tlp - news

May 2009 **The monthly newsletter of The Long Partnership — www.thelongpartnership.co.uk**

Let's Get Real or Let's Not Play.

We want you to succeed. We know our products and services have helped clients' success in the past. Our intent is always to find a solution that exactly meets your needs. This helps to ensure a good fit between what we do and what you need. If there is a good fit, let's work together.

Call us on:

01856 878600

or 01847 890304

"What lies behind us, and what lies before us, are tiny matters compared to what lies within us."

Ralph Waldo Emerson, Poet

"Dig the well before you are thirsty."

Chinese Proverb

Dates in May:

7 Alan in Stronsay

8 Caithness Chamber of Commerce Finance Seminar, Thurso

19 Payroll year end submission deadline

Recession, unemployment, woe and calamity…………Well, that just about sums it up or does it? There are plenty of businesses out there that are doing away very nicely, thank you. No lay-offs, no short time working, everyone working at their best. They provide the service people want, not necessarily at the lowest price, but price does not matter if the customer can see that the service is the best value for money around. These businesses will always prosper no matter how tough the economy gets. Isn't it the same in the auction ring at the mart? The best animals will always sell. Lesser ones, if they sell at all, do not achieve the same prices. So it is with service providers, the ones who care about their customers, make the effort and deliver a good service will survive best. So, professionally speaking, who are the current winners and losers? Well, how do you expect me to know. All I know is we have grown our turnover every year for the last 5 years and have doubled our staff in the last year alone albeit that we cheated and opened a new office. So, we must be doing something right. And if we get some things wrong, we don't mind if you tell us! Honest.

The budget came and went. Darling has found new ways to keep the money rolling in. Compliance is high on his agenda and penalties for struggling businesses if they dare to have cash flow problems. Over the years we have seen many businesses going through a cash flow shortage, take extended credit on their PAYE. Darling has shut the door on this one and you will get penalised if you have more than two late payments.

Having said all that, probably the most important thing that has happened for small business is well under way, in that 100,000 businesses have taken advantage of the business support scheme introduced in the PBR to defer their tax payments and to anticipate losses. Anecdotally the word was that this had been very useful, and the numbers seem to confirm that.

There are new proposals to "name and shame" tax avoiders which suggests a sort of trial by media. Why not just go the whole way and bring back stocks. Give people the chance to throw rotten cabbages at anyone who dares to try and arrange their affairs to minimise their tax, and of course, who should be first in the stocks….hmm. Is this really the sort of society we want to live in? Just look at the media circus on MPs expenses. There were rules and either they were broken or not, either the system was properly regulated or not. Trial by media!

There may be some real help for small businesses in the extension of the three year loss carry back scheme. As originally announced for 2008/9 it was fairly useless for unincorporated businesses. 2009/10 will be far more useful. Again, like the business support scheme, it will help some businesses to survive by generating much needed cash flow i.e. you get back some of the tax you paid a few years ago when times were good, or you had a poor tax adviser!

The one year 40% first year allowance will be of interest to some, but will not of course affect the smallest 95%, who are already covered by the Annual Investment Allowance for expenditure up to £50,000 a year.

HMRC have published a consultation document to look at how HMRC interacts with tax agents like us, to ensure clients' returns and claims are correct when submitted. HMRC are continually looking at ways to crack down on illegitimate tax avoidance, fraudulent evasion and negligence. One of the ways they can do this is by focusing on the work undertaken by tax agents.

There is currently no requirement in the UK to be either professionally qualified or to belong to a professionally recognised institute to work as a tax agent. I might add here that all the directors (yes, directors, its tax planning) of the Long Partnership, hold professional **tax** qualifications. I think we are unique in this respect locally and that is why we are good with tax. Do you agree, we hope so.

Alan, Helen and the teams at TLP in Kirkwall and Thurso

Shock repeal of the Furnished Holiday letting rules

The beneficial tax treatment afforded to Furnished Holiday Lettings (FHL) in the UK extends to favourable treatment of losses – permitting them to be set against other income in the same way as trading losses – and capital gains tax, meaning that FHL properties are treated as trading rather than investment properties, attracting Entrepreneurs' Relief, hold over relief and other business CGT reliefs. FHL profits also count as pensionable income.

Owners can also claim capital allowances on equipment and furniture, which is not possible in respect of investment or more normal rented properties.

