

## **NEWSLETTER FEBRUARY 2007.**

The 31 January deadline for the submission of the 2006 self-assessment tax returns has passed!

Like all accountants we are pleased to have dealt with yet another major, tax deadline. However Spring is a time of change, not only the weather, but also our tax legislation. Next month we should expect the presentation of yet another Budget speech by Gordon Brown, perhaps his last and await with bated breath the next round of new legislation and changes to our tax compliance rules.

This month's newsletter includes news for our readers in Wales regarding the introduction of Small Business Rate relief, changes to the information required on our website and electronic communications, information from HMRC regarding changes to present practice, and finally a reminder of the impending changes to the taxation of company vans from 6 April 2007.

Our next newsletter will be sent on Tuesday 6 March 2007.

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### **New information to disclose on your website and e-mail.**

#### **Website**

From the first of January 2007 companies must include certain information on their website as required by the new Companies Act 2006. In summary this includes:

- . The company's name.
- . The company's registered office address.
- . The company's place of registration and registration number.(i.e. registered in England and Wales, or Scotland, company registered number 10101010)
- . If the company is an investment company a statement to that effect must be included.
- . If the company is exempt from the obligation to use the word "Limited" as part of its name, it must state elsewhere that it is a limited company.

This information must also appear on Company business letterhead and Company order forms.

Additionally EU regulations require the Company VAT registration number to be posted on the site.

#### **Email**

Email could be considered your electronic letterhead. Consequently the information required for Company letterhead is also required to be shown on Company emails - normally as footer text displayed below the email signature. There are other European directives that also require the VAT registration number to be included.

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## **Revenue changes its mind**

### **First the bad news!**

#### **Retired employees - medical expenses.**

From 6 April 2006 the benefits in kind rules changed in respect of the payment of medical insurance and similar costs by employers to their retired employees. Prior to this date, the payment of medical insurance premiums for retired employees was a tax-free benefit. Unfortunately the Revenue now take a different view!

Employers will now be required to report the provision of post-retirement benefits, such as medical insurance, for tax years 2006-07 and future years. Individuals who continue to receive this sort of benefit after the 5 April 2006 will consequently receive a tax bill. By concession the Revenue do allow the benefits to be disregarded for tax purposes if they total £100 or less in a particular year of assessment. Any benefits in excess of £100 will be taxable in full. It is unlikely that most medical insurance premiums will be exempted by this provision due to the current level of premiums payable for elderly people.

#### **Construction industry scheme - impact on subcontractors.**

There has been much Inland Revenue and press commentary on the new construction industry tax scheme, which starts 6 April 2007. In particular most contractors will be aware of the new monthly reporting requirements and the penalties levied for non-compliance.

What many subcontractors may not realise is the impact of changes mentioned in the recent Pre-Budget report, December 2006. The changes will affect the take-home pay of all self-employed subcontractors who receive their fees net of tax:

. Subcontractors that are not registered under the legislation will suffer a deduction of tax at 30%. Building subcontractors who find themselves in this position post 6 April 2007, should take steps to get registered under the new rules, and/or make sure that they present proper accounts at the appropriate date. (A 30% deduction from gross income assumes the recipient will be paying tax at a marginal rate of 40%. Most subcontractors will not be in this position, and will no doubt be due a refund of tax!)

. Subcontractors that are registered under the legislation will have tax deducted at 20% from 6 April 2007. The present rate is 18%. They should be aware of this increase in tax taken, and the consequent reduction in take-home pay.

For those interested in the statistics, Government will likely raise £250 million by this change to the rates of tax deducted from subcontractors.

Subcontractors who suffer a decrease in take home pay as a result of these changes would be advised to let us have their accounting records as soon as possible after the end of the tax year. In this way we can quickly organise the repayment of any tax overpaid.

## **And now the good news.**

### **Telephone rental costs**

For many years it has been accepted that where there is duality of use, the Revenue would resist claims for tax relief. In relation to the use of a home telephone HMRC have allowed a realistic proportion of home telephone call costs, but consistently disallowed any claim for the line rental.

