

Newsletter of 12 July

It was announced yesterday that Lord Carter has revised his recommendations (to bring forward the filing date for tax returns) so that the filing date for returns filed electronically remains 31 January and for paper returns the date will be 31 October. These changes if accepted will be welcomed by all parties and show that active lobbying can work.

It is time to think about completing last year's tax return now that most information should be available. Although the deadline is 31 January 2007, if you want HMRC to calculate the tax due or to collect any underpayment through your PAYE code then returns should be submitted **by 30 September**. If you are due a refund, then the sooner the return is submitted the sooner it will be received – if you file your return online the refund will be received more quickly, frequently within 10 days.

The second payment on account for 2005/06 for self assessment tax payers is due by 31 July. This is based on your previous year's tax liability so if your income has fallen in 2005/06 or you have an increase in reliefs so that your tax liability will fall now is the time to write to HMRC to reduce your payments on account, however note that if your liability for the year is greater than the payments on account then interest is charged.

A recent Special Commissioners decision is a reminder of the need to keep good records and have explanations available for unexpected fluctuations in profits or income. See the attachment for my article on the case **R & JM Pooley SpC 525** (reproduced with permission of the editor). Although the Taxpayers records were poor in this case, this does not mean that HMR&C can just raise an assessment with out any basis and it is important to ensure that estimated assessments are justifiable and challenge them where necessary. The attached article is from a regular tax tips newsletter that I contribute to occasionally, if any one would like a copy of the full newsletter the article comes from please email me simon.bell@sjbtax.co.uk . As a general rule individuals in business should keep records for 5 years from 31 January following the tax year and companies for 6 years from the end of an accounting period. Private individuals should retain records for atleast 22 months from the end of the tax years, though if they own rental property then the rules for businesses apply. It should be noted that penalties can be levied for failure to keep records of up to £3000 and in any case the availability of records will help a taxpayer to defend their position in the event of enquiry.

Individuals with rental properties may wish to review the financing of their properties particularly if the properties have been owned for some years or occupied by themselves originally. The maximum that HMR & C will generally allow is the cost of the property when first acquired or its market value when it is first rented out (if previously used as a private residence). It has been suggested

that the level of borrowing should be kept within commercial limits, say 85% of the value of a property to prevent HMRC from arguing that the interest is not incurred wholly and exclusively for the purposes of a letting business. For owners of rental properties who have held the property for some time the market value is likely to have increased so there may be scope for increasing mortgages on let properties up to the original cost or market value when first let

The Budget increased the first year allowance for small businesses from 40% to 50% for one year, for a brief note on tax relief on capital expenditure see the attached recent article.

Impending deadlines

19 July 2006 - PAYE for the first quarter of 2006/07 should reach HMRC by today.

31 July 2006

Second payment on account for self-assessment tax payers due.

Private companies with 30 September 2005 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 31 July 2005 should be filed by concession no penalty is charged if the return is submitted by 7 August 2006.

For more information or to discuss how the ideas can be applied to your particular situation please contact Simon Bell by phone on 01376 571358 or email simon.bell@sjbtax.co.uk

This newsletter is written in general terms and therefore cannot be relied on to cover specific situations; applications of the principles set out will depend on the particular circumstances involved and it is recommended that you take professional advice before acting or refraining from acting on any material in the newsletter.