

CLIENT NEWSLETTER – SEPTEMBER 2009

“ACTIVE ACCOUNTING AND TAX”

INTRODUCTION

Whilst I normally prepare a client newsletter after the pre-Budget report in November or December each year and then again after the Budget in March, the very late Budget this year meant that virtually all of the announcements were for the future, in particular for the 2010/11 tax year and there was very little of immediate impact. Accordingly, this year, I decided to leave writing a Newsletter until the Finance Act was passed and this also gives me the opportunity, very nearly half way through the 2009/10 tax year, to review tax and other changes that have either just been introduced, or are coming up between now and next April.

THIS NEWSLETTER COVERS THE FOLLOWING MATTERS:

- Online filing of most PAYE and many VAT returns to be compulsory from April 2010, before which pre-registration procedures may be necessary
- Increased and new penalties for late filing of tax returns and also payment of tax are to be introduced, unless you have a time to pay arrangement
- Reduction in filing deadlines for accounts at Companies House and substantial increases in penalties for late filing of accounts
- Company Directors and Shareholders to be allowed to use "service" addresses
- National Minimum Wage increases from 1 October 2009
- Increases in ISA limits from, 6 October 2009, for the over 50s, and 6 April 2010
- HMRC "Compliance Checks" on overseas bank accounts – please read this if you have any overseas accounts – even if they don't pay any interest!!
- HMRC "Compliance Checks" on property income
- Standard rate of VAT to revert to 17½% from 1 January 2010
- Changes to VAT on services provided to overseas customers and additional reporting requirements for traders making such sales from 1 January 2010
- Simplified rules for claiming back VAT paid in other EU countries
- HMRC's Business Payments Support Service is still open for business and could help you reduce your bank interest charges.
- New penalties regime in respect of incorrect tax returns now in force
- How owner managed businesses can avoid higher tax rates – time to plan and split your income around the family? - some planning points to reduce the overall tax burden and mitigate the effect of the tax and NI increases from April 2010; also, it is time to plan for retirement – even if it is years away!
- Are you a trustee or know someone who is – have you planned for 50% tax?
- Check your personal financial planning in 5 minutes!
- And, finally, get on a tax efficient bicycle, but don't get "phished"

A lot of this is not "good" news, but failure to consider the above could cost you dear. If you are not a client and are not getting this sort of advice, please give me a call.

PAUL HILL

As always, it is only possible for me to comment on some matters contained in Finance Act 2009 or otherwise of current interest. If you require information on any other matters that are not mentioned in this newsletter – see the full index below, please do not hesitate to get in touch to discuss your concerns. To find the information you need, please refer to the following sections:

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1. EXTENSION OF ONLINE FILING REQUIREMENTS

It is clear that the Government in general and H M Revenue & Customs (HMRC) in particular, are now pushing ahead to complete their online filing agenda. From next year, it will be compulsory for many VAT returns and virtually all PAYE returns to be submitted online and in the following two years, many more exemptions from online of filing of tax returns will be removed; I will deal with each of these in turn:

VAT

The following article has been written by Kim Upton, who is in charge of VAT services to our clients.

From 1 April 2010, all businesses registered for VAT with a turnover exceeding £100,000 p.a. and new VAT registrations will be obliged to file their VAT returns online. HMRC will be assessing a business's liability to submit online by reference to their VATable turnover disclosed on VAT returns submitted in the year ending 31 December 2009 and writing to traders required to submit online, but who have not already registered to do so, early in 2010.

This database will be updated quarterly and any traders breaching the threshold for the first time given probably only two months' notice of the new requirement. It appears that once the turnover threshold for online filing has been breached, a registered trader will always have to file online, even if in subsequent years turnover drops to beneath the then current threshold for this purpose.

Subsequently, if a "paper" return is sent in by a trader required to submit online, it will be rejected and if not submitted online in time, will be considered late, with the normal late filing penalties being applied.

Although it will not be compulsory for existing VAT registered businesses with a turnover of less than £100,000 to submit returns online from April 2010, it is expected this requirement will be extended to all VAT returns no later than April 2012.

Planning point: One significant advantage is that online submission enables you to submit your VAT return right up to the deadline, without having to take postal delays, quite a problem at the moment, into account. Accordingly, I would recommend that even if you are not immediately caught by the new rules, you consider whether it would be sensible to move to online filing "now", rather than waiting until it becomes compulsory. Having said that, if you do submit online, you also have to pay electronically – I comment on this in more detail below.

Before you can move to online submission, there is a pre-registration requirement.

Planning point: If you are going to have to submit your VAT Return online after April next year I recommend that you register "now". The online registration process can be time consuming and I think it likely there will be a backlog of registrations at the end of March 2010. Accordingly, if you get your registration done now, you will be sure you can meet the changed requirements and therefore not suffer any of the potential penalties for non-compliance – there are also some other advantages – see above.

If you are not already registered to use the HMRC online services, you will have to register generally for the online service and enrol specifically for the VAT service; these two procedures can be performed at the same time. When enrolling for the VAT service you will need the following information:

- Your VAT registration number
- The postcode of your principal place of business
- The date of registration (shown on your VAT certificate)
- The month of the last VAT return period
- The box 5 figure from your last VAT return

Planning point: The one piece of information many people do not have to hand is the original date of registration for VAT; I have no idea why this is considered important, but it is! I certainly did not have this to hand when we registered to file the Paul A. Hill & Co. VAT return on line – only being able to remember the date as being "probably in late 1991". In these circumstances, ring the telephone number on the front of your VAT returns and ask for the certificate of registration to be reissued. If you do not have this date to hand, please first get the certificate reissued, or you will not be able to proceed.

If you have not registered to use HMRC online services before, to register you need to:

- log on to the HMRC website at <http://www.hmrc.gov.uk>, then choose
- "VAT online" from the "do it online" menu on the left hand side of the home page – you may have to scroll down – VAT is the last option
- this moves you to a new page headed "Online Services Login" – then choose
- Registration process for new users, then choose
- Individual or organisation as appropriate, followed by VAT and follow the instructions

You can also reach the Online Services Login page by taking the Online Services option from the "toolbar" at the top of the page, but there are a couple more steps.

During registration, you will be given a user ID and you will create a password. After you have registered, you will also receive an activation PIN in the post. You will need this the next time you use the service in order to activate the account; there is also a 28-day time limit for the activation of a PIN. If we deal with this on your behalf, you will need to send us the activation PIN on receipt – this can only be sent to you, for us to complete the process on your behalf.

If you are already registered to use the HMRC online services or you have previously registered via the "Government Gateway", you can log on and enrol to use the VAT service, but you will still need the VAT information as described above.

