company in which any shareholder of your company owns shares but excludes publicly quoted companies.

Any other information that we consider will be of help to the Inspector of Taxes in considering the accounts will be supplied.

This fact sheet is intend to provide a broad, non technical, outline of the principles behind the completion and submission of your Corporation Tax Return and Computations. If you require clarification on any point please contact us.

HOLDOVER RELIEF

Holdover Relief is a method by which Capital Gains Tax can be deferred when making gifts of assets between UK residents. There are 2 classes of assets to which Holdover Relief can apply :-

1. Business assets - predominantly shares in family Companies, interests in Partnerships and property used by the family business.
2. Any other assets where Inheritance Tax becomes immediately chargeable in respect of a gift - predominantly transfers into Trust.

In respect of either class of asset the effect of the relief is that Capital Gains Tax only becomes payable when the donee sells or otherwise disposes of the assets. It is important that the donee is aware that he or she will be responsible for the payment of Capital Gains Tax on the entire gain when they come to dispose of the asset.

In order to claim the relief both the donor and donee must sign a claim form, except when the gift is into Trust, in which case it is only the donor that has to sign. In view of the fact that the relief will not be available unless the donee signs the claim form it is important that the claim form is signed before the gift is made.

The relief can be withdrawn if the donee ceases to be UK resident at any time within six years of the end of the income tax year in which the gift is made. In these circumstances the donee would initially become liable for Capital Gains Tax and if that was not paid the donor would become liable. This could have catastrophic effects on the donor as he or she would no longer own the assets but would still have the Capital Gains Tax liability. Care should therefore be taken to ensure that the donee remains UK resident.

There is also a claim that both parties must make to avoid the need to undertake detailed valuations at the time of the gift. It is recommended that this claim is made as it will save costs.

A further impact of Holdover Relief is that the donor's period of ownership would cease to qualify for Entrepreneurs Relief purposes and, if therefore, the donee intends or does sell the asset very shortly after receiving the gift the total Capital Gains Tax bill that would then become payable could be greater than if the gift had not been made in the first place. Whether this is the case or not will depend upon the exact circumstances of each transaction.

Hold Over Relief cannot be claimed if the transfer is in to a Trust in which the donor, his/her spouse or infant children, have an interest.

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ENTREPRENEURS RELIEF (*From 6th April 2008*)

Entrepreneurs Relief is available on the disposal of:

- C a business or part of a business carried on by an individual either alone or in partnership;
- C shares in a trading company where the individual owns at least 5% of the share capital and is either a director or employer throughout the 12 months prior to disposal;
- C assets used in the business or company which are disposed of as part of the main disposal.
- C

The first £1M of post April 2008 gains that qualify for relief will be charged to CGT at an effective rate of 10%.

All other gains are taxed at a flat rate of 18%.

BUSINESS ASSET TAPER RELIEF (*Withdrawn 5th April 2008*)

The effect of Business Asset Taper Relief is that once the maximum entitlement has been achieved any gains made on business assets will be reduced by 75% and Capital Gains Tax will then be payable on the balance subject of course to any other allowances that might be available.

For this purpose ownership prior to 6th April 1998 is ignored.

Taper Relief accrues depending upon the period of ownership of the asset :-

<i>Up to 1 year</i>	<i>0%</i>
<i>Between 1 and 2 years</i>	<i>50%</i>
<i>Over 2 years</i>	<i>75%</i>

NON BUSINESS ASSET TAPER RELIEF (*Withdrawn 5th April 2008*)

This Taper Relief applies to all assets which do not qualify for the enhanced Business Asset Taper Relief. The Relief accrues depending upon the period of ownership of the asset :-

<i>Up to 3 years</i>	<i>0%</i>
<i>Between 3 and 4 years</i>	<i>5%</i>
<i>Between 4 and 5 years</i>	<i>10%</i>
<i>Between 5 and 6 years</i>	<i>15%</i>
<i>Between 6 and 7 years</i>	<i>20%</i>
<i>Between 7 and 8 years</i>	<i>25%</i>
<i>Between 8 and 9 years</i>	<i>30%</i>
<i>Between 9 and 10 years</i>	<i>35%</i>
<i>Over 10 years</i>	<i>40%</i>

For this purpose ownership prior to 6th April 1998 is ignored.

Due to the interaction between the qualification rules dealing with assets that change their nature from non business to business assets any such assets might not qualify for full relief until they have been owned for 10 years.

Generally speaking all employers with five or more employees have to designate a Stakeholder Pension Scheme by the **8th October 2001**. You may be exempt from stakeholder if :

- , you have less than five employees.
- , you have more than five employees all of whom earn less than the lower earnings limit or are under 18 years old.
- , you already offer an occupational scheme provided that :-
 - the waiting period to join is no more than twelve months
 - new members can join until they are within 5 years of the Schemes final retirement age.
- , you already offer a group personal pension and you pay at least 3% of employees basic salary into that pension and it is available to all employees within three months of them joining the Company aged between 18 to 74 and you offer payroll deduction.

Obligations Under Stakeholder

If you have to offer a Stakeholder Scheme there are six key steps that need to be undertaken :-

1. Consult employees and relevant organisations.

You are required to consult with relevant employees and their representatives such as Trade Unions about the choice of Scheme. This must be done before you make your final decision and designate the Scheme. You may wish to discuss the reasons for your choice but ultimately the decision is yours. There is no set format for consulting employees so you can decide how you wish to communicate this.

