

Wilson Henry —
providing tax solutions to owner managed businesses for over 50 years

Tax Proactive — July 2010



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Tax Proactive

Wilson Henry LLP

July 2010

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Tax Diary



19 July 2010 - Pay Class 1A NICs (by the 22 July 2010 if paid electronically).

19 July 2010 - PAYE and NIC deductions due for month ended 5 July 2010. (If you pay your tax electronically the due date is 22 July 2010)

19 July 2010 - Filing deadline for the CIS300 monthly return for the month ended 5 July 2010.

19 July 2010 - CIS tax deducted for the month ended 5 July 2010 is payable by today.

1 August 2010 - Due date for corporation tax due for the year ended 31 October 2009.

19 August 2010 - PAYE and NIC deductions due for month ended 5 August 2010. (If you pay your tax electronically the due date is 22 August 2010)

19 August 2010 - Filing deadline for the CIS300 monthly return for the month ended 5 August 2010.

19 August 2010 - CIS tax deducted for the month ended 5 August 2010 is payable by today.

Message from David Kirby

Dear Readers

Our newsletter this month is the first since the changes announced by George Osborne in his Emergency Budget.

We have included an article regarding points to note following the announcement of the VAT rate change, tax saving possibilities using green technologies and a reminder of the importance of ensuring your will is up to date and unambiguous.

As always, if you have any questions or want any further support with any of these topics, please do not hesitate to get in touch with the Wilson Henry tax team

Best wishes

A handwritten signature in black ink, appearing to read 'D. Kirby', is written in a cursive style.

David Kirby
Tax Director

Changes in the VAT rate

Here are a few points to note following the announcement that VAT is to rise to 20% from 4 January 2011:

1. Flat rate scheme

Following the budget, new flat rates have been announced. These can be found at the website below. If your present use of the scheme is only marginally beneficial any change in rates may mean you would be advised to exit the scheme.

<http://www.hmrc.gov.uk/budget2010/bn45.pdf>

2. Timing your purchases

You now have until 4 January to consider purchasing high value items; cars, computers, equipment before the rate change. Obviously if you are registered for VAT you can reclaim VAT in the normal way. If you are not registered or you are unable to reclaim the VAT charged, for example VAT added to cost of cars, you may consider bringing forward such purchases in advance of the rate increase.

3. Credit Notes

A credit note raised in respect of a supply made prior to the date of change in rate should reflect the rate charged at the date of the original supply, not the rate applying when the credit note is raised. For this reason, you may wish to retain the old and new rates of VAT within your accounting system for some time after the change.

4. Update your accounts software

Programs will need to store 15%, 17.5% and 20% rates. Follow the instructions carefully especially if you use Cash Accounting for VAT. Wilson Henry will offer support to Sage users, look out for an article about this closer to the new year.



Green technologies – tax saving

What is available now?

100 % first year allowances

The tax system provides for 100% first year allowances on green expenditure on plant and machinery, without limit; this is termed Enhanced Capital Allowances or ECA's. This broadly covers investment in energy efficient and environmentally beneficial expenditure. The approved equipment and technologies under the scheme are listed on the Government's website www.eca.gov.uk that allows both potential purchasers and manufacturers to establish what types of equipment will qualify for allowances.

Motoring

The current system of capital allowances on cars is structured to provide more generous allowances for fuel efficient vehicles, and the corresponding benefit in kind charge is also similarly more favourable to drivers of low emission cars. However, the most favourable treatment is the business purchase of a new car with emissions of no more than 110g/km, or a wholly electric car - these vehicles attract 100% first year allowances. The drivers of these cars will incur a tax charge based on the list price of the vehicle, although electric cars are currently taxed at 0%. Low emission petrol, diesel and hybrid cars will be taxed at a variable percentage of list price, with the lowest emission petrol cars currently attracting a tax charge on 10% of list price, diesel 13% and hybrid 9%, although these rates may increase over the next few years. The low benefit in kind will also produce a benefit to the employer in the form a saving in Class 1A National Insurance Contributions.

Bicycles

The provision of bicycles and related safety equipment, such as helmets, to staff mainly for cycling to work is tax free, as is the provision of shower and changing facilities. Capital allowances will be available in part at least on installing showers, as the fittings etc qualify for capital allowances. The purchase of bicycles will also attract capital allowances including annual investment allowance provided the employer retains ownership of the bicycles.



Budget Issues

Capital Gains Tax

The following changes affect chargeable gains on or after 23 June 2010.

1. If your income, less all allowable deductions and reliefs, plus your net chargeable gains are less than the upper limit of the basic rate income tax band (£37,400 for 2010-11), Capital Gains will still be subject to a flat rate of 18%.

If your income and Capital Gains is above this threshold, a flat rate of 28% will apply to gains, or the part of the gains that cause you to be a higher rate tax payer.