For the tax year 2005-06 onwards this approach by the Revenue has been relaxed for self-employed persons who use their home phone for business and private purposes. Basically if you can make a realistic apportionment of line rental costs (for instance based on the value of business calls to total call charges), then a deduction for part of the line rental will be allowed.

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### **Vans - beware the tax changes after 6 April 2007.**

For the current tax year van drivers will suffer no tax charge for the use of a company van as long as private mileage is restricted to:

- . Home to work journeys, and
- . Incidental private use. (The occasional trip to take household rubbish to the local dump is permissible but using a van to do the weekly shopping would not.)

These restrictions on private use, home to work and incidental use only, need to be clearly stated in the employee's contract of employment.

Van drivers who do use their vehicles for private use will suffer a benefit charge. For 2006-07 the scale charge is £500 if the van is under four years old, and £350 if the van is more than four years old. At basic rate this will add between £77 and £110 to the driver's annual tax bill.

As you will be aware from the 6 April 2007 things are going to change!.

To put the changes into context we should first revisit the definition of a van. For tax purposes a vehicle is considered a van if it can carry payloads up of one tonne or more. Significantly this includes double cab pick-ups. Consequently double cab pick-ups have provided car users (who are happy to drive a "luxury" crew cab pick-up with a low tax benefit charge) as a way of avoiding the potentially much higher benefit charge for the use of a car with a similar specification (excluding the notional open-air boot!). This has reduced the potentially high benefit in kind charge (for the use of a car) to just £500 per annum (for the use of a well fitted double cab pick-up.)

The changes about to be introduced from 6 April this year counter this strategy.

### **The new rules from 6 April 2007**

- . As long as there is no private use of the vehicle, other than incidental use (ordinary commuting is allowed), there will continue to be no benefit in kind charge.

- . If there is considered to be any private use beyond incidental use, the annual benefit in kind charge will be increased to £3000.
- . Additionally if employers provide private petrol there will be an extra £500 fuel benefit charge.

For a standard rate taxpayer this could add up to £700 to a driver's annual tax bill - if the new van scale does apply employers will also have to pay more Class 1A National Insurance.

If you have not yet devised a proper policy for the use of company vans, to minimise the tax impact under the new rules, this would be a good time to start. Certainly it is imperative that any restrictions on private use are clearly set out and included in employees' contracts of employment. If you would like our assistance in formulating and implementing an effective policy, please call.

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### **Small Business Rates relief - Wales**

Business rate payers in England and Scotland have had the benefit of a system of Small Business Rates Relief for some years now.

From 1st April 2007 the Welsh assembly are introducing a similar scheme that will apply throughout Wales. Unlike the scheme in England and Scotland the Welsh rates relief will be given automatically. The bad news is that the present Rural Rate Relief scheme will no longer apply. Over 20% of Welsh businesses qualify for Rural Rate Relief.

It is estimated that nearly half of all businesses in Wales will qualify for the new scheme - in other words the available cash handouts will be spread over an increased number of businesses! The essentials of the new scheme are:

- . Rateable value of £1999 or less, rates payable will be reduced by 50%
- . Rateable value between £2000 and £4999, rates payable will be reduced by 25%

Additionally there will be an extra relief for post offices in Wales:

- . Premises with a rateable value of up to £8,999 will be exempt from business rates (100% relief).
- . Premises with a rateable value between £9,000 and £11,999 will qualify for a 50% relief.

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### **Tax Diary February/March 2007**

**1 February 2007** - Due date for corporation tax for the year ending 30 April 2006.

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

**28 February 2007** - Last day to pay your balance of self assessed tax for the year ending 5 April 2006. Payment made after this date will be subject to a 5% surcharge on tax outstanding, and interest will in any case apply from 1 February 2007.

**1 March 2007** - Due date for corporation tax for the year ending 31 May 2006.

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