2. Choose a Stakeholder Scheme.

This means selecting a Stakeholder Pension Scheme which your employees are then invited to join. You are not required to investigate past or possible performance of the scheme. You may wish to consider several different methods of research in providers and the products they offer. All Stakeholder Pensions will have to offer the same minimum Government standards although many providers may decide to better these. The main standards you will be able to compare between providers are :-

- a maximum 1% annual management charge
- gross minimum contributions of £20
- acceptance of transfers from other schemes.

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3. Record your decision and provide information

It must be clear that you have complied with stakeholder regulations and designated a scheme. This should be formally recorded.

You must provide relevant employees and their representatives with information about the scheme. This must include the scheme name and address. It will also be useful to provide details about the terms of the scheme you have chosen. The following methods are acceptable :

- (a) Wage slip announcement.
- (b) Content on your company Internet site
- (c) Short presentation at team briefings
- (d) Letter to each employee.
- (e) Inclusion of details in Terms of Employment.

4. Offering payroll deduction facilities

Once you have designated a scheme you are also required to offer the facility to deduct employee's contributions from their pay. Employees may choose to pay their contributions direct to the Scheme provider if they so wish. If employees decide on payroll deductions they must decide on how much and how often. The minimum contribution is £20 and the employee must advise you of the amount of the deduction. This can be by reference to a percentage of the salary or a fixed amount per month/week.

5. Deductions from employees' pay

When an employee asks you to make payroll deductions, you must tell them in writing (within two weeks of them asking) how you plan to run the payroll deduction system. Your explanation should cover :

- , how the employee can ask for a change in contribution (for example, whether it should be in writing or by phone to a particular person) ;
- , how often you will accept changes (this must be at least every six months but you can agree to make changes more often if you want) ;
- , how the employee can ask for their contributions to stop at any time ; and
- , your agreement to the employee's change in contribution being made no later than the pay period after the one that they have made their request in.

You must tell your employees, in writing, if you cannot accept their request for a change in their deductions. For example, this may be because they have already made a change in the last six months and you are not willing to make a further change. You must tell them why you have refused their request and when they can make another request. You must also tell them that they can cancel the payroll deduction at any time.

6. Maintain Records of Employee Deductions and payments

You will be required to keep up to date records of the amounts and dates of all contributions made by you and your employee. This is then sent to the Scheme provider who monitors the arrangements. The contributions that are deducted from the employee's wages must be paid to the scheme provider within nineteen days of the end of the month in which the deduction was made.

Records must be updated every time contributions change or a member leaves or joins.

All employee contributions are paid net of basic rate tax and deducted from net earnings ie after income tax and national insurance. The Scheme provider then claims back basic rate income tax from the Inland Revenue and adds it to the employee's plan. Any higher rate tax relief must be claimed through Self Assessment Returns at the end of the year.

REMEMBER YOU COULD BE FINED IF YOU DO NOT COMPLY WITH THESE PAYMENT PENALTY REGULATIONS

If you require advice, either in respect of Stakeholder Pensions or general pension matters, we can introduce you to an Independent Financial Adviser from our panel of advisers.



FACT SHEET NO. 28

HELP FOR BUSINESS START UPS

1ST APRIL 2005

The early years of your business life are possibly the most important as actions taken then will determine the future direction and, ultimately, the success of your business.

To assist clients commencing in business for the first time we are pleased to offer the following:-

* * * * *

- Initial Consultation - free of charge -
- Follow up meeting - free of charge -
- Business Plan, if required - free of charge -
- Instructing you on your bookkeeping system - free of charge -
- Helping you with the completion of your first VAT Return (if needed) - free of charge -

* * * * *

Other Matters:-

- , To enable us to deal with your affairs in an efficient and cost effective manner it is important that you respond to our letters as soon as possible. The need to issue reminders will increase our charges to you.
- , You might find it easier to pay our charges by monthly standing order throughout the year rather than in one amount at the year end.
- , The Inland Revenue have power to investigate taxpayers affairs entirely at random which can be very costly in profession fees. We can provide you with details of the Abbey Tax Protection insurance scheme which enables our clients to protect themselves against the cost of Inland Revenue investigations. If we have not already given you details and you wish to be covered please let us know.
- , If you want to operate a computerised accounting system we recommend CashFlow Manager for small businesses who do not buy and sell goods and services on credit and Sage Line 50 for larger more complex businesses. We can supply and advise on both these systems.

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FACT SHEET NO 29

TAXATION OF COMPANY CARS AND EXPENSES

1ST JUNE 2010

The tax charge on Company cars is based on a percentage of the manufacturers list price (including the cost of extras) graduated by reference to the cars CO² emissions for those cars registered on or after 1st January 1998. The tax charge for cars registered prior to 1st January 1998 is calculated using a fixed percentage based on the car's cc.

The cost of converting cars to run on alternative fuels is ignored for this purpose.

Building from 15% for cars emitting 120 grams per kilometre or less increasing by 1% for each additional 5g/km over 120 to a maximum of 35% of the list price. The emission figure is in all cases rounded down to a multiple of 5g/km. There will be no discount for business mileage or by reference to a cars age. Diesel cars will be subject to a supplement of 3% of list price subject to the maximum of 35%.

From 6th April 2008 cars emitting 120g/km or less qualify for a 10% rate. In addition cars running on 'alternative' fuels qualify for a discount on the charge rates.

All new cars registered on or after 1st April 2001 have the CO² rating recorded on the car's log book. For cars registered prior to that date the information can be obtained from the Society of Motor Manufacturers website (<http://www.smmt.co.uk/co2/co2.asp>).

