

Time to Review IHT Planning

The changes to the inheritance tax rules for trusts have finally become law, after the government was forced to water down some of its initial proposals.

Certain trusts have emerged unscathed, but following the changes many trusts set up after 22 March 2006 – Budget Day – will now be subject to inheritance tax. The new rules mean that now is a particularly good time to review your will. Trusts are often created in wills and the changes could mean that your arrangements will not work in the way you expected.

The tax changes are not the only reason to review your will.

Property and other asset values continue to increase far faster than the inheritance tax nil-rate band threshold, which is currently just £285,000. The rate of tax on death is a flat 40% above this level.

A recent study predicts that, by 2020, one in five homes will be worth more than the nil rate band threshold if it is just increased in line with retail price inflation. So far, calls for a large rise in the threshold have gone unheeded.

You should also look at any family trusts you may have. Many trusts for grandchildren that are currently exempt from inheritance tax may become



liable to both the periodic and the exit IHT tax charges after 5 April 2008, depending on the age at which the child gains full control over the trust assets.

Despite some highly publicised calls for its abolition, inheritance

tax is probably here to stay. It would certainly be imprudent to bet on its future disappearance, especially when it is still possible to save tax with some straightforward and highly effective planning.

HMRC Interventions Threaten Directors

This summer 14,000 directors received letters from HM Revenue & Customs (HMRC) suggesting that they might have made mistakes in their tax returns.

This was a pilot scheme and now there is concern that these 'interventions letters', which bypass taxpayers' professional advisers, will become much more widespread.

If you receive one of these letters, do not reply but pass it on to us straight away. If HMRC telephones you, just take details and then seek your accountant's advice. We are here to look after your tax affairs. Also, you should

not worry that such a letter means you necessarily owe more tax. Despite their threatening tone, the letters, which come in several standard versions, do not necessarily mean that the Revenue has any information that your tax return is incorrect in any way. If HMRC did have such details, it would have opened a formal enquiry.

One of the letters suggests that directors commonly include personal items in their claims for business expenses. Another accuses the recipient of not declaring taxable bank or building society interest. Although the letter says 'participation in this trial is voluntary', it goes on to

ask the recipient to contact HMRC within 30 days and threatens to make an assessment 'to collect the amount that we believe is due'.

When we prepare your tax return, we take steps to exclude all personal items from your business expenses claims and to make sure all your income is shown. Of course we can only do this if you keep all relevant paperwork and tell us everything.

If you think you might have forgotten something, please let us know right away so that we can sort it out for you and give you peace of mind.

Westgate House,
Royland Road,
Loughborough,
Leics LE11 2EH

telephone
01509 212890

email
services@turnerandsmith.co.uk

fax
01509 212768

www.turnerandsmith.co.uk

Partners:
RJ Lester FCA
R Neal FCA
RA Graham FCCA

Tax Manager:
RW Bradley BA(Hons), ATT



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Composite Companies Under HMRC Scrutiny

Composite companies have become a popular way of avoiding employment status, especially in the construction industry, so it is no surprise that HM Revenue & Customs (HMRC) has been looking for a way to attack them.

One of the largest composites, with 11,500 workers, is appealing against HMRC's refusal to renew its CIS5 card. This card allows the company to be paid gross by construction industry companies and agencies for which its operatives work. Without the CIS5 card, clients have to deduct 18% tax, which will delay payments to the workers themselves.

A composite company is supposed to provide corporate status without the headaches.

There are various forms but typically subcontractors join and are issued with shares of a unique class. This is necessary so that their dividends are matched to their own earnings.

The composite deals with all invoicing, VAT, debt collection, administration and accounting. The subcontractors are paid a salary equal to the personal allowance and they receive the rest of their earnings in the form of dividends, less 19% corporation tax and an administration fee. So the subcontractors benefit from the tax

savings, but do not have to go to the trouble of running their own companies.

The arrangement was not free from risk even before the latest attack. The IR35 rules apply to composites in the same way as to one-person companies. If the way the subcontractor works is similar to an employee, the composite will have to account for tax and national insurance on a deemed salary, leaving the subcontractor worse off than if he or she had not joined the composite company in the first place.

In this year's Budget, the government repeated its intention to ensure that 'all individuals and businesses must pay their fair share of NICs and tax, irrespective of legal form'.

The introduction of the IR35 rules, the attempt to tax working directors on dividends paid to a non-working spouse using the settlements legislation, the abolition of 0% corporation tax and now the attack on composites are all directed towards this end. We can only expect more of the same.



Tightening Deadlines for Tax Credits Claimants

People who receive child and working tax credits will have to report more changes in circumstances from November.

Claimants will now have to tell HM Revenue & Customs (HMRC) within three months if:

- they were working 30 hours or more a week and now they are working less, or
- they were working between 16 and 30 hours a week and are now working less than 16, or
- they cease to be responsible for a child or young person, or
- a child or young person no longer qualifies for support.

Other changes they will have to report include starting to live with a new partner, separating from a partner and incurring reduced childcare costs. From April 2007, the time limit for reporting changes to HMRC will fall to one month.