Planning point: If your eyes are already "misting over" at the registration instructions, we should be pleased to assist with any part of the process if you require. In order to get this done before "the rush", if you do want us to help you, I should be grateful if you could let us know as soon as possible and no later than 31 December 2009.

When submitting online, the return on your computer screen will look identical to the one you are used to completing and you just fill in the figures that have been compiled in the normal way that you would prepare figures for a VAT Return.

Planning point: Following registration, if you would prefer not to submit the information online yourself, we should be pleased to file VAT returns online on your behalf; we are already registered with the HMRC VAT Returns for Agents Service to enable us to perform this function. We can do this either from information we prepare on your behalf or in respect of VAT return information you send to us, having prepared this yourself in your normal way. If we prepare VAT return information on your behalf, we shall be contacting shortly to confirm whether you will be required to file online and to take your instructions on whether you wish us to deal with registration for the online service for you.

When you file a VAT return online, you also have to make electronic payment to HMRC, for example, using internet banking, or via the BACS system or Direct Debit. As with a return sent on paper – if a cheque is sent to HMRC for VAT based on a return filed online, it will not be cashed and simply returned to you. If payment is then late, interest, surcharges and penalties may be incurred.

Planning point: If you normally make payments by "internet" banking, there can sometimes be a limit of £10,000 on the payments you can set up online. If your VAT payments are often more than this amount, it may be necessary to make special arrangements to allow a larger payment to be made to HMRC for VAT and/or use your bank's "telephone" banking service. I understand it should also be possible to set up a Bank Giro Credit arrangement and/or BACS payment, but this may involve a personal visit to the bank in banking hours.

You should also find out and bear in mind how soon the electronic payment will reach HMRC – whilst there is an extension of seven days for electronic payments, weekends and bank holidays do not count. The most significant problem with this can occur with a March VAT return due in at the end of April. If, as has occurred in recent years, the May Bank Holiday is on Monday 7 May, then the payment date is brought forward to Friday 4 May!

If you require any assistance in complying with the new VAT rules in respect of online return filing and payment processes, please do not hesitate to call or email Kim Upton, who is based in our Chatteris Office (01354 694111 or email Kim@paulahill.co.uk). We can also assist you to register for VAT in the first instance, if that is required.

PAYE

This article has been written by Lesley Knell, based in our St Ives office, who heads up our payroll services to clients, assisted by Margaret Bridges from Chatteris.

Those of you for whom we have already been filing the PAYE year-end returns online or have been undertaking this task yourself, will have become accustomed to receiving the online filing incentive award. Sadly, the £75 incentive payment in respect of the 2008/09 tax year is the last payment, filing the PAYE tax year-end returns online becoming a requirement for **all** employers for the 2009/10 tax year onwards. As with VAT returns requiring to be submitted online, a manually submitted form will simply be returned to you and if not resubmitted online by the deadline, a late filing penalty will be charged.

In addition, from 6 April 2011 it will also be a requirement for all employers to file the "in year" returns, such as forms P45 and P46, online as well, currently this is only compulsory for employers with 50 or more employees. As for VAT, before you are able to submit returns online, you must register with HMRC to do so.

Planning point: For those of you who are familiar with processing your own payroll or have other agents who undertake this work for you and wish to continue with this arrangement, if you have not done so already, now is the time think about registering for HMRC's online services or to check that the person/agent responsible for filing your year-end returns has already registered.

As this requirement is being introduced at the same time as the VAT requirement set out above, we again recommend you register as soon as possible, to avoid possible delays as the deadline approaches.

The registration process is similar to that for VAT referred to above. To register online you will need to log on to the HMRC website at <http://www.hmrc.gov.uk>, then choose "PAYE for Employers" from the "do it online" menu on the left hand side of the home page. This takes you to a page headed "Welcome to Online Services" and you should click on "Register" in the New User section on the right hand side, followed by Individual or Organisation as appropriate and then PAYE for Employers; please then follow the instructions

You will need to have to hand your Employer PAYE reference number and Accounts Office reference number. Once you have registered and received a User ID you will then need to "enrol" to use the PAYE Online Service. The Government Gateway will then post confirmation of your User ID and Activation PIN to you, theoretically within seven days of registering. Once received you must activate the service with 28 days of the date on the Activation PIN letter.

Planning point: As with registration for VAT online, we should be pleased to assist with any aspect of your registration or to arrange this for you.

Planning point: In addition, as only employers with nine or fewer employees will be able to use the HMRC issued "Employer CD-Rom" to file their return, if you have more than ten employees during a tax year, you will have to consider your software requirements – we can help in this regard. Even if you can use the HMRC software, you will still need to register to file online. If you have previously handled payroll matters yourself, but, perhaps in view of the new requirements, should like us to handle the 2009/10 year end, please could you let us know as soon as possible so we can make the necessary arrangements. We should also be pleased to quote for ongoing weekly or monthly payroll calculation work if required.

We are registered as payroll agents by HM Revenue & Customs (HMRC) and are able to file both the year-end Employer's Annual Returns and all "in year" returns for you. This work is preferably done subsequent to form FBI2 being submitted to HMRC, which authorises us to act as payroll agents for your business and enables us to receive copies of all the employer notices and filing confirmations directly from HMRC.

However, PAYE is slightly different from the other online services in that no official authentication code is required for each client and therefore we can, if need be, submit returns for clients without the submission of form FBI2.

If you require any assistance in complying with the new PAYE rules in respect of online return filing or have any other PAYE or payroll query, please do not hesitate to call or email Lesley Knell, who is based in our St Ives Office (01480 468931 or email Lesley@paulahill.co.uk).

2. HMRC LATE FILING PENALTIES EXTENDED

Linked to the extension of online filing is a major extension and rationalisation of the penalties for lateness with regard to virtually all tax returns and payments; Companies House has already made similar changes – see section 3 below. The same penalties will apply to all "business" taxes and to Stamp Duty and Inheritance Tax, but not to Tax Credits, which are still seen as "something different".

PAH comment: Perhaps the most significant change is that for the first time penalties will be charged for failure to make in year PAYE returns on time or pay over PAYE deductions when due. It is often argued in the press that the Government charges Stealth Taxes on motorists in respect of speeding, parking and other offences and the changes to these penalties could now be said to be simply Stealth Taxes on business and jobs. However, forewarned is forearmed and it would be wise to assume that if any return and/or payment is late, there is the possibility of a penalty, in addition to interest being charged on a late payment.

