

Happy New Year! Let's hope it's a prosperous one for us all...

This month we have a special item on pension planning and we also include a number of tax saving ideas to consider as we approach the end of another tax year; reminders for VAT registered traders regarding the recent change to the standard rate (increased from 17.5% to 20%) on 4 January; details of further PAYE processing difficulties at HMRC and finally an update to the ISA limits from April 2011.

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Our next newsletter will be published Thursday 3 February 2011.

URGENT – Pension planning, action may be required before 6 April 2011

Changes to the pension regulations and tax relief rules have made pension planning more complex in the run-up to the end of this tax year. Here is a summary of the key changes that will come into operation on **6th April 2011** and action that you want to take **before** that date:

1. From 6th April income tax relief will be limited to **£50,000** for each tax year but any unused relief for the preceding **three** tax years may also be used.
2. The annual pension allowance will be reduced from £255,000 to £50,000 (in line with the tax relief limit in 1. above) and so it may be advisable to shorten the pension scheme 'input period' to end before 6th April 2011. This shortening of the pension input period may secure the higher allowance of £255,000 on any extra pension contributions paid in the run-up to 5th April 2011.
3. Employer pension contributions made in the final year before retirement are not currently limited by the annual allowance but will be capped from 6th April 2011. This means that directors and employees considering retirement soon should consider talking to a pension's adviser and their employer about pension top-up contributions and retirement for pension purposes in the current tax year.
4. All of the above actions need to be considered in relation to the already mentioned 'Pension Input Period'. If this is not considered then all of the potential planning issues may fail, both now and in the future.
5. The Pension Input Period is the nominal date when pension scheme contributions are assessed for tax relief. For example a pension plan with an input period end date of 01/09/11 would have its pension contribution limit assessed in the year 2011/12 (£50,000 maximum) even if the contribution is made prior to the 5th April 2011.
6. Similarly, it is currently possible to choose more flexible pension drawdowns by electing for a secured pension treatment (perhaps by taking an annuity). However, this election will not be possible after 5th April 2011 and so action may be required now to keep this option open.

If you have a self-administered superannuation scheme (SSAS), self-invested pension plan (SIPP), annual income in excess of £100,000 or you are over 50, action may be required now. We offer you a free meeting with one of our independent financial advisers to consider your pension options before it is too late.

Tax savers, actions to take before April 2011?

Business owners

Many self-employed traders, or private limited companies, have set their business accounting year ends to coincide with the tax year end (31 March or 5 April). If your year end is end of March 2011 you may want to consider the following pointers that may help reduce any tax liability for 2010/11. The comments will also have some relevance for businesses, self-employed or limited companies, with year ends other than end of March 2011 - but obviously there may be more time to consider your options.

1. If you are considering significant capital or revenue expenditure during April 2011 or later in 2011 you may want to see if you can bring the payments forward and claim tax relief in the accounts to

- March 2011. This may involve you funding the payments earlier but you may possibly benefit from reduced tax bills a year earlier.
- Following on from point 1, there are still generous capital allowances for purchases of equipment that qualify for the Annual Investment Allowance. The annual limit is set at £100,000 to April 2012 when it will be reduced to just £25,000.
 - If you are carrying stock on your balance sheet at cost and it is now worth less than cost, you should revalue, reducing the stock to its current realisable value. This will reduce your trading profit in the current year or increase your losses; it will also reduce your tax bill or increase any loss relief carry backs.
 - If you are considering the sale of a business or business property that will create a chargeable gain for capital gains tax purposes, you might be advised to delay contracts until after the 5 April 2011. For individuals, any tax payable on gains made on or after the 6 April 2011 will not be due for payment until 31 January 2013. Tax payable on gains on or before 5 April 2011 will be due for payment a year earlier, 31 January 2012. At present CGT rates are still 18% or 28%. Also if your gain qualifies for Entrepreneurs' Relief your CGT liability will be reduced to 10% of gains - up to a lifetime maximum of £5m chargeable gains (for disposals after 23 June 2010). Of course it is always possible that capital gains tax rates will be increased in the 2011 Budget.
 - Consider your pension options. Could you make additional contributions before the 6 April 2011 to reduce your higher rate tax this year? But beware of the anti-forestalling provisions if your income is more than £130,000 and the proposed change to pension regulations for 'pension input periods'.

Directors and employees

- Directors' pension contributions. From April 2011 the rules that determine the amount of tax relief on pension contributions are changing significantly. The annual limit on contributions allowable is dropping from £255,000 to £50,000. It may be worth seeking advice now to see if there is scope to top up directors' contributions before 31 March 2011. (These changes also affect self employed persons). Company contributions are usually, but not always, more tax efficient than personal contributions.
- Directors' bonuses. As long as the commitment to pay director's bonuses is correctly minuted prior to the end of the accounting year, and any tax and NIC deducted from the bonus is paid to HMRC within 9 months of the accounting year end, then there should be no problem in securing tax relief. It is acceptable to hold a board meeting at which the liability to pay a bonus is crystallised by a decision, but the amount of the bonus is left undetermined until the accounts are finalised. In this way, the bonus will be tax deductible in the year to which it relates rather than the later year in which it is paid.

