

Our newsletter this month contains details of Ellacotts' Wealth Management Service, together with ways to save paying high rate taxes. In addition there is an outline of the potential changes to the pension rules being considered, particularly those that relate to the requirement to take a pension income by age 75; a timely reminder for firms that employ staff and are required to file forms online to HMRC; a few pointers for businesses registered for VAT as we approach the change to a 20% standard rate of VAT on 4 January 2011; and finally a new power that HMRC can use to request information regarding tax credit claims.

Although not specifically mentioned in the body of this month's newsletter we would like to draw readers' attention to the impending deadline to claim Small Business Rate Relief in England for 2009/10; new applicants need to apply before 30 September 2010.

Ellacotts' Wealth Management

Ellacotts LLP would like to remind you about the benefits of their Wealth Management service. Our aim is to deliver effective wealth management solutions, which combine financial planning, taxation and other services as part of a more holistic approach to client service.

We know that effective financial and tax planning is about people and lifestyles, rather than 'products' and our role is to help balance your long-term financial goals with current and future cash needs. By looking at the following in greater detail, we have helped our clients to effectively manage their wealth in 2010.

Make your savings tax-efficient - make sure you use your annual tax-free ISA allowance either in cash savings or stocks and shares.

Ensure investments work for you – use products that are currently tax-free, taxed at a lower rate or ones that offer tax reliefs.

Protect your income and assets - take out insurance against risks (accident, illness and death) to your income and assets either through a business or personally.

Provide for your retirement - obtain tax relief on personal pension contributions (not retirement annuity premiums) of £3,600 (gross) annually without any reference to earnings.

Protect your inheritance - make a lifetime gift, transfer assets into trusts, take out a life assurance policy or restructure your business ownership.

For further tax saving advice and information contact Alan Boby on 01295 250401 or email aboby@ellacotts.co.uk

Saving High Rate Taxes

We have listed below some of the ideas that we have applied to help save our clients tax in recent months:

1. Tax deductions/credits

- Pension contributions – subject to capping & 'anti-forestalling' rules
- EIS investments – 20% income tax credit on new shares up to £500,000
- Gift aid relief on charitable donations
- Use losses – trading losses or capital losses
- Capital allowances – e.g. 100% on first £100,000 of expenditure
- Review car & car fuel benefits for employees and directors

2. Advancing/deferring profits or income

- Change sole trade/partnership accounting date to 31 March or 5 April
- Pay dividends/interest before 6 April

- Agree timing of work or supply of products with customers.

3. Smoothing income

Keep total annual taxable income below basic rate band/£100,000/£130,000/£150,000 thresholds (see above) by managing bonus and dividends payments

4. Sharing income

- Put assets into unequal joint names with spouse and elect for different income split
 - Bring in spouse/family members as employees or partners*
 - Issue or transfer shares to spouse/family members to share dividends *
 - Incorporate the business into a limited company
- [* Beware settlement anti-avoidance rules (e.g. parental settlements) & draft anti-income shifting law]

5. Income shelters

- Individual savings accounts (ISAs)
- Pension schemes
- Convert income into capital gains (e.g. buy-back shares) – subject to capital gains tax at 10%/18%/28%
- Leave UK – non-UK tax residence
- Non-remittance of offshore income for non-domiciled individuals

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Pensions – abolition of age 75 deadline

The Government is presently consulting with interested parties to consider changes to the rules that require you to take a pension income from your pension fund by age 75 years. This article will be of interest to you if you are approaching 75 years or if you are deciding between an annuity and an income drawdown.

The main changes are likely to be:

1. The requirement to take pension benefits by a certain age will be scrapped.
2. The rules which determine the scope of an income drawdown arrangement will be relaxed and can be extended if appropriate for the whole of retirement.
3. It is proposed that on the death of those in income drawdown, or over the age of 75 and who have not yet taken benefits, will suffer tax at approximately 55% on the fund lump sum value that is paid to their estate. (Currently if you die having commenced an income drawdown before age 75, there is a tax charge of 35%. On death in a hybrid income drawdown arrangement, called an alternatively secured pension, the combined tax charge can be as much as 82%.) Currently if you are under 75, before taking benefits, your fund can be paid to your beneficiaries without a tax charge - there is no proposal to change this.

