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Newsletter June 2010

George Osborne has declared the date of his first Budget, Tuesday 22 June 2010. It's difficult to call any significant changes to the tax system due to the emerging news on higher than expected inflation. A VAT increase, from 17.5% to 20% would feed into the cost of living index and increase inflation in the short term, we may see this increase deferred until early next year when the previous increase in VAT has worked itself out of the numbers. There is continued speculation in the financial press that disposals of non-business assets (shares, investment property etc) will be taxed to a higher rate of CGT, which is currently 18%. More on this below. We will of course advise you of the Budget changes as soon as the detail is available and details of how to follow us in the build up to the Budget and on Budget day is included below.

In this newsletter we have included articles on National Insurance and Pensions, the provision of private fuel, an article that explains how to structure a tax-free long service award, possible benefit in kind complications regarding loans to directors and employees, cars that qualify for the 100% write-off and a word of warning about the initial use of the VAT Flat Rate Scheme. A bumper edition in fact.

Regards

Nigel Holmes
Director - Corporate Tax

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If you know anyone who might be interested in our newsletter feel free to forward this copy. If you have received a forwarded copy and would like to subscribe at no charge, just follow this link www.armstrongwatson.co.uk/yourneeds/page/420/tax-newsletter

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Tax facts at your fingertips

Have you seen our range of tax factsheets? Our tax factsheets cover business, personal and employment taxes and VAT advice and compliance. However, they only provide an overview and advice should be sought in respect of your own circumstances. Each month we will be adding new factsheets to the list.

New this month:

- Extracting profits from a limited company 2010-11 (Business Tax section)
- Potential tax changes to come (Personal Tax & VAT sections)
- VAT registration issues (VAT section)

Follow this link to find out more.

<http://www.armstrongwatson.co.uk/taxfactsheets>

If there is a topic that interests you please contact us if you wish to discuss it further.

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Advisory fuel rates for company cars

Many employers and employees make use of the advisory fuel rates published by HM Revenue & Customs. The rates apply where the employer:

- reimburses employees for business travel in company cars where the employer does not provide fuel, or,
- requires employees to reimburse the cost of employer provided fuel used for private travel, so potentially avoiding a private fuel benefit charge.

The advisory fuel rates are also acceptable for VAT purposes providing VAT receipts for fuel purchases are retained.

The rates have changed with effect from 1 June 2010. The new rates are on the link below. Please note that HMRC no longer gives a month's notice in this regard.

Currently HM Revenue & Customs reviews the rates at least twice a year. Please click on the following link for more information:

http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm

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Corporation Tax reform

The new Coalition government has announced that there will be a five year reform of corporation tax with a view to reducing the corporation tax rates whilst simplifying the available reliefs and allowances, including capital allowances. Hopefully more details will be announced on 22 June but it is possible that the timing of capital expenditure will become even more important.

However, the good news is that the government has confirmed that the generous R&D tax relief will be kept, with a new focus on small businesses, start up businesses and high tech businesses. Once again, there is no detail as yet but it may be worthwhile getting claims in early.

As always, we will keep you informed and will be publishing our Budget update on 22 June. To follow us go to:

www.armstrongwatson.co.uk/juneemergencybudget

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A planning opportunity - time to act!

With just a couple of weeks now until the forthcoming emergency budget we can't ignore the speculation regarding the proposed changes to Capital Gains Tax (CGT). We already have some details of the likely direction of tax policy – that rates will be increased on non-business assets such as share portfolios or second homes from the current 18% to levels much closer to income tax rates. This could potentially mean tax rates of 40% to 50%.

To try and soften the blow we have also been promised that major exemptions will be retained to ensure that entrepreneurs and those approaching retirement are not penalised. The latter group may well have chosen to invest in shares and property to save for retirement. Both of these kinds of investments could reasonably be expected to come under the heading of 'non-business assets'.

At the same time, there has been silence from government on the rules that control how one very important exemption, Private Residence Relief, the relief on gains on your main home, will operate. It was these rules that allowed many politicians to legitimately plan to pay less tax on the sales of second homes and some commentators are suggesting that these rules too could well be subject to scrutiny as public opinion moves against this approach. This would obviously impact on second home owners more generally.

