

Tax Factsheet – March 2005

Welcome to our monthly Tax Factsheet.

We aim 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.

- **31st January Tax Return deadline – the aftermath....**

Most taxpayers will have both filed their 2004 Tax Returns and made the appropriate balancing and on account tax payment(s) by the deadline of 31st January 2005.

The Inland Revenue will currently be processing large numbers of Returns submitted during January, and will issue revised Self Assessment statements shortly.

For those late with either the filing of their Return, or the settlement of tax, the following should be noted:

- Late Returns attract an automatic maximum £100 non filing penalty.
- However, please remember that the penalty is limited to the amount of tax outstanding at 31st January. Therefore if the taxpayer is due a tax repayment or has paid any outstanding tax, no penalty will be due. An appeal should be submitted. If the outstanding tax liability at 31st January is less than £100, the penalty should be restricted to the amount outstanding.
- Unpaid tax attracts interest at the current rate of 7.5% from the due date for payment.
- If the tax has not been paid by **28th February**, the Revenue will apply a 5% surcharge to any tax unpaid.
- Further forward, the Revenue will impose another £100 late filing penalty, and a further 5% surcharge if the Return is not filed and/or tax remains unpaid on **31st July 2005**. Interest continues to be charged.
- If the Return is not filed by 1st February 2006, tax geared penalties may be levied.

Please contact Robert Bradley if you are late with your Tax Return or tax payments and would like any help or advice...

- **Online PAYE filing....cash incentive**

Under Government proposals, employers with fewer than 50 employees will have to file their year-end payroll return, Form P35, online for 2009/10 by 19th May 2010.

The Revenue are busy promoting online filing as a secure and convenient alternative to filing 'paper' P35's, and you may wish to take advantage of cash incentives to file your year-end P35's for the years 2004/05 to 2008/09 online.

The cash incentives are as follows:

File online for 2004-05 (return due 19 May 2005) and receive £250
 File online for 2005-06 (return due 19 May 2006) and receive £250
 File online for 2006-07 (return due 19 May 2007) and receive £150
 File online for 2007-08 (return due 19 May 2008) and receive £100
 File online for 2008-09 (return due 19 May 2009) and receive £75

Total online 5 year filing incentive is therefore £825, and after each years Return is successfully filed, you can apply for the cash to be either credited to your payment record or claimed by way of a cheque payment.

Please note that employers with 250 or more employees **must** file their 2004-05 P35 online, and those with 50 to 249 employees **must** file their 2005-06 P35 online.

If applicable, there are filing registration issues to address. 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.

- **2005-06 PAYE tax coding notices**

Tax free personal allowances for the year ending 5th April 2006 were announced by the Chancellor in his pre-budget report on 2nd December 2004, and are as follows:

Personal allowance (reduces taxable income)	
Age under 65	£4,895
Age 65-74	£7,090
Age 75 and over	£7,220
Married couple's allowances (reduces tax)	
At least 1 spouse born before 6 April 1935 and	
elder spouse aged up to 74	£590.50
Elder spouse aged 75 and over	£597.50
Minimum amount	£228.00
Income limit for age-related allowances	£19,500

Allowances are set in the pre-budget report to allow the Revenue time to set employed taxpayers or pensions codes correctly by the start of the tax year on 5th April.

If applicable, you may have recently received a copy of your 2005-06 tax code showing the allowances and restrictions the Revenue are proposing to include in the your code for PAYE purposes.

Note that your employer or payroll provider will have received a copy of the code number only. They are not privy to the confidential information which makes up your tax code.

It is therefore *your responsibility* to ensure that the code is correct, and that you do not pay too little, or indeed too much, tax at source.

You should report any amendments required to your tax office in time to allow them to amend the code by 6th April 2005.

As well as the revised allowances shown above, you need to check entries such as company car benefits, van benefits (there are changes to the van benefit charge), underpaid tax from earlier years, higher rate restrictions, allowances for voluntary pension contributions, etc, etc...