It is now apparent that the restriction of this beneficial treatment to properties in the UK rather than the European Economic Area is likely to be contrary to European law.

As a result HMRC will be repealing the Furnished Holiday Letting rules (including those applying in the UK) with effect from April 2010.

This is no surprise, otherwise the tax authority would be flooded with claims on foreign holiday homes.

Speak to us if you have any foreign property - within the EEA - which is let which can be retrospectively brought within the FHL rules.

There are plenty of furnished holiday letting businesses around and this is going to have a major impact on many of these small enterprises. Get in touch and discuss the effect on you.

The devil told the lawyer…...

"I can make you five times richer, all your clients will like you, and you will win every case."

The lawyer said, "that sounds good, what do you need?"

The devil replied, "I need your soul and your wife and children."

The lawyer said, "but what's the catch?"

Budget 2009 : Summary of personal income tax changes

- The higher rate of income tax will now be 50% rather than the 45% previously announced. Dividends within this band of income will be taxed at 42.5%. This will apply to taxable income above £150,000 from April 2010 and not 2011 as announced in November 2008.
- From April 2010 individuals with "adjusted net income" of £100,000 will lose £1 of personal allowance for every £2 their income exceeds this limit. The adjusted net income is calculated in the same way as for the restriction of allowances applying to taxpayers over 65, which deducts losses and grossed up pension contributions and gift aid payments from gross income. It was originally intended to withdraw allowances in two slices at £100,000 and £140,000 – the taxpayer losing half the allowances in each slice. This will now be a single adjustment to the allowances applying at £100,000.
- The rate of tax relief on pension contributions will be restricted from 6 April 2011 for those with incomes of £150,000 or more. The relief will be restricted to basic rate, which is normally given at source. There is to be an anti forestalling measure to prevent those with income in excess of £150,000 from accelerating their pension contributions into the period between now and April 2011, to gain the benefit of tax relief at 40% or 50%. The rules will impose a special annual allowance and provide a tax charge on the scheme if this is exceeded. It will be restricted so that it affects only those making contributions in excess of £20,000 in a tax year, but will also apply to contributions made by the employer, and to enhancements of benefits in defined benefit schemes.

Savings

- The ISA limit will increase to £10,200 from 2009/10 for those aged 50 or more, and the new limit will apply to all savers from 2010/11. The cash limit within the overall limit will be £5,100.
- Improvements have also been made to the EIS scheme, in particular to extend the carry back rules by removing the limits which permit only half of the amount invested to be carried back, subject to an upper limit of £50,000.

Budget 2009 : Summary of business and corporation tax changes

- The full rate of corporation tax for the Financial year 2010 starting 1 April 2010 will remain 28%. The small company rate for financial year 2009 starting 1 April 2009 will remain 21%. It is expected that the rate will increase to 22% from 1 April 2010.
- Although announced as a doubling of the rate of writing down allowance, the change to capital allowances is to allow a one year First Year Allowance on the main capital allowances pool for expenditure on or after 1 April 2009 for companies and 6 April 2009 for other businesses. The FYA will be available to companies, individuals and all partnerships. It will not apply to cars (which are now included in the main pool if they emit no more than 160g/km) or assets used for leasing. It will not be relevant to those spending less that £50,000 a year on capital equipment as AIA will cover the expenditure.
- The loss carry back rules announced in the Pre Budget report have been improved by the extension of the loss making period from one to two years. For companies, losses arising in corporation tax accounting periods ending between 24 November 2008 and 23 November 2010 will be available for a three year carry back. For income tax, losses arising in 2008/09 and 2009/10 will benefit from the extended carry back rules. The restriction on relief of £50,000 of the loss to be carried back by more than one year will apply to each loss making period separately, but the £50,000 is an annual limit so short loss making periods will be restricted. Repayments of tax as a result of this measure can be made with effect from Budget day.
- The Business Payment Support Scheme is being refined to permit Time to Pay applications to reflect current period losses which will be carried back against previous profits. Applications to reduce tax outstanding can be made before the end of the loss making period, even though the loss is not at that time ascertained.
- Capital Allowances on cars have been reformed as promised in the Pre Budget report, with the final draft legislation published. In summary this allows cars emitting no more than 160g/km to be included in the main pool (but not to attract AIA) and cars emitting more than that to be included in the special rate pool.
- The "three line account" limit for self assessment returns will be increased to align with the VAT registration threshold from 2009/10 (2010 returns) and this relationship will be maintained.