Fuel Scale Charges

Fuel scale charges are now calculated by applying the CO² percentage used for car benefit purposes to a fixed amount, currently £18,000. Eg if the CO² percentage is 20% the fuel benefit will be £3,600, on which income tax at the appropriate rate is payable.

In most cases it is not beneficial for an employer to provide an employee with fuel for private use. In practice this means that an employee will purchase all fuel for the car and claim reimbursement for the cost of business travel. (See over)

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Fuel rates for Company cars

Where employers do not provide fuel for company cars and therefore reimburse employees for the cost of fuel used for business travel the Inland Revenue will accept the following rates :-

Fuel Cost per mile from 1st June 2010 (rates from 1st December in brackets)

	Petrol	Diesel
1400 cc or less	12p (11p)	11p (11p)
1401 cc to 2000 cc	15p (14p)	11p (11p)
Over 2000 cc	21p (20p)	16p (14p)

For cars up to 3,000cc these rates also apply where employees repay the cost of fuel used for private use to employers.

Where employees repay the cost of fuel for private use, using the above rates, and **detailed** records are kept to identify private business mileage, no fuel benefit is charged and no Class 1A NIC is payable.

Expenses for use of own car for business

The amount of expenses that can be claimed by employees and directors for use of their own car for business are as follows :-

First 10,000 business miles	40p per mile
Thereafter	25p per mile

These are flat rate allowances irrespective of the size or cost of the car.

It is the employers responsibility to monitor the 10,000 mile limit.

Any amount paid above these rates will be classed as a benefit in kind and will be subject to Tax and Employers Class 1A National Insurance.

If these rates are used it is not necessary to apply for a dispensation.

IF YOU REQUIRE ANY FURTHER INFORMATION ON THIS SPECIFIC PROBLEM AREA, PLEASE DO NOT HESITATE TO CONTACT US.



FACT SHEET NO. 30

TAX RELIEF ON INVESTMENTS

6TH APRIL 2008

There are a number of investment vehicles that have been introduced in recent years that provide special Income Tax and Capital Gains Tax reliefs which might be of use to individuals who have significant ongoing Income Tax or one off Capital Gains Tax liabilities.

Each type of investment has complex qualification rules and it is necessary to ensure that all those rules are met before making the investment.

The purpose of this Fact Sheet is to outline the taxation aspects of such investments. You should obtain separate investment advice. You should be aware that all such investments involve medium to high investment risk.

VENTURE CAPITAL TRUSTS (VCT)

Venture Capital Trusts are a special type of Inland Revenue approved Unit Trust that invest solely or mainly in unquoted Companies. For this purpose securities on the Alternative Investment Market (AIM) are treated as unquoted.

The maximum investment that can qualify for relief in any one tax year is £200,000. Any investment that is linked to the making of loans to the individual or their associates does not qualify for relief.

All dividends paid by the VCT are tax free. On sale any capital gain made on the VCT investment is tax free provided that the VCT shares have been held for a minimum of five years (three years until 6th April 2006).

Income Tax Relief on Investment

Income Tax relief is available at 40% on investments acquired in 2004/05 and 2005/2006 provided that the VCT shares are held for a minimum of three years. For 2006/2007 onwards the maximum Income Tax relief is 30% and the VCT shares need to be held for a minimum of five years.

If the VCT shares are sold, or the investor becomes non UK resident, within the qualification period the tax relief is withdrawn by reference to the consideration received for the disposal.

Capital Gains Tax Relief on Investment

From 6th April 2004 no Capital Gains Tax Relief is available.

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ENTERPRISE INVESTMENT SCHEME (EIS)

Enterprise Investment Scheme Relief is available in respect of the purchase of newly issued shares in a qualifying Company wholly for cash. Generally a qualifying company is one that carries on a qualifying trade wholly or mainly in the UK. Certain trades, for example property development and farming, are specifically excluded from this relief.

The EIS Company is required to apply to the Inland Revenue for authority to issue a certificate to the investor. This certificate cannot be issued until the Company has been carrying on its trade for four months.

The following activities are excluded from relief :-

- , Dealing in land, commodities, futures or other financial instruments
- , Dealing in goods otherwise than in the course of an ordinary trade of wholesale or retail distribution
- , Banking, insurance and other financial activities
- , Leasing
- , Providing legal or accountancy services
- , Property development
- , Farming or market gardening
- , Holding, managing or occupying woodlands etc
- , Operating or managing Hotels or comparable establishments
- , Operating or managing Nursing Homes or Residential Care Homes
- , Providing services or facilities for any trade carried on by another person which consists to any substantial extent any of the activities listed above
- , Shipbuilding, coal and steel production.

Disposal of EIS shares that qualified for income tax relief are free of Capital Gains Tax on sale after three years. When EIS shares that qualified for Capital Gains Tax relief are disposed of any gain arising on those shares will be calculated in the normal way. Any such gain is in addition to the deferred gain that would crystallise at the same time.

Income Tax Relief on Investment

Income Tax Relief is available at 20% provided that the EIS shares are held for a minimum period of three years.

Subscriptions in excess of £500 and up to £500,000 per tax year may qualify for income tax relief. Subject to the overall annual limit of £500,000 an individual may claim tax relief in one tax year for one half of any amount invested in EIS shares before the 6th October in the following tax year. The maximum amount that an investor can request to carry back in this way is £25,000.

For income tax relief purposes the investor, or his associates, are not allowed to hold more than 30% of the loan or share capital of the issuing Company.

