tlp - news

December 2008 **The monthly newsletter of The Long Partnership — www.thelongpartnership.co.uk**

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Quote

"We are formed and moulded by our thoughts. Those whose minds are shaped by selfless thoughts give joy when they speak or act. Joy follows them like a shadow that never leaves them."

-- Buddha

December Dates:

Tue/Wed - Alan & Helen in Thurso

15 Mairi in Thurso

Closed from 23 December until 5 January 2009

Dear Alistair

What a week you must have had. Your backroom staff at the Treasury must have been burning the midnight oil weighing up all the advantages and disadvantages of all the measures available to you, making sure they are carefully targeted and designing them for maximum impact. We hope it works the way you expect! Don't think back to the 0% Corporation Tax farce or the tax credit mess, you have to move on. I am sure this scheme will work better, you will have learned from your past mistakes and it is bound to go right this time. Fingers crossed!

Your timing was interesting. Our retailing clients were just about ready for the Christmas rush so will have had plenty of time to re-price all their stock and reprogram their tills. It is funny how something like this shows up how old some equipment is and how difficult it can be to change simple things like the vat rate. Still, they can always buy new tills can't they? We realise that many of them had already cut their prices to boost sales but it never hurts to cut them a bit more.

The change in vat rate will also be good for our other vat registered clients. No doubt you will have realised that people get lazy when the vat rate has not changed for a while and many will not even realise the real significance of a Tax Point. John Scollay in the vat office in Wick is going to have his work cut out explaining this to everyone he meets just before he hits them with an assessment. Vat registered traders are now going to have to learn the rules of Tax Points for the transition to the 15% vat rate and then they will get a refresher next year when they have to do the whole thing again in reverse. That'll keep them on their toes.

It was kind of you to be concerned about us professionals and especially as we enter the final stages of the "Tax Return Season". It was a simple matter to change our own accounting software so do not be concerned about us. It was a bit trickier to advise our clients, many of whom do their own bookkeeping and so need clear advice on how to account for vat. Advice from Sage and others is trickling down but there seem to be so many complications for the small business these days. It is going to be an interesting few weeks.

We have had a bit of fun with our standing orders. As you may know, we try and help our clients to budget for our fees by offering 12 month fixed price agreements. Many now pay us by monthly standing orders. Luckily, most of our standing orders are received in the middle of the month so we had a couple of weeks to get revised standing orders sent out, signed and submitted to the banks. I have no doubt that there will be some that are not submitted in time or that the banks loose or fail to implement as usual and we will then have to send out refunds, but the amounts will not be large and so the biggest hassle will be writing the cheques and posting them. New agreements entered into from January will need to be revised again next year when the rate reverts to 18.5% , sorry 17.5%, but December is a quiet time when we can get all this organised.

The change in vat rate seems to have been carefully targeted. Please correct me if I am wrong but the main beneficiaries of the reduction in the VAT rate are obviously those who cannot recover VAT. 'Jo Public' is going to have to be spending on a grand scale to notice the effect of a 2.5% reduction on its Christmas credit card statement. However, banks and other financial institutions bless 'em, pay millions annually in professional fees amongst other costs and they cannot reclaim the vat on these fees. Charities will also gain from the reduction although most charities that we deal with are quite small and unlikely to notice much change in their cash flow.

There is another class of VAT beneficiary in the shape of anyone contemplating major home improvements. Unlike new builds, VAT is not recoverable on alterations and so now is, bizarrely, the best time to start on that extension. Presumably you planned this to help the small builders , but you may need to explain it to those people presently tightening their belts and battening down the hatches because of all the doom and gloom experts on the telly.

Anyway, all the best for Christmas and the New Year, may it bring you what you deserve.

Alan, Helen and the team at TLP

PBR 2008: A round-up of small business measures.

Corporation tax rate

The planned increase in the small company rate of corporation tax will not now happen from 1 April 2009. The increase has been deferred until 2010. The Finance Bill will once again set the small company rate at 21%, and thus the marginal rate will remain 29.75% on profits in excess of £300,000, assuming no associated companies. This impacts on decisions about incorporation.

