BUSINESS UPDATE

Summer 2011

Taxman gets tough on late tax returns

"There has never been a better reason for sorting out your tax affairs early!"

The taxman has for some time used penalties as a way of encouraging taxpayers to file their annual tax returns on time. However, the taxman has now toughened up the rules for charging penalties for late tax returns starting from the tax year ended 5 April 2011.

A new sliding scale of penalty charges sees the penalty charges increase by a massive 550% for tax returns for the 2010/2011 tax year if they are filed late.

The rules have also been tightened when compared to earlier years; where a penalty for a late tax return could still be avoided if there was no tax to pay, or you had settled your tax liability in full by the normal due date. Now the penalty will stand regardless of whether or not you have a tax charge.

Director of Tax Services, Paul Southward says "we do everything possible to help clients avoid unnecessary penalties" but is still urging clients to provide us with all the necessary tax return information as soon as possible. Once we have the relevant information we can provide a full summary of all your tax liabilities and pursue tax repayments where appropriate.

There are several good reasons why it makes sense to sort out your annual tax returns as early as possible:

- Those making payments of tax on account can ensure that they pay no more than the correct amount; we can even apply for a refund if we discover that you have paid too much tax.
- Forward planning; knowing what your tax liabilities are going to be as early as possible will assist you with your financial planning and how you may best be able to take advantage of any tax efficient investments.
- If you have made a capital disposal, you may have to apply to the taxman to agree any valuations; the earlier this is done the more likely you will reach an agreement before the tax becomes due.

We are aware that some clients do prefer not to file their tax returns with the taxman too early. We are always sympathetic to our clients' wishes and if you provide us with the information you can still enjoy the benefits outlined above but we can delay filing the tax return in accordance with your wishes.

Please ask Paul or your usual KSK contact if you have any queries.

Keens Shay Keens Limited
Chartered Accountants and
Business Advisers

Luton
01582-651000
luton@kskluton.co.uk

Bedford
01234-301000
bedford@ksk.co.uk

Biggleswade
01767-221000
bwade@ksk.co.uk

www.ksk.co.uk

Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales.

KSK Financial Solutions Ltd
Independent Financial Services Advisers
Guy Murray – 01582 651000 – gm@kskluton.co.uk

The National Alliance of High Quality Independent Firms of Chartered Accountants

In this issue: Problematic expenses • Another tax amnesty in the pipeline • Picking up the tab... • Will you still need me? • A case of give and take • All rise for national insurance contributions

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice as at May 2011.

Problematic expenses

©iStockphoto.com/cjp

The recent employee expenses report by GlobalExpense shows how expenses claims can be costly for employers.

Legitimate claims

Around £124 million in VAT was unclaimed last year because businesses did not have valid receipts for a staggering 41% of employee mileage claims.

VAT can be recovered where employees are reimbursed for fuel used on business journeys – reimbursement can either be for the actual cost or as a mileage allowance. The fuel element of a mileage allowance may be based on HM Revenue & Customs' (HMRC) advisory fuel rates or on rates set by a motoring agency such as the RAC or AA.

To recover VAT, it is necessary to obtain VAT invoices when employees purchase fuel, although these can be simplified invoices. Employees do not have to obtain an invoice for every purchase (although it is good practice to do so), as there just has to be sufficient fuel purchased to cover the amount of VAT reclaimed.

HMRC recognises that the invoice amount may not match what is being reclaimed, although an invoice cannot be dated later than the claim period. So what can employers do?

- Make sure that employees are aware of the need to obtain receipts – and that a credit or debit card receipt will often be insufficient.
- Consider providing employees with one of the many different fuel cards that are available. One VAT invoice a month will then make the recovery of VAT much easier.

Illegitimate claims

Last year businesses lost more than £300 million because of fraudulent employee expenses claims, with another £1 billion of claims not being within company policy. A few suggestions:

- Have a clear written expenses policy that is accessible to employees.
- Make sure that managers and directors who approve expenses get appropriate training and support.
- Have employees make regular expenses claims which are then promptly approved.
- Insist on a receipt to support all claims.
- Consider using expenses management software, because the cost of processing expenses can be huge compared with the amounts involved.

A change on entertainment

Following a recent judgment by the European Court of Justice, HMRC now accepts that VAT can be recovered on the cost of entertaining overseas customers. The law has been amended from 1 May, and backdated claims can be made subject to the normal four-year time limit.

Did you know that the cheque guarantee card scheme will end on 30 June this year? It will still be possible to pay by cheque and receive one as payment, although cheques written and dated after 30 June 2011 will not be guaranteed even if presented with a valid plastic card. Cheques will be completely removed from the British banking system by 31 October 2018. Cards and automated payments pushed the popularity of cheques into terminal decline: their use has dropped more than 40% since 2006. For the significant number of businesses and tradespeople still relying on cheques, it would be advisable to start assessing alternative payment options now.

