

Tax Factsheet – May 2005

Welcome to the May edition of 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.

Company directors & the National Minimum Wage (NMW)

NMW rates exist to ensure that all employees are paid a basic minimum wage. Many company directors (who in the case of small owner managed businesses tend to be employees of their own company), pay themselves a modest salary of around £90 per week for tax reasons.

Unless the director works less than approximately 18 hours a week, this salary is below the current NMW of £4.85 per hour, and could cause problems if challenged by the Inland Revenue.

The way round this is to take advantage of a legal definition. The law classes directors as office holders and not workers. You need to make sure that as a director you *do not* have a separate employment contract. If this is the case then the NMW legislation will not apply.

Please contact Robert Bradley if you have any concerns about the NMW.

New HM Revenue & Customs

The newly formed HM Revenue and Customs (HMRC) has unveiled its website.

The new site, www.hmrc.gov.uk, integrates the information and online services formerly provided by the Inland Revenue and HM Customs & Excise.

Chancellor Gordon Brown confirmed the Government's plans to integrate the two organisations in his 2004 Budget.

An independent office, the Revenue and Customs Prosecutions Office (RCPO), has also been launched, and will prosecute HMRC's criminal cases.

The Government believes that combining the departments will lead to significant efficiency savings, and many business groups hope that the creation of a new single department will help to simplify the tax system for small businesses.

The Short Tax Return

In response to concerns that completing the standard minimum 10 page Tax Return is daunting, and contains too many pages irrelevant for a lot of taxpayers, the Inland Revenue have introduced a new 4 page Short Tax Return for 2005.

Short Returns have recently been sent to those people whom the Revenue believes *could* complete one. However, they cannot be sure that everyone who has received a Short Return is eligible to complete it for 2 reasons:

1. They are basing the issue of them on information contained on 2004 Returns, and of course circumstances etc., may have changed.
2. A 'system error' in the selection criteria has led to the form being sent to some company directors, who do not qualify for a Short Return.

If issued with the Short Return, you can complete it if you had one or more of the following types of income for the year ended 5 April 2005:

- Non-directorship employment salary, including job related benefits and expenses
- One self-employment business with annual turnover of below £15,000 if you have not changed your accounting date nor wish to make a claim for loss relief
- Occupational and/or state pensions
- Taxable state benefits, eg Jobseekers Allowance
- Property income of less than £15,000 per annum
- Taxable bank, building society, National Savings interest, company dividends and unit trusts income
- A capital gain or loss, although supplementary pages may be required.

If your tax affairs are more complex than the above criteria, you should continue to use the full Return.

If you would like help in deciding whether you should complete the Short Return, or require assistance with Tax Return completion, please give Robert Bradley a call, or visit the Tax Clinic in our offices on Tuesday mornings.

Charities and potential VAT savings

A recent High Court VAT case concerning a Charity charging merely to cover its costs has found in the taxpayers favour.

The issue was whether a nominal charge made by the Charity to cover the shortfall between grants received and costs incurred meant that the Charity was involved in business activities.

As a result of this case, the construction of a new building for use by a Charity can, for example, be treated as zero-rated for VAT purposes where similar charges are made for the use of the building. The Charity does not become defined as a business.

Contact Robert Bradley if you engaged in Charitable activities and believe you may be incorrectly classed as a business for VAT purposes.

P11D completion - can you save yourself work?

Many businesses or agents are busy completing P11D year-end returns of expenses and benefits on behalf of the majority of their directors and employees. The deadline for the submission of the P11Ds and the P11D(b) declaration is 6th July 2005. Copies should be given to the relevant director or employee by the same date.

To ease the burden in completing P11Ds, employers can apply to their local Inspector of Taxes for a dispensation which exempts them from completing certain sections of the P11D if the Inspector is satisfied that the expense is wholly business related.

The type of expenditure covered by a dispensation are generally qualifying business travelling expenses (other than business mileage payments which are usually exempt anyway), business entertaining, lunch, evening meal or overnight business related subsistence costs, and subscriptions to professional bodies.

A dispensation will not be granted for company cars or vans, private medical insurance, beneficial loans or round sum allowances.

If the Inspector is satisfied that such expenditure is properly receipted, and no tax would be payable, then the dispensation can start from any time during the tax year.

The employer's only obligation is to inform the Inspector of any changes.

Furthermore, once the dispensation is in force, the Revenue:

- accept that the expenses payments covered do not count as earnings for National Insurance purposes
- do not require employees to include them on their tax returns
- do not include the expenses in PAYE codes

Revenue leaflet IR69 contains an application for dispensation form, and you will find further details on the Revenue's website.

Contact Robert Bradley if you think you may be able to apply for a dispensation. Robert can assist with deciding whether it is relevant, and with general P11D completion matters.

For further assistance on any of the issues raised in this 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.