If the EIS shares are sold or otherwise disposed of within the three year period the tax relief is withdrawn by reference to the consideration received for the disposal.

Capital Gains Tax Relief on Investment

Individuals who have disposed of any asset which gives rise to a capital gain can “defer” that gain. Such relief is given pound for pound against the investment in the EIS provided the investment is made within the period starting one year before and ending three years after the date the gain arose. The Inland Revenue have power to extend this period in appropriate cases.

When the EIS is disposed of the “deferred gain” is crystallised and Capital Gains Tax will be payable based on the tax rates applicable at that time.

For Capital Gains Tax relief there are no restrictions on the maximum amount of the investment nor on the number of shares that can be held by the investor in the EIS Company. The investor however cannot receive “value” from the company during the qualification period. “Value” is defined as :-

- , The repayment of or the making of any loan to or by the investor.
- , The receipt of excessive remuneration.
- , The receipt of excessive dividends in relation to the size and risk profile of the investment.

ENTERPRISE ZONE TRUSTS (EZT)

Enterprise Zone Trusts are Unit Trusts that invest solely in industrial, commercial and Hotel buildings in enterprise zones. EZT investments provide the investor with 100% Industrial Buildings Allowance on the value of the investment, excluding the value of the land, together with on going rental income.

Any rental income received from the investment is taxed in the usual way in the year of receipt. Interest paid on monies borrowed to acquire the EZT investment is deductible from any rent received through the investment.

Income Tax Relief on Investment

Income Tax relief is available at the full marginal rate of tax paid by the investor during the year in question.

There are no limits to the amount of EZT investments made.

If the underlying building is sold within 25 years or if a capital value is realised out of that building within 7 years a “balancing event” occurs which will result in income tax being paid on an amount up to the original amount of the relief.

Capital Gains Tax Relief on Investment

No Capital Gains Tax Relief is available on EZT investments.

The future

The tax allowances on which EZT's are based will be withdrawn from April 2011.



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FACT SHEET NO 31

VALUE ADDED TAX FLAT RATE SCHEME

1 JANUARY 2010

A new Flat Rate Scheme was introduced with effect from the 24th April 2002. From this date small businesses with VAT exclusive turnover of less than £100,000 (or £125,000 including exempt supplies) can apply to Customs & Excise to join this Scheme. These limits increased to £150,000 and £187,500 on 10th April 2003.

The Flat Rate Scheme enables businesses to calculate their VAT liabilities by reference to a fixed percentage of their sales rather than by the traditional method. In making the calculation the appropriate percentage is applied to the total turnover, including zero rated and exempt turnover. In addition no claim can be made for VAT paid on expenses.

Extreme care must be taken before applying to join and in deciding when to join the scheme.

The approved flat rates effective from 1st January 2010 are :-

Category of business carried on	Appropriate percentage
Accountancy or book-keeping	13
Advertising	10
Agricultural Services	10
Any other activity not listed elsewhere	10.5
Architect, civil and structural engineer or surveyor	13
Boarding or care of animals	10.5
Business services that are not listed elsewhere	10.5
Catering services, including restaurants and takeaways	11
Computer and IT consultancy or data processing	13
Computer repair services	9.5
Dealing in waste or scrap	9.5
Entertainment or journalism	11

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Estate agency or property management services	10.5
Farming or agriculture that is not listed elsewhere	6
Film, radio, television or video production	11.5
Financial services	12
Forestry or fishing	9.5
General building or construction services	8.5
Hairdressing or other beauty treatment services	11.5
Hiring or renting goods	8.5
Hotel or accommodation	9.5
Investigation or security	10.5
Labour-only building or construction services	13
Laundry or dry-cleaning services	10.5
Lawyer or legal services	13
Library, archive, museum or other cultural activity	8.5
Management consultancy	12.5
Manufacturing fabricated metal products	9.5
Manufacturing food	8
Manufacturing that is not listed elsewhere	8.5
Manufacturing yarn, textiles or clothing	8
Membership organisation	7
Mining or quarrying	9
Packaging	8
Photography	10
Post offices	4.5
Printing	7.5
Publishing	10
Pubs	6
Real estate activity not listed elsewhere	12.5
Repairing personal or household goods	9
Repairing vehicles	7.5
Retailing food, confectionery, tobacco, newspapers or children's clothing	3.5
Retailing pharmaceuticals, medical goods, cosmetics or toiletries	7
Retailing that is not listed elsewhere	6.5

Retailing vehicles or fuel	6
Secretarial services	11.5
Social work	10
Sport or recreation	7.5
Transport or storage, including couriers, freight, removals and taxis	9
Travel agency	9.5
Veterinary medicine	10
Wholesaling agricultural products	7
Wholesaling food	6.5
Wholesaling that is not listed elsewhere	7.5

For some years it has been beneficial for Sole Traders and Partnerships to operate their businesses through a Limited Company. Although changes announced in recent budgets, and most recently in 2007, have reduced the benefits slightly it remains the case that substantial tax savings can be made by operating a business through a Limited Company.

With profits being withdrawn from the Company partly by way of salary and partly by way of dividend the following tax and national insurance savings are possible :-

Note: These savings are based on the 2008/2009 tax rates and allowances.	Tax & NIC Paid as		
	Sole Trader	Limited Company	Annual Saving **
Profits of £15,000	£2,678	£2,008	£670
Profits of £25,000	£5,478	£4,108	£1,370
Profits of £35,000	£8,278	£6,208	£2,070
Profits of £45,000	£11,575	£8,309	£3,266
Profits of £55,000	£15,675	£12,096	£3,579

** Whereas these are the optimum savings achievable it might be advisable to pay a small amount of National Insurance and thereby reducing these savings by approx. £100 pa.

