

Tax Factsheet – April 2005

Welcome to our 2nd monthly Tax Factsheet.

This month we are concentrating on the recent Budget and tax year-end issues.

Our aim is to keep you up to date with topical tax and business issues, as well as providing information on 'tax tips' that may help keep your tax bill down...

The issues covered are aimed at providing outline guidance only, and further specific advice may be needed before decisions are taken.

- **2005 Budget**

The Chancellor delivered the shortest Budget speech for many years on 16th March.

With a General Election looming the Budget was always going to keep things tight fiscally, whilst containing one or two vote winning 'sweeteners'. However many experts were still surprised by how few changes there were.

The main points are listed below:

- All main direct and indirect tax and National Insurance rates remain unchanged.
- Tax allowances & bands are increased from 6th April 2005, generally in line with inflation, although some tax credit increases are above inflation.
- Stamp Duty threshold for residential property doubled to £120,000.
- Disadvantaged area Stamp Duty relief no longer available for non-residential land transactions.
- Inheritance tax thresholds fixed annually until 2007/08 when the threshold will reach £300,000.
- VAT registration threshold increased to £60,000 from 1st April 2005.
- Current tax-free ISA investment limits extended to 5th April 2010.
- Pensioners to get a council tax rebate of £200.
- Free local bus travel for every pensioner from next year.
- £2,000 return to work bonuses available to single parents.
- Payroll burden to be reduced for employers as they will not be required to pay working tax credit via PAYE after 6th April 2006.
- Proposals announced to reduce administrative burden of the tax system for small businesses, including creating a single VAT and tax 'account'.
- Usual Excise Duty increases on beer, wine and tobacco. No increase in duty on spirits.
- Tax free outplacement counselling to be available to full and part time employees who lose their job.

- The threshold for the minimum 15% tax benefit charge for company car drivers has been set for the three years 2005/06 to 2007/08.
- The enhanced 50% first year capital allowance for small businesses investing in plant and machinery has not been extended beyond 1st April 2005 for companies and 6th April 2005 for income tax payers.
- A range of complex measures to tackle direct tax & VAT anti avoidance has been announced.

A copy of our Budget Summary and a 2005/06 tax card can be downloaded via our websites document library section. If you have a specific query please contact Robert Bradley.

- **A new tax year approaches.....**

Wednesday 6th April is the first day of the 2005/06 tax year.

If you wish to put in place some pre year-end tax planning, you therefore need to move very quickly. Here are a few of the key opportunities.

- **Maximise your investment in ISAs**

ISAs are tax-efficient savings accounts that allow you to invest in cash, shares or bonds. They are flexible in that you can stop, start or switch funds or accounts provided that do you not shelter more than £7,000 per tax year in total, of which not more than £3,000 per year can be invested in cash.

If you invest in ISAs within these limits each tax year, then the investment is free of income and capital gains tax. The annual investment limits have been fixed until 5th April 2010.

- **Use your capital gains tax allowance**

Taxpayers are entitled to make gains on the disposal of capital assets of up to £8,200 (after all relief's), in the tax year ended 5th April 2005 before capital gains tax is payable.

If possible you should carefully consider the date of disposal of an asset. For example maybe selling some shares prior to the tax year end, and some just after, to make use of 2 years annual exemptions and tax thresholds.

Also, remember that transferring assets between spouses are not chargeable events for capital gains tax purposes. The acquiring spouse takes the asset at its original base cost. Pre-sale transfer of assets or part of an asset between spouses can therefore maximise 2 annual exemptions and tax thresholds.

- **Dividend payments from private companies**

Company dividends are not subject to National Insurance in the hands of the recipient, nor do they attract an income tax liability if when grossed up and

added to other gross taxable income for 2004/05, the total income does not exceed the basic rate tax threshold of £31,400.

Shareholders should therefore consider the level of their personal income, and whether the company is sufficiently profitable to reward shareholders prior to the tax year-end to maximise the individuals tax free income.

Please note that there are potential tax implications for the company, which need consideration before a dividend is declared and paid.

- Pension investment

If you are prepared to tie in your cash, remember that money paid into a pension fund grows free of tax. Subject to various earnings related investment limits, the Inland Revenue tops up net contributions with relief at the basic rate of tax. Higher rate taxpayers can claim an additional 18% relief.

Pension investment remains one of the few tax breaks available to higher rate tax payers.

- Venture Capital Trusts investment funds

Whilst investment in Enterprise Investment Schemes attracts income tax relief at 20%, those prepared to invest in fledging companies via VCTs will qualify for 40% income tax relief for 2004/05 and 2005/06, even if they are not higher rate taxpayers.