Another area of uncertainty is the treatment of Furnished Holiday Let (FHL) properties. Owners of these properties have traditionally been able to benefit from a deemed trading status and favourable CGT rates. The previous government sought to remove this status from April 2010, but were prevented during the pre-election Finance Bill negotiations. Given this, it is tempting to assume that the favourable treatment will be retained post Budget. However, the Conservatives were not part of a coalition when the changes were blocked last time. Furthermore the old FHL rules favoured UK properties only and the pressure from the EU to ensure that the FHL rules treat all properties in the EU equally still remains.

The trouble is that although we know something is coming, we don't know when, or in exactly what form. Any changes could be brought in and made effective from 22 June, or they may not happen until next April. Potentially, changes could even be backdated to the start of the current tax year, although most commentators would view this as highly unlikely.

So there is a window of opportunity of uncertain length in which people can continue to take advantage of the current 18% CGT rate. Gains on sales during this period should be taxed at this lower rate.

Of course it is very easy to sell shares but properties tend to take a bit longer. Fortunately, it is normally possible to trigger the CGT without a real sale but it will still take a little organising so, if you might be affected, act now.

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National Insurance & State Pensions

Given the lengthy debates during the recent Election campaign concerning the proposed increases in National Insurance Contributions (NICs), it is an opportune time to look at the level of State Pension that can result from the payment of National Insurance (NI) as there are often simple and inexpensive steps that can be taken to improve the amount receivable on retirement..

The State Pension is made up of two parts – the Basic Pension and the Additional Pension:

Basic State Pension

- The number of qualifying years of National Insurance has been reduced to 30 years for both men and women who reach retirement age after 6 April 2010
- The retirement age for women is increasing over the next five years from 60 to 65, and between 2024 and 2046 the retirement age for all will increase to 68
- For an employee it is not even necessary to pay any NI to get a qualifying year – the payment of a wage of £97 per week is all that is needed
- National insurance Credits can be obtained in certain circumstances, most commonly where Child Benefit is being paid for a child under the age of 12
- If a person is not employed, self employed or receiving credits they can pay Voluntary NI but this is relatively expensive at £12.05 per week.

Additional State Pension (also known as State Second Pension)

- Additional Pension is only paid to employees and those in receipt of certain state benefits, but not to the self employed
- It is based on the level of earnings, thus the higher the level of wages the more Additional Pension will be paid, but anyone earning £97 per week or more is treated as having earned £270 per week. This is another reason why family members working for a family Company should in most cases be paid a wage of at least £97 per week
- A person claiming Child Benefit for a child under the age of 6 is also deemed to have earnings of £270 per week for the purpose of calculating Additional Pension. Thus careful consideration needs to be given to which parent should claim Child Benefit.

In conclusion we would urge anyone nearing retirement age or who is unsure about their NI history to obtain a Pension Forecast from The Pension Service and then contact us to discuss the options available to increase the amount payable.

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Private fuel provision - is it still a benefit?

Company car drivers may well be asking this question when they realise that they could be paying more in tax on the fuel 'benefit' than the cost of the private fuel that they use.

From 6 April 2010 the figure used as the basis of calculating the taxable 'benefit' of private fuel has increased to £18,000. The calculation is done by applying a percentage based on the CO2 emission and fuel type of the company car to the figure of £18,000. The tax cost to the employee is dependent on their tax rate.

For example, an employee who pays tax at 20% and is provided with a diesel Ford Mondeo 2.0 TDCi with a CO2 emissions figure of 154 g/km would pay tax of £66 per month purely on the 'benefit' of being provided with private fuel. If the employee pays tax at 40% the tax cost of being provided with private fuel is currently £132 per month.

Not surprisingly many employees are finding it cheaper to avoid the tax charge by reimbursing their employer for fuel used on private journeys only. HM Revenue & Customs publishes advisory fuel rates which can be used for this purpose. In addition to

the tax saved by employees, employers can save Class 1A National Insurance. See above for changes to the advisory fuel rates.