At profits in excess of £25-£30,000 there are significant advantages of operating through a Limited Company.

In circumstances where the trader has profits in excess of £45,000 it should be possible to obtain further tax savings by allocating shares to his or her spouse and, in addition, any profits retained in the business will be sheltered to tax at 20% instead of 40%.

There are however additional costs associated with operating through a Limited Company :-

, One off cost of acquiring the Company	£450 plus VAT
, One off additional cost of dealing with the transfer of the business	£1,000 plus VAT
, Estimated additional annual accountancy costs	£1,250 plus VAT

These figures are approximate. The actual costs will depend upon the nature and extent of the business concerned.

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In view of these costs it is not advantageous to incorporate unless profits are in excess of £25,000. Other issues that need to be considered when operating through a Limited Company:-

- , A Limited Company is less flexible. Specific action needs to be taken before profits can be withdrawn whereas a Sole Trader can simply write out a cheque from the business Bank account.
- , In commercial 'Partnership' arrangements it is far easier to dissolve a Partnership and for each Partner to go their own way than with a Limited Company.
- , It is possible that yet further legislation will be introduced in the future that will make Limited Companies less beneficial.
- , Tax changes have already been announced that will marginally reduce the tax savings in successive years from 2008.
- , Some financial information will be lodged at Companies House and be on public record.
- , The taxation treatment of Company cars is less beneficial within a Limited Company. In practice the individual would be responsible for paying all the running expenses and costs of the car and a claim for business journeys would then be made from the Company at the rate of 40p per mile for the first 10,000 miles per annum and thereafter at the rate of 25p per mile.
- , Full Entrepreneurs Relief will not be available for 12 months from the date that the Company starts to trade and, therefore, if a sale of the business is likely within this period care needs to be taken when considering incorporation.
- , It might prove more difficult to sell a Limited Company than a Sole Trader/Partnership.
- , Limited Companies in the construction industry who suffer deduction of tax under the CIS system are able to recover that tax by deducting it from their own PAYE or CIS liabilities and, therefore, receive credit earlier than sole traders or partnerships.
- , Any existing hire purchase or lease contracts will need to be transferred to the limited company which, on occasions, might not be possible. This also applies to Mobile Phone contracts.
- , Business bank overdrafts and loan accounts will need to be re-negotiated.
- , Some Building Societies do not recognise income derived from a limited company for mortgage purposes.

Further tax savings can be achieved by transferring some shares into the name of a lower rate tax paying spouse. However, the Inland Revenue have announced that from April 2009 they will seek to disallow any tax advantage gained where shares are held by a non-contributing spouse and the Company has a limited asset base. Care needs to be taken here.

IF YOU REQUIRE ANY FURTHER INFORMATION OR WOULD LIKE TO CONSIDER INCORPORATION PLEASE CONTACT US.

Employees are taxable on all the income they receive from their employment including any expense payments. Tax relief is however available in two ways :-

1. By exemption. This means they are not taxable. Where a payment is exempt employers do not need to report the amount to the Inland Revenue and employees do not have to claim relief. Payments to employees for the use of their own car for business use are exempt if they do not exceed the following in any tax year :-

First 10,000 business miles	40p
Over 10,000 business miles	25p

2. By deduction. Certain amounts can be deducted from an employee's total income before arriving at the amount on which he or she will be taxed. Where relief is available by deduction the employer must report expense payments to the Inland Revenue and employees may make a claim for further relief to their Inland Revenue office.

The tax rules determine the amount on which relief is due. They do not determine the level of payment or provision an employer can or should make. The full cost of a business journey may be more or less than the expenses paid or met by the employer.

BASIS OF TAX RELIEF FOR EMPLOYEE TRAVEL

Employees are entitled to claim for the costs they are obliged to incur travelling in the performance of their duties or travelling to or from a place they have to attend in the performance of their duties **as long as the journey is not ordinary commuting or private travel.**

Ordinary Commuting

For most employees ordinary commuting is for journeys between their home and their permanent workplace. In general there is no relief for the cost of travel between an employees permanent workplace and :-

- , an employees home or;
- , any other place the employee visits for non work reasons or ;
- , any place where the employee performs the duties of another job.

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An employee cannot turn an ordinary commuting journey into a business journey simply by arranging a business appointment somewhere on the way. To get relief the employee must be able to show that the attendance at that particular place on that occasion was necessary for the performance of the duties of that employment.

Permanent Workplace

A place where an employee works is a permanent workplace if he or she attends it regularly for the performance of the duties of the employment. The attendance must be frequent, follow a pattern or it is the place the employee usually attends for almost all of the period of that employment. All other places of workplace are classed as temporary.

The 24 month rule

Where an employee has spent or is likely to spend less than 24 months at a particular workplace that workplace is a temporary workplace so travel between there and home is business travel. As soon as it is known that the assignment will exceed 24 months that workplace becomes permanent and home to work travel is no longer claimable.

Attendance for a temporary purpose

An employee may attend a workplace regularly and perform duties there which are not of limited duration without that workplace becoming a permanent workplace provided the purpose of each visit is temporary. Where a visit is self contained, that is arranged for a particular reason rather than as a part of series of visits, it is likely to be for a temporary purpose.

