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CHARTERED ACCOUNTANTS

2011 Holiday Homes

If you currently rent out your furnished holiday home it is worth watching new restrictions from the Revenue that come into force in April 2011.

Currently, there are several tax advantages relating to income from furnished holiday lets, such as certain capital gains tax relief, advantageous treatment of earnings when calculating relief on pension contributions, and capital allowances. To quality for these benefits, the property must be available for letting for a minimum of 140 days a year and actually let for at least 70 days.

The chancellor has confirmed that there will be an increase in qualifying days to 210 days availability and 105 days actual let and new rules to restrict the offset of losses.

We will keep you updated as changes take place but we would recommend you talk to us to make sure all your reliefs are currently being maximised.

Tax Changes

FOR 2011/2012

There is good and bad news in the 2011/2012 personal rates and allowances.

Those aged under 65 will benefit from an increase in their personal allowance of £1,000, taking the allowance from £6,475 to £7,475.

To counter this, a new concept of with-drawing the personal allowance for those with adjusted net income over £100,000 was introduced in 2010/11 and will continue for 2011/12. The reduction in the allowance is by £1 for every £2 of adjusted net income above the income limit. For these purposes, adjusted net income includes all income after adjustment for pension payments, charitable giving and relief for losses.

In addition, the income level at which individuals start paying higher tax rates will be decreased from the current £37,400 to £35,000. Once personal allowances are taken into account this means that those earning more than £42,475 can expect to be within the 40% tax band.

The new rate of 50% income tax will continue for 2011/12. This applies to taxable income above £150,000.

If you receive dividend income this will be taxed at 10% where it falls within the basic rate band, 32.5% where liable at the higher rate of tax and 42.5% where liable to the 50% rate of tax.

Electronic P60

From this tax year onwards employers will be able to provide P60 information to their employees electronically. The P60 must still be provided to employees by the due date of 31 May 2011.

Employers wishing to produce electronic forms should agree with the employee that they want to receive their P60 electronically, as well as ensure they comply with data security and Disability Discrimination Act legislation

Car Allowance

FIXED PROFIT SCHEME

The March 2011 budget contained an anouncement increasing the allowance that employers can pay employees for use of their own car or van for business journeys, from 40p per mile for the first 10,000 miles per tax year to 45p per mile, without any charge to tax or NI for employees. The 25p rate per mile after 10,000 miles remains.

The last time these rules were reviewed was 2002, so the announcement was long overdue, given rising fuel costs.

Employers may pay less than the Revenue's rates and if so employees can claim tax relief on the difference. If employers pay more, then the difference is subject to tax and NI through the payroll. Remember that home to main place of work is not classed as business.

Rates for motor or pedal cycles remain unchanged at 24p and 20p respectively.

Email threat

MORE SCAM EMAILS

HM Revenue & Customs has reported a surge of fake 'phishing' emails.

The email advises taxpayers that they are due to a tax rebate, directing them to a replica HMRC website where credit card details are requested. The 'fraudsters' try to take money from the account or sell personal details on to other organised criminal gangs.

HMRC only contacts customers who are due a tax refund in writing, by post. If you receive an email offering a tax rebate HMRC recommends you send it to phishing@hmrc.gsi.gov.uk before deleting it permanently.

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We are always pleased to receive your comments or questions about 'Balancing Business' or any of the items mentioned in its editorial. If your mailing details are incorrect, if you have received duplicate copies, or you would like your name added to or removed from our mailing list, please contact Jackie Frost on 01206 715000 or by email: jackie@bakerchapman.co.uk

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Balancing Business
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Spring 2011

The Pension Pot

IS IT RUNNING DRY?

The UK, in common with many countries in Western Europe, is faced with the problem of how it can continue to provide retirement pensions for its citizens out of current taxation.

Demographic changes will mean that in future the ratio of people in work to those in retirement will fall significantly. The UK Government's response to this problem has been to equalize, and then increase, the retirement age for men and women, and to force individuals and their employers to bear more of the burden of providing for retirement.

