

Newsletter May 2008

The Finance Bill 2008 continues its progress through Parliament. You will no doubt have heard the debate regarding the abolition of the 10% income tax band. The Chancellor has promised that affected groups will be compensated. The compensation will take various forms; for certain pensioners the compensation will come from the same system that pays the winter fuel allowance; other low income couples through potential changes to the tax credit system, and finally younger workers by adjusting the minimum wage.

This month we have outlined the potential cash flow benefits of switching to the VAT cash accounting scheme, set out a few pointers for payroll administrators, provided you with ways to check the validity of National Insurance and VAT numbers, and finally outlined which State benefits are available to you if you are self-employed.

Our next newsletter will be published on Wednesday 4 June 2008.

VAT Cash Accounting

We seem to be entering a period when banks are likely to have less money to lend, and when they do lend interest rates charged will be "realistic". The self styled liquidity crisis is with us!

Consequently the management of your cash resources will be critical in the coming months as businesses chase liquidity by tightening up on their credit control. This process will of course be frustrated as creditors hang on to cash reserves by extending the credit they take from suppliers.

If your business qualifies, and you are not already using the scheme, the VAT Cash Accounting scheme could be a lifesaver.

What are the rules of the cash accounting scheme?

- VAT is accounted for on a payments basis i.e. output tax due on date of payment from a customer; input tax can be claimed when a supplier is paid
- available to any business with annual taxable sales of £1.35m or less (zero-rated sales are still taxable but exempt sales are not; exclude any sales of capital assets)
- no application form needed to join the scheme - can be adopted by an eligible business at the beginning of any VAT period
- before adopting the scheme, a business must ensure it is up-to-date with its VAT returns and payments.

What are the advantages of using the cash accounting scheme?

- automatic bad debt relief - because output tax is never declared until a payment is made by the customer
- cash flow benefits by delaying payment of output tax from invoice date until payment is made by a customer

- simplified record keeping - VAT can be accounted for through a cash book - no need for separate sales/purchase day books
- the scheme is of particular benefit (for cash flow purposes) to a business that gives extended credit terms to its customers in relation to standard rated sales

What are the disadvantages of using the cash accounting scheme?

- input tax cannot be claimed until payment is made to a supplier
- the scheme will not benefit a business where most/all sales are zero-rated e.g. a milkman
- the scheme will not benefit a business where sales are paid for, either in advance of invoicing, or at the same time a sales invoice is raised

How does a business apply to join the cash accounting scheme?

- there is no requirement to notify HMRC in advance of using the scheme
- scheme can be adopted by any eligible user (i.e. taxable sales of £1.35m or less) at the beginning of any VAT period
- the scheme can only be used from a current VAT period i.e. no retrospective use

Will HMRC ever prevent a business from using the scheme?

- as long as a business is up-to-date with its VAT returns and payments, and has not been convicted of a VAT offence within the last 12 months, then use of the scheme will always be allowed
- a business must withdraw from the scheme if its taxable sales exceed £1.6m per year (VAT exclusive)

At what point may or must a business leave the scheme?

- a business can voluntarily withdraw from the scheme at the end of any VAT period
- a business must withdraw from the scheme if the value of its taxable supplies has exceeded £1.6m per annum
- HMRC has the power to impose compulsory withdrawal in order to protect the tax yield

If you would like us to check out the viability of Cash Accounting for your business, please call.

Payroll 2007-2008

If you are filing your returns this year in paper format, please work through the check list set out below which highlights issues that will cause your return to be rejected. If you are filing your Employer Annual Return (P14s and P35) online you should find that these quality checks are built into your payroll software.

