

Newsletter of 1 May 2008

Tax return filing dates

The filing date for filing tax returns by post has been brought forward to 31 October this year. The deadline for online returns remains 31 January, however clients are asked to forward their tax return information as soon as it is available to avoid last minute problems arising.

Payments on account

The second payment on account for last year is due by 31 July 2008 and HMRC will be sending statements out in June detailing the amounts due. If you think that your income has fallen significantly it is possible to apply to reduce the payment on account, however care should be taken as if an underpayment arises interest will be charged on the underpayment. Clients who believe their income was significantly reduced last year and would like us to review the level of the payment on account should ensure we have all the relevant tax return details by 31 May.

Tax changes taking effect from April 2008

A number of changes were made in the budget earlier in the year and last year's budget which will take effect from the start of the new tax year in April, these include:

- An increase in small companies corporation tax rate to 21% for 2008/09 and to 22% the following year;
- A reduction in the mainstream corporation tax rate to 28%;
- Abolition of the 10% starting rate of tax for employment and pension income (currently under review) and reduction of the basic rate of tax to 20%;
- Significant changes to capital allowances with an allowance of 100% tax relief for the first £50,000 of capital expenditure balanced by a reduction from 25% to 20% in the writing down allowance for plant and machinery as well as a reduced 10% rate for fixtures in buildings.
- The personal allowance for those aged over 65 has increased substantially to £9,030 for those aged 65 to 74 and for over 75s to £9,180. However note these allowances are reduced by £1 for each £2 income exceeds £21,800 until the allowance reaches the basic personal allowance.

Planning points:

- Businesses incurring significant capital expenditure should consider the availability of capital allowances carefully given the significant changes. Where expenditure is less than £50,000 in a year 100% tax relief may be available on all expenditure, however it should be noted that the 100% allowance does not apply to cars. 100% first year allowances are still available for low emission cars as well as certain energy efficient and water saving technology.
- Married couples where one spouse is unable to fully use their personal allowance should consider transferring income producing assets to the lower income spouse.
- Individuals over 65 whose income is sufficient to have their higher personal allowance restricted should consider transferring assets to a lower income spouse if this will reduce the restriction to higher personal allowances. Alternatively in appropriate circumstances investing in Individuals Savings Accounts which are non-taxable or in certain non-qualifying life assurance policies where funds can with drawn up to 5% of the original

investment without giving rise to taxable income may reduce income to avoid the restriction of personal allowance.

Deferral of introduction of Income shifting rules

The government proposed legislation to counteract income shifting was to come in to effect from 6 April this year. The situations that the government is trying to attack are typically where spouses run a business together and the split of the income may not necessarily reflect the proportion of time spent by each spouse. The government is consulting on how the new rules will work which are expected to come in from 6 April 2009. Husbands and wives running businesses together whether as a partnership or through a limited company should be aware that the division of income between spouses may be subject to closer scrutiny and ensure that there is a commercial justification where possible for the allocation of income between spouses. Once further information on the form of the proposed rules becomes available we will advise further.

HMRC compliance initiatives

HMRC are becoming increasingly active in pursuing individuals who do not declare all their income. Last year they obtained substantial amounts of information on offshore bank accounts and for a while had an "amnesty" for those who failed to declare previously who made a complete disclosure of their offshore accounts. HMRC continue to obtain details of offshore accounts, the recent high profile payment for bank account details in Luxembourg shows the extent to which HMRC will go. More recently HMRC have been doing a trial to detect property income writing to individuals who they believe may have property income that is undeclared. If you receive a letter of this type, providing you have fully returned your income there should be nothing to be concerned about but the letter should be responded to.

These compliance initiatives underline the importance of ensuring that tax returns do include all sources of income as omissions from returns will result in interest and penalties potentially up to 100% of the tax due. You should be aware that even an innocent oversight can be subject to a penalty. Recent changes to the penalty system suggest that innocent errors may escape penalty whilst intentional omissions will be more harshly dealt with. Any one hoping to escape penalty on the basis of innocent error should be aware that HMRC are likely to view most errors as negligence and so liable to penalty.

Home working

HMRC have increased the amount that can be paid to employees to cover the additional costs of working at home for employees under home working arrangements to £3 per week from £2 per week. Higher amounts can be paid but have to be justified by reference to additional costs and paperwork retained to support the claim, payments up to £3 per week can be made with out the need to keep records.

Impending deadlines

19 May 2008

Form P35 employers annual returns need to be filed by 19 May.

31 May 2008

Private companies with 31 July 2007 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 31 May 2008 should be filed by concession no penalty is charged if the return is submitted by 7 June 2008.

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30 June 2008

Private companies with 31 August 2007 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 30 June 2007 should be filed by concession no penalty is charged if the return is submitted by 7 July 2008.

6 July 2008

Form P11D and form P11D (b) return of expenses and benefits to be submitted by 6 July

19 July Class 1 A National insurance due.

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 . For copies of previous newsletters or details of our services please visit our website www.sjbtax.co.uk

Please feel free to forward this newsletter to any colleagues or friends who may be interested in it or refer them to our website www.sjbtax.co.uk

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