Another tax amnesty in the pipeline

Tax amnesties offer a quick and cost-efficient way for the government to raise revenue. The first amnesty raised some £400 million at a cost of around £6 million.

Subsequently, there has been the New Disclosure Opportunity (NDO), the Liechtenstein Disclosure Facility (aimed at people with accounts or other assets held in Liechtenstein) and the Tax Health Plan (aimed at medical professionals).

Now we have the Plumbers Tax Safe Plan (PTSP), focused on people working in the plumbing, heating and gas installation trades. However, unlike previous initiatives, the PTSP is actually open to anybody who wishes to bring their tax affairs up to date. It is interesting that HM Revenue & Customs (HMRC) has also said that people not wanting to use the PTSP can voluntarily put their tax affairs in order and expect very similar terms to those offered by the plan, as long as they follow the guidance.

People have until 31 May to notify HMRC of an intention to use the PTSP, and disclosure must then be made by 31 August. The attraction is the usual reduction in penalties but, unlike previous tax amnesties, the penalty depends on the behaviour that led to the underpayment.

For careless behaviour, no penalty at all will be due for 2008/09 and 2009/10. The number of years of disclosure also depends on behaviour, although HMRC expects most people to have to pay for a maximum of six years.

The Liechtenstein Disclosure Facility remains available until 31 March 2015, and for some people this might be the more favourable disclosure route.

For those taxpayers who have still not disclosed their overseas income and gains, the penalties may now be substantially higher. Since 6 April, the amount of penalty has depended on the category of the country in which the income or gains arise. There is no change in respect of category 1 countries (those that automatically exchange information with the UK on savings income), but penalties are 150% of the normal amount for category 2 countries (information is exchanged but not automatically) and double for category 3 countries (no exchange of information).

Please get in touch if you wish to discuss options regarding undisclosed income. Given the possible routes available, the choice is not an easy one.

Did you know that HMRC now has its new penalty regime in place for 2010/11 self-assessment tax returns? Previously, the initial £100 late filing penalty was restricted to the amount of unpaid tax, so was reduced to nil if no tax was outstanding. This capping no longer applies, so it is now far more important to file returns on time where there is no income. Late payment penalties are similar to existing penalties, with 5% penalties due where tax is unpaid after 30 days and again after six months. But there will now be a further 5% penalty if tax is unpaid after 12 months.

Picking up the tab...

The first raft of measures restricting tax credit eligibility for higher income households has just come into effect, with further changes due next April. Changes that came into effect on 6 April include:

- The rate at which your tax credits are reduced where income exceeds £6,420 has increased from 39% to 41%.
- The £545 family element of child tax credit is withdrawn where income exceeds £40,000 rather than £50,000, and the withdrawal rate is 41% instead of 6.67%.
- The weekly maximums for childcare are unchanged, but the claimable proportion is reduced from 80% to 70%.
- The amount of income disregard has been reduced from £25,000 to £10,000. Claims are initially based on income for the previous tax year, and the disregard is the amount by which current year income can rise before a claim is revised.

Take a couple with two children, both employed full-time, income of £45,000 and weekly childcare costs of £300. For 2010/11 they would have received tax credits of £7,179, but this year they will get about £1,800 less. Their marginal tax rate is probably 73% – income tax at 20%, NIC of 12% and a 41% clawback of tax credits. In such a position, you might feel that a pay rise gives little benefit, since you will only keep 27p for each extra £1. If available, additional holiday entitlement or shorter working hours might be preferred.

Income is after deducting pension contributions and gift aid donations, so the government will pick up 61% of the tab (there is no NIC saving) if these are paid. If you are self-employed you could, for example, treat yourself to a business laptop, and save an additional 9% NIC – effectively funding just 30% of the cost yourself.

Sometimes the government might cover the full cost. The income reduction can also preserve tax credits for the following year, adding another 41% of tax saving – a total of 102% or 111%. And if you are a higher rate taxpayer the savings can be even greater.

Be warned though that this is a complex area, and unforeseen changes to your circumstances can easily ruin any tax planning. Contact us for further advice.

©iStockphoto.com/sjlocke

Will you still need me?

The Beatles were singing about reaching 64, but since 6 April you can no longer require someone to retire when they reach 65. Many businesses already operate without a fixed retirement age, so they will have a relatively easy transition. But for others, there may be many questions:

How many employees will postpone retirement? Research suggests that nearly two-thirds of employees will postpone retirement, often because they have made insufficient pension provision.

What about pensions? Employees can claim the state pension and continue to work, or alternatively defer their pension in return for future enhanced benefits. You should consider reviewing the terms of any workplace pension scheme to support flexible later retirement.