Duties defined by reference to a particular area

Where an employee has a job where their duties are defined by reference to a particular geographical area the whole of the geographical area is the workplace. If they live outside that area the journey between home and the edge of the geographical area is ordinary commuting with no relief available for the cost of that journey.

Passing work on the way to somewhere else

1. An employee may pass a permanent workplace on the way to or from a temporary workplace. If the employee stops and performs substantive duties at the permanent workplace then there are two journeys :-
 - (a) Ordinary commuting between home and the permanent workplace - Relief will not be available for the cost of this journey.
 - (b) Business journey between permanent and temporary workplace - Relief will be available for the cost of this journey
2. Where the employee does not stop at the permanent workplace or any stop is purely incidental this is all business travel and relief can be claimed on the whole cost.

Emergency Call out expenses

Sometimes employees are required to travel to a permanent workplace unexpectedly or in an emergency. Where the cost of that journey would in normal circumstances not qualify for relief it will still not qualify for relief just because the journey was made in response to an emergency even if the journey takes place outside normal working hours unless work commenced before leaving home.

Journeys treated as ordinary commuting or private travel

Sometimes an employee may travel to a temporary workplace without that journey being significantly different from his ordinary commuting journey. Where that happens the tax rules deny relief. The same rule denies relief for journeys which are substantially private travel. This means journeys where the business purpose of the journey is merely incidental to some private purpose or the journey is made substantially for private purposes rather than business purposes.

Taking Company vehicles home - pool vehicles

Normally where an employer provides free transport for an employees journey from a permanent workplace to home the employee will be taxed on the benefit of the free transport and will not be entitled to relief to set against the taxable benefit. This applies even where the employer instructs the employee to take the vehicle home for security reasons or to enable the employee to make an early start for a business trip the next morning.

If the vehicle is a pool vehicle for tax purposes the employee will not be taxed on the benefit of the free travel home.

A vehicle is a pool vehicle for tax purposes if **all** of the following conditions are met :

- , It is available to and is actually used by more than one employee;
- , It is not ordinarily used by any one employee;
- , It is not normally kept overnight at or in the vicinity of the home of any of the employees. A vehicle is regarded as failing this test if it is kept overnight at or in the vicinity of a home of an employee for 60% more of the time.

See Fact Sheet 34 regarding the use of Company Vans.

Site based employees

Some employees are required to attend different sites for short periods of time. If any visit to their permanent workplace is incidental then these employees are classed as site based employees. These employees may claim for travel costs between their home and the site each day.

THIS IS A VERY COMPLEX AREA. IF YOU REQUIRE FURTHER INFORMATION PLEASE CONTACT US.

If a van is used mainly for business travel and any private use, other than journeys to and from work, is insignificant it is possible to have the charge for the use of a company van reduced to nil.

Home to work journeys are still considered to be private, but the new rules allow employees to use their van for those journeys without paying tax.

Private use will be considered insignificant if it is insignificant in quantity and quality and it is intermittent and irregular. It must be the exception in terms of pattern of use by that employee.

Examples of insignificant use;

- C taking an old mattress or rubbish to the tip once or twice a year;
- C regularly making a slight detour to stop at a newsagent on the way to or from work;
- C calling at the dentist on the way home.

Examples of use which is NOT insignificant;

- C using the van to do the supermarket shopping each week;
- C taking the van away on a week's holiday;
- C using the van outside of work for social activities.

Employers must keep sufficient records to demonstrate that private use is restricted to home to work travel. This could take the form of clauses in employment contracts, statements of company policy and declarations from the employees concerned.

If you or any of your employees can benefit from this change you should let us know as soon as possible so we can arrange for the PAYE code to be amended.

From 6th April 2007 the scale charge for private use of vans is £3,000 irrespective of the age of the van together with an additional charge of £500 if fuel is provided for private use.

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In recent years the Inland Revenue have revised their approach to the taxation of income from Rental Properties. The purpose of this Fact Sheet is to outline the current rules regarding rental income and allowable expenses.

For simplicity, income from rental properties in the UK is referred to as a 'Rental Business'. A person carries on a rental business if they own or have an interest in land and property in the UK and derive rents or other receipts therefrom. Any profits arising are charged to income tax and are dealt with separately from other types of income.

Usually your share of income from jointly owned properties will be included in your own personal rental business accounts unless a formal partnership has been created.

In most cases all the various types of income from land and property in the UK are treated as part of the same, single rental business. Income from rental properties situated abroad are dealt with separately although the rules are very similar.

Income and expenditure are recognised using normal accounting principles. Because of these new rules it is advisable to prepare rental business accounts each year.

RENTAL INCOME

The rental income to include in your accounts each tax year is calculated on an 'accruals basis'. Rent that is accrued up to the 5th April each year is included irrespective of when the rent is paid or payable although 'bad debt' relief is available for any rent that has not been and is not likely to be paid.

Where total rental income is less than £15,000 pa the Inland Revenue are prepared to allow income and expenses to be accounted for on an 'as paid' basis.

EXPENSES

Broadly speaking, expenses can be deducted as business expenses so long as they are incurred wholly and exclusively for business purposes and are not of a capital nature. It is possible to apportion expenditure when determining whether an expense is 'exclusively' incurred for business purposes.

Some of the most common areas are dealt with over the page.

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Repairs

'Repair' means the restoration of an asset by replacing subsidiary parts of the whole asset.

There won't be a repair if a significant improvement of the asset beyond its original condition results. However, where an improvement arises because of the use of modern materials this will still be a repair provided the new materials are broadly equivalent to the old materials. In this regard the Inland Revenue now accept that replacing old single glazed units with new double glazed units is a repair.