THE CURRENT REGIME

Currently, there is no obligation on individuals to save for their retirement, and no obligation on employers to contribute to an employee's pension scheme. Successive governments have tried to encourage individuals to pay into a pension scheme (either a personal pension or an employer provided scheme) by offering tax relief on pension contributions, by allowing pension funds to be held in a wide variety of investments and by allowing individuals to take 25% of their pension pot as a tax-free lump sum on retirement. Employers are encouraged to make contributions to their employees' schemes as such contributions are deductible expenses for business tax and do not attract employer's national insurance. The contributions an individual can make in any one year are limited by the pensions annual allowance which as at 6 April 2011 has dropped from £255k per annum to £50k. This limit represents gross contributions from all sources, including those made by employers.

IMPENDING CHANGES

In October 2010 the Government confirmed that between 2012 and 2016 (depending on number of employees and type of scheme) employers will be obliged to automatically enroll eligible employees in a qualifying pension scheme. Eligible employees will be those who:

- Are not already active members of a qualifying scheme
- Are aged between 22 and the State Pension Age
- Earn over £7,475 per annum.

Employees will be able to choose to opt out of enrolling in a scheme. However, the level of opting out will be closely monitored by the Pensions Regulator and employers found to be coercing their employees will be penalized heavily.

The Government has set minimum contribution levels of qualifying earnings (basic salary, overtime, bonuses and commissions) for the qualifying schemes that will be phased in over time as follows:

Period	*Employer*	*Employee (incl. tax relief)*	*Total*
Before October 2016	1%	1%	2%
October 2016 to October 2017	3%	3%	6%
From October 2017	3%	5%	8%

Employees between the age of 16 and 21, and State Pension Age and 75, will be able to elect to opt in to the scheme, with employers being required to make the minimum contributions. Employees earning less than £7,475 will also be able to opt in but employers will not be required to contribute.

It will be possible for employers to contribute more and employees less, provided that the total exceeds the minimum total contribution.

The scheme will be introduced in stages from October 2012 with larger employers being required to comply first. Employers will be contacted between 6 to 12 months before they are due to comply. More detail is emerging with regard to the State pension scheme (NEST) but it is clear that existing and independent alternatives will still be available as long as minimum contributions are made.

CONCLUSION

Experience from other countries that have introduced a mandatory scheme indicate that take up will be significant. The costs to businesses of implementing and contributing to the scheme could be high but with planning these can be managed. The obvious plan would be to reflect these costs in any wage reviews between now and the implementation date.

INSIDE BALANCING BUSINESS

Equipping the Office
NEW RELIEFS

The New Equality Act
MAKE SURE YOU COMPLY

iXBRL
WHAT DOES IT MEAN FOR YOUR BUSINESS?

NEWS ROUND-UP
HOLIDAY HOMES, TAX CHANGES, and more...

BAKER CHAPMAN BUSSEY
CHARTERED ACCOUNTANTS

Equipping the Office?

In the June 2010 budget, the Chancellor announced an increase in the Annual Investment Allowance from £50,000 pa to £100,000 pa. This allowance gives a 100% deduction against the profits of a business for the first £100,000 of expenditure on plant and equipment purchased during the financial year.

However to pay for the relief, he further announced that the annual allowance will be reduced to just £25,000 from April 2012 and the existing capital allowances on most other expenditure be reduced from 20% pa to 18% pa.

If you are planning to make any major investment in new machinery or equipment, it is worth considering the tax effects as this could give a considerable discount on the eventual cost. Further, if the purchase is via loan or hire purchase finance cash flow benefits could also ensue.

For example, if a sole trader making annual profits of £150,000 purchased a piece of machinery for £100,000, assuming no other asset purchases in the financial year, he would obtain an immediate reduction in taxable profits to £50,000 and a tax saving of £40,000 (£40% x £100,000).

If the asset was financed the tax saving will probably cover all cash paid out over the year on the deposit and loan repayments, depending on the finance terms. If the same purchase was delayed until after April 2012, the initial tax savings would be reduced to £15,400.

The example is an extreme one, and in most cases the differential will be smaller, but this shows the potential effects and how important it is to take tax considerations into account when investing in plant and machinery.

