

## Newsletter April 2006

We have an update for you this month on the long running Arctic Systems case, tax efficient car management, possible changes to the filing deadlines of self assessment tax returns, and, a note of the new VAT car scale charges.

Take note that on the 5 April last week the current tax year came to an end. This triggered a number of filing deadlines, particularly for those businesses who employ staff! Please refer to the Tax Diary section for more information.

Please accept our apologies for the comment we made in the Budget update last month regarding the lower, weekly national insurance limit. We inferred that you would pay no contributions on earnings below £84 per week, this should have said £97 per week.

Readers may also find the following notes useful:

- the highest NIC-free/PAYE-free salary to be drawn from businesses by directors or employees who have no other income has gone up from £407 to £420pm, (from the 6 April 2006).
- the maximum monthly tax-free childcare payment by an employer has gone up from £217 to £243 with effect from 6 April 2006. The monthly allowance this tax year, 2006-2007, is based on a 53 week tax year. The £243 is calculated as 53 weeks at £55 per week, divided by 12!

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### **Arctic Systems Case - Revenue have leave to appeal.**

This case concerns a Mr and Mrs Jones who set up a limited company and are now resisting a claim by the Revenue that the dividends voted to Mrs Jones, 50% of the total declared, should be taxable as if allocated to Mr Jones!

The basis of the Revenue's claim is that as Mr Jones did most of the chargeable work, then he should be taxed on most of the dividends voted. The downside for Mr and Mrs Jones is that this switch from Mrs to Mr will increase Mr Jones' higher rate tax bill, and reduce Mrs Jones' standard rate tax bill - overall a gain for the taxman.

In December of last year the Court of Appeal voted in favour of Mr and Mrs Jones, however the court did grant leave to the Revenue to apply for permission to take the case to the House of Lords.

On Budget day this permission was granted and we will now have to wait for the case to be decided by the Law Lords. This is unlikely to be before the end of 2006.

For now we will have to keep a watching brief on the effects that this case has on the structure and salary/dividend policy of existing husband and wife run

companies. At present the decision handed down by the Court of Appeal stands. We will keep you informed of progress with this case and let's hope that the decision reached in the Court of Appeal is upheld!

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### **Green Cars - tax incentives!**

If you have not already noticed, Gordon Brown and his team at the Treasury are embracing the challenge of climate change, and attempting to do their bit to encourage us to drive cars with lower CO2 emissions. For instance:

1. On Budget day last month changes were announced to the rates of vehicle excise duty. At one end of the scale cars that are rated at 100 g/km or less will pay NO excise duty. Cars with a CO2 rating over 225 g/km, and registered after 31 March 2006 will pay £210 per annum (petrol engine), £215 per annum (diesel engine). There will be a graduated duty for cars in between.
2. For all cars that are registered before the 31 March 2008, and have CO2 emissions of less than 120 g/km, you can claim 100% of the capital cost against your profits (adjusted for private use). Cars over 120 g/km will be restricted to the usual 25% writing down allowance up to a maximum of £3,000 per annum - and again will be adjusted for private use.
3. Employees who use their own CO2 efficient car for business mileage, will be getting more value from the rate per mile they receive for expenses, compared to car owners who run less fuel effective vehicles.
4. A company car driver will pay tax at his or her highest rate, on a scale charge calculated as a percentage of the list price of the company car when new. For cars with emissions below 145 g/km the rate applied is 15% - rising to 35% for the gas guzzlers! So again drivers of the lower rated cars will pay less tax, and, their employers will pay less class 1A National Insurance.

We would be delighted to work out the comparative savings if your business converted to a "Green Car" policy. Although the choice of vehicles may be somewhat limited, and not to every driver's taste, perhaps the tax and cash flow implications are worth looking at.

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### **Lord Carter of Coles - Report on Online Services**

Lord Carter's report "Review of HMRC Online Services" was published this month.

Amongst its many recommendations we have highlighted comments on the filing of Self-Assessment Tax Returns - makes for interesting reading!

**First the bad news.**

It is proposed that from 2007-2008 the filing period for paper returns should be reduced to 6 months - the deadline will therefore be the 30 September. The filing period for online returns should be reduced to 8 months - the deadline being 30 November.

At present the filing period for all SA returns is 10 months, the 31 January following the tax year end.

If adopted this will have a radical impact on the speed with which information is collected and processed. For instance if you are self employed and have a 31 March year end we will have just 6 to 8 months to prepare your accounts, and prepare and file returns with the Revenue.

### **Now the good news.**

The report recommends that the period the Revenue have to query your SA return, and most company returns, the "enquiry window", should be linked to the date the return is submitted, and not the filing deadline.

For instance whenever you file your 2006 tax return, assuming it's before the 31 January 2007, HMRC will have up to one year from 31 January 2007 to query your return. Under the new proposals from 2007-2008 the "enquiry window" will be reduced to 1 year from the date you file the return.

It is hoped that this will help to promote earlier filing of returns and close the "enquiry window" sooner.

### **Summary**

Eventually it is likely that all returns will be filed electronically. Certainly Lord Carter is of the opinion that e-filing should be encouraged. It is best to be prepared. We will monitor the situation and advise you of practical changes that we may need to make to ensure your returns are filed in good time.

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### **VAT - Changes in Fuel Scale Charges**

New scale charges apply as from 1 May 2006. We have shown below the new rates for a three month period, if you require the annual or monthly rates please call.

These new rates should be adjusted on VAT returns beginning on or after 1 May 2006.

1400 cc's or less: (Diesel, scale charge £260, VAT due per car £38.72),  
(Other, scale charge £273, VAT due per car £40.66)

1401 to 2000 cc's: (Diesel, scale charge £260, VAT due per car £38.72),  
(Other, scale charge £346, VAT due per car £51.53)

2001 cc's or more: (Diesel, scale charge £331, VAT due per car £49.30),  
(Other, scale charge £508, VAT due per car £75.66)

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### **Tax Diary April/May 2006**

**1 April 2006** - Due date for corporation tax due for the year ending 30 June 2005.

**19 April 2006** - Last date to pay any outstanding PAYE and Class 1 NICs for 2005/06 to the Revenue. (If you pay your tax electronically the due date is 22 April 2006). Interest will be charged on any payments received by the Inland Revenue after this date.

**1 May 2006** - Due date for corporation tax due for the year ending 31 July 2005.

**19 May 2006** - PAYE and NIC deductions due for month ending 5 May 2006. (If you pay your tax electronically the due date is 22 May 2006)

**19 May 2006** - The payroll form P35 and P14's must be filed by this date - employers late in filing this form may receive a penalty.

**31 May 2006** - Ensure all employees have been given their P60s.

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