Budget 2009 : Here comes Big Brother with teeth, or is it fangs!

In a move to improve the tax internal controls of large companies, HMRC will be working on legislation to require large companies to name their senior accounting officer, and to require that person to sign off an assurance on an annual basis that the company's internal controls are adequate for tax purposes. The officer may be personally liable to a penalty of up to £5,000. However, there are not many local companies that will be affected as the criteria includes turnover greater than £22.8million etc, so most of you are safe, but where could this lead in the future?

However, any taxpayer who is penalised for deliberately understating their tax due (or inflating claims) where the potential lost revenue exceeds £25,000 will have their names and addresses and the details of the tax, interest and penalties involved published. Where the taxpayer has made an unprompted or a full prompted disclosure the publicity measure will not apply, but otherwise publication will be made quarterly within one year of the penalty becoming final and will be removed one year later. As well as fraud, HMRC may seek to suggest deliberate understatement includes aggressive tax planning. Now, you might be thinking that this will only affect people who deliberately attempt to evade tax and large amounts of tax at that. But, consider this. If someone for whatever reason has understated their taxable income by as little as £10000 a year, perhaps by attempting some tax planning obtained up against the bar at the golf club, and they agree a settlement with HMRC over a 6 year period, they could have their names made public. Are they trying to kill off tax planning?

You would have expected some politicians to object to the establishment of this type of trial by publicity, but, at the moment, they are suffering the same fate! Those nice people at HMRC say that to escape the potential financial ruin or personal embarrassment of having details published, taxpayers can voluntarily contact HMRC and provide full details of their misdemeanours, assuming they are aware that they have erred in law.

In another move to keep you in line and respectful of HMRC, there is a new reporting requirement for those who incur a penalty for deliberate understatement of tax of at least £5,000. Defaulters will be required to provide up to five years of information in relation to their tax affairs. They say this is to demonstrate that you have proper record keeping systems but it does give them a further opportunity to "discover" something else from a previous year.

Powers in relation to tax debt will be extended to allow HMRC to seek information about a missing tax debtor and to require companies and businesses to provide contact details. This will take effect from Royal Assent to the 2009 Finance Bill.

Penalties for late payment of tax and late filing of returns will be reformed by Finance Bill 2009, and changes will for the first time impose a penalty on employers who pay over PAYE and NIC late during a tax year, with a rising penalty determined by the number of late payments made. Interest on late paid tax will also be harmonised across the taxes. So, that's the end of taking extended credit on your PAYE as a loan from HMRC to help cash flow. If you pay PAYE late on two occasions, you could face a penalty of 2 per cent of the tax paid late increasing to 5 per cent if the tax remains unpaid after six months and again after 12 months. You can avoid these penalties if then you enter into an agreed time to pay arrangement with HMRC. However, for most of you, it will be important to make sure that your PAYE is paid over promptly by the 19th of each month.

HMRC is changing the penalties it charges for sending in a tax return late. The penalties you could face for filing returns late may be much higher. For example, if a tax return is 12 months late the penalty charged could be up to 100 per cent of the tax due. There are also changes to the penalties charged to taxpayers and employers who pay tax late. The maximum potential penalty will be 15 per cent of the tax due.

Budget 2009: VAT to return to 17.5% next year

The Budget proposal is to return the standard rate of VAT to 17.5 per cent from 1 January 2010. There were rumours that the rate would go higher than 17.5% but it seems that even in the current economic state, the Government could not stomach an unwelcome increase in VAT just after Christmas and so close to a general election! The 2.5% increase is going to be hard and many retailers will be under intense pressure to absorb the cost rather than passing it on to consumers.

National Insurance

The changes announced in the November Pre-Budget Report to National Insurance Contributions (NICs) remain. In summary:

• The Upper Earnings Limit (UEL) has increased to £43,875 from 6 April 2009 to align with the level at which people begin to pay higher rate tax.

• From 6 April 2011, the primary NIC threshold will be broadly aligned with the tax threshold.

• From 6 April 2011, the main employers' NICs (including Class 1A and 1B) rate will increase from 12.8 per cent to 13.3 per cent.

How this affects you

From 6 April 2011, the Government will effectively be collecting NICs at a rate of about 25 per cent (11.5 per cent + 13.3 per cent).

NIC at 25%. Whatever next?