Having said that, the new penalties will be introduced over a number of years, because of changes required to HMRC computer systems. The first stage will be the introduction of penalties for late payment of in year PAYE, intended to start in April 2010. At present, PAYE payments are only formally "determined" on an employer following the submission of form P35 at the end of the tax year. Whilst payments are required on a quarterly or monthly basis (the quarterly payment option only being available to employers having an average monthly payment of less than £1,500) and reminders are issued if any payments are missed, at present there is no penalty for missing a payment and no interest is charged, provided the total due for the tax year was paid by 19 April after the end of each tax year.

However, from April 2010, this is intended to change and from then on penalties and interest will be charged for missing "in year" payment dates. In rules that have clearly been uplifted from the current VAT regulations, the amount of the penalty will depend on the number of defaults in any 12 month period. There will be no penalty the first time an employer defaults on a PAYE payment, but at that time a default notice will be issued advising the employer that a 12 month "default period" has commenced. A second and any subsequent failures in the default period will attract a penalty of 2% for the second, then 5% of tax (and NICs) unpaid. If any amounts remain unpaid for more than six months, a further 5% penalty will be incurred.

Once a penalty has been incurred, a full 12 months "clear" are needed before the position moves back one level. For example, an employer missing one payment, must have a full 12 months "clear" before a second default will not result in a 2% penalty, etc.

PAH comment: As noted above the penalty system for PAYE payments has been "lifted" from the default surcharge rules for VAT. However, in my opinion, these two taxes are completely different in nature and what may be suitable for VAT is simply unfair for PAYE. Under the "cash basis" VAT rules, a trader does not have to pay VAT to HMRC, until such time as the customer has paid. However, under PAYE, a cash-strapped employer may have the money to pay their staff the net pay due to them, but not the PAYE, including employer's NICs, due. Should an employer tell their staff – sorry I cannot pay you as I will be fined if I don't pay the PAYE; it is just not going to happen.

The only saving grace in all this is that late payment penalties will not be charged during an agreed time to pay arrangement with HMRC, unless the employer defaults or misuses the arrangement.

Planning point: From next April it will be vital for all businesses to consider their cash flow requirements much more carefully than previously and to seek a "time to pay" arrangement using the Government's Business Payments Support Service or its successor, in advance of each PAYE monthly payment date, if required. If you require any help to draw up a cash flow forecast for your business, please get in touch. I comment more on the Business Payments Support Service in section 12 below.

You may be wondering how HMRC is going to police this new system, given that, unlike with VAT, a formal return of information to HMRC is only made annually. I understand that from 2010/11 the annual PAYE return, Form P35 will be substantially extended to include not only annual totals, but a breakdown of the amounts payable on each monthly or quarterly PAYE/NICs payment date. As virtually all PAYE returns will have to be made online, HMRC do not expect this additional requirement to add any burden or cost to employers. However, unless you send nothing at all at a payment date, in which case a default notice will be issued and then if there is a subsequent non-payment, a penalty notice issued, it will not be until after the form P35 has been processed – it is due for submission by 19 May each year, that HMRC will be able to finalise the position. If there is genuinely no payment due at a particular payment date in year, you will be able to certify this to HMRC by returning the default/reminder notice sent out, to confirm the position, but it will be all the more important to do this promptly.

For the more imaginative reader!, I must also point out that there is some strict anti-avoidance legislation that has in fact always been in place, to prevent employers from altering the dates on which PAYE/NICs are due and most of you will also be aware that there is a special NIC treatment for Directors, to make sure a "fair" amount of NICs are paid by them.

For other returns and payments, the penalty system is being aligned with that already in force for self-assessment income tax returns and payments, but then also extended – the extension will also apply to self-assessment returns. There will be a fixed penalty of £100 for failure to submit a return by the due date. The extension is that there will be daily penalties of £10 per day in respect of returns more than 3 months late, up to a maximum of 90 days – giving a total of penalty of £1,000 if a return is six months late. Beyond that, there will be tax-gear penalties of 5% for a return more than six months late, a further 5% being charged for every further six months a return is late.

I would stress the above penalties are for late submissions of returns, there are separate penalties for late payment of tax. As with current Income or Capital Gains Tax payments due on the submission of a self-assessment return, there will now be a penalty (c.f. surcharge) of 5% of unpaid tax one month after the payment due date (or after the filing date of the relevant return for Corporation Tax and Inheritance Tax, because the payment date and the filing date are not the same for these taxes). A further penalty of 5% will be incurred if payment is more than six months later and again every six months after that, but as with late payment of PAYE referred to above, penalties will not be imposed if tax is being paid under an agreed time to pay arrangement.

In addition to the penalties set out above, interest will also be charged on tax paid late, including tax paid late under an agreed time to pay arrangement – but this is probably at a lesser rate than you will pay on a bank overdraft – see section 12 below. There are also another set of separate penalties for incorrect returns – see section 13 below

Planning point: As noted above re the new PAYE payment penalties, the key to this is cash flow planning and if you cannot pay any tax on the due date, to agree a time to pay arrangement as soon as possible. Whilst these have been very easy to arrange in the past year, it is likely in future some cash flow projections may well be necessary to support the fact you cannot pay and the proposals you are putting forward; if you need help to put a formal cash flow forecast together, please get in touch.

3. CHANGES TO COMPANIES HOUSE DATES AND FINES

With immediate effect, there are changes to the Companies House filing deadlines for accounts and their fines for late filing have been substantially increased.

For all accounting periods starting after 6 April 2008, in most cases this meaning accounts for the year ended 30 April 2009 and subsequent dates, the filing period for private limited company accounts has been reduced to 9 months (previously this was 10 months). One of the arguments for this change is that this aligns the filing date with the date for payment of Corporation Tax and there are also some moves afoot for the accounts submitted to Companies House also to be used by HMRC for tax purposes, but this is still a few years off so no more on that at present.

On good thing that has come out of this is that the very odd rule that ten months after the 28 February was considered by Companies House to be 28 December not 31 December, has been abolished and months now means "calendar" months with nine months after 28 February being 30 November!

However, the fines for late submission have been substantially increased and for a private limited company or limited liability partnership are now as follows:

Length of delay in filing	Penalty for private limited company or LLP
Not more than one month	£150 (previously £100)
More than one month but not more than three	£375 (previously £100)
More than three months but not more than six	£750 (previously £250)
More than six months	£1,500 (previously £500 for six to 12 months then £1,000)

Where we prepare company accounts on your behalf, we ask that you let us have your records no later than four months after the accounting reference date and with the changes to the late filing penalties, this has become all the more important.

Planning point: For the majority of our clients, we are able to file accounts online at Companies House, which means we are not beholden to the postal system to get accounts and indeed many other documents to them on time.