Income shifting

Although Government ministers remain committed to taking action on this, common sense has prevailed. Now is not the time for this legislation (one might add that there probably isn't a sensible time to do it!). It is possible that a wider review of the taxation of small businesses may present the opportunity for reform along different lines.

Taxpayers Charter

The new Charter for HMRC will have statutory backing, through Finance Bill 2009.

Tax simplification

There is an ongoing exercise to try to simplify tax computations for small companies. The team at HM Treasury have canvassed widely among potentially interested parties to establish how material simplification could be achieved.

Help with tax payments

These special measures are for businesses only. Time to pay arrangements will be available for viable businesses which have a specific reason for being unable to pay.

Current indications are that HMRC has committed to this at a very senior level, in the interests of protecting small businesses (and the jobs they provide) through the recession.

When a time to pay has been agreed, there will be no VAT default surcharge during the period, but interest will continue to run on late paid tax debts.

The new Business Payment Support Service is on 0845 302 1435.

VAT – CHANGE IN THE STANDARD RATE - Advice Sheet from HMRC

In his Pre-Budget Report on 24 November 2008 the Chancellor announced that the standard rate of VAT will be reduced to 15% on 1 December 2008. This guide sets out the key points which businesses need to be aware of as they implement the change. It also tells you where you can get further information. A copy of this guide is being sent to all VAT-registered businesses in the UK.

What do I have to do?

For any sales of standard-rated goods or services that take place on or after 1 December 2008 you should charge VAT at the new rate of 15%. This means that cash businesses which currently calculate their VAT using the VAT fraction of 7/47 should, from 1 December, use the new VAT fraction of 3/23.

Which of my sales are affected?

Only standard-rated sales are affected**.** There are no changes to sales that are zero-rated or reduced-rated for VAT. Similarly, there are no changes to the VAT exemptions. Any sales you make at these rates are unaffected.

For your standard-rated sales, it depends how you normally account for VAT:

If you are a retail business making mainly cash sales to customers not registered for VAT (e.g. a shop, restaurant, takeaway, hairdresser)

You should use the new rate for all takings that you receive on or after 1 December 2008 except for where your customer pays for something they took away (or you delivered) before 1 December (e.g. where customers have an account with you). In this case, your sale took place before 1 December and you must use the old rate of 17.5%.

You should use the new rate for all VAT invoices that you issue on or after 1 December 2008 **except** for where you provided goods or services **more than 14* days before you issue the VAT invoice**. For example, if you issue a VAT invoice on 1 December for goods or services provided before 18 November 2008, or you were paid **before 1 December.** In these cases, your sale took place before 1 December and you must use the old rate of 17.5%. (New concession - now 30 days)

What about continuous supplies of services e.g. work in progress?

For continuous supplies of services, such as ongoing construction work, you should account for the VAT due whenever you issue a VAT invoice or receive payment, whichever is the earlier. In these cases, invoices issued or payments received on or after 1 December will be subject to 15% VAT.

Are there any special rules for sales spanning the change of rate?

Yes. If you have received a payment or issued an invoice before 1 December 2008 for goods that will be provided (or services delivered) after 1 December 2008, you have a choice. You can choose to account for VAT at the new rate of 15% on the amounts already received or invoiced. You don't need to tell HMRC if you do this. In these circumstances, any payments received or invoices issued after 1 December will always be subject to the new rate of 15%. But you do need to issue a credit note to your customer if you have already issued a VAT invoice showing the old rate of VAT.

What VAT can I claim back on my business purchases?

December 2008 showing 17.5% VAT – that will be expected – as these will be invoices relating to purchases you have made before the rate change. In these cases you can claim back the 17.5% VAT.

What do I do about my VAT return?

You will continue to receive or file VAT returns in the normal way i.e. either monthly, quarterly or annually. The deadlines for submitting your VAT returns and making payments are unchanged. For return periods that cover both before and after 1 December 2008, you will need to add together the VAT on sales charged at 17.5% and the VAT on sales charged at 15% to work out the total VAT on sales to be included in Box 1 of your VAT return.

What if I use a computer, VAT software or an electronic till?

If you have a software package that automatically calculates the VAT, you will need to ensure that the VAT rate is changed from 17.5% to 15% from 1 December 2008. This may be something that you can do yourself – otherwise you will need to contact your software provider or supplier for assistance. Most software packages should have the in-built capability to deal with changes in the rate.