An Employer Annual Return (P14s and P35) sent on paper will be rejected if:

- a.. the stationery used has not been approved by HM Revenue & Customs
- b.. the form P35 is not signed
- c.. the form P35 has not been fully completed
- d.. you have not enclosed the form P35
- e.. the forms P14 are not the correct version for the year
- f.. you have not enclosed forms P14 with the form P35
- g.. you have not sent a form P14 for everyone listed on the form P35
- h.. the forms P14 do not all have a valid entry in either the National Insurance number box, or the date of birth and gender boxes
- i.. the forms P14 do not all have an entry in the employee name box
- j.. the National Insurance contribution boxes on the forms P14 are not fully completed
- k.. the forms P14 do not all have an entry in the pay box
- l.. the entries on forms P14 are unclear, for example, the entries made are faint or because they are not displayed within the white boxes.
 - due to carbon smudges
 - the font size of the print is too small
 - the forms have been hole punched where there is relevant information
 - the forms have been damaged
- m.. the forms P14 have not been split correctly
- n.. the forms P14 are attached together with either glue or staples
- o.. sticky labels or correcting fluid have been used on forms P14
- p.. the sprockets have not been taken off the forms P14.

If you send your Return online you will get an on screen message through your software telling you if your Return has failed and why. You must put right any errors and re-send your Return by 19 May 2008 to avoid the late filing penalty.

Filing deadlines

We are approaching a number of important filing deadlines that will apply to businesses who operate a payroll. We have summarised the main key dates below. If you have any problems meeting these dates we may be able to help.

19 May 2008 - Last date for your 2007-08 forms P14, or substitutes, and P35 to reach your HM Revenue & Customs office. You have until midnight on the 19th to file your Return. Penalties are chargeable on any Returns received after this date.

31 May 2008 - Last date for giving a 2007-08 form P60 to each employee who was working for you at 5 April 2008.

6 July 2008 - Last date for your 2007-08 forms P9D and forms P11D, or substitutes, to reach your HM Revenue & Customs office.

6 July 2008 - Return of Class 1A NICs on form P11D(b) for 2007-08 to reach your HM Revenue & Customs office. (penalties will be charged automatically on any Returns not received by 19 July 2008)

6 July 2008 - Giving a copy of the 2007-08 form P9D, P11D, or equivalent information, to each relevant employee.

18 July 2008 - If you are not subject to the mandatory electronic payment rules and you post your payment, you should pay all outstanding Class 1A NICs so your payment

reaches HMR&C no later than 18 July. Interest will be charged on any payments received after this date (and surcharge in the case of employers who are subject to the mandatory electronic payment rules).

22 July 2008 - Last date for any outstanding 2007-08 Class 1A NICs payments to be cleared in HMR&C's bank account if you pay by an approved electronic payment method. Interest will be charged on any payments received after this date (and surcharge in the case of employers who are subject to the mandatory electronic payment rules).

Checking the numbers - NINO's and VAT

Certain PAYE returns (P35, P11D) will be rejected by HMR&C if a National Insurance number (NINO) is incorrectly displayed. Valid numbers always follow the same format, two letters, followed by six numbers, followed by a single letter. i.e. AB123456D.

The following information sets out the valid alpha prefixes and suffixes. If you are at all uncertain that you have been given a correct NINO, you should check with your local tax office.

Valid National Insurance Number Prefixes:

AA, AB, AE, AH, AK, AL, AM, AP, AR, AS, AT, AW, AX, AY, AZ BA, BB, BE, BH, BK, BL, BM, BT CA, CB, CE, CH, CK, CL, CR EA, EB, EE, EH, EK, EL, EM, EP, ER, ES, ET, EW, EX, EY, EZ GY HA, HB, HE, HH, HK, HL, HM, HP, HR, HS, HT, HW, HX, HY, HZ JA, JB, JC, JE, JG, JH, JJ, JK, JL, JM, JN, JP, JR, JS, JT, JW, JX, JY, JZ KA, KB, KE, KH, KK, KL, KM, KP, KR, KS, KT, KW, KX, KY, KZ LA, LB, LE, LH, LK, LL, LM, LP, LR, LS, LT, LW, LX, LY, LZ MA, MW, MX NA, NB, NE, NH, NL, NM, NP, NR, NS, NW, NX, NY, NZ OA, OB, OE, OH, OK, OL, OM, OP, OR, OS, OX PA, PB, PC, PE, PG, PH, PJ, PK, PL, PM, PN, PP, PR, PS, PT, PW, PX, PY RA, RB, RE, RH, RK, RM, RP, RR, RS, RT, RW, RX, RY, RZ SA, SB, SC, SE, SG, SH, SJ, SK, SL, SM, SN, SP, SR, SS, ST, SW, SX, SY, SZ TA, TB, TE, TH, TK, TL, TM, TP, TR, TS, TT, TW, TX, TY, TZ WA, WB, WE, WK, WL, WM, WP YA, YB, YE, YH, YK, YL, YM, YP, YR, YS, YT, YW, YX, YY, YZ ZA, ZB, ZE, ZH, ZK, ZL, ZM, ZP, ZR, ZS, ZT, ZW, ZX, ZY