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Tax-free long service awards

If you provide an employee with a non-cash award to reward long service, the payment can be made without deduction of tax or National Insurance contributions, as long as the following criteria are observed:

1. As this is a reward to employees it is not available to self-employed sole traders or partners. It is available to directors who receive a salary for their services.
2. The award has to mark at least 20 years of service.
3. You must not have made a previous long service award within the last 10 years.
4. The value of the reward cannot exceed £50 per year of service - so the maximum value of an award to an employee with 20 years of service is £1,000.
5. As pointed out in the opening paragraph of this article the award has to be made in a non-cash form. Cash awards are taxable as earnings in the usual way. You should also be wary about awards that can quickly be converted into cash, for example marketable stocks or shares or precious metals - these do not fulfil the non-cash criteria.

There are a number of complicated rules to abide by if your payment falls outside the above five points - for instance if you exceed the £50 per year or if the employee has less than 20 years of service.

If you are thinking of making use of this potential tax-free perk it is best to check with us before making the award.

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Beneficial loans to employees or directors

If a company makes a loan or loans to an employee or director and the combined outstanding value to an individual never exceeds £5,000 there is no personal tax or National Insurance charge on the director or employee. However, beware; loans to employees who are also shareholders and directors may create a corporation tax charge for the company even if the loan does not exceed £5,000.

If the combined amount exceeds £5,000 a potential benefit in kind charge may arise if no interest is charged to the loan account or interest is charged at a lower rate than the official rate published by HM Revenue & Customs.

The official interest rates for the last three years are:

From 6 April 2007 to 28 Feb 2009 - 6.25%

From 1 March 2009 to 5 April 2010 - 4.75%

From 6 April 2010 - 4%

As we are now approaching the deadline for filing forms P11D, the forms that declare employees' and directors' benefit in kind, it is essential that loans are examined to reveal any benefits due. Overdrawn directors' loans can create difficulties where the amount of loans fluctuates during a tax year.

If you would like clarification on the amount of benefit in kind you may have to pay please contact us as soon as you can. P11Ds have to be filed by 6 July 2010.

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Cars qualifying for 100% tax write-off

Unless the rules change on 22 June 2010 company cars that have CO2 emissions of 110g/km or less qualify for a 100% write-off

for tax purposes in the year of purchase.

The list of vehicles that come within this range of CO2 emissions is expanding. Take a look at the following website that displays a fairly comprehensive list:

<http://www.comcar.co.uk/newcar/companycar/poolresults/110tax.cfm>

A few of the more surprising sub-110g/km cars are listed below:

Audi A1 and A3;
BMW 3 series saloon - 320d EfficientDynamics;
Mini Hatch, Clubman, Cambden and Mayfair;
Peugeot 207 - 1.6 HDi Economique;
Smart - fourtwo coupe and cabrio
various VW Golf models;
various Volvo C30, S40 and V50 models.

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VAT - starting on the Flat Rate Scheme

As an incentive to new VAT registered businesses to consider using the Flat Rate Scheme, HM Revenue & Customs allows a 1% reduction in the flat rate percentage for your type of business for one year. This can be a significant benefit for newly registered traders. If your turnover including VAT is £117,500 in the first year the 1% will be worth a reduction in your VAT payments of £1,175.

Please note that this reduction is only available in the 12 months following registration for VAT. It is not available for the first 12 months you decide to convert to the Flat Rate Scheme if you are an existing VAT registered business. Unless - if say you registered for VAT on 1 January 2010 and decided to apply to join the Flat Rate Scheme on 1 April 2010, you could apply the 1% reduction in the rate applicable to your business until 31 December 2010; for the nine months until your first anniversary of registration is reached.

For smaller businesses that qualify for the lower flat rate percentages, the scheme can be cash flow positive. If you are about to register, or have recently registered for VAT and would like more information please contact us.

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Tax Diary June/July 2010

1 June 2010 - Due date for corporation tax due for the year ended 31 August 2009.

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

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

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

1 July 2010 - Due date for corporation tax due for the year ended 30 September 2009.

6 July 2010 - Complete and submit forms P11D return of benefits and expenses and P11D(b) return of Class 1A NICs.

6 July 2010 - Deadline for submission of new Tax Credit application for 2010-2011, if you want to secure a full year's claim.

19 July 2010 - Pay Class 1A NICs (by the 22 July 2010 if paid electronically).

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

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

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

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