You may be able to adjust your electronic till yourself but if not you will need to contact your till supplier for assistance. If your till has not been amended to calculate 15% (rather than 17.5%) by 1 December you will need to calculate the VAT manually. You simply take the standard-rated gross takings calculated by your till and multiply that sum by the new VAT fraction of 3/23 – this will give you the amount of 15% VAT.

What if I make an error associated with this change?

If you discover that you have made an error you can correct it in the normal way by making a voluntary disclosure or correcting it on your next return (subject to the normal limit). HMRC recognises that this is a change that businesses will have to implement in a short timescale. Therefore we will adopt a "light touch" in relation to errors or mistakes made in the first VAT return after the change. We will take into account the difficulties a business has faced in adjusting to the change.

What about the special VAT schemes for small businesses?

The Cash Accounting and Annual Accounting Schemes remain unchanged. However, the Flat Rate Scheme percentages are changing to reflect the new rate of VAT. If you are on the Flat Rate Scheme please refer to the additional information on the HMRC website. You will need to use the new rates for your sector from 1 December 2008.

Personal Tax Changes

Personal Allowance 2009-10

From the 6 April 2009 the income tax personal and age related allowances are increased to:

Age under 65	£6,475
Age 65 to 74	£9,490
Age 75 and over	£9,640

The income limit for aged related allowances (over 65's) is increased to £22,900.

Personal Allowance 2010-11

The personal allowance will be reduced for individuals with gross incomes, before personal allowances, above £100,000 and further reduced for gross income above £140,000. This measure will progressively reduce the personal allowance available to these high income groups. It will also produce a marginal rate of tax of 60%.

Income Tax Rates 2009-10, taxable bands

Starting savings rate 10%*	£0 to £2,440
Basic rate 20%	£0 to £37,400
Higher rate 40%	Over £37,400

* There is a 10p starting rate for savings only. If an individual's non savings taxable income exceeds the starting rate limit, the 10p starting rate for savings will not be available for savings income.

Income Tax Rates 2011-12

A new tax rate of 45% is to be introduced on income over £150,000.

A new 37.5% rate of tax will apply to taxable dividend income above £150,000.

National Insurance changes 2009-2010

Class 1 contributions: Lower earnings limit increased to £95 per week, the primary threshold increased to £110 per week, and the upper earnings limit increased to £844 per week. No change to NIC rates.

Class 2 contributions: Increase in weekly rate to £2.40; small earnings income exemption increased to £5,075.

Class 3 rate: Increased to £12.05 per week.

Class 4 rates: Rates unchanged; lower profits limit increased to £5,715 per year; upper profits limit increased to £43,875 per year.

The number of qualifying years required to receive a full State Pension falls from 44 for a man and 39 for a woman to 30 for both men and women from 6 April 2010.

National Insurance changes 2011-2012

Class 1 and Class 4 NIC's to be increased by 0.5%. Both employers and employees rates will be affected.

Child Benefits

Increases due from April 2009 have been brought forward to 5th January 2009. Eldest or only child £20 per week, other children £13.20 per week.

Pensions tax relief 2009-10

Annual allowance increased to £245,000 Lifetime Allowance increased to £1.75m .

Fuel Duty

From 1 December 2008 the main fuel duty will increase by 2 pence per litre. The reduction in the standard rate of VAT to 15% should compensate for this increase.

VAT

We have set out below a few of the advantages and disadvantages for businesses as a direct result of the reduction in the standard rate of VAT to 15% on 1 December 2008.

If you have not yet registered your business for VAT the reduction today should marginally improve your profitability; as long as your suppliers pass on the VAT decrease.

If you are registered for VAT you will not see any improvement in your profitability unless you decide to retain part or all of the VAT rate reduction, by minimising any price reduction to your customers.

For many years now the VAT fraction, the amount you would multiply a VAT inclusive figure by to calculate the 17.5% VAT amount was 7/47. The new fraction to calculate the 15% VAT included in a VAT inclusive figure is 3/23.

Don't forget to change the standard rate of VAT in your accounts software to 15% for transactions dated after 1 December 2008!

