

Newsletter January 2007

Happy New Year!

The end of January 2007 is the self assessment deadline - you must file your tax return before this date for the year to 5 April 2006. In this months newsletter we have included a few reminders of the penalties for failure to file your self assessment tax return on time, information regarding salary sacrifice, tax planning pointers for self employed businesses and details of changes in the taxation of retirement annuities from April 2007.

Readers may also be interested to read the warning that follows from the Revenue:

We are aware of a scam aimed at persuading our customers to complete a form with their bank details, on the pretext of receiving a large payment of tax to be made directly into their bank account.

The form, showing a potential tax rebate from HMRC Premier Services - with the name 'Premier Services' in a green box, is not a legitimate HMRC message and should be disregarded. It is a 'phishing exercise' and uses bogus e-mails and websites to trick people into supplying confidential or personal information.

Our next newsletter will be sent to you on Tuesday 6 February 2007.

Self assessment 2006 - filing deadline 31 January 2007!

31 January 2007 is the deadline for filing your tax return for the year ending 5 April 2006.

Returns filed after the 31 January will incur an automatic fine of £100. This £100 fine applies to each tax return. So a partnership with 3 partners, where the partnership and personal returns are late, will incur penalties of £600 - £100 for each partner's own return plus £100 for each partner for the partnership return. The penalties will be collected from the individual partners.

Those clients and contacts who are struggling to meet the deadline, but who would like to pay their tax on time, could consider the following strategy to avoid the £100 fine for personal returns.

For personal returns, the £100 fine is capped at the amount of tax owing. So if by the 31 January 2007 you have made a payment of any likely arrears of self assessment tax, which is sufficient to clear your actual liability for 2005-2006, then no fine will apply. This will also mitigate any surcharges (see Tax Diary).

Obviously the only way to be sure that you clear the actual liability is to complete your personal return and calculate any tax due. If you underestimate your payment the fine may still be payable, in part or in full. If you over estimate your payment, no harm done - you can apply to have the excess repaid or set against 2006-2007 liabilities.

If you want to take advantage of this opportunity you should ensure that your payment on account is made before the 31 January 2007.

The payment on account towards 2006-2007 tax does not attract a penalty if paid late, but interest will be charged (see Tax Diary).

Please note that the above comments do not apply to partnership tax returns. If a partnership return is filed late each partner will be fined £100, irrespective of the amount of tax owing.

Don't forget 31 January 2007 is also the date that you are required to pay both:

- a.. the balance of any self assessment tax due for 2005-2006, and
- b.. the first payment on account for 2006-2007.

Salary sacrifice?

The Employee's Perspective.

You may have heard of "salary sacrifice" and wondered what are the advantages of sacrificing your salary, and for what reasons would you do this?

Let's consider training costs. If your employer is unwilling to pay for a particular employment related training scheme you would be faced with covering the cost out of your income after tax and National Insurance has been deducted. If the training cost was £1,000 you would have to earn in excess of £1,400 to foot the bill!

If your employer was willing, you could sacrifice £1,000 of your annual salary and your employer could pay the bill. In this way you would only be giving up £1,000 of your salary instead of £1,400 or more.

The types of expenditure or benefits that you might consider under this type of arrangement could be:

- 1.. Flexible working arrangements
- 2.. Childcare costs/voucher schemes - but beware the effect on Child Tax Credit.
- 3.. Pension contributions - no tax benefit but National Insurance savings.
- 4.. Off-site car parking.

Depending on the nature of your employment there could be many other possibilities - but remember that this scheme is only efficient if the benefit received is not taxable on the employee.

The Employer's Perspective.

As a salary sacrifice scheme involves a reduction in gross salary costs, there would be an automatic reduction in employers' National Insurance contributions.

Employees will benefit and therefore be appreciative of the new flexibility and cash savings.

The Pitfalls.

- a.. The changes must be incorporated into contracts of employment and be permanent revisions for the relevant pay period.
- b.. If the employee subsequently decides that the benefit (training, etc.) is no longer required and that reinstatement of salary is requested, the entire previous cash benefits may be compromised.
- c.. The sacrifice must be made before the entitlement to the income has arisen (i.e. before it has been earned).