These rule changes are part of a package to persuade claimants to report promptly changes that affect the level of their tax credits award. A further encouragement is that if an award is reduced during the year as a result of a change that the claimant reports, from November 2006 HMRC will apply an automatic limit on the recovery of excess amounts already paid. This will reduce the

effect of the change on continuing payments in that year.

A further change from April 2007 is aimed at preventing some overpayments. Where claimants report a fall in income during the year, their tax credits during the rest of the year will increase to reflect the lower income, but they will no longer receive a one-off payment for the earlier part of the year. If it turns out that they are entitled to more money, they will get it after the end of the year.

Overpayments of tax credits by HMRC continue to be a major problem. After writing off many overpayments in 2005, HMRC

appears to have clamped down this year even in cases where errors were the Revenue's fault. The Revenue argues that claimants should have spotted the mistakes. Figures released in July showed a loss of £1.74 billion through a combination of overpayments, errors and fraud.

The Revenue's online tax credits claim facility remains closed following the discovery of its fraudulent use, although HMRC has relaunched the 'Do I qualify?' section and updated the frequently asked questions.

Tax credits are available to families with income below around £58,000 and in some cases where income is higher.

New Construction Industry Tax Rules

Preparations for the new tax arrangements in the construction industry are well under way after the start date was postponed to April 2007.

Certificates, cards, vouchers and annual returns will all go. Instead, HM Revenue & Customs (HMRC) will run a verification service for contractors to confirm whether a subcontractor should be paid gross or net. Contractors will make monthly returns of payments to subcontractors, which will include a declaration that none of the workers are employees. The first monthly return will have to be filed by 19 May 2007 and there are penalties for late or incorrect returns.

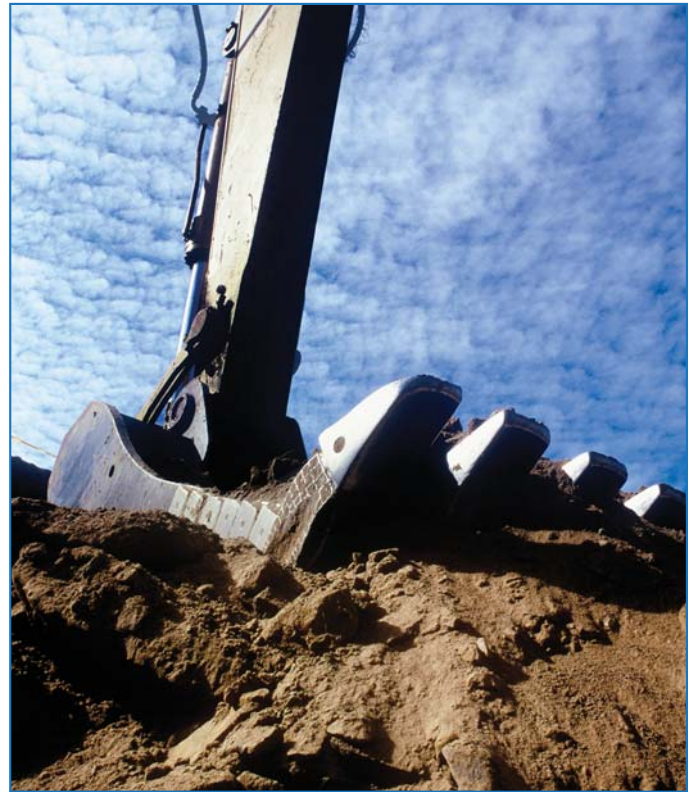
Most subcontractors registered for the current scheme will automatically transfer to the new scheme with their gross or net payment status intact. Businesses will be able to apply for gross payment status when they satisfy the turnover, business and compliance tests. They will not need to reapply at regular intervals as at present, but HMRC will monitor gross payment businesses to ensure that they continue to meet the criteria.

In the run-up to April 2007, HMRC will give contractors details of subcontractors who do not have to be verified, based on

the CIS vouchers they have previously sent in. Contractors should therefore submit all vouchers as soon as they are ready, without waiting for the 19th of the month. HMRC aims to send out a provisional list of subcontractors in November and an updated list just before the new scheme starts. If contractors take on workers who are not on the list, they will have to contact HMRC before paying them.

If you need to verify subcontractors, you will need their company registration number, or in the case of individuals, their name and tax reference, as well as their national insurance number. For partnerships, you will need the partner's name, individual tax reference and national insurance number. HMRC will then tell you whether to pay gross, net of the standard deduction or net of a deduction at a higher rate for unregistered subcontractors. HMRC will also give you a verification number which you will need to retain.

Separate from the verification process is the determination of employment status. Contractors will be responsible for deciding whether a worker is genuinely self-employed and there will be penalties for getting it wrong. HMRC provides a fact sheet, help line and the online



Employment Status Indicator to help contractors and others reach the right answer, but this issue still gives rise to difficulties.

If you are uncertain whether a worker should be treated as employed or self-employed, please ask us to help now or at any future time. Remember that the same person may be employed or self-employed at different times – depending on the terms on which you engage them. It will be possible to carry out

many of the new processes online, including registration, verification and the monthly returns. If you choose to file returns online, you need to consider now what kind of software to use. HMRC's free software is only suitable for contractors with fewer than 50 subcontractors a month and will not interact with your internal systems.

We can help you to decide on appropriate software and to prepare for the implementation of the new procedures.

Business Travel in Company Cars

The advisory rates for employers who reimburse employees for fuel costs for business travel in a company car have been increased. The new HM Revenue & Customs (HMRC) rates, which apply to journeys from 1 July 2006, follow a steep rise in the prices of petrol and diesel.

HMRC will always accept that there is no liability to tax or national insurance where employers pay business mileage at not more than the July rates.

Rates from 1 July 2006			
Engine size	Petrol	Diesel	LPG
1400cc or less	11p	10p	7p
1401cc to 2000 cc	13p	10p	8p
Over 2000cc	18p	14p	11p

However, if the employer pays a lower mileage rate, employees cannot claim tax relief for the difference. This contrasts with the rule for business mileage in an employee's own car, where the employee can claim tax relief

based on the official mileage rates of 40p for the first 10,000 miles and 25p thereafter, even where the employer pays less than this.

The guideline rates are not binding and employers may in

some cases be able to reimburse at a higher rate if they can demonstrate that the actual cost of business travel in the cars concerned is higher.

Where employers provide all the fuel for company cars, employees are liable to tax on a fixed sum based on the car's emissions, unless they repay the cost of all fuel used for private travel. The same advisory rates should be used to calculate the reimbursement.

business MATTERS

Squeezing the Supplier

In many sectors, large firms are taking 'a more active and systematic approach to managing their working capital' – a euphemism for delaying paying suppliers as long as possible.

Stories in the press have highlighted the record of large retailers paying small suppliers late. The companies involved tended to deny the charges completely or dismiss the incidents as one-off blips. Some companies have been explicit about pushing out the number of days that they intend to take to pay creditors, while others take a more surreptitious approach and use delaying and stalling tactics to avoid paying by the due date.

The record of large companies paying their debts in a timely fashion has, on the whole, never

been good but two factors have contributed to the deteriorating situation. Companies that have been purchased by private equity companies are often under financial pressure from their new owners and are typically highly geared. One way to ease the financial pressure is to make their trade suppliers wait longer to be paid.

Another trend has been for an increasing number of large organisations to centralise their accounting function in shared service centres (SSCs) including management of the purchase ledger. When that happens, suppliers need to be clear about the procedures that are used by their customer's SSCs. If a supplier does not follow the procedure required by the client – however difficult or

unnecessary that may seem – it is likely that the invoice will not be approved. Queried invoices are also much less likely to be paid on time. The personal contact with a local accounts office is lost and suppliers often find it hard to speak to an SSC staff member to chase up their payment, or at least check on payment status.

Small suppliers are often 'bullied' into not chasing payment, according to the Federation of Small Businesses, adding that if a big client moves the goalposts, suppliers can find themselves in a very difficult situation. The Better Payment Group, a DTI sponsored lobby group, said that almost half of UK companies do not know how to charge interest on late payment, so they are failing to take advantage of late payment legislation.

The key to dealing with all customers, but especially large ones, is to set out the amount of credit at the start. Try to make clients accept your terms. Do not assume anything and make sure the agreement is in writing. If they insist on their



own terms and conditions, check carefully what payment terms they are offering. If the payment period is longer than the normal terms in your industry and/or 30 days, try to negotiate a better deal.

Even if you have to accept terms that are not to your advantage, ensure that you keep on top of the situation so that you are paid by the due date. Check that you present invoices so they are passed for payment and find out who is responsible for paying you.

As far as possible it is not your company's job to finance your customers.

Capital Allowances for Energy-Saving and Water-Efficient Equipment

Did you know that you can claim a 100% first-year allowance for expenditure on energy-saving equipment? Provided it meets certain conditions, you can write off the whole cost against your business profits in the year of

purchase rather than over a period of years.

The enhanced allowance started in 2001 and its scope has widened since then. The plant and machinery must appear on

the energy technology list, which now covers 16 qualifying technologies. They include boilers, refrigeration equipment, lighting, various types of heating equipment, combined heat and power, insulation, monitoring controls and others. The list specifies the strict energy-saving criteria that each type of equipment must meet.

The benefit to your business is not limited to the tax relief. You should save in energy costs and you will be able to show your customers and employees that you care about reducing carbon emissions and protecting the environment.

Businesses are also able to claim a 100% allowance for water-

efficient equipment that reduces water use and improves water quality. The equipment must appear on the water technology criteria list. This includes items such as efficient toilets, taps and showers, monitoring equipment, flow controllers, rainwater harvesting equipment and filtration systems.

Details of the technologies and criteria for energy-saving and water-efficient equipment are available at www.eca.gov.uk. We can advise you on the full financial implications of the cost and installation of the equipment for your business, as well as the savings. We can also help you claim the enhanced allowances on your tax return.