If you would like any help with ensuring your tax code is correct, please contact Robert Bradley as soon as possible.

- **Small company taxation**

If you trade via a limited company, you will be conscious of the tax and National Insurance savings made available over the last couple of years as a result of various legislative changes. Many traders have incorporated their existing businesses.

The 2004 Budget sort to redress the perceived 'imbalance' by imposing a form of Corporation Tax on companies with profits up to £50,000, whose shareholders reward themselves with dividend payments.

In many cases it is still more tax efficient for smaller businesses to trade as a limited company, but the December 2004 pre budget report contained the following note:
"...the choice of legal form that small business takes should reflect commercial rather than tax considerations....."

This implies that the Government continues to monitor the taxation of small companies and the impact of the new 19% CT charge on dividend profits.

It may well mean even more changes in the 16th March Budget to discourage small business limited company status.....

If you would like to discuss business incorporation, please contact Robert Bradley.

- **Company car driver?**

Employees who drive diesel cars do so in the knowledge that their fuel costs are less than petrol engine drivers. This can save money for both employer and employee.

However, the employees taxable benefit in kind, (based on CO2 emission data), for the diesel car driver carries an additional 3% supplement unless the car complies with strict Euro IV emission standards, in which case the supplement is currently waived.

However, from 1st January 2006 compliance with Euro IV is mandatory, and therefore the 3% supplement will apply from 6th April 2006 to all diesel cars registered from 1st January.

This new rule may have an impact on your choice of company car. To discuss your options, and indeed whether a company car is a tax efficient choice, please get in touch with Robert Bradley.

- **VAT fuel scale charges**

On a similar note, plans have been announced to align the VAT fuel scale charge with the company car benefit charge.

The intention is to provide consistent tax incentives for less polluting cars.

- **The VAT flat rate scheme**

The flat rate scheme was introduced a couple of years ago, improved in 2003, and further promoted by the introduction from 1st January 2004 of a 1% discount from the flat rates for the 1st year of registration.

Most businesses with **taxable VAT exclusive turnover of up to £150,000**, and **total VAT exclusive turnover of up to £187,500** may join the scheme. There are one or two exceptions.

Although promoted as reducing businesses administrative burden, it is becoming increasingly clear that in many cases significant amounts of VAT can be saved.

Basically, the scheme allows the business to calculate net output/input VAT for a quarter based on the standard % applicable to the type of business .

Proper VAT invoices are still issued, but businesses don't need to keep an analysis of sales, nor analyse input tax – ie a lot less hassle for the business.

The scheme can even be combined with the annual accounting scheme - saving even more admin. Contact us for more details.

- **Inheritance Tax Planning**

More and more people are finding that their estates could be liable to a substantial inheritance tax (IHT) bill.

The IHT 'nil band' for the year ended 5th April 2005 is £263,000. The Chancellor announced a meager £8,000 increase over and above the previous year in last years Budget, prompting one commentator to note that house prices probably increased by more than £8,000 during the course of his speech!

The point is valid. More and more people are brought into the IHT net by increasing property value, which when added to savings and other assets could potentially land Estates with an IHT bill of 40% of the value of the Estate over the threshold.

IHT is often referred to as a voluntary tax, and despite Government attempts to close many IHT 'loopholes' over the last few years, there are still many tax-planning opportunities to be explored.

Lifetime IHT and Will planning can significantly reduce a potential tax burden. We can help with this. Contact Robert Bradley for more information.

- **Self employed or employed?**

Through various means, the Revenue continue to challenge the 'status' of people who claim to be self employed, but in essence have 'contracts' with very few work providers.

The Revenue prefer taxpayers to be on employment payrolls, conscious of the often lower tax and National Insurance yield from the self employed.

The status rules can apply to both sole traders and people who trade through a limited company.

However, many of the arguments put forward by the taxman in trying to reclassify the self-employed are simply not correct, and have no legal basis.

This is something we can help with. If you are concerned that your business status is incorrect, please contact Robert Bradley.

For further assistance 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.