4. SERVICE ADDRESSES FOR DIRECTORS AND SHAREHOLDERS

In October 2009, the final parts of the Companies Act 2006 will be brought into force. For most of you, there are no significant "required" changes, although the format of the "Memorandum and Articles" for new companies registered from October 2009 will change and the numbering of forms you may have become used to will also change. In addition, for accounting periods starting after 6 April 2008 – as with the change to the filing date referred to above, this practically meaning accounts for the year ended 30 April 2008 and later, references in your accounts will be to the Companies Act 2006 as opposed to the Companies Act 1985.

However, there is one significant "voluntary" change in that from October it will be possible for a director or shareholder to place a "service" address, rather than their home address on the public record at Companies House.

For some years, it has been possible for a director or shareholder who considers themselves to be "at risk" from the publication of their home address to apply for a "confidentiality order" and to use a service address, but the requirements for this have been very difficult to satisfy and in most cases required the police to support the application – we have had only two clients with such orders over the years. However, in this age of identity theft, it is now considered that the benefit to the public from the home addresses of directors and shareholders being on the public record is outweighed by the potential risks.

Planning point: We are pleased to allow directors and majority/family shareholders of clients to use 3 Bull Lane as a service address and if you would like to change the address on file at Companies House to 3 Bull Lane, please let us know. It will be easiest to do this the next time the Companies House Annual Return is completed and if you let us know you would like to do this before that next comes to be completed, this will be also be the cheapest way for us to deal with this on your behalf. If you want to do it earlier, a change of director's details form can be submitted, but as shareholder information is only included on annual returns this cannot be altered until the next return is submitted.

However, there is one "problem" in that information already on file at Companies House from previous documents will not be removed, unless you can show that you are at risk from this information remaining on the record – to do this you would need to qualify for a confidentiality order under the old rules for these; there will also be a charge to cover the costs of the removal. Accordingly, whilst doing this at the next opportunity is possible, it will not be until you change address that it would be impossible for someone to look back to find your home address. We will assume you do not want to make a change unless you advise us that you do.

5. NATIONAL MINIMUM WAGE INCREASES FROM 1 OCTOBER 2009

Lesley Knell advises that the national minimum wage is now reviewed on an annual basis and will again increase as of 1 October 2009. From that date the NMW for workers aged 22 and over will be £5.80 per hour (up from £5.73), for those aged 18-21 £4.83 per hour (£4.77) and for those aged 16 and 17 £3.57 (£3.53). In addition, as of 1 October 2009, it will no longer be legal for employers to use tips, service charges and gratuities paid to employees via payroll to top up wages to meet the national minimum wage.

Since my last newsletter, the law on how the national minimum wage is enforced has changed and employers who fail to pay the minimum wage will now face an automatic financial penalty of up to £5,000. In addition, HMRC can pursue arrears claims for workers going back up to 6 years.

6. INCREASES IN ISA LIMITS

From 6 October 2009 there are increases to the ISA limits, but for some reason, for 2009/10 these are limited to the over 50s only. We believe this is for taxpayers who will be over 50 on or before 5 April 2010, but you should check this with your provider.

The limit is being increased from £7,200 – of which £3,600 may be held in cash, to £10,200, of which £5,100 may be held in cash. Owing to the need for providers to change their systems, although the increase is for 2009/10, it is not possible to put in more than £7,200 before 6 October 2009.

Planning point: If you are saving the maximum cash amount on a monthly basis, you would be putting £300 per month into your ISA. If you are over 50 before 5 April 2010, you could increase this to £550 for the period from October 2009 to March 2010 to get in the maximum for 2009/10, although this would then have to decrease to £425 for the year commencing April 2010.

The use of an ISA is still an extremely tax efficient way of saving and we recommend that you consider using your maximum entitlement in each tax year.

7. HMRC COMPLIANCE CHECKS - OVERSEAS BANK ACCOUNTS

With effect from 1 September 2009, HMRC have launched a New Disclosure Opportunity for overseas bank accounts. This follows on from action taken a couple of years ago, when HMRC obtained a court order and was able to obtain information from the major UK banks about overseas accounts held by their customers. An "offshore disclosure facility" (ODF) was then set up for taxpayers whose details had been sent to HMRC to "come clean" and pay any tax due on their overseas holdings.

In particular cases, HMRC wanted to look back at up to 20 years of transactions on these holdings and I would stress this involved not only paying tax on interest paid on the accounts, but also showing HMRC where the money in the account had come from in the first instance, as this too could be taxable – and was in one of the cases we dealt with. The quid pro quo for coming clean was that there would only be a penalty of 10% of the tax due, although the tax itself would also have to be paid, plus interest from the original due date for payment.

HMRC are using information gathering exercises like this much more often these days as it gives them "leverage" – they get a lot of information about potential lost tax at once, rather than having to chase individual taxpayers.

Further to recent negotiations between the UK and other Governments, including most recently Liechtenstein, many of which have been reported in the press, HMRC has now obtained an order requiring over 300 further financial institutions to hand over details of accounts held by UK taxpayers. In conjunction with this, they are setting up what is being called the "New Disclosure Opportunity" (NDO) and inviting anyone who is liable to UK tax and has overseas holdings of any type not previously fully disclosed on a UK tax return, to advise HMRC of this and bring their UK tax affairs up to date.

Cases dealt with under the previous "ODF" do not need to be re-reported, unless subsequent income has not been accounted for on 2008 and or 2009 self-assessment returns.

Planning point: If there are any clients with any form of overseas bank account or other investment we are not aware of – including accounts used to "operate" holiday homes or other overseas property, please could you let us have details of these including the name of the institution, its full address and relevant account numbers as soon as possible.

What HMRC is looking for is to establish the source of any major funds paid into the account – drip feeding an account to cover ongoing expenses is not a problem, but the source of funds to pay for the purchase of an overseas property would be "of interest" and to check if any interest received on the account has been properly included on your UK tax return. If you do not already document "where" the money paid into an overseas account comes from, please could you start to do so and look back as far as you can and prepare a record of significant amounts - say more than £5,000, paid into your overseas accounts in that period. In turn, if any of that money is not "after tax" money from the UK or has not been disclosed on a UK tax return as overseas income, please get in touch with us as soon as possible to discuss whether this needs to be disclosed under the new "opportunity".

There is only a short period in which to do this and, as with the original scheme in 2007, first you have to notify an "intention to disclose"; this can only be done up to 30 November 2009. After that, the full disclosure can then be made up to 12 March 2010 – including details of the facts and a calculation of the tax due, taking account of any overseas tax that can be relieved under a double taxation agreement.