However, Entrepreneurs' Relief continues for the material disposal of qualifying business assets.

2. If you dispose of qualifying assets on or after 23 June 2010 two aspects of CGT Entrepreneurs' Relief have changed:

- There is a technical change to the way in which the relief is calculated, although effectively a flat rate of 10% will continue to apply, and
- The lifetime gains that can benefit from the relief are increased from £2m to £5m.

Furnished Holiday Lettings

It would appear that the threatened withdrawal of the tax benefits for owners of Furnished Holiday Lettings has been cancelled.

For the tax year 2010-11 letting activity is treated as a trade, CGT rollover and Entrepreneurs' Relief is available and rental losses can be set off against other income.

However, later this summer the Government will be publishing a public consultation with a view to changing the tax treatment of Furnished Holiday Let property from 6 April 2011. Changes may include:

- An increase in the number of days qualifying properties have to be made available for letting and actually let.
- A change in the way loss relief is given.

We shall advise further once the results of the consultation are published.

RSPCA v Sharp – will planning

In a recent court case the RSPCA took issue with the family of a person who had left the residue of his estate to the charity.

Unfortunately the wording of the Will was ambiguous. The family calculated the residuary estate due to the RSPCA to be £480,000. The charity, applying a different interpretation of the Will, calculated their share as £650,000.

In the Court the Judge sided with the family. The RSPCA have taken the case to appeal.

If your Will leaves the residue to a charity, it may be worthwhile revisiting the drafting of the Will in the light of this case.

National Insurance and State Pension Credits

Lower Earnings Limit (LEL)

For 2010-11 the amount you can earn without invoking a National Insurance liability is £97 per week. However, at this rate you will not qualify for credits towards your State Pension.

Primary and Secondary threshold

For 2010-11 you will not pay Class 1 contributions until your earnings exceed £110 per week. However, earnings over £97 and up to £110 per week will qualify as credits towards your State Pension.

Consequently, you can accumulate contributions towards your State Pension without actually paying National Insurance.

When you do actually pay Class 1 contributions you will accumulate credits towards a basic State Pension and the additional State Pension.

The above comments apply to employed persons. If you are self-employed and pay Class 2 and possibly Class 4 contributions you will accumulate credits towards the basic State Pension but not the additional State Pension.

Transferring pension providers



HM Revenue and Customs has announced that the government is to bring forward regulations to remove unauthorised payments tax charges for those in the 50-55 age group who transfer their pensions.

From 6 April 2010 the minimum pension age was increased from 50 to 55 and this allows those receiving their pension payments to avoid paying the unauthorised payment charge, provided they are at least aged 55.

Though the law intends that those aged between 50-55 who started to draw their pension before 6 April 2010 can do so without paying the charge, in practice the charge is imposed if a pension is transferred to another provider before age 55. The new regulations will apply to someone aged over 50 but under 55 who has already satisfied the minimum pension age test of 50 and over prior to 6 April 2010. The regulations will provide that charges will not apply when:

- sums and assets of an income drawdown fund are transferred to a new income drawdown fund with another provider or,
- sums and assets underpinning an existing lifetime annuity are transferred to another provider to provide a new lifetime annuity, or
- sums and assets underpinning an existing short term annuity are transferred to another provider to provide a new short term annuity or,
- sums and assets underpinning an existing pension scheme are transferred to another registered pension scheme to provide a new pension scheme

The new regulations will ensure that the unauthorised payment charges will not be imposed after such transfers.

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If you have any feedback or would like to talk to us on any tax matter we would be delighted to hear from you – please email Derek Bargh (Derek.bargh@wilsonhenry.co.uk) or telephone 0151 264 8888.

Higher Rate Tax on Dividends Received

We are often asked to clarify the amount of tax payable by shareholders when dividends are paid, particularly by private companies.

Dividends are distributions of company retained profits, after any corporation tax due has been deducted. To acknowledge the corporation tax deduction, dividends paid are treated as if a tax credit of 10% has been deducted prior to payment. This 10% tax credit clears any standard rate income tax due but cannot be refunded. Accordingly, if your total taxable income, after all allowances and reliefs have been deducted, is less than £37,400 for the tax year 2010-11, there is no further income tax to pay on dividends received.

Because the tax credit of 10% only covers your basic rate income tax liability, higher rate tax payers will have to pay additional tax. The amount applied to the notional gross dividend (cash dividend plus the notional tax credit) is as follows:

- If you are a higher rate tax payer but your income does not exceed £150,000 then the additional tax due is 32.5% of the notional gross dividend;
- If your income exceeds £150,000 the additional tax due is 42.5% of the notional gross dividend.

This produces marginal rates of tax on the actual cash dividends received of 25% and 36.1%. If your dividend income causes you to cross tax bands, then the dividends will be taxed partly at each tax rate.

If you need any more information then please do not hesitate to contact us.