Should I offer flexible working? Claiming the state pension and opting for flexible, part-time, working will be a popular option for many employees. However, be careful of discrimination if flexible working is offered to older workers and not to others.

What can I do about an older worker who is underperforming? The only way you can remove an underperforming worker is by using the fair dismissal procedures that apply to all employees.

Can I have an employer-justified retirement age? Yes, but only in exceptional circumstances where such an age can be objectively justified – and this may be a difficult test to pass. To date, such retirement ages have mainly been used to retire people under 65, such as where a job requires a significant level of physical fitness.

Should I change my health and safety procedures? No. In fact, many employers report that older workers tend to have fewer accidents.

Do I have to have retirement discussions with my employees? There is no requirement to do this, but you may find it helpful. Be careful not to discriminate by singling out older workers for discussions.

What about employee insurance and benefits? Group risk insured benefits such as income protection, life assurance, private medical cover and sickness insurance can cease when an employee reaches 65 (or the state pension age if higher), but not other benefits such as employee share schemes.

Where can I get more information? The Advisory, Conciliation and Arbitration Service (ACAS) and the Department of Work and Pensions websites have a range of relevant publications: visit www.acas.org.uk. and www.dwp.gov.uk/age-positive

Did you know that HMRC has increased all of its advisory fuel rates by either 1p or 2p per litre? This is no surprise, given the recent rise in fuel costs. The rates from 1 March 2011 are:

Engine size	Petrol	Diesel	LPG
1,400cc or less	14p	13p	10p
1,401cc to 2,000cc	16p	13p	12p
Over 2,000cc	23p	16p	17p

Changes normally take effect from 1 June and 1 December, but rates are also revised for a 5% fluctuation in fuel prices. They are used where employees are reimbursed for business travel in company cars, or where employees repay the cost of fuel for private travel.

A case of give and take

Donors to charity can now receive greater benefits as a result of a gift-aid donation of more than £10,000. In April 2011, the annual limit on the value of benefits went up from £500 to £2,500.

©iStockphoto.com/John Gomez

The benefit cannot be more than 5% of the gift, so the maximum applies to gifts of £50,000 or more. The change will allow charities to thank their larger individual and corporate donors more generously.

Less welcome, though known well ahead, was the end of the transitional gift aid relief under which charities received an additional 3p on every £1 given between 6 April 2008 and 5 April 2011. This was introduced when the basic rate of tax was reduced from 22% to 20%. Gift aid tax relief is now 25% of the donation received.

Donors will no longer be able to divert tax repayments to charity through self-assessment, starting with the 2011/12 tax return. Instead, charities will be able to make gift aid claims online from 2012/13.

And from April 2013 charities that receive donations of £10 or less will be able to apply for tax relief without obtaining a gift aid declaration, though only on donations of up to £5,000 a year.

All rise for national insurance contributions

The consultation on the proposed integration of national insurance contribution (NICs) and income tax was the main headline after the March Budget, but such a merger may be many years away, and may not even be practical. Of more immediate concern is the 1% increase to all rates of NICs that came into effect on 6 April. A 0.5% increase was originally proposed in 2008, but this was subsequently doubled the following year.

©iStockphoto.com/ptaxa

However, an increase in the earnings threshold has protected lower earners, and many people will actually find themselves paying less in NICs this tax year than last year. For employees, this will be the case if annual earnings are less than £23,800 – the figure is a bit higher for employers. It means someone earning around the minimum wage of £12,000 a year will see their annual NIC burden fall from £691 to £573. In contrast, someone earning £100,000 a year will have to pay £621 more in NIC this year, while their employer will pay an extra £756.

For owner-managed companies, this increase, combined with the reduction in corporation rates, has made withdrawing profits by way of a dividend even more attractive. Last year, if a higher rate taxpaying director/shareholder had withdrawn £50,000 from a small profit rate paying company then they would have received £3,473 more if this had been done by way of a dividend compared with additional remuneration. This year the advantage of a dividend has gone up to an extra £4,517 in net of tax income.

Employers might consider job sharing as a way or reducing their NICs cost. For example, if one £40,000 a year job could be split into two jobs of £20,000, then the employer would make an NICs saving of £976 for the year – not inconsiderable if this is multiplied over several job shares. And there can be non-tax benefits from job sharing as well, including:

- Retention of valued workers who can no longer work full-time.
- Two sets of skills, experience, views and ideas.
- Increased flexibility to meet peaks in demand.
- Continuous job coverage when one employee is sick or on holiday.
- A potential reduction in absenteeism, sickness and stress.

This newsletter is printed on paper produced using FSC mixed sources from well managed forests and other controlled sources, at a mill that is certified to the EMAS environmental management standard.