Where capital additions/alterations and repair work are undertaken at the same time the expenditure on the repair element will remain allowable and will need to be apportioned on a just and reasonable basis.

If you acquire a property and :-

- # it was not in a fit state for use in your rental business; or
- # the price paid was substantially reduced because of its dilapidated state; or
- # as part of your purchase arrangements you commit yourself to reinstate the property to a good state of repair

and then incur expenditure on repairs the cost thereof will be capital and, therefore, not allowable. Other than this any general repair expenditure you incur will be an allowable expense.

Borrowing Costs

Any costs incurred in obtaining loan finance for your rental business are allowable in computing rental business profits providing they relate wholly to property let out on a commercial basis.

Interest paid on loans obtained to purchase or repair a rental property is an allowable expense.

The Inland Revenue have recently changed their guidance on the deductibility of interest paid on loans obtained to refinance a rental business to allow the proprietor to withdraw their original capital. Subject to certain conditions, and provided that the interest is paid out of the rental income, any such interest is allowable.

In this way the proprietor of a rental business can borrow funds in his rental business up to the original cost of the property, or up to the market value when the property was first rented out if higher, and withdraw the resultant surplus funds which can then be spent on private items such as repaying the mortgage on your own home.

Legal and Professional Fees

Any legal or agents fees incurred in acquiring or disposing of rental properties are capital in nature and are not allowable business expenses.

Legal and agents fees incurred in connection with the first letting of a property on a lease agreement for more than 12 months are similarly capital and not allowable. Any such costs for the renewal of a lease or for one of less than 12 months are allowable.

Normal accountancy expenses incurred in preparing rental business accounts and agreeing taxation liabilities based thereon are also allowable.

Furnishings

The initial cost of any furnishing is capital and no allowances are available.

However, if the property is let furnished, such that it is capable of normal occupation without the tenant having to provide their own beds, chairs, tables, sofas, cooker and other furnishings, there are two alternative methods of obtaining relief for these costs:-

- # a 'wear and tear' allowance of 10% of the rent after deducting any costs borne by you that would normally be met by the tenant, such as rates, water and utility costs; or
- # the net cost of replacing a particular item of furniture but not the original purchase - (this relief is also available if the property does not qualify as 'furnished').

Other Expenditure

Expenditure on rent, rates, council tax, insurance and utility bills that you incur wholly in respect of rental properties are allowable expenses.

Travel expenses will only be allowable in travelling between different rental properties or, if travelling to them directly from home, if the purpose of the journey is not partly private in nature. In these circumstances keep a mileage log and we can claim up to 40p per mile travelled.

The cost of advertising for new tenants is an allowable expense although the cost of any permanent letting/advertising board is not.

OTHER MATTERS

Rental Losses

Losses from a rental business cannot, generally, be set-off against other income and are, therefore, carried forward to set against rental profits in future years.

Rent-a-Room Scheme

If you let off a room or rooms in your own home there is a special relief that enables you to deduct £4250 as an allowance from the rent you receive as an alternative to claiming a deduction for specific expenses. Whether this is beneficial will depend on the circumstances of each case.

Furnished Holiday Accommodation

Special rules exist that define what properties qualify as Furnished Holiday Lets. There are some tax advantages that apply to Furnished Holiday Lets, in particular relief is available for losses against other income and the ability to benefit from certain capital gains tax reliefs.

Rent from Properties outside the UK

Generally, the rules regarding the calculation of income and expenses are the same as outlined above although any profits and losses are taxed separately from normal rental business income.

The special rules for Furnished Holiday Lets do not apply to these properties.

IF YOU REQUIRE FURTHER INFORMATION ABOUT ANY ITEM PLEASE CONTACT US



FACT SHEET NO. 36

CONSTRUCTION INDUSTRY SCHEME - CONTRACTORS

6TH APRIL 2007

A new scheme for the Construction Industry is introduced with effect from 6th April 2007.

Major Changes

- C No CIS cards or certificates
- C Verification of subcontractors direct with the HM Revenue & Customs
- C Monthly Returns (including Nil returns if appropriate)
- C Declaration signed each month to confirm that employment status has been determined
- C Automatic late filing penalties for Monthly Returns

Verification Procedure

Every subcontractor must be verified direct with HMRC to check the subcontractor is registered and to find out whether they should be paid gross or after deduction of tax at 20% or 30% . This can be done by telephone or over the internet.

For verification purposes the contractor must provide the subcontractors full name, Unique Taxpayer Reference, National Insurance Number (if an individual) or Company Registration number (if a Limited Company).

Once HMRC have verified the subcontractor a verification number will be given together with instructions on whether to deduct tax or not. If HMRC are unable to verify the subcontractor the contractor will be given a personal verification number and told to deduct tax at a higher rate. It is important that the verification numbers are recorded and retained.

Subcontractors do not need verifying if you have already paid them during the current or either of the previous two tax years. HMRC will notify you direct if the tax deduction status of a sub contractor already verified changes.

The Monthly Return

Monthly Returns will be issued each month by HMRC, unless filed electronically over the Internet. HMRC will pre-populate these Returns with details of subcontractors previously paid - you will need to enter details of payments made that month and of any new subcontractors.

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Returns will be made up to the 5th of each month, to coincide with the PAYE monthly periods, and must reach HMRC by the 19th of the month or a minimum automatic penalty of £100 will be incurred. This also applies to 'Nil' Returns as well.