Changes to statutory redundancy pay (SRP)

The Chancellor also announced a revision to the salary cap for SRP. Currently SRP is calculated on a multiple of the employees' length of service (to a maximum of twenty years), their age and weekly pay.

The actual weekly pay figure is used in the calculation but it is capped at a maximum of £350, which is now increased to £380.

As a result the maximum SRP increases from £10,500 to £11,400.

How this affects you

This measure will slightly increase the level of redundancy payments but is unlikely to have a significant impact. (The tax relief currently available for redundancy and termination payments remains at £30,000).

Stamp Duty

The SDLT "holiday" on residential property costing up to £175,000 which was due to come to an end on 2 September 2009 has been extended until 31 December 2009.

Tax Planning Tips and Tricks….

Pay dividends before 6 April 2010, save tax.

Hitherto, many owner managers have tended to extract most of their profits through dividend payments. From April 2010, the effective tax rate on their dividend payments will rise to just over 36 per cent on the amount paid (from the current 25 per cent).

Given this sizeable increase, you would be advised to consider advancing any planned dividend payments before April 2010 and then lend the money back to the company to maintain its working capital position. This will only affect dividend that put you into a higher rate tax position, otherwise there is no effective change and there is no need to panic.

Enhanced capital allowances

Certain energy saving or water efficient expenditure currently qualifies for 100 per cent first year allowances. To qualify the expenditure must fall within one of the categories in a prescribed list, which is reviewed annually by government bodies. Following this year's review, expenditure on uninterruptible power supplies, air to water heat pumps and close control air conditioning will be added to the list which will be produced in the Summer of 2009.

Earn £4250 tax free - let a room in your home

Earn £4250 tax free and its legal. That is worth £7083 if you pay tax at higher rates. Rent a room in your home and earn some extra cash in these hard times. The room must be residential accommodation but does not necessarily need to be let as residential accommodation i.e. it could be let as an office, although that is not in the spirit of the legislation. Food for thought.

Furnished holiday lettings - spend now and save!

Hitherto landlords with furnished holiday accommodation in the UK have generally been treated as trading for various tax purposes. These include loss relief set-off, capital allowances, certain capital gains tax reliefs and the calculation of earnings for pension purposes. In order to comply with European law, this treatment is, temporarily, to be extended to such property within the European Economic Area (EEA). However, from 6 April 2010, the letting of furnished holiday accommodation, whether in the UK or the EEA, will no longer enjoy favourable trading status. This is clearly bad news for those landlords who take advantage of the current rules, for example by claiming relief for losses against their other income.

Consider accelerating relevant expenditure in order to create, or augment a loss before 6 April 2010.

Business expenditure on cars

For expenditure incurred on cars from April 2009, the rate of capital allowances will be linked only to CO2 emissions and will not depend upon cost.

The disallowable proportion of lease rental payments (entered into from April 2009) will now also depend only upon their effect on the environment.

Expenditure on cars with emissions of 160g/km or less will be added to the general pool and attract writing down allowances (WDAs) of 20 per cent.

Where emissions exceed 160 g/km, the car will attract WDAs of 10 per cent and be included in the special rate pool.

Car lease rental payments for expensive cars will be replaced with a flat rate 15 per cent disallowance on leased cars with emissions of more than 160g/km. This will only apply to one lease in any chain of leases and will not apply where the car is made available for a period of no more than 45 days. Motor cycles will be excluded from the definition of cars.

These new rules offer taxpayers a considerable incentive to purchase environmentally friendly cars. There are transitional rules spanning a five year period for cars purchased before April 2009, so taxpayers should consider the merits of disposing of vehicles within this period.

It is not all bad news for high emission vehicles as the new rules on leasing should generally be favourable to the more expensive high emission leased cars.

Tax-efficient investments

The time limits concerning the employment of money invested by investors in Enterprise Investment Schemes (EIS) etc, will be relaxed. All the money raised must now be wholly employed within two years of the commencement of the qualifying activity. The EIS rules have also been amended to make them more attractive. On a personal level, the ability to carry back income tax relief to the previous year will be extended, enabling the total EIS investment to be eligible for income tax relief in the previous year (subject to a limit of £500,000 subscribed).

...and finally, the old bangers

At least those driving old 'bangers' have something to cheer about… they will be able to scrap their old cars in return for a tidy £2,000. This must have done wonders for the second-hand car market!