

Newsletter October 2008

It would be difficult to send a newsletter this month without referring to the current economic chaos, talk of recession, the credit crunch. So our lead article this month offers a few tax ideas that may help businesses use tax strategies to ease their cash flow - pay less tax!

We have also offered an explanation of the tax consequences when a director borrows money from their company. On 2 September the Chancellor announced a relaxation to the stamp duty rules - we have included a note of the detailed changes.

Finally if you are eligible and keen to hang up your boots, you might like to read the closing article which explains the practical, and surprising effects, of an immediately vested pension contribution.

Our next newsletter will be published on Wednesday 5th November 2008.

Beating recession and the credit crunch

We seem to be coming to a break point in a long, sustained period of growth in the UK. It's as if someone had pushed a button and notched up the incline on the running machine - all of a sudden more effort is required to sustain forward momentum. We need to get financially fitter!

Part of this fitness regime needs to be a fresh look at the tax and VAT strategies that are available to slow down payments to the taxman.

It's beyond the scope of this article to give detailed advice, as each business will have different needs. What we have done is outline in general terms some of the strategies that are available - if we have not reviewed your tax affairs recently do call and make an appointment.

VAT

The legislation that sets out the way in which you calculate the VAT to pay each quarter offers a number of opportunities to ease cash flow.

- **Cash Accounting** - if your VATable turnover is under £1.35m and you are not using cash accounting, now would be a good time to switch. A few companies will not benefit, especially if you are paid for the goods or services you sell at point of sale, a retailer for instance. If you sell goods on credit and you are usually owed more than you owe (to suppliers etc) cash accounting would probably reduce at least the first payment you make when you join the scheme. Essentially you only pay VAT when it is collected from customers. Outputs and inputs are based on monies received and paid, rather than amounts invoiced.
- **Flat rate scheme** - another of the special schemes offered to small businesses is the flat rate scheme. If your turnover is under £150,000 and you have small amounts of input tax to reclaim each month, this scheme may increase your retained profits. Each business sector suffers a different rate of VAT so the only way to see if this scheme would be beneficial is to crunch the numbers.

Even if you don't qualify for a special scheme, don't forget to claim bad debt relief. Any debt that is over 6 months old qualifies as a bad debt and you can reclaim the output tax you will have

paid. (Note: the flip side also applies. If you have invoices unpaid from your suppliers more than 6 months old, you should repay any input tax you have claimed!)

It is also worth filing your VAT return online. You are given an extra 7 days to file the return and if you pay your VAT by direct debit the payment will not appear on your bank account for a further three days.

Making losses, or less profit.

One of the more obvious effects of recession is a downward trend in profit creation, and if your business is badly affected, making losses. The notes that follow set out a few ideas for capitalising on the tax planning opportunities this affords.

1. Self assessment payments on account - if your current years profit is likely to be lower than the previous year, you may be able to elect to reduce the payments on account for the current year. The claim should be based on realistic trading results.
2. Losses - if your business is currently making losses it may be possible to carry these losses back to previous years, when you may have paid significant tax. Any tax overpaid as a result can be reclaimed.
3. Change of accounting date - in some circumstances it may be beneficial to either extend or reduce a company's accounting period end to make use of a fall off in profitability. There are limitations to this type of planning so careful consideration of the facts is required.

Need more time to pay

Generally speaking if you are late paying your tax or VAT, interest and in some cases penalties will be applied. If you can justify the reasons for your inability to pay it is usually advisable to contact HMRC and agree a payment timetable that your cash flow can afford. Burying your head in the sand is not a useful strategy!

If your business is starting to feel the pinch, pressure on profits and cash flow, do keep in touch. As mentioned at the beginning of this article each business is unique and there are a number of strategies we have not had the space to showcase in this article. Please call if you need help.

Overdrawn directors' loan accounts

If you are a director it is contrary to the Companies Acts, except in specific circumstances, for you to borrow money from your company. Ironically there are no fines payable if you break this particular aspect of company law! However there are a number of tax consequences, two of which are outlined below.

Benefit in kind

If a director's loan is overdrawn by more than £5,000 (you owe the company money) you will be deemed to benefit from this arrangement and suffer a benefit in kind charge as a result. This charge can be avoided if you allow the company to charge you interest on the overdrawn position. The rate of interest charged needs to be at the official HMRC rate or higher. This will of course increase the amount you owe if simply charged to your loan account and will potentially increase the company's taxable profits.

Corporation tax

If the overdrawn position continues for more than 9 months after the end of a relevant accounting period your company's corporation tax bill will be increased by 25% of the loan amount. For instance if the company year end was 31 December 2007 and at that time the overdrawn director's loan amounted to £20,000, and this amount was still outstanding at 1 October 2008, you would have to pay over an extra £5,000 in corporation tax at that later date. This Section 419 liability could be reclaimed if the loan was subsequently repaid - the tax paid would actually be repaid 9 months after the accounting year end, during which the loan repayment occurs.

Stamp Duty holiday

In an attempt to arrest the price slide in the housing market the Chancellor announced measures on 2 September 2008 to ease the impact of Stamp Duty Land Tax. The details are:

For one year from 3 September 2008 stamp duty will not be charged on residential house purchases of £175,000 or less. Prior to this announcement residential property sales up to £125,000 were exempt.

If the sale proceeds exceed £175,000 the starting rate of stamp duty land tax, 1%, will apply to the total consideration, not the excess over £175,000.

The higher rates of stamp duty are unchanged. 3% for sales over £250,000 and 4% for sales over £500,000.

Immediately vested pension contributions

Qualifying pension contributions continue to attract tax relief for individuals at their highest rate, potentially 40%. Tax Relief of 20% is usually deducted from the payment you make to the pension company - they reclaim this from the Treasury. Any higher rate relief needs to be claimed via your tax return.

If you are of pensionable age, presently 55 or 50 if you were born before 6 April 1960, you can accelerate the tax and cash benefits of single, lump sum contributions by opting for an immediately vested investment.

What you do is:

(This illustration assumes that all of the qualifying contribution can be relieved at the 40% income tax rate)

- Make a payment to a pension provider of say £40,000
- Pension provider recovers the 20% tax deemed to have been deducted of £10,000
- You claim an additional 20% higher rate tax relief, £10,000
- You immediately vest the fund created (£40,000 + £10,000) after taking 25% or £12,500 as a cash free lump sum

Result:

- You have created a fund of £37,500 (£50,000 less lump sum £12,500). You could start to take an annuity or drawdown based on this fund. The amount of the drawdown or annuity will depend on current annuity rates.
 - You have invested net funds of just £17,500 to do this. (£40,000 less higher rate tax relief £10,000 and cash lump sum £12,500)
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Tax Diary October/November 2008

1 October 2008 - Due date for corporation tax due for the year ended 31 December 2007.

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

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

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

31 October 2008 - The deadline for filing your 2008 Self Assessment return in paper format.

1 November 2008 - Due date for corporation tax due for the year ended 31 January 2008.

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

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

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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.