The Return will contain the following details for each subcontractor paid during the month:-

- C The name of the subcontractor
- C The verification number supplied by HMRC when originally verified by them
- C Details of the total payments made to each subcontractor showing the gross amount, cost of materials and total tax deducted
- C A declaration that the employment status of every subcontractor has been considered
- C A declaration that the verification process has been applied correctly

Employment Status

Contractors are required to declare on their Return that none of the subcontractors listed are employees. A penalty up to a maximum of £3,000 may be incurred for incorrect returns (together with accumulations of PAYE & NIC if the worker is employed). It is important that contractors ensure that they have correctly determined the employment status of all workers.

Employment status is not a matter of choice, nor does it matter that the worker has been verified as a subcontractor. The circumstances of the engagement determine how a worker is treated.

Common indicators of self employed subcontractor status:-

- C Within an overall deadline, the worker has the right to decide how and when the work will be done
- C The worker supplies materials, plant or heavy equipment needed for the job
- C The worker quotes for the job and benefits/suffers if the cost is under/over budget
- C The worker has a right to hire other people who are paid by him to do the job
- C The worker is paid an agreed amount for the job regardless of how long it takes

Common indicators of employed status:-

- C Even if rarely used the contractor has the right to control what the worker has to do - where, when and how it is done
- C The worker supplies only his own small tools
- C The worker does not risk his own money and there is no possibility that he will suffer a financial loss
- C The worker has no business organisation - for example, yard, stock or workers
- C The worker is paid by the hour, day, week or month

Refer to Fact Sheet No 4. For more details.

Subcontractor's payment statement

There is now no fixed format of tax deduction voucher. However, contractors must give a statement to each subcontractor from whom a deduction has been made by the 19th of each month, which must contain the following:-

- C Contractor's name and address
- C Contractor's employers PAYE tax reference
- C End date of the tax month in which the payment was made

- C Subcontractor's name and Unique Taxpayer Reference number
- C Personal verification number if deduction has been made at the higher rate.
- C Gross amount of the payment
- C Cost of materials
- C Tax deducted



FACT SHEET NO. 37

CONSTRUCTION INDUSTRY SCHEME - SUBCONTRACTORS

6TH APRIL 2007

A new scheme for the Construction Industry is introduced with effect from 6th April 2007.

Major Changes

- C No CIS cards, certificates or vouchers
- C Verification of subcontractors by the contractor direct with HM Revenue and Customs
- C Contractor will supply a payment statement to the subcontractor

Registration - Existing subcontractors

Subcontractors do not need to re-register under the new scheme if, at 6 April 2007, they hold any of the following, with an expiry date of 04/2007 or later:-

- C Tax certificate CIS5, CIS5 (Partner) or CIS6
- C Permanent registration card CIS4(P)
- C Temporary registration card CIS4(T)

New subcontractors entering the scheme after 6th April 2007 will need to register with HMRC if they qualify for gross payment or want to avoid tax being deducted at the higher rate of tax. Refer to 'Registration - New subcontractors' below.

Verification

If you work for a contractor for the first time or have not worked for him in the current or previous two tax years, the contractor must obtain verification direct from HMRC prior to making payment to you.

To enable the contractor to do this you must supply your Unique Taxpayer Reference, National Insurance Number (if an individual) or Company Registration number (if a Limited Company). Please contact us if you do not know these details.

Once verified the contractor will be able to pay you either gross of tax or after deducting tax at either 20% or 30%, depending on your registration status.

If the contractor is unable to verify you, the deduction of tax will be made at the higher rate of 30%. If this happens, please contact us immediately.

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Written Statement of Deduction

The contractor must give you a written statement each month showing the amount they have paid you and how much tax has been deducted. This replaces the CIS25 voucher previously issued.

It is important that you keep all of these statements as they are proof of tax paid and will be required to complete your Tax Return each year.

Registration for Tax Deduction at Lower Rate - New subcontractors

If you cannot register for gross payments (see below) you should still register with HMRC in order to have tax deducted at the lower, instead of the higher, rate of tax. Basically, this involves completing an application form and providing proof of your identity to HMRC - you might have to attend the Tax Office in person.

Registration for Gross Payment - New subcontractors

Sub-contractors who meet all of the qualification criteria referred to below may register to receive payments gross - i.e. without deduction of tax.

1. **Business Test**

The sub-contractor needs to:

- (a) be in a business which includes, or provides labour to carry out construction work
- (b) conduct their business primarily through a bank account
- (c) keep proper business records
- (d) run their business from proper premises with proper equipment, stock and facilities

2. **Compliance Test**

This is the most severe requirement. In order to qualify the sub-contractor must have kept **ALL** their tax affairs up-to-date and met **ALL** their statutory obligations, including the prompt payment of income tax, corporation tax, and PAYE, throughout the 12 months up to the date of application. The Inland Revenue have indicated that simply bringing tax affairs up to date at the time of application will not be enough.

3. **Turnover Test**

These rules are relatively complex although, generally, a sub-contractor will have to have 'construction turnover' excluding materials and plant hire in excess of either:-

- (a) £30,000 per annum in respect of each partner, director or shareholder.
For example, a company with 3 share holding directors and 1 outside shareholder will require annual construction turnover in excess of £120,000 (4 multiplied by £30,000).
- (b) If the business has been working in the construction industry for less than 1 year reference will be made to turnover to date or turnover in a predecessor business.
- (c) £200,000 per annum, but ignoring the number of partners, directors and shareholders.

If a sub-contractor fails **any** of these three criteria a Gross Payment Certificate will not be issued.