

Tax Factsheet - August 2005

Welcome to the August edition of our monthly Tax Factsheet.

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

The pros and cons of registering for VAT

The annual VAT registration threshold is currently £60,000. As with most things there are pros and cons in registering for VAT if and when the need arises or the voluntary decision is made.

On the down side you have the administrative burden of completing the registration forms and the quarterly VAT Returns, although most modern computer accounting packages will do the work for you anyway.

You will also have to charge VAT to your customers. If they are mainly VAT registered themselves then it will have minor cash flow effect but other than that should cause no problems.

On the other hand, if your clients are not VAT registered or private individuals then overnight you will make yourself 17.5% more expensive and be commercially disadvantaged as a result.

On the plus side you will be able to recover the VAT on your purchases, and not just those from the date you register for VAT. VAT can also be recovered on goods purchased three years prior to registering for VAT providing the goods are still on hand at the time of registration and the normal evidence for the deduction of input VAT is retained i.e. the purchase invoice.

With services the rules are slightly different. The VAT on services can only be recovered on services received six months prior to VAT registration. The services have to be used for the purposes of the business and you have to retain the purchase invoice.

You are supposed to claim back any pre-registration VAT on your first VAT Return. However, HMRC may allow the claim to be made on a later Return, up to three years after the date the first Return was due.

A corporate body can recover VAT incurred before incorporation on its first VAT Return providing the person to whom the supply was made, or who paid for the supply, became a member (shareholder), officer or employee of the corporate body and was reimbursed for the whole cost of the goods or services and they were acquired for the purposes of the business.

In addition there is the perceived advantage of being VAT registered. If your customer base are mainly large companies and they see that you are not VAT registered they may think that your business is not large enough to service them properly, if they see you have a VAT number they will assume that you are bigger than you are and take your business more seriously.

On a practical level VAT registration can take up to two months to complete due to a backlog in HMRC, even though they are supposed to do it in 15 working days. So what happens if you have applied for VAT registration from a current date and you do not have a VAT number yet?

If you haven't got a VAT number you can't issue VAT invoices. HMRC will advise you to charge a VAT inclusive price on your "invoice" and add a statement that the price includes VAT and you are registered for VAT but have not yet received your VAT number. When you do get the number you should issue a VAT invoice within 30 days. Practically, many customers may query this treatment and be reluctant to pay until they get a proper VAT invoice.

If your business is reaching the VAT registration threshold, or you would like any assistance with registration and the options, please contact Robert Bradley

Settlement Legislation - Arctic Systems

Last November's Factsheet commented on the Revenue's victory in front of the Commissioners in the Jones v Garnett (Arctic Systems Ltd) test case.

This had implications for husband and wife companies whereby the non-working spouse receives substantial dividend income from the company to save higher rate tax. Following the original decision, the Revenue could argue that the income should be taxed on the working spouse as settlor.

The taxpayer recently appealed in front of the High Court against the decision, lost, and therefore a further appeal has now commenced.

In the meantime, thought should be given to what can be done in the interim to forestall any possible problems arising from Returns made by companies owned jointly by husband and wife (or those who have entered into a civil partnership).

Things to do include:-

- Review previous tax returns to see if dividends were split adequately, taking into account the judgements made so far in this case.
- Deflecting the Revenue's interest by paying fair market salaries to each spouse regarding their respective duties. How this is calculated, however, is a difficult question which we can discuss with you.
- Adjusting shareholdings to reflect the real input of each partner, a position much less likely to be challenged by the Revenue.

If you are worried about your company's Returns, contact Robert Bradley

Company car advisory fuel rates

HMRC have updated advisory National Insurance & tax free rates that apply from 1 July 2005 to company cars where:

- employee reimburses the employer for private mileage to avoid a Benefit in Kind
- employer reimbursing the employee for business mileage paid by the employee

(changes are shown in italics):

Engine Size	Petrol	Diesel
1400cc or less	10p	9p
1401cc to 2000cc	12p	9p
Over 2000cc	16p	13p

These rates were calculated using MPG and fuel prices in the table below:

(changes are shown in italics):

Fuel	Engine Size (cc)	Mean MPG	Applied MPG	Fuel price (per litre)	Fuel price (per gallon)	Pence per mile	AFR
Petrol	up to 1400	45.5	41.0	88.2	400.8	9.8	10
Petrol	1400 - 2000	37.1	33.4	88.2	400.8	12.0	12
Petrol	over 2000	27.1	24.4	88.2	400.8	16.4	16
Diesel	up to 2000	50.7	45.6	91.7	416.9	9.1	9
Diesel	Over 2000	34.9	31.4	91.7	416.9	13.3	13

Remember that they are advisory rates only, and an actual cost method (if higher) can be negotiated with the Tax Office. Contact Robert Bradley for more information.

Tax Diary August/Sept 2005

19 August 2005 PAYE and NIC deductions due for the month ending 5 August. (If you pay electronically, the due date is 22 August).

31 August 2005 Submit CT600 to Revenue for the year to 31 August 2004. File accounts at Companies House for private companies with year ended 31 October 2004.

1 September 2005 Due date for Corporation Tax for year to 30 November 2005.

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

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