If the amount of tax due is less than £1,000, whilst tax and interest will have to be paid, a penalty will most probably not be charged. For amounts over £1,000, a penalty rate of 10% will apply to those who were not written to by HMRC under the ODF in 2007. Those to whom HMRC wrote in 2007, but who did not use the ODF, will have the opportunity to disclose, but will have to pay a penalty of 20%.

Once the disclosure window closes on 12 March 2010, those taxpayers who have not come forward, but are found to have unpaid tax liabilities, will face penalties of at least 30% and probably more likely up to 70% of the tax due, with the addition of increased risk of criminal prosecution.

If you have any queries on the new disclosure "opportunity" please do not hesitate to give Linda Harrison or me a call.

8. HMRC COMPLIANCE CHECKS - PROPERTY INCOME

Another area that HMRC is concentrating on is property income. They have the belief there is a substantial under-declaration of income from this source and whilst in previous years I might have disagreed with them, I think 2008/09 and 2009/10 may be exceptions.

The reason for my change of opinion is the reduction in interest rates. In recent years, for many people, the interest cost of the mortgage on their let property – please remember that it is only the interest cost

that can be deducted from rental income, not any capital repayments, has been relatively high and with normal wear and tear/repair expenditure, this has exceeded the rental income, giving a loss on the property for tax purposes.

However, with the interest on many mortgages having reduced substantially since 2007, it may well be the case that the interest cost has decreased to an extent that possibly in 2008/09 and even more likely in 2009/10, there will be a rental "profit" for tax purposes from many let properties. Where the land and property pages of a self-assessment return have been properly completed in previous years, there may well be a loss brought forward figure that can be offset against the current year profit and no tax will be payable – reduced losses then being carried forward against future income from land and property – I regret it is not possible to offset losses from let property, other than holiday lettings to which special rules apply, against "non-property" income.

In the same way as HMRC are getting information from banks and other institutions about overseas holdings, they are also getting information from mortgage providers about new loans. Where a loan is granted on a property that is not the normal address of the mortgagee, they will be crosschecking to see if land and property income is reported on a tax return. We understand they are also intending to do some more thorough research at the Land Registry in the near future, to try to identify owners of land who may not be reporting income from it.

Planning point: It is extremely important that you let us have details of any let property you may have, including lettings just of land, even if you think there is no profit from the letting. As noted above, it is just as important to establish and record losses that can be carried forward so that, for example when interest rates are low!, any profits do not end up being taxed just because brought forward losses have not been properly established.

If you know of anyone else who has let property and may need advice on the taxation issues – please also bear in mind that even if someone is not required to submit a self-assessment tax return for any other reason, if they receive any income from land and property they should advise HMRC of that and most probably will then be required to complete a return – failure to notify HMRC of such circumstances being an offence, please ask them to give Linda Harrison a call. We should be pleased to discuss the matter and advise them of their obligations, before they get a tap on the shoulder in the form of a letter from HMRC asking them some very awkward questions.

9. STANDARD RATE OF VAT BACK TO 17½% FROM 1 JANUARY 2010

Whilst many business organisations have pressed for a continuation of the 15% rate until Britain is "out" of recession and current economic indicators are that this will not have taken place by the end of 2009, the Government has insisted that the change back to 17½% will come into force on 1 January 2010, as previously advised. Whilst a week is a long time in politics, the potential three months between now and the pre-Budget report are an even longer time and it is of course quite possible that this will be changed, but we have to plan on the basis that it will not.

If you use a computerised accounting system and adopted the "S2" approach that we advocated when the change came in in December 2008, it will be a relatively straightforward matter to revert to using the S or S1 code – T1 in Sage, from the appropriate date. If you have any queries as to how to do this, with regard to your own particular system, of course please do not hesitate to give either Kim or me a call.

Planning point: Whilst HMRC typically don't show an awful lot of interest when VAT is charged at a higher rate than it might have been, which could of course occur when there is a decrease, they will show an awful lot more interest in checking that VAT has been charged at 17½%, as opposed to 15% with regard to the change back in January.

Accordingly, it is extremely important that you look carefully at your invoicing to make sure that the correct rate is charged. With supplies of goods, the "tax point", being the date on which VAT has to be charged is usually clear, but it may be possible to accelerate that date such that VAT can be charged at 15% as opposed to 17½%. Where a bigger issue arises is with the supply of services, particularly services supplied either continuously or at least "over a period" and that period straddles at least December 2009 and January 2010.

It is arguable it “does not matter” if you charge VAT at the higher rate to a customer who can themselves reclaim the VAT, but of course they then have to pay the extra 2½%, which you never know may be just that little bit extra they find difficult to finance in the current economic circumstances – this perhaps resulting in the whole amount due to you being delayed. However, the position is different for a person who cannot reclaim the VAT, they will have to pay you 2½% more! – HMRC will be very interested to make sure this is charged correctly.

Accordingly, we would recommend that you consider sending invoices dated towards the end of December for services up to 31 December 2009, to all customers – to bring matters fully up to date as at the end of the year. In general terms, these invoices will be subject to VAT at 15%, although you should not, in doing this, bring forward services that would otherwise be charged in 2010, as this is the subject to specific anti-avoidance legislation and we would expect a penalty of 30% to be charged, for not taking “reasonable care”, if this matter is discovered.

10. VAT ON SERVICES PROVIDED OVERSEAS BUT WITHIN THE EU OR PROVIDED FROM ELSEWHERE IN THE EU INTO THE UK

From 1 January 2010 there are going to be some changes to the “place of supply” rules with regard to intra-EU services performed overseas. These rules have historically been extremely complex and have depended upon the type of service undertaken. However, the basic rule has been that the services are performed where the supplier “belongs” and this rule is to be turned on its head, with the service deemed to be supplied where the recipient belongs. This applies both to intra-EU services provided by a UK business to an overseas customer and in respect of an intra-EU service received from overseas by any UK VAT registered business.

In many cases, this will not result in any change in the way in which VAT is calculated, but there are administrative issues that will need to be addressed and probably changed. In particular, if you are supplying intra-EU services to overseas customers it now becomes vitally important for you to have the VAT No. of your overseas customer in their country. It remains the case that if an EU based customer is not registered for VAT in their country then UK VAT will almost certainly need to be charged.

I understand, this change in the rules will not mean you are deemed to be supplying services in the overseas EU country, but instead, it is likely that your customer will have to “reverse charge” the invoice on their VAT return.