There can be a significant win-win outcome if salary sacrifice schemes are well thought out, and all the tax and National Insurance aspects considered. We would be delighted to talk through the possibility of setting up a scheme for your business; please call for an appointment.

Tax Planning for self-employed businesses 2006-2007

With the advent of self assessment many sole traders and partnerships now prepare their accounts to coincide with the end of the tax year. Usually the 31 March or possibly the 5 April.

If this is the case for your business, you are now approaching your 31 March 2007 year end. We have noted below a few tax planning strategies:

1. Capital purchases - if you are planning to purchase capital equipment at some time in the next, say 6 months, you may like to consider the following:-

a.. If you buy after the 31 March 2007 you will not be able to claim the initial capital allowance, usually 50% (for small businesses), until your accounts are submitted for the year ended 31 March 2008. This means you will have to wait until January and July 2008, or possibly 31 January 2009 to benefit from any reduction in tax due.

b.. Conversely if you buy before the 31 March 2007 you will be able to claim the tax relief a year earlier.

2. Revenue expenditure - the same principle applies to revenue expenditure. Payments of tax allowable costs during the pre 31 March period, as opposed to post April 2007, will secure tax relief a year earlier.

3. Staff bonuses - any bonuses that you pay prior to the end of your year will obviously reduce your tax for the year. You could also reserve for a 2006-2007 bonus in your accounts to 31 March 2007 and still qualify for tax relief this year. The bonus could actually be paid to the employee after the year end but you would have to pay the PAYE and national insurance by the required dates. For tax relief in the accounts, the bonus must be paid within 9 months of the year end and the liability to pay it must have crystallised in that year, even though not quantified until after the year end.

4. Bad Debts - if you are carrying any potential bad debts in your sales ledger you can make a provision in your accounts for the net of VAT figure. The Bad Debt provision must be made on specific customer balances that are judged to be irrecoverable. You cannot claim tax relief for general bad debt provisions, for example 5% of turnover. Don't forget that you can recover the VAT on bad debts from HMRC.

5. Obsolete stock - if you are carrying stock that you are unlikely to sell, it is permissible to write down the value to net realisable value, instead of continuing to value at cost. Any reduction in closing stock value will reduce your taxable profits.

6. Holiday pay - it is permissible to accrue for staff holiday entitlement not taken at the year end.

7. Review - if you can produce draft accounts before your year end, do not underestimate the value of a formal review with your accountant. We can only impact your tax position in a positive way if we are aware of your trading position BEFORE the end of your year. Once the 31 March passes, opportunities may be lost!

Retirement Annuities - deduction of tax

HMRC have issued detailed notes on the change in the way retirement annuities will be taxed from April 2007. We have outlined below how tax is currently collected, and the change to be introduced from April 2007.

The current system

At present recipients of retirement annuities will receive payment either gross, with no deduction of tax, or less tax at the standard rate. To receive the annuity with no tax stopped you may have filled in a form in the past certifying that you are not liable to pay tax on all your income.

The new system from April 2007

From this date retirement annuities will be classed as pensionable earnings and subject to PAYE. Basically HMRC will be collecting information about all your earnings and using this data to ensure that the retirement annuity is subject to the correct deduction of tax. The manager of your retirement annuity payments will automatically apply a notice of coding to your annuity and stop the tax for you, in much the same way that an employer deducts tax from salaries and wages.

Tax Planning Tips

1.. Tax paid at basic rate - if you have previously had basic rate tax deducted and some or all of an annuity should have been taxed at lower rates or no tax deducted, you may be able to claim a tax refund. It will only be available for in-date years.

2.. No tax deducted - it is possible that since you made a declaration to the Revenue that your earnings should not be taxed, your income may have increased and for a number of years you should possibly have paid tax. If during the conversion process it becomes

evident to the Revenue that you should indeed have paid tax in earlier years, they have stated that they will not necessarily seek to collect these arrears. The published note states:

"..we will not be taking any action to recover any tax arrears. The only exception will be in very serious cases where we find that false statements or Returns have been made to deliberately avoid paying the tax due."

Tax Diary January/February 2007

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

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

31 January 2007 - Last day to file your tax return for 2006, and to pay any balance of Self Assessment tax for the year to 5 April 2006. You may also need to make a payment on account for the tax year ending 5 April 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.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.