Individuals

- Have you maximised your ISA investments this year?
- Have you maximised your pension contributions?
- If possible have you utilised your capital gains tax personal exemption? £10,100 2010/11.
- If your employer still pays for the private fuel used in your company car, you can effectively avoid the car fuel benefit charge if you repay your employer for the private fuel before the end of the tax year, or shortly thereafter. Please note that your employer will need to make this repayment a formal requirement of your employment. It may be worth crunching the numbers as the tax benefit in kind is expensive and the private fuel refund may be less. HMRC advisory fuel rates can be used to calculate the repayment necessary.
- For Inheritance Tax purposes each person can give £250 a year to any number of recipients, as well as £3,000 annually over and above that. They can also make regular gifts out of their income (not capital) that should fall to be exempt.
- If you are married or in a Civil Partnership and one partner/spouse has a much lower level of earned income, consider transferring income producing assets to the lower income earner. With the highest rate of income tax now at 50%, savings could be significant.

The ideas outlined above are by no means all the options you may have to minimise the amount of tax you pay this year. The key is to bring your current management accounts up to date and weigh the various options. Please call if we can help.

Do you need help dealing with the change to 20% VAT?

Last year we advised our contacts about various issues that may affect VAT registered traders from 4 January 2011, when the standard rate increased to 20%.

Here's a quick recap.

1. If you have accounting software, be sure to make the appropriate changes to the standard VAT rate. You should have been advised by your software provider how to do this.
2. If you use the Flat Rate scheme for calculating your quarterly VAT you may need to apply a different flat rate from 4 January.
3. There are various complications to deal with if you use the cash accounting scheme. The first return to be affected will be the VAT return that includes the month of January 2011.
4. If you're providing a supply of goods or services that straddle the 4 January 2011 there are special arrangements you should follow to ensure that you charge VAT on the supply at the correct rate.

If you would like help in dealing with any of these issues please call.

And finally a couple of quick calculation tips:

If you want to increase prices to pass on the VAT increase to customers (e.g. if you are a retailer), multiply the previous VAT inclusive price by 48/47. For example - £117.50 (old price) x 48/47 = £120.00 (new VAT inclusive price), and

Instead of multiplying a VAT inclusive by 7/47 to find out how much VAT is included (up to 4 January 2011) you now simply divide the VAT inclusive figure by 6 - to reveal the 20% VAT included.

More grief from HMRC

You are no doubt aware, if not presently affected, that HMRC have been attempting to play catch up with the processing of PAYE records and the issue of annual statements of tax under or overpaid.

We now hear that HMRC have sorted out another aspect of taxpayers' records, the processing of P11D forms for 2009/10. P11Ds are the forms that notify the tax office of any taxable benefits in kind.

When these forms are processed there could be underpayments, and less likely overpayments, of tax for 2009/10. Underpayments of £2,000 or less will be coded out in 2011/12; underpayments in excess of £2,000 will need to be paid!

So if you had benefits in kind for 2009/10, use of a company car etc., watch out for a HMRC form setting out further tax due. You may also receive a revised PAYE Notice of Coding if an underpayment is under £2,000. Please let us check these forms for you. Confidence is not presently high that any adjustments will be made correctly...

Increase in ISA limits published

Increases in ISA limits are now determined by increases in Retail Price Index for the September prior to the tax year end. So the increase due April 2011 will be based on the RPI for September 2010.

This is now determined as 4.6%.

The new ISA limits from April 2011 for 2011/12 will be:

- the overall ISA limit increased to £10,680 (2010/11 £10,200)

- the amount that can be invested in a cash ISA is increased to £5,340 (2010/11 £5,100)

We are still waiting for details of the new Junior ISA to be published and will include details in a future newsletter.

Tax Diary January/February 2011

19 January 2011 - PAYE and NIC deductions due for month ended 5 January 2011. (If you pay your tax electronically the due date is 22 January 2011)

19 January 2011 - Filing deadline for the CIS300 monthly return for the month ended 5 January 2011

19 January 2011 - CIS tax deducted for the month ended 5 January 2011 is payable by today.

31 January 2011 - Last day for electronic filing of Self-Assessment returns for 2010

31 January 2011 - Due date for payment of any balance of self-assessment liability for the tax year ending 5 April 2010, plus any payment on account due for the tax year ending 5 April 2011.

1 February 2011 - Due date for corporation tax payable for the year ended 30 April 2010.

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DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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