Another key factor is the timing of the expenditure in relation to the accounting period. If the purchase is made on the last day of the accounting period, relief will be given against the tax liabilities of that period. However, if the purchase is made one day later, the relief will be delayed twelve months and may be at a different rate. Permanent savings may arise where allowances move tax payers from higher rates to lower rates of tax.

The above rules do not affect the existing 100% allowances on low carbon emission cars with emissions of less than 100g/km, or energy-saving and environmentally beneficial plant or machinery on Treasury published lists of plant.

This article is designed to provide a basic guide. As with most tax legislation, the devil is in the detail and advice should always be sought before a purchasing decision is made.

THE NEW EQUALITY ACT

New legislation came into force on 1 October 2010. The Equality Act 2010 contains important information relating to employers, especially regarding pay, bonuses and benefits.

Employers will now have to show their employees exactly how their pay is made up and provide them with information that tells them how they can qualify for any applicable bonuses or additional payments. In essence, the Act seeks to ensure that people doing the same job are treated and rewarded equally. It covers all aspects of remuneration and benefits such as insurances, pensions, child care vouchers, company cars, holiday allowances, training, maternity/paternity leave, etc.

We will be pleased to review your organisations' existing pay and benefits scheme in the light of this new legislation.

iXBRL

WHAT DOES IT MEAN FOR YOUR BUSINESS?

Two years ago, HM Revenue & Customs announced that from 1 April 2011 all Corporation Tax Returns and supporting company accounts would need to be submitted in a standard format called iXBRL. Prior to 1 April 2011, HMRC staff had to manually enter extracts from accounts.

The documents that must be submitted to HMRC in iXBRL are:

- statutory accounts
- CT600 (Corporation Tax Return)
- Corporation Tax computations

In addition a HTML version of the accounts must be submitted. This allows tax inspectors to review the accounts if necessary. Data submitted in machine readable format allows electronic analysis of the accounts so that potential anomalies that may require further investigation can be highlighted. The inspectors are then able to access the PDF versions to determine whether it is appropriate to seek further information or explanations.

Understandably, this sounds very complex! It is thought that businesses who currently submit their own Corporation Tax Returns and company accounts will turn to their accountants to do this on their behalf, while even some accountancy firms are likely to outsource this work to specialist providers.

Initially only certain items in the accounts will need to be included (tagged) in the electronic accounts, such as the statutory profit and loss account, balance sheet and certain notes. After the initial period (the length of time has yet to be confirmed by the Revenue) then the full accounts will need to be tagged.

It is worth asking your accountant whether they are ready for the iXBRL procedures, as any wrong submissions (i.e. in an outdated format) will leave your business liable – not your accountant! At Baker Chapman & Bussey, our investment in computerised accounts production software means we are ready for the iXBRL process.

There has been speculation as to whether HMRC would postpone the date on which this requirement comes into force, but it has declined to do so. Documents that cover a period ending after 31 March 2010 must be submitted online in the new iXRBL format. Late submissions or incorrect formats will incur penalities; £100 immediately, increasing to £500 if the submission is more than 3 months overdue.

All accounts must be tagged except for the occasional instance when a small charity has a requirement to complete a Corporation Tax Return.

Due to the steep learning curve, HMRC has said that it will adopt an initial 'light touch' approach should tagging errors be found.

To submit documents you have four options:

1. You can use an accountant with iXBRL compliant software to submit the documents on your behalf.
2. Purchase appropriate software to tag and submit the documents, although for many small and medium size companies this will not be cost effective for a once a year requirement, especially taking into account the time required to learn the necessary skills.
3. Use the Revenues online facility; however, this is only likely to be appropriate for simple sets of accounts and returns and will require a duplication of work given that the accounts will also have to be prepared for the directors, shareholders and Companies House.
4. You may choose to outsource your submissions to a specialist agency. Check that they are fully compliant with the new requirements and satisfy other criteria such as data protection and data security.

Benefits of the new system for HMRC are clear: it will allow them to electronically process data, which in turn should increase efficiency and reduce costs. Compulsory iXBRL filing of accounts with Companies House is to be implemented at a later date.

You can find more information at www.hmrc.gov.uk/efiling/ctsoft_dev.htm. At Baker Chapman & Bussey we are fully iXBRL compliant and will be pleased to submit forms on your behalf or provide you with advice.