These changes were published with the other Budget announcements on 22 June 2010.

Online filing PAYE forms, P45 and P46

PAYE form P45 is issued to employees when they leave your employment. Form P46 needs to be completed when you take on a new employee who does not have a P45 from a previous employment. In both cases these forms need to be filed with H M Revenue & Customs.

Firms with 50 or more employees

You have been required to file these two forms online since 6 April 2009. From April 2010 failure to file online may result in penalties being charged. Depending on the number of forms which an employer has failed to file, penalties could rise to a maximum of £3,000.

Firms with less than 50 employees

You are required to file forms online from 6 April 2011.

The advice from HMRC to employers is as follows:

1. As all employers are filing year end returns online it makes sense for all firms, even those with fewer than 50 employees, to make use of the online process and file forms P45 and P46 now.
2. If you do file online do not send in paper forms as well.
3. To avoid penalties do not send in paper returns when you are required to file online.
- 4.

The message seems clear - HMRC are keen to receive all PAYE filing online as soon as possible. If you have a problem setting up or dealing with online filing please call for assistance.

VAT issues to deal with before 4 January 2011

Apart from its effect on the cost of living, the hike in the standard rate of VAT to 20% on 4 January next year will have ramifications for registered traders. We have outlined a few of the likely topics that should be considered prior to this date, see below:

1. Make sure you are clear what changes need to be made to your accounting software to accommodate the rate change. There will also be added complications if you have adopted the cash accounting or flat rate scheme.
2. If you have supplies that will run over 4 January date, for instance construction contracts where part of the work is done before and part after the date of the rate change, care is required. Explaining the correct strategy to adopt is beyond the scope of this article but please call for more information if you will be in this position next year.
3. Clubs and sporting organisations will need to take care when charging members annual subscriptions that bridge the 4 January 2011 date.

The legislation that you will need to observe over the rate change period next year is known as the "anti-forestalling legislation". This was introduced to stop large transactions gaining an unfair advantage and accordingly its application in practice will be fairly limited.

In summary the anti-forestalling legislation applies taking into account the following factors:

- If your customer can reclaim the VAT you charge then the rules will not apply.
- The rules only cover transactions that cover supplies of goods and services that overlap the rate change date, 4 January 2011.

If your customer cannot reclaim VAT and the supply does overlap the 4 January date, you will need to consider four further questions:

1. Will you raise advance invoices (i.e. invoice raised on or before 3 January 2011 for goods or services supplied after this date) or receive advance payments from persons connected to your business? Note - connected parties includes husbands, wives, parents etc.
2. Will you raise advance invoices or receive advance payments on or before 3 January 2011 for amounts exceeding £100,000 (excluding VAT) to any customer?
3. Will you raise invoices on or before 3 January 2011 that do not have to be paid for at least six months?
4. Will you provide or arrange funding to enable customers to pay you in advance i.e. before 4 January 2011 for goods or services to be supplied after this date?

If you answer yes to any of these four questions you may possibly have to pay an additional 2.5% VAT on the affected supplies.

Tax credits – requests for information

HMRC have powers to request information that underpin your claim for tax credits. If you fail to comply with their request you may find your tax credit payments are suspended.

To make matters worse there are no clear statutory rules about the type of records you should keep or how long they should be kept. It is likely therefore that in some cases you may not have the information HMRC requires.

You should also note that HMRC can charge a penalty of £300 and then daily penalties of £60 when they have issued a request and a complete reply has not been forthcoming. It is clear that these requests should not be ignored. Either send in the information you have or an explanation why you cannot comply.

The HMRC factsheet on this issue cites the following as a reasonable excuse for not sending in the information requested:

- Serious illness, or
- Documentation lost due to fire, flood or theft.

A final point, there are no present safeguards for taxpayers who have their tax credit payments suspended due to non-compliance with a request for information about their claim. This includes no right of appeal or provision for you to put forward a reasonable excuse and no time limit on how long the suspension can continue.

Tax Diary September/October 2010

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

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

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

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

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

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

19 October 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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