Planning point: As well as recording your customer's VAT registration number on the invoice it is also necessary for you indicate that you expect the customer to reverse charge the invoice in their country. To do this you should mark the invoice in one of the following ways:

- ☞ 'Reverse charge supply'.***
- ☞ 'This supply is subject to the reverse charge'.***
- ☞ 'Subject to reverse charge in the country of receipt'.***
- ☞ 'Subject to reverse charge in another member state'.***
- ☞ 'This is a UK exempt supply which may be chargeable in the country of receipt'.***
- ☞ 'This is a UK exempt supply which may be chargeable in another member state'.***

These descriptions have been taken from HMRC Information Sheet 10/07 on invoicing procedure, which can be obtained from the HMRC website – if you have any difficulty obtaining a copy please contact Andrew Coates in St Ives and he will send you one.

In addition to this procedure, from 1 January 2010, if you supply services overseas, you may have to complete an “EC Sales List” as well as your normal VAT return form. More information about the requirements is included with VAT returns currently being sent out. EC Sales Lists are exactly what they say and require you to advise HMRC of the sales made to each overseas VAT registration number you have traded with in a calendar quarter.

Planning point: If you are required to complete an EC Sales List, please note this is for a calendar quarter, regardless of the normal VAT quarter you use. In addition, there are penalties for late completion in the same way as for returns. Unfortunately, only the higher, and therefore more expensive, versions of many computerised software packages allow the automatic production of EC Sales Lists as well as VAT returns, as hitherto these have only had to be completed by traders making substantial sales of goods overseas. It remains to be seen if software providers will incorporate a facility in simpler versions of their packages, now that there is a more general requirement for these documents to be prepared for services as well as goods.

If you prepare your own VAT returns, please look carefully at the information that is sent to you and, if necessary do some further research on the requirements to make sure you will not fall foul of the new rules. If you need any assistance, on any aspect of the new requirements – e.g. it is possible to register for and submit EC Sales Lists on line as well as VAT returns, please do not hesitate to give Kim or me a call. If we deal with your VAT returns for you, when we next prepare your return we will consider the position and advise on the new requirements.

11. VAT ON OVERSEAS EXPENSES

It has always been difficult in the past to reclaim any overseas VAT that you have suffered for any reason. When travelling abroad on business you will frequently pay VAT that if you had incurred it in the UK, you would be able to reclaim on your UK VAT return. However, the processes for claiming overseas VAT have been complex and have usually involved filling in a form, in another language and sending it directly to the VAT authorities in every relevant country.

Planning point: From 1 January 2010, instead of making a claim directly to the country concerned, it will be possible to make a claim for overseas VAT to be reimbursed directly to the UK authorities. I would stress that the UK authorities will not repay the claim themselves, but will instead act as an agent in collating claims and forwarding these to the fiscal authority in the other relevant EU state. I have no real idea how long a claim might take to be paid or indeed whether every claim will be paid - I am aware that, for example, in Eire, it may not be possible to reclaim VAT on all the same expenses that you can reclaim it on in the UK, as there are different rules.

This process should enable much smaller claims to be processed at a sensible cost and if you do have overseas VAT that you have suffered, first of all I would recommend that you don't try and make any further claims before the end of the year and secondly that you look out appropriate VAT invoices to see if you are able to make a back claim, it is not clear at present how far claims may be able to be back-dated, but I would expect this to be probably up to about 3 years.

12. BUSINESS PAYMENTS SUPPORT SERVICE

As of September 2009, this service remains available, but how long that will be the case must be doubtful, following recent publicity that some £3 billion of tax debts have been deferred. However, let us hope that the Chancellor sticks to his guns and this simplified approach to getting HMRC to agree "time to pay" arrangements remains at least until the economists decide the recession is officially "over".

To quote from the original publicity:

"If you are worried about being able to meet tax, National Insurance, VAT or other payments owed to HM Revenue & Customs, or you anticipate that payments becoming due will cause you problems, you can call our business payment support line on 0845 302 1435. The line will be open Monday to Friday 8 am to 8 pm, Saturday and Sunday 8 am to 4 pm.

This support line is intended for new enquiries only, if you have already been contacted about an overdue payment or if you already have a payment arrangement with HMRC please call the original office that contacted you, who will be ready to discuss payment arrangement options and explain how to avoid legal action being taken".

The HMRC website originally suggested that callers to the line should have the following information available,

- ☎ your tax reference number
- ☎ detail of the tax that you are having or will have trouble paying
- ☎ basic details of your business's income and outgoings.

but in practice, cash flow information has not been requested unless a substantial deferment has been requested – for example until later than the next similar payment would expect to be made.

PAH comment: It is clear that many businesses have taken advantage of the scheme to replace bank overdrafts or other borrowings, effectively with an overdraft from the Government at a lower interest rate. Whilst there is absolutely nothing wrong with that, if the Chancellor is reviewing the scheme before the pre-Budget report 2009 – as I say, the timing of this could be at any point between about mid-October and mid-December, this may not be how he thinks the scheme should operate! In the meantime, it remains a very useful scheme and I would recommend you take advantage of it if you need to. However, if the scheme is still in force, do not wait until the day after the pre-Budget report to apply for a deferment!!

Looking forward, as noted in section 2 above, if penalties for late payment are not to be incurred, cash flow planning for tax payments will be an essential part of business life from April next year. Let us hope that if this simplified service is withdrawn, it is replaced by something else that is relatively simple for businesses to use if they need to agree a time to pay arrangement.

13. PENALTIES FOR INCORRECT RETURNS

In section 2 above I set out the new penalties for late filing of returns and late payment of tax, but it should not be forgotten that with effect from any return due for submission after 5 April 2009, there is also a new penalty regime for incorrect completion. The following notes on these new penalties have been compiled by Linda Harrison, who is in overall charge of our direct tax services to clients, including Income Tax and Corporation Tax. If you have any queries, please do not hesitate to give Linda a call in St Ives on 01480 468931 or email Linda@paulahill.co.uk.

- As well as applying to Income Tax and Corporation Tax, the new penalties also apply to inaccuracies in returns or other documents for VAT, Construction Industry Scheme (CIS), Capital Gains Tax (CGT) and employers' PAYE (Pay As You Earn) and National Insurance Contributions (NICs).
- The new rules introduce graduated financial penalties based on the "behaviour" of the taxpayer and the nature of the corresponding error resulting in the inaccuracy. These range from no penalty for a mistake made after taking reasonable care to 100 per cent for deliberate and concealed inaccuracies.
- Penalties for inaccuracies will be a percentage of the extra tax payable (or not repayable) as a result of correcting the inaccuracy. The percentage is based on a number of things including the behaviour that gave rise to the inaccuracy, but a penalty will only be charged where an inaccurate document either amounts or leads to an understatement of the person's liability to tax, or a false or inflated statement of a loss by the person, or a false or inflated claim to repayment of tax.
- An inaccuracy made by a person in a document or return may be:
 - an inaccuracy made despite the person taking reasonable care,
 - careless, or
 - deliberate but not concealed, or
 - deliberate and concealed.

- The amounts of penalty chargeable shown below relate to the potential lost revenue:

Reason for penalty	Type of inaccuracy	Maximum penalty payable
Giving an inaccurate document	Having taken "reasonable care"	0%
Giving an inaccurate document	Careless	30%
Giving an inaccurate document	Deliberate not concealed	70%
Giving an inaccurate document	Deliberate and concealed	100%
Understated assessment not notified	Treated as careless	30%
Inaccuracy discovered later but no reasonable steps taken to tell HMRC	Treated as careless	30%

- The amount of penalty charged can be mitigated where the taxpayer makes a "disclosure" and HMRC may reduce the penalty depending on the quality of such a disclosure.
- There are two elements to consider:
 - whether the disclosure is prompted or unprompted, and
 - the quality of the disclosure.
- Definition of an unprompted disclosures and mitigation allowed
 - Where the taxpayer advises HMRC about an inaccuracy or an under-assessment, this is a disclosure.
 - An unprompted disclosure is made at a time when the person making it has no reason to believe HMRC has discovered or is about to discover the inaccuracy or underassessment.
 - Otherwise it is a prompted disclosure.
 - For an unprompted disclosure, each penalty can be reduced by up to half of the maximum penalty.
 - The table below shows the maximum and minimum penalties for each type of inaccuracy:

Type of disclosure	Penalty	Careless	Deliberate but not concealed	Deliberate and concealed
Unprompted	Maximum	30%	70%	100%
	Minimum	0%	20%	30%
Prompted	Maximum	30%	70%	100%
	Minimum	15%	35%	50%

PAH comment: Where we prepare tax returns for clients, our procedures are designed so that you can demonstrate you did take "reasonable care" over your returns, but it is now all the more important you supply all the information and documents we ask for and contact us to discuss any aspect of your affairs you are uncertain about.

The Finance Act 2008 includes a provision to extend the new regime for penalties for incorrect returns to all other taxes and duties that HMRC administers, including IHT and stamp duty, from April 2010.

14. HOW OWNER MANAGED BUSINESSES CAN AVOID HIGHER TAX RATES – TIME TO PLAN AND SPLIT INCOME AROUND THE FAMILY?

The announcement of new 50% and 60% (see below) income tax rates and restrictions on pension contributions for high earners was the one big surprise in the April 2009 budget. Whilst proposals for some additional tax on high earners, including a partial restriction of personal allowances and a 45% tax rate, but only from 2011/12, had been put forward in the pre-Budget report by April the Chancellor had changed his mind and considerably increased the tax for those earning more than £100,000.

Also, buried in the detail are a number of "odd" provisions that mean even if the final income you pay tax on is less than £100,000, for the purposes of determining loss of personal allowance, you may be deemed to have income of more than £100,000! At the £150,000 threshold, some complex anti-avoidance provisions in connection with pension contributions could mean, admittedly in some slightly contrived circumstances, 1p extra income resulting in a multi-million percentage tax charge.

In summary, from 6 April 2010, taxpayers with income of over £100,000 will begin to lose their personal allowance. The way this works means taxpayers with an income of between £100,000 and about £113,000 will have a marginal rate of tax of 60% until the allowance is extinguished. The marginal rate then reverts to 40% until income of £150,000 is reached, before the 50% rate "kicks in". So if you don't want to pay any more tax at 40%, 50% or 60% than your family or if you own a business with a colleague or colleagues both your and their families NEED to pay, read on.

PAH comment: In addition to the increases in income tax, please bear in mind that all forms of NICs will increase by 0.5% from 6 April 2010.

I appreciate not everyone has or can aspire to an income of £100,000 per annum, but if you do, including if you are "saving up" in a company for retirement or another special event and may want to withdraw more than £100,000 in any year after 5 April 2010, you have some thinking to do!

Planning points: The key to all of this is PLANNING!!

The simplest planning is to bring forward the date of an income withdrawal to 5 April 2009, such that it falls as income in the 2009/10 tax year and is subject to a top rate of 40% with no loss of personal allowance. This does have the disadvantage of bringing forward any tax payable on the relevant amount to 31 January 2011 and the discounted cash flow effect of that should be measured before this is done.

Other planning opportunities also arise, for example to "smooth" drawings from a company over a number of years, to ensure the 50% rate does not creep into your tax calculation unnecessarily.

In addition, as the Government appears to have "given up" on trying to introduce legislation to prevent "income splitting" within "families", it is good tax planning to make sure that income is "split" to reduce tax – the definition of income splitting being when those persons performing services that produce the income for a family or owner managed small company are significantly different from those sharing the income from the company.

It has always been a sensible strategy to consider income splitting if some family members are paying tax at 40%, whilst others are not using up their basic rates bands, but this becomes all the more important where some members of a family, but not others, might be affected by the £150,000 50% or £100,000 loss of personal allowance (60% marginal rate) thresholds.

As with all tax "strategies," it is important to make sure all the supporting documents both with regard to how the individual family members have a right to share in the income and then concerning how the income is actually paid out, are properly completed; we are pleased to deal with all of these matters as part of our services to our clients.

If you are going to retire shortly, there is a one-off opportunity to treat some income as a capital gain on the dissolution of your company when you cease trading. In most circumstances of owner managed companies, any monies left in the company on "cessation" and distributed to shareholders on the company applying to be struck off the register can be treated as payment for your shares in the company and subject to capital gains tax rather than income tax – for many of you this will be at a rate of 10%!!!!, assuming entrepreneurs relief is available to you. (For the more imaginative amongst you – there is anti-avoidance legislation to prevent you doing this every couple of years or so!!)

As I say, the key is planning your income streams from your business over the next few years – we should be pleased to assist with any aspect of this.

It should also be borne in mind that the Finance Act 2009 introduces some complex rules for those earning more than £150,000, with regard to restriction of relief for pension contributions, from 2011/12, and also with more immediate effect, in respect of the amounts such taxpayers are allowed to put into their schemes in any event. These rules are too complex for this newsletter, but do not seem to apply to contributions made by a company.

Planning point: If you are thinking of making personal pension contributions of more than £20,000 per annum from 2010/11 and expect to have income of more than £150,000, please contact us to discuss the position, or it is possible some extremely high tax charges might result.

15. TRUSTS AND THE 50% RATE OF INCOME TAX

This Government considers trusts are simply a tax avoidance device for sheltering income or assets from tax and with very minor exceptions to do with disabled people, has sought to minimise any tax advantages they provide. Part of this is to change the rate at which trusts pay most of their income tax to the very highest rate applicable – currently 40%, but with the top rate, albeit only for taxpayers earning over £150,000 going up to 50% from 6 April 2010, the "Rate Applicable to Trusts" (RAT) is also to increase to 50% from 2010/11 (42½% for dividends, again the same as for "over £150k" taxpayers).