The characters D, F, I, Q, U and V are not used as either the first or second letter of a National Insurance Number prefix.

Valid National Insurance Number Suffixes:

The final alpha of the NINO should be A, B, C, or D.

VAT Registration numbers

There are occasions when the validity of a VAT registration number is critical. Particularly:

- When you make a supply to a registered European Union trader, or
- When you receive an invoice from a supplier on which VAT has been added.

Supply to EU trader

If it appears that the VAT number you have been given is incorrect, you should charge VAT rather than exempt the supply.

Purchase of goods/services from registered UK trader.

One of the aspects that qualifies a supply for a reclaim of input tax charged, is if the invoice shows a valid VAT registration number. Although HMR&C have discretion to allow a deduction even if the number is wrong, the discretion only applies in certain circumstances.

How to check a VAT registration number.

There are two ways to check the validity of a VAT number:

1. Call HMR&C 0845-010-9000.
2. A more hi-tech solution, visit the Europa web site at http://ec.europa.eu/taxation_customs/vies/vieshome.do, select the correct member state and enter the VAT number you have been given. This will only confirm if the number is a valid registration number. There is no way to use this service to confirm the number belongs to your customer/supplier.

Self Employed National Insurance - what do you get for your money!

We are often asked to comment on the types of state benefits you will not be able to claim if you are self-employed and pay the basic Class 2, and the earnings related Class 4 contributions.

Class 2 contributions will qualify you for most of the benefits that an employed person can claim. (Employed persons pay Class 1 contributions.) The two main exceptions are earnings related state pension and contribution-based Jobseekers allowance.

If you are self-employed and are unable to work due to illness you should be able to claim incapacity benefit. However you may disqualify yourself if you make occasional visits to your workplace. You may also have difficulties if you work from home, proving that you do no work.

Class 4 contributions do not count towards any benefits.

Retirement pension

Two useful points. You may be able to combine your contribution record with your husband's, wife's or civil partner's contribution record if:

- you are widowed
- you are the surviving partner of a civil partner who has died
- you are divorced
- your civil partnership has been dissolved

The number of years contributions required to qualify you to a basic state retirement pension is 30 years if you are due to reach retirement age on or after 6 April 2010.

Tax Diary May/June 2008

1 May 2008 - Due date for corporation tax due for the year ended 31 July 2007.

19 May 2008 - PAYE and NIC deductions due for month ended 5 May 2008. (If you pay your tax electronically the due date is 22 May 2008)

19 May 2008 - Filing deadline for the CIS300 monthly return for the month ended 5 May 2008.

19 May 2008 - CIS tax deducted for the month ended 5 May 2008 is payable by today.

19 May 2008 - The payroll forms P35 and P14s must be filed by this date - employers late in filing these forms may receive a penalty.

31 May 2008 - Ensure all employees have been given their P60s.

1 June 2008 - Due date for corporation tax due for the year ended 31 August 2007.

19 June 2008 - PAYE and NIC deductions due for month ended 5 June 2008. (If you pay your tax electronically the due date is 22 June 2008)

19 June 2008 - Filing deadline for the CIS300 monthly return for the month ended 5 June 2008.

19 June 2008 - CIS tax deducted for the month ended 5 June 2008 is payable by today.

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.