

From April 2010 most businesses will be forced to send tax returns to the taxman online rather than on paper. Over the past few years there has been a gradual introduction of tax return filing rules requiring business to submit payroll deduction forms to HM Revenue & Customs electronically including smaller business making payroll returns and also VAT returns for businesses with larger turnovers.

The new rules come into force for VAT and PAYE/NIC next April which means that businesses should be making plans now to ensure that they are ready. So what are the details?

PAYE/ NIC - Employers must file their 2009-10 Employer Annual Returns online

New PAYE regulations mean that virtually all employers are required to file their Employer Annual Returns (forms P35 & P14s) and also the construction industry scheme (CIS) returns online from the 2009-10 tax year onwards. The 2009-10 Return is due by 19th May 2010.

Only the following groups still have the option of filing their return either online or on paper:

1. Employers with fewer than 50 employees who cease paying PAYE during the 2009-10 tax year and file their return for that year by 5 April 2010
2. Employers entitled to operate PAYE using HMRC's simplified deductions scheme for domestic employees (using forms P12 and P37) – provided they haven't previously received a tax-free payment for online filing
3. Practising members of religious societies or orders whose beliefs are incompatible with the use of electronic methods of communication
4. Employers who employ someone to provide care or support services in or from their home as long as they comply with certain conditions.

It is important to ensure that your payroll software has the necessary capabilities to file online and that relevant staff are aware of the requirements. Where your payroll is small it is also possible to file year end and in-year forms via HMRC online services. For PAYE and CIS payments, the liability to a penalty will be based on a totting up procedure depending on the number of defaults during a tax year. A penalty will not be levied for the first default and will then rise as follows:

- up to three defaults - 1% of total amount of those defaults;
- four, five or six defaults - 2% of the total;
- seven to nine defaults - 3% of the total; and
- ten or more defaults - 4% of the total.

If any tax is unpaid six months after the penalty date, then a penalty of 5% will be levied and a further 5% can be levied after 12 months. The current aim of HMRC is to implement the PAYE late payment penalties with effect from **6 April 2010**. Clearly, it is important that your business makes its payments on time so please contact us if you would like any advice or help in setting up for online filing.

VAT

For businesses whose turnover is more than £100,000 (excluding VAT) they will have to file their VAT return online for accounting periods that start on or after **1 April 2010**. In addition, businesses which register for VAT on or after **1 April 2010** will have to file online, regardless of turnover.

Getting ready for the changes

- If you think you will have to submit your VAT Return online from 1 April 2010, you should take the following action **now**: Identify your preferred form of electronic payment (e.g. Direct Debit, Internet banking) and set up the necessary arrangements.
- Register and enrol for the VAT online service. (You will need to do this to submit your VAT Return online, whether you choose to use commercial software or HMRC's free software.)
- Talk to Ellacotts if you would like us to submit your VAT Return online on your behalf.
- Consider whether you need to change any of your business processes for checking and signing off your VAT Return.

The price for getting it wrong

If you submit or pay late again during your surcharge period you may have to pay a 'default surcharge'. This is a percentage of your unpaid VAT. If you don't submit a correct return, HMRC will estimate the amount of VAT you owe and base your surcharge on that amount (known as an assessment). Your first surcharge will be 2 per cent of your unpaid VAT.

If you continue to make late payments you will be charged increasing penalties of 5 per cent, 10 per cent and 15 per cent of your unpaid VAT. If you continue to fail to submit a correct return HMRC may increase the estimated amount of VAT you owe them and base the increased penalties on that amount.

At Ellacotts LLP we have experience in online filing and can help you get it right. Please call us if you would like assistance.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayer's 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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