

NEWLETTER APRIL 2007

Now that the new Construction Industry Scheme (CIS) is upon us we have set out a number of reminders for contractor clients. There is also a note of new rules for self employed persons working at home, changes to the VAT cash accounting scheme, and finally a short summary of the increases and decreases in corporation tax and income tax rates announced in the Budget March 2007.

Our next newsletter will be published on Thursday 5 May 2007.

Construction Industry Scheme - D-day has arrived!

The new tax regime for contractors will commence the 6 April 2007.

We have summarised below those issues that need to be dealt with now by all parties affected.

1. Subcontractors holding CIS 4 registration card.

Subcontractors will no longer need to carry a CIS card when they start on a new site. Instead they will need to provide their tax reference number and National Insurance number to the contractor to enable them to verify their tax status with HMRC.

They will receive a payment advice at least once each tax month advising them of the amount they have been paid by each contractor, how much has been allowed for materials costs and the amount of tax they have suffered.

Don't forget that from 6 April 2007 the amount of tax stopped will increase from the present 18% to 20%.

2. Subcontractors receiving gross payments.

Subcontractors whose existing Exemption certificates are still current at the 6 April 2007 will no longer have to present them to contractors after this date in order to secure gross payment.

If your old style certificate has expired on or before the 31 March 2007, and you have not renewed before the expiry date, contractors will be obliged to stop tax from your earnings after 6 April 2007 at 20%. Your remedy is to reapply under the new rules for gross payment status.

3. Building Contractors who engage the services of Subcontractors.

From 6 April 2007 contractors should be aware of their obligations to:

- Follow the correct procedure when taking on new subcontractors
- Verify the tax status of all subcontractors - see below.
- Complete all the required monthly returns

The verification procedure, which can be carried out over the telephone or online, involves the contractor contacting HMRC to determine how much tax to deduct from a new subcontractor. HMRC will provide a 'verification number' and with CIS cards being scrapped this will be the only record contractors will have that they have carried out the correct procedure. It is not sufficient to rely on the list of present sub-contractors that HMRC are issuing, as proof of status.

Where HMRC are unable to verify the subcontractor from the details supplied, the contractor will be instructed to make a deduction at the higher rate - 30% from all payments to the subcontractor.

We can provide more information if contractor clients are unsure of their obligations in respect of these issues.

4. Other contractors who may be caught by the new scheme.

It is possible that other contractors, for instance landscape gardeners, may get caught under the new scheme. In particular they need to be prepared for a 20% deduction from their labour charges when they are engaged by building contractors to landscape new building developments.

Self-employed and working from home

HMRC have now revised their guidelines for self-employed persons working from home and claiming for the cost of using a home office.

Prior to the new guidelines, which effectively apply from the 6 April 2005, the Revenue could challenge claims for the business use of home facilities unless the area allocated to business use was used exclusively for business purposes.

They have now conceded that:

"If an expense is incurred for more than one purpose, we will not prohibit a deduction for any identifiable proportion of the expense which is incurred wholly or exclusively for the purposes of the trade."

So if you had a spare bedroom set up as an office, and part of the time it was used as a business facility and at other times as a place where your children

did their homework, then you would be allowed to claim for the identifiable costs when it was being used as a business office.

But beware - if the room has two desks one of which is used for business, and at the same time the other is used for non-business purposes, then tax relief could be denied!

HMRC have also accepted that an estimated £2 per week is a reasonable cost for the business use of home facilities - this is now in line with the £2 a week that can be claimed by employees working at home.

VAT Cash Accounting

From the 1 April 2007 HMRC have announced significant changes to the cash accounting scheme. As a result many more businesses may be eligible to join the scheme and benefit from cash flow savings.

The changes set up much more generous turnover limits for registration:

- The annual turnover limit below which businesses can start to use the scheme will increase from £660,000 to £1.35 million.
- The annual turnover limit above which businesses must leave the scheme will increase from £825,000 to £1.6 million.

Ordinarily your VAT liability is calculated as the difference between the VAT you have added to your sales invoices, and the VAT included in the purchase invoices you receive. A cash flow problem can arise if the VAT you have added to sales invoices has not been paid when the due date for payment of the VAT is reached.

An election to adopt cash accounting allows you to pay over VAT when you receive payment from your customer - likewise you can only claim back VAT when you pay your supplier.

Businesses that have significantly more money owed by customers than they owe to suppliers will likely see a cash flow advantage by changing to the cash accounting scheme. The initial calculations can be complicated depending on the sophistication of your accounting system. If you would like us to review your circumstances and set up the revised system for working out VAT due or refundable, please call.

Tax rates coming down, tax rates going up!

In his Budget last month Mr Brown announced a two point drop in mainstream corporation tax rates, from 30% to 28%, and a 2% drop in the basic rate of income tax from 22% to 20%.

In the same breath he also announced an increase in the corporation tax rates for small companies and the abolition of the 10% income tax band for individuals.

The notes that follow explain when and how these changes will affect your tax payments for the next two or more tax years.

Company Taxation

Corporation Tax reduction:

For larger companies, those with profits in excess of £1.5m, corporation tax rates are being reduced from 30% to 28%.

However this will not affect your tax payments this year. The reduction will apply from 1 April 2008. The rates for the next two years will therefore be:

Year ending 31 March 2008 - 30% (no change)
Year ending 31 March 2009 - 28%

Corporation Tax increases:

Most small companies, those with taxable profits below £300,000, have been paying corporation tax at 19%. From the 1 April 2007 this will increase to 20%. The rate is then set to increase by 1% per year until the small companies rate is 22%.

The rates will therefore be:

Year ending 31 March 2007 - 19%
Year ending 31 March 2008 - 20%
Year ending 31 March 2009 - 21%
Year ending 31 March 2010 - 22%

Personal Taxation

Income Tax decrease

From the 6 April 2008 the basic rate of income tax is being reduced by 2% to 20%.

Income Tax increase

On the same date, 6 April 2008, the starting rate of income tax (presently the first £2,230 is taxed at 10%) is being abolished.

For the tax year 2007-2008 there is no change. The basic rate will be 22%, the starting rate 10%.

These changes in income tax rates will tend to have a negative effect on the take home pay of lower income earners, as the first £2,230 of their taxable income will be taxed at 20% (2008-2009) instead of the present 10%.

Tax Diary April/May 2007

1 April 2007 - Due date for corporation tax due for the year ending 30 June 2006.

19 April 2007 - Last date to pay any outstanding PAYE and Class 1 NICs for 2006/07 to the Revenue. (If you pay your tax electronically the due date is 22 April 2007). Interest will be charged on any payments received by the Inland Revenue after this date.

1 May 2007 - Due date for corporation tax due for the year ending 31 July 2006.

19 May 2007 - PAYE and NIC deductions due for month ending 5 May 2007. (If you pay your tax electronically the due date is 22 May 2007)

19 May 2007 - The payroll forms P35 and P14s must be filed by this date - employers late in filing these forms may receive a penalty.

31 May 2007 - Ensure all employees have been given their P60s.