Planning point: Trustees will need to bear the new rates in mind when making distributions, to make sure they retain sufficient funds to pay the tax. Although, in many circumstances, the beneficiary will, be able to reclaim the tax, the trustees still have to pay it in the first instance!

There are two other potential changes trustees might make, the first being with regard to the investments made by the trust, e.g. it might be beneficial for trustees to invest in single premium bonds. These bonds allow 5% to be drawn each year as a return on capital and thus no tax at 50% requires to be paid. There will be no IHT exit charges with modest trusts and income producing investments in the bond are not subject to tax either at the trustee level or for the beneficiary until the bond is encashed. As with any other investment, trustees should seek independent financial advice on which particular product to choose.

It may also be desirable to change the interest of beneficiaries. The trustees' discretion could be removed and the trust converted to an interest in possession trust (IIP), if that is permissible under the trust deed. IIP trusts only pay income tax at the basic rate or, to the extent their income consists of dividends, no further tax at all. A beneficiary who is a 40% or higher taxpayer will have further tax to pay, but this would be the case in any event.

Planning point: Where we act for trusts we are actively talking to trustees when preparing 2009 self-assessment returns, but we are aware many clients have family trusts for whom we do not act, these being dealt with a member of the family who is perhaps not our client, or by solicitors.

Following the substantial changes to Trust taxation in 2006 and now the 50% rate coming in, it may well be the time for a tax based review of how your family or will trust operates. If you would like us to undertake such a review, please give Linda Harrison a call in St Ives on 01480 468931 or email Linda@paulahill.co.uk

16. CHECK YOUR PERSONAL FINANCIAL PLANNING IN 5 MINUTES!

Personal financial planning is something that most of us always put off until it is possibly too late to do anything sensible on a reasonable timescale – simply because it is too difficult!

If you haven't reviewed your pensions and investments recently, now is a good time to do so. Whilst Paul A. Hill & Co. are not independent financial advisers, we have we have asked Tyrrell & Company Independent Financial Advisers LLP t/a A & S Independent Financial Advisers to provide the ongoing servicing and advice for any Paul A. Hill & Co. client who requires advice and does not have their own preferred adviser.

A & S Independent Financial Advisers are just that and specialise in working with and advising clients of accountants. Nigel Tyrrell, the lead partner is available to address any concerns you may have about your current investments and recommendations for new opportunities going forward. If you would like any assistance, I will ask Nigel to make contact with you over the coming months to introduce the services available and to offer a review of your existing plans. In the meantime, if you would like to meet Nigel earlier, please give Kim or me a call and we will arrange for Nigel to contact you straight away.

Planning point: To help you decide if you need to make any changes to your arrangements, in conjunction with Nigel Tyrrell, we have prepared a "5 Minute Financial Health Check", which, as the name implies, should take no more than 5 minutes to complete. On completion, we will forward this to Nigel and ask him to review your position and contact you to discuss if any changes need to be made.

If you would like a copy of the "5 Minute Financial Health Check" please do not hesitate to give Claire Jackson or Andrew Coates a call in St Ives on 01480 468931.

17. GET ON A TAX EFFICIENT BICYCLE – THE CYCLE TO WORK SCHEME

A little while ago one of our London based clients drew our attention to the "Cycle to Work" scheme, which I will have to admit, whilst I had heard of, I had no real idea how it operated. Having now looked at the scheme for them and also being asked about it by another client very recently, I feel this could be of broader interest than I first thought – so here are some details.

If employees of a business cycle to work then it is possible for the employer to assist them to buy a new bicycle for this purpose in a tax and NIC efficient manner.

The basic concept of the scheme is that the employer buys a bicycle and safety equipment, such as a helmet on behalf of an employee. The bicycle must be used primarily for commuting and therefore suitable for this purpose, this would include a folding bike that can be taken on a train, but not children's bicycles. Under the scheme, there are savings for both the employer and employee, however, the cost of the bike must not exceed £1,000, including VAT; otherwise, the company will need to obtain a consumer credit licence.

For example, if an employer were to purchase a bicycle at a gross of VAT cost of £1,000, VAT of £130.44 could be reclaimed. The bicycle is then owned by the employer over a twelve month period and leased to the employee who pays the full costs (less VAT) over 12 months. The net cost of the bike, plus any accessories, is repaid by the employee as a "salary sacrifice" arrangement over 12 months from gross pay with no deduction of tax or NIC. Using the above example, the salary sacrifice of the employee would be £869.56, which equates to £72.46 per month. Taking account of the tax and employee's NI the employee would save (assuming a basic rate taxpayer) £22.46, the net cost per month to the employee would be approximately £50; the employee getting a £1,000 bike for £600.

In turn, the employer would pay the employee less salary, but would be paying the equivalent amount for the bicycle. The company would save money only on the reduction of Employer's NI as a result of the salary sacrifice. Again, using the above example, the company would save ERNIC of 12.8%, which would be £111.30. The net cost of the bike would also be written off in full in the capital allowances calculation.

At the end of the 12 month period, the employer would transfer the title to the bike to the employee. There are some rules and restrictions, but so long as the bicycle is used for commuting, the scheme works; if you are interested, please do not hesitate to give Kim or me a call.

18. DON'T GET CAUGHT ON A PHISHING LINE

A considerable number of clients have contacted us recently after receiving emails purporting to be from HMRC, suggesting they are entitled to a tax refund and asking them to "log in" to progress the refund process.

PAH Comment: THESE EMAILS ARE NOT FROM HMRC – WHO WILL NEVER CONTACT YOU BY EMAIL IN THIS WAY

Technically, this is known as "phishing" – pronounced fishing, and is an attempt to get you to provide financial details, such as bank account numbers, for these to be used in future fraud. If you receive such an email we recommend you delete it immediately – if you are due a tax refund, we will tell you about it!

Our business grows mainly by referrals and we are always looking for new clients. I should appreciate it if you could let me know of any colleagues, customers or associates who may be interested in the way we do business. Thank you.

PAUL HILL

This newsletter is prepared for the general information of clients and contacts of Paul A. Hill & Co. only. No liability can be taken in respect of any action taken or not taken because of relying on the information contained in this newsletter alone. Only the general position can be stated here and there are often qualifying conditions or other criteria that affect the way in which tax relief is given or other proposals will affect you or your business. You should always take individual advice based on the exact circumstances that you have before taking any form of action, or indeed refraining from any action.

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