

Just two months to the end of the current tax year, so this month we have included articles regarding changes to the tax system that we know will be included in the March 2011 Budget; the Budget date is already announced, 23 March 2011. We have also included details of the impending Business Record Check by HMRC!

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

Our next newsletter will be published Tuesday 3 March 2011.

Business record Check HMRC – should you be concerned?

On 17 December 2010 HMRC announced their intention to roll out a programme of Business Record Checks in the second half of 2011. At present they are consulting with professional organisations regarding the scope of their enquiries. This consultation will be completed and the results published by 31 March 2011.

If your business is selected, HMRC staff will visit your premises and ask for access to all your business records. If they feel that there is a significant failure to keep proper records, penalties may be charged and additional tax assessments raised.

Here's what we know so far:

HMRC's objectives:

- Use existing powers to check business records in up to 50,000 cases annually.
- Businesses targeted will have 250 employees or less and turnover below 50m Euros. (At present exchange rates just over £40m)
- Checks to begin in the second half of 2011.
- Impose penalties for significant record keeping failures.

Issues to be resolved by present consultation process:

- Arrive at a clear understanding of record keeping obligations; primarily what records do you need to keep.
- What level of penalty should be levied to bring about the required changes in defective record keeping, and
- Should HMRC allow a "cooling off period", before penalties are charged, to give businesses time to remedy substandard record keeping?

The consultation is not concerned with whether HMRC should have powers to check business records, these already exist!

If HMRC are aware that your record keeping is defective this will no doubt trigger visits from a number of their departments. You may get additional PAYE/NIC or VAT audit checks for instance.

There are existing guidelines from HMRC on what constitutes satisfactory record keeping that will likely form the basis of their new Record Check processes. As the results of the present consultation become available we will include further information in this newsletter.

Employer supported childcare (ESC) – loss of higher rate tax benefits

There are two changes to the present ESC scheme that currently allow employees to receive qualifying childcare vouchers up to a value of £55 per week.

The changes from 6 April 2011 are:

1. Currently, employees receiving the National Minimum Wage (NMW) cannot legally reduce their earnings, a salary sacrifice, to take part in an ESC arrangement. This has prevented some employers offering the scheme as it has to apply to all employees. HMRC have now agreed that employees earning at NMW rates can be withdrawn from the scheme and ESC offered to non NMW workers. This amendment will be back dated to apply from 2005/06 when the scheme was introduced.
2. Employees joining schemes on or after 6 April 2011 will have their tax relief equalised such that higher rate tax payers gain no additional benefit. The new weekly amounts will be: Basic rate taxpayers £55 (no change), Higher Rate taxpayers £28, and Additional Rate taxpayers £22.

Planning point

If you are a higher rate or additional rate taxpayer and you have not joined your employer's ESC scheme you may want to reconsider. Individuals in a scheme at 6 April 2011 will retain their existing level of tax relief.

- 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.

Furnished Holiday Lets – end of loss relief flexibility

At present owners of qualifying Holiday Let property can set off losses from the letting activity against their other earnings. From 6 April 2011 you will no longer be able to do this. From 6 April 2011 you will only be able to carry losses forwards to set off against future holiday let profits.

From a tax planning point of view this offers a short window of opportunity. Any Furnished Holiday Let losses that you make up to 5 April 2011 can be set off against other earnings for 2010-11. This could be an opportunity not to miss as higher rate and additional tax rate payers may receive 40% or 50% of the losses from HMRC as tax refunds.

If you are planning extensive, qualifying repairs to your FHL property(ies) now may be a good time to implement and complete before 5 April 2011.

If you would like advice regarding this topic please call for more information.

VAT on certain postal services from 31 January 2011

Although the First and Second Class postal rates are unaffected, as are franked mail and standard parcels, there are a number of postal services that will include VAT from 31 January 2011. These include:

Express and tracked services

- Special delivery 9am, stamp, franking and account customers.
- Special delivery next day, account customers only.
- Royal Mail tracked and tracked next day
- Royal Mail Same Day

International Services (EU destinations only)

- International contract services
- International Airsure
- International Admail and Admail Packets
- International redirections

Advertising, Catalogues and Magazine services

- Big Book
- Royal Mail Heavyweight
- Mail Media

Unaddressed Mail

- Door to Door

If you are a business user of these services you should be able to reclaim the VAT. However businesses that use these postal services who are not VAT registered or have Exempt Services may have to absorb the 20% VAT increase.

Tax Diary February/March 2011

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

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

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

1 March 2011 - Due date for corporation tax due for the year ended 31 May 2010.

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

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

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

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

19 February 2011 - CIS tax deducted for the month ended 5 February 2011 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.

Ellacotts LLP, Countrywide House, 23 West Bar, Banbury, Oxfordshire, OX16 9SA Tel: 01295 250401 Fax: 01295 271375 web: www.ellacotts.co.uk

Ellacotts LLP is a Limited Liability Partnership registered in England and Wales under no. OC 319580 at the above address and is registered for VAT under reference no. 119 5074 71. Partners of the firm are members of the Institute of Chartered Accountants of England and Wales (ICAEW). This body has its headquarters in the UK and its rules of professional conduct can be obtained from its web site. Ellacotts LLP is authorised to act as statutory auditor by the ICAEW