Relief may be claimed on investments of up to £200,000 per tax year where ordinary shares are subscribed for in qualifying companies.

If the VCT shares are retained for at least 3 years, both income from the VCT and any gains on disposal of the shares are free of capital gains tax.

- From 6th April 2005.....

The new Child Trust Fund rules allow families to invest up to £1,200 a year tax free in the CTF on behalf of a child born after 31st August 2002.

The money will grow tax-free until the child reaches 18. The fund is boosted by an initial payment from the state of £250 (£500 for low-income families), topped up by at least another £250 after the child's seventh birthday.

Please contact Robert Bradley if you wish to discuss any year end tax planning issues – you do need to move quickly though.....

- **Pay As You Earn deadlines**

PAYE & National Insurance due for the month ended 5th April 2005 should be paid by 19th April 2005.

Employers then have until 19th May 2005 to file their 2004/05 year-end payroll return (form P35), together with P14s (same as P60).

Copies of the P60s should be given to employees by 31st May 2005.

By 6th July 2005, all returns of employer benefits and expenses (forms P11D and P9D) should be filed with the Inland Revenue, and copies given to employees.

The Inland Revenue are promoting on-line filing of P35s, and indeed on-line filing is compulsory for 2004/05 if the employer has more than 250 employees. It then becomes compulsory for 2005/06 if the employer has between 50 and 249 employees, and finally for 2009/10 for all employers.

In order to encourage employers with up to 50 employees to register for on-line filing as soon as possible, cash incentives are available for the next 5 years totaling £825, including £250 for 2004/05 on-line filing.

Payroll compliance is increasingly complex. We can offer a fixed fee, or bespoke service to take away the hassle of running your own payroll and meeting your filing deadlines. We can also help you receive your on-line filing cash rebates.

If you would like any assistance with your online filing obligations, or would like to discuss your payroll requirements, please contact Robert Bradley or Lindsey Roscoe.

• **Why have I been sent a Tax Return.....?**

The Inland Revenue issues the majority of Self Assessment Income Tax Returns during the first 2 weeks in April. If one lands on your doorstep for the first time, you may wonder why you have been asked to complete and submit a Return.

The following are usually required to complete Tax Returns each year:

- The self-employed or those in partnership
- Company directors
- Ministers of Religion
- Those with income from property letting, unless employed and the income is less than £2,500 a year.
- Persons with untaxed income where the tax cannot be collected through a PAYE code.
- Recipients of Trust or Estate income if further tax is due on that income
- Recipients of foreign income, even if you are non-resident
- Lloyds names or members
- Employees or pensioners with annual savings income exceeding £10,000
- Employees or pensioners with total annual income exceeding £100,000
- Employees or pensioners with tax due at the year end that can't be collected through your PAYE code for the following year
- Employees or pensioners with untaxed income of more than £2,500
- Employees or pensioners over 65 and entitled to some, but not all, of the higher personal allowance

- People who have sold or given away assets worth more than £31,600 or have gains of more than £8,200 in 2004/05

The majority of taxpayers are the employed with modest taxed investment income, who are therefore not required to complete annual Tax Returns.

However, if you fall into any of the above categories, and have not been issued with a Tax Return, you are required by law to advise the Inland Revenue by 5th October following the tax year-end that you require a tax Return.

Please contact Robert Bradley who can help you decide whether you are required to complete a Tax Return. If you receive Returns and would like us to take away the hassle of both completing it and calculating your tax position, Robert can help. Alternatively, visit our free tax clinic at our office on Tuesday mornings.

- **VAT registration**

If you exceed the VAT registration threshold of £60,000 from 1st April 2005, or would like to voluntarily register, it is now possible to register businesses on-line. See: www.hmce.gov.uk.

Call Robert Bradley if you require any assistance with your VAT Returns

- **National Minimum Wage Rates**

Employers are required to apply the following recently announced NMW rates from 1st October 2005:

- Aged 22 or over £5.05 per hour
- Aged 18 – 21 £4.25 per hour

Subject to confirmation from the Low Pay Commission in February 2006 that economic conditions are appropriate, the following rates apply from 1st October 2006:

- Aged 22 or over £5.35 per hour
- Aged 18 – 21 £4.45 per hour

(A youth rate of £3.00 per hour currently applies to 16-17 year olds)

For further assistance on NMW rates, or any of the issues raised in this Tax Factsheet, please contact Robert Bradley, Tax Manager at Turner and Smith on 01509 212890 or email robert_bradley@turnerandsmith.co.uk

All due care has been taken in the preparation of this fact-sheet. The authors can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication.