

Newsletter June 2006

Don't forget that we are still in the middle of the year end payroll returns. The annual P35 form should have been filed by the 19 May 2006, if filing online this deadline is extended to 29 May 2006. P60s should have been handed to staff on or before the 31 May 2006. If you have not filed the P35 form don't delay, penalties and interest may be applied!

If relevant, employers should also be working on the completion of forms P11D, return of benefits and expenses, which need to be filed by the 6 July 2006. See tax diary below for payment dates if Class 1A NICs are due. Again penalties and interest will be charged if returns and payments are late. Do not hesitate to contact us if you need assistance.

Other articles in the newsletter this month include information on changes to the Home Computer Initiative, Quick Succession Relief, new Tax Credit filing dates, small company taxation and stamp duty land tax relaxations for partnerships.

Home Computer Initiative

In his Budget speech March 2006 the Chancellor announced the abolition of the tax exemption on the provision by employers of computer equipment for home use.

Following a number of enquiries the Revenue have now confirmed:

1. That anybody who has a computer made available to them prior to the 6 April 2006 will NOT be affected by the change.
2. If an employee entered into an arrangement with their employers before the 6 April 2006, but due to circumstances outside their control were unable to take delivery until on or after the 6 April 2006, the Revenue accept that the tax exemption will still apply.

It is also worth noting that computers provided by employers and restricted to work use only at home, are still exempt from a tax charge.

Inheritance Tax - Quick Succession Relief

Consider the case of Alan who is left a property by his late uncle on the 1 January 2006, Alan finds a tenant and sets out to enjoy the fruits of his inheritance. Unfortunately he dies from a road accident on the 30 December 2006.

The inherited property will now be added to his estate and may possibly create a 40% IHT liability, depending on the value of his estate.

Is this fair? Less than one year has passed since the executors of his Uncle's estate paid inheritance tax on the same property.

Fortunately the Revenue are sympathetic. Alan's executors can claim Quick Succession relief. The relief is claimed as a partial reduction in any IHT due. In the year following the transfer from his Uncle, this relief will be significant - the benefit reduces on a sliding scale such that after 5 years from the original transfer no further benefit can be claimed.

Small Company Tax

From the 1 April 2006 the zero percent corporation tax rate for companies who have taxable profits of £10,000 or under, was abolished.

In some ways this was a welcome simplification of small company taxation. Effectively you could only claim the zero percent rate if the £10,000 of taxable profits were retained in the business. If you withdrew the profit as a dividend, then tax was payable at 19%.

The position now is:

1. Companies with profits up to £300,000 will pay tax at 19%
2. Between £300,000 and £1.5m at a marginal rate, and
3. Profits in excess of £1.5m at 30%.

These bands of taxable income will be reduced if a company is "Associated" with other companies - generally if companies are under common control.

For instance if Mr A owned more than 50% of the voting capital of Company X and Company Z, he would have effective control of both companies. Company X would therefore be associated with Company Z for corporation tax purposes. Each company would be allowed to make up to £150,000 taxable profit each year at 19%. (£300,000 divided by 2)

The rules which define this associated relationship are complicated. For instance in certain circumstances ownership of different companies, by husband and wife, can result in an association.

If you have any investment in the voting shares of any company, even if you consider them irrelevant, do discuss this issue with us when you next present your annual accounts.

Stamp Duty Land Tax and Partnerships

If your business has interests in land, and is managed by a professional, trading partnership, you will be pleased by the change in legislation proposed in the Finance Bill 2006.

Two relaxations of the SDLP regulations are included.

1. No SDLT charge on change of partnership sharing ratios.

This charge could have occurred:

- on the introduction of a new partner,
- on the departure of an existing partner, or
- merely by altering the profit sharing ratios.

An SDLT tax charge could have applied on changes in income sharing arrangements even if capital shares stayed the same.

2. Simplified rules when property is added to or removed from a partnership.

The legislation provided that there would be an SDLT charge both on a proportion of the market value of property and on a proportion of the actual consideration, leading to illogical results in some circumstances. Actual consideration will now be ignored in calculating the SDLT charge.

As these proposals will not take effect until the Finance Bill has Royal Assent (probably July 2006) it would be advisable to delay changes in partnerships until the legislation is passed.

If you need to consider the SDLT consequences of moving property into or out of a partnership please call.

Tax Credits - Changes from 6 April 2006

Renewals Notice.

This year you will need to file your annual renewals notice by the 31 August 2006, not the 30 September 2006, as was previously the case.

Increase in the upper age limit from 19 to 20 years.

You will qualify if you are responsible for a young person who turned 19 on or after the 6 April 2006 and,

- is in approved training or
- full time education that started before their 19th birthday. (Full time education for tax credits purposes does not include a course leading to

a first or post graduate degree, or other higher level diploma such as HND)

This increase in the age limit will continue to apply until the young persons 20th birthday, or when they leave training/education program, whichever is the sooner.

Direct Payment

The transition to direct payment of tax credits to your bank account should now be complete. If you are still being paid via your employer call the HMRC contact centre 0845 9009300.

Changes in circumstances

From April 2007 the time limit for mandatory reporting of changes in circumstances will be reduced from 3 months to 1 month. The three month back-dating rule will remain.

Tax Diary June/July 2006

1 June 2006 - Due date for corporation tax due for the year ending 31 August 2005.

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

1 July 2006 - Due date for corporation tax due for the year ending 30 September 2005.

6 July 2006 - Complete and submit forms P11D return of benefits and expenses, and P11D(b) return of Class 1A NIC's.

19 July 2006 - Pay Class 1A NIC's (by the 22 July 2006 if paid electronically).

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

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