When did you last check the best tax result for use of your car? The tax charges for company cars increased again on 6 April and your PAYE code number may have changed as a result. Have you checked (again!) whether it would be better to opt out of a car scheme? Even opting out of the fuel benefit may save you (and your employer) £000's each year. Our article on the approved mileage rate for using your own car on business (below) highlights this point.

Our newsletter this month covers: a reminder of the increase in the rate per mile for the business use of a privately owned vehicle, a reminder of circumstances that require you to file a tax return, the benefits of making protective claims for tax credits, and finally, details of a new initiative by HMRC to check the books and records of restaurants.

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

Please note that our next newsletter is due to be published on 6 July 2011.

Don't forget the increase in mileage rate

Don't forget that from 6 April 2011 the HMRC approved amount you can claim for the business use of your own car is 45p per mile (previously 40p per mile).

The 45p rate applies to the first 10,000 business miles claimed in a tax year, after that the rate reduces to 25p per mile.

Employers are not obliged to pay at this rate but any rate paid up to 45p per mile will be effectively tax free to the recipient. Any payments in excess of 45p would need to be declared as a taxable benefit.

When do I need to full in a Tax Return

If HMRC send you a notice reminding you to fill in a Self Assessment tax return, you should do so!
But what happens if you are not reminded or required by HMRC to send in a return?

The following persons should notify HMRC that they need to submit a return even if HMRC are not presently asking them to do so:

- If you are, or become, self-employed, this includes being a member of a partnership.
- If you are a company director, a minister of religion or member of Lloyd's Underwriters

You are also required to send in a return if your income from the following sources exceeds:

- £10,000 or more income from savings and investments
- £2,500 or more income from untaxed savings and investments
- £10,000 or more income from property (before deducting allowable expenses)
- £2,500 or more income from property (after deducting allowable expenses)
- annual trust or settlement income on which tax is still due (even if you're only treated as receiving this income)
- income from the estate of a deceased person on which tax is still due

Other reasons:

- You are 65 and receive a reduced age related allowance
- You have any foreign income that is liable to UK taxation
- Your annual income is over £100,000
- You need to claim certain allowances or reliefs
- You have capital gains to report (sales proceeds over £42,400 or gains over £10,600)
- You are a trustee
- If you have lived or worked abroad or you are not domiciled in the UK
- If you have untaxed income sources and are using personal allowances elsewhere

As you can see this is quite a list. Unfortunately it is the taxpayers' responsibility to notify HMRC that they need to submit a return. If you have any doubts about your status please call.

Why claim for Tax Credits if your income is too high?

Before we deal with the issue raised by the title of this article it is necessary to outline the claims procedure.

In order to qualify for tax credits for the complete tax year 2011-12 it is necessary to make a claim before 1 July 2011 as claims can only be backdated 3 months.

Any claim now for 2011-12 would have to be based on your taxable income to 5 April 2011, the previous tax year. If your income for that year was over the tax credits threshold it is still important to make a claim before the 30 June 2011. The Tax Credits office would issue a 'Nil Award' for 2011-12 – effectively your claim would be recorded but no payments would be made to you.

Let's say that you are self-employed, you have made no application for Tax Credits, and during the 2011-12 tax year your income dropped from £100,000 to £10,000 due to a number of factors such as:

- Loss of a major customer
- Bad debts
- Claim for purchase of new plant and equipment (to take advantage of the present 100% write down)

It may be that you were not aware your actual income would be at this level until say June 2012 when your accounts were completed for the year to 31 March 2012 (the basis for your 2011-12 tax assessment). If you made no claim for Tax Credits up to this point you could only backdate a claim to 5 April 2012. This being so you would receive no Tax Credits for 2011-12.

If, however, you had made a protective claim before end of June 2011, you could ask for your 'Nil Award' to be reassessed based on your actual earnings of £10,000 for 2011-12, instead of the earnings for the previous year amounting to £100,000. If all of the other qualifying conditions were satisfied you would then get a cheque for a full year's tax credit claim.

This scenario does not just apply to the self-employed. Anyone, whose income fluctuates for whatever reason, may benefit in the same way. If it is likely that your income could drop in 2011-12, compared with the previous tax year, please contact us now so that a protective claim can be put in place.

HMRC to investigate restaurant trade

HM Revenue & Customs have created a new task force to crack down on tax dodgers. Their latest brief is to take a look at the restaurant trade. Initially their efforts will be targeted in the London area followed by the restaurant trade in Scotland and the North West of England.

One area of interest will undoubtedly be the recording and accounting of tips. For instance:

1. Are tips collected by employees and are they aware of their responsibilities to declare these as earnings?
2. Are tips managed by the employer and have PAYE and NIC deducted?
3. Are tips managed by setting up a tronc (i.e. a "pool")? Has a troncmaster been appointed?
4. Is the tronc registered for PAYE?

National Insurance is another complex area in relation to tips. Generally speaking employers are responsible for paying and deducting National Insurance contributions where customers:

- Pay a mandatory service charge and these charges are passed on to the employees directly or via a tronc arrangement, or
- Pay a voluntary service charge or tip to the employer, and the employer passes these charges/tips to a tronc, and the employer has a say in how the tips are distributed amongst employees.

National Insurance is not due where:

- Customers pay tips directly to the employees.
- Customers pay voluntary tips or service charges to the employers and the employer passes some or all charges to a tronc, and the employer is not involved in deciding how much each tronc member receives from the tronc.

As a final point, tips are not part of the “supply” for VAT purposes so do not make the mistake of accounting for output tax on them unless you are making use of the flat rate scheme.

If you have any doubts about the way in which your restaurant accounts for tips, or indeed any other aspect of your record keeping please call. HMRC may be heading in your direction.

Tax Diary June/July 2011

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

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

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

1 July 2011 - Due date for corporation tax due for the year ended 30 September 2010.

6 July 2011 - Complete and submit forms P11D return of benefits and expenses and P11D(b) return of Class 1A NICs for year ended 5 April 2011.

6 July 2011 - Deadline for submission of new Tax Credit application for 2011-2012, if you want to secure a full year's claim.

19 July 2011 - Pay Class 1A NICs on benefits (by the 22 July 2011 if paid electronically) for year ended 5 April 2011.

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

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

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

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