

Last month the Government announced changes to the tax relief rules for pension contributions from April 2011. This means that some individuals will benefit from making payments before the changes take effect but some will find that it will be worth waiting until 6 April before making pension top-ups because the current annual limit for many higher rate taxpayers is being raised from £20,000 to £50,000. There has been much uncertainty about this subject for many months so please read our article below for more details.

Also in this months newsletter we look at information about Research & Development relief, an article regarding tax relief for training and finally, a reminder of an advantage for getting your 2009 tax return filed, unless you already have...

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Our next newsletter will be published on Tuesday 7 December 2010.

### **New restrictions to pensions tax relief**

In our September 2010 newsletter we advised readers of a consultation with the Government that may eventually mean you are not required to cash in your pension fund for an annuity when you reach age 75 years. These consultations are still ongoing.

The purpose of this article is to warn readers of new restrictions to the amount of tax relief you can achieve from making pension contributions. The changes were announced by the Treasury Secretary on the 14 October 2010.

There are two principal changes:

1. From April 2011 the annual allowance for tax-privileged pension saving will be reduced from £255,000 to £50,000. This is a significant reduction that is targeted to affect 100,000 pension savers, 80% of whom will have incomes over £100,000.

Tax payers who are likely to be affected should revisit their personal tax planning for 2011-12 and beyond with some urgency. There may still be other planning opportunities that can be utilised to minimise the impact of loss of personal allowances and the 50% income tax charge.

2. From April 2012 the lifetime allowance will be reduced from £1.8m to £1.5m.

Apparently there will be provisions introduced to protect the pensions savings of individuals whose contributions "spike" in one year by enabling them to utilise unused allowances from previous years.

These two proposals are the outcome of a consultation on the overall simplification of the tax rules that apply to pension contributions. It is likely that formal legislation will be included in the 2011 Finance Bill.

### **Research and Development (R&D) tax credit**

If your business is set up as a limited company, and therefore subject to corporation tax, it is potentially able to claim R & D Relief. Additionally, if your company is categorised as small or medium sized, you can convert an R & D Relief claim into a tax credit, a refund.

For small and medium sized businesses the scheme offers high rates of relief. From 1 August 2008 the tax

relief on allowable R & D costs is 175%. Consequently, for every £100 of qualifying costs, your company could claim £175 against its profits.

If an R & D Relief claim is considerable the claim may create tax losses. If these losses cannot be utilised effectively it may be possible to surrender the R & D Relief element of the losses for a tax credit. Currently, for small and medium sized businesses, this is 14% of the R & D Relief. To receive a tax credit you must be able to demonstrate that your company can continue to trade without the benefit of the claim - its accounts must be prepared on a going concern basis.

#### **Larger companies**

If your business is classified as a larger concern the relief is limited to 130% of allowable expenditure and there is no provision to sacrifice R & D relief for a tax credit.

#### **What projects are likely to qualify?**

To qualify a project will need to incorporate an advance in science or technology - it is not sufficient to claim that a product is commercially innovative. Here is an extract from HMRC's web site that outlines the criteria: "Rather than stating the name of the product, process, functionality, etc, being developed you should consider what scientific or technological advance is being sought. This focuses attention on the project's aim for an advance, which is the key issue in judging whether R&D for tax purposes is being undertaken.

Science does not include work in the arts, humanities and social sciences (including economics). It's not enough that a product is commercially innovative. You can't claim in respect of projects to develop innovative business products or services that don't incorporate any advance in science or technology."

#### **Making a claim**

If your business has been, or intends to be, involved in R & D how do you make a claim? The short answer is make an application but of course the devil is in the detail. If you believe you may benefit from this relief please call to organise an initial fact finding meeting.

## **Training costs**

Any cost associated with the improvement of skills that are used in your business or employment are potentially tax deductible - but not always!

#### **Employees**

It is much more difficult for employees to justify a claim for training costs that they meet personally and claim for on their tax return. HMRC would look hard at the circumstances. Claimants will need to prove that the training costs were incurred wholly and exclusively in the performance of the duties of the employment. In other words that there is no personal value to the employee and the particular job cannot be performed without incurring the expenditure. In practice this is almost impossible to prove.

#### **Employers**

The position of the employer is much clearer. Any expenditure on work-related training should be allowed for tax purposes.

#### **Salary sacrifice solution**

A solution may be a salary sacrifice by the employee in favour of the provision by the employer of work related training. The exchange of salary for training creates no benefit in kind complications and as the exemption applies for tax and NIC purposes, both parties should enjoy NIC savings.

#### **Self-employed**

Self-employed traders will need to satisfy the rules for deduction of costs, namely, that they are incurred wholly and exclusively for the purposes of the trade or profession. This is an easier test to satisfy than that required for employees although there can be issues if brand new skills or qualifications are involved.

### **Self-assessment payments on account**

In January and July 2010 you may have made a payment on account of your self-assessment liabilities for 2009-10.

If your profits or income for 2009-10 are more than the equivalent earnings for 2008-9 you may still owe tax and this will fall due for payment by 31 January 2011.

But what do you do if your earnings were lower in 2009-10 than 2008-9? In this case the payments on account that you have already made may be too much and you need to get the money back. How to do this? Submit your 2009-10 tax return...

If your return is already submitted for 2010 any repayment will already be in your bank or on its way. If you have not yet completed your return may we suggest that you do so as soon as possible?

If we prepare and submit your return on your behalf and you have not yet provided all the information we need to do so, please send the missing information as soon as possible. If you are sitting on a tax refund for 2009-10 it will not move in your direction until the tax return for year is submitted.

### **Tax Diary November/December 2010**

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

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

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

**1 December 2010** - Due date for corporation tax due for the year ended 28 February 2010.

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

**19 December 2010** - Filing deadline for the CIS300 monthly return for the month ended 5 December 2010

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

**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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