Other VAT issues - effective from 1 April 2009

Businesses with annual retail sales of up to £130m will be able to apply to use one of the five retail schemes. Presently these schemes are limited to businesses with retail sales up to £100m.

The entry and exit rules for the flat rate scheme are simplified. The rates applied to the scheme are revised from 1 December 2008 to reflect the change in the standard rate on the same date.

Capital Allowances and Cars

The new rules will have effect from 1 April 2009 for companies and 6 April 2009 for unincorporated businesses.

Essentially allowances will be given from the April 2009 dates according to the CO2 rating of the vehicle. Cars with emissions over 160g/km will be limited to a 10% writing down allowance. All other vehicles will attract higher tax allowances depending on their CO2 emissions.

Tax Planning Tips and Tricks….

VAT rate change – Reminder of the taxpoint rules

For many businesses implementing the new standard rate of VAT it will be necessary to establish the tax point applying to the supply in order to check which rate of VAT should be applied. There are, however, some optional rules which can be applied when the VAT rate reduces so businesses and their advisers may also wish to check these out. The taxpoint rules are explained in VAT Notice 700 at sections 14 and 15.

The basic taxpoint

All supplies have a basic taxpoint and in many cases this will be the taxpoint adopted for the supply. When goods are supplied, the basic taxpoint is the time when the goods are appropriated to the customer's order. Normally this means when they are collected, delivered or made available to the customer.

When services are supplied, the basic taxpoint is the date on which the services are performed.

The taxpoint defaults to the basic taxpoint unless one of the following situations arises.

- **Prior invoice or payment**

The issue of a tax invoice or the receipt of payment before the supply is made (according to the basic taxpoint rules) triggers a taxpoint earlier than the basic taxpoint. The actual taxpoint is the earliest event. So if a tax invoice is issued first, then the actual taxpoint is before the basic taxpoint.

Generally speaking this means that a deposit against a future supply creates a taxpoint when paid. Where a deposit is only held against damage to hired goods it is not payment for a supply, and therefore does not create a taxpoint.

- **Invoice within 14 days (by concession now 30 days)**

Businesses which invoice within 14/30 days of the basic taxpoint are able to use the date of the invoice for taxpoint. This simplifies VAT accounting when invoicing is done promptly. It is possible to extend this 14 day period to 28 days in special situations, but businesses will need to ask HMRC for permission to use this rule.

- **Continuous supplies**

Where supplies are made continuously, such as accountancy and tax advice, a taxpoint is created each time cash is received or a tax invoice is issued. So, where payments on account are received by a firm of accountants, the VAT rate can be determined by reference to the dates of payment, provided no invoice has already been issued. Where a "request for payment" has been issued, provided this is not a tax invoice no taxpoint has been created, and the time of supply is determined by the date of payment.

In addition, an annual invoice issued in advance (but not more than a year in advance) for payment at pre-arranged intervals (for example, monthly by standing order) can take the taxpoint as determined by the date of payment rather than the invoice date. In this case, an amending credit note will be needed to correct the VAT on the initial invoice.

Loss relief extension (PBR 2008)

There is an extension of loss relief available to businesses allowing a three year carry back of up to £50,000 of trading losses for both income and corporation tax. However, the rules will operate differently in the two taxes.

It is also worth noting that, in the interests of providing relief for sole traders as early as possible, the targeting of the relief for income tax businesses may be a little wide of the mark. Allowing claims for losses for the basis period for 2008/09 will not permit losses incurred in periods ending in summer 2009 to qualify for the extended relief. Given that the Treasury predictions are that the recession is still deepening, this may be of some concern. It is a difficult call, because delaying relief until the later year would not be helpful.

Trading status

Have you considered recently (i.e. in the last 12 months) whether your business would be better off trading as a sole trader, partnership, limited company or limited liability partnership?

The many changes announced in recent Budgets have moved the goalposts. For many businesses the scales may have tipped in favour of becoming a company, while for a few it may now be better to go back to being a sole trader or partnership. And since April 2001 limited liability partnerships may be better than either for some businesses.

Dividends and Bonuses

Do you always time the payment of dividends and bonuses from your company so that they fall in the "right" tax year for you?

The timing of dividends and bonuses can have a big effect on how much tax you pay on them – and when it must be paid.