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news letter

Welcome

Welcome to the Winter 2006 edition of our newsletter. As usual we cover a broad mix of business news and features and we trust that you will find it a useful and interesting read. Please remember that we would be delighted to hear from you if you would like to discuss any of the matters raised.

Earlier this year HMRC announced a number of new ways to enquire into the accuracy of tax returns. At the same time they indicated their wish to try out these ideas on a trial basis. Although minimal consultation had occurred, piloting of the 'interventions' began in July and, unsurprisingly perhaps, the process has not been without controversy. We scrutinise the plans and appraise their potential impact in this edition.

In April next year the new CIS scheme will finally begin and we take this opportunity to look at how contractors should be preparing for this important change. We look at the latest thinking on the National Minimum Wage and also at the probable future direction of online filing. We also consider some basic aspects of pensions and VAT and remind van drivers about changes in the benefit in kind rules starting in the next financial year.

As always we hope that you find the newsletter helpful.

A state of intervention?

In an effort to reduce the time taken up by enquiries, HMRC announced, in March 2006, a number of proposals for different ways of checking the accuracy of self assessment tax returns as an alternative to in-depth enquiries. Trials of these 'interventions', as they are called, began in July. The options under trial are:

- **short risk review:** HMRC develop profiles for particular trades which are then compared with selected taxpayers and, if there appears to be a risk of error, a questionnaire is issued aimed at assessing whether significant risk exists
- **telephone contacts:** a trained officer telephones the taxpayer and outlines why HMRC consider an error has been made and advises how this can be put right
- **current business record keeping review:** carried out during a 'live' accounting period, a visit is made to examine record keeping procedures especially in connection with cash sales, drawings and wages

- **self-audit:** a letter is sent or a telephone call or visit made to point out risks around specific entries on the tax return and the taxpayer is encouraged to make any amendments necessary
- **correction challenge:** for small amounts, and subject to appeal, HMRC will unilaterally 'correct' a return where they have reliable evidence that an error has been made
- **current health check:** HMRC will contact specific target groups, based on previous compliance activity, and will explain known risks of non-compliance and give assistance to put matters right.

As part of the trials, letters have been sent to selected taxpayers outlining common errors which may be relevant to them. These then direct the recipient to pages on the HMRC website, setting out, in some cases, complex rules. The inevitable inference is that the return is incorrect and this may cause worry and confusion.

The trial is voluntary and HMRC have indicated that a decision not to take part should not automatically result in an in-depth enquiry.

As your agent, we should be given advance warning if you are selected. However, if you are contacted, and you have not already heard from us, please get in touch so that we can jointly decide your strategy.

Time will tell how these ideas mature and we will keep you informed of new developments.



Preserving the inheritance

In recent months, appeals have come from both ends of the political spectrum for an abolition of inheritance tax (IHT) or, at least, some exemption or relief for a person's main residence.

The increasing clamour for change has been fuelled largely by the rise in house prices which have outstripped the nil rate band for IHT, currently £285,000. This amount is roughly the same as the average price of a detached house in England and, in 10% of towns surveyed by Halifax, the average price of all house types is above this amount.

Seven year itch

Planning to minimise IHT is something that many put off until it is too late and early attention to this tax is almost always worthwhile. A gift made more than seven years before death will not usually attract any IHT so that an amount up to the nil rate band could be given away every seven years without any tax arising.

In general it helps to ensure that spouses or partners can each make use of the nil rate band. This makes it worthwhile for estates to be equalised and because transfers between husband and wife or civil partners are exempt from IHT there is no barrier to achieving this.

Discretionary will trusts

Where available funds preclude large lifetime transfers, discretionary will trusts may enable utilisation of the nil rate band on each spouse's death. Where the family home is the main asset, it may still be possible to achieve this but this is a complex area and specialist advice will be required.

Lifetime giving

Making regular use of the lifetime exemptions can help to pass on significant sums free of IHT. Individuals may give away up to £3,000 per annum and, in addition, make small gifts of up to £250 per donee. There are also exemptions for wedding gifts.

Gifts out of income

Another valuable exemption, often overlooked, is gifts out of income. Put simply, normal expenditure out of current income (not savings or accumulated income) which does not leave the donor unable to maintain their standard of living will usually be exempt.

Please talk to us for further advice on these and other IHT planning steps.

Pensions: present perfect, future tense?

It seems that pensions regulations, both private and state, are changing all the time. It was not long ago that stakeholder pensions were introduced. More recently, A-day brought further changes. In May, a White Paper contained further proposals for change...

Private saving

The White Paper aims to encourage personal saving for retirement with a low cost savings scheme in which all employees would be enrolled unless they were members of an employer's pension scheme.

Employees would contribute 4% of earnings between approximately £5,000 and £33,000 and employers would pay 3% on the same band of earnings. A further 1% would be added from the employee's basic rate tax relief. Some employees would receive higher rate tax relief as well.

Those not in employment would be able to opt in to the personal accounts scheme.

State pensions - the future

The White Paper proposes a rise in the state pension age to 66 over the two years between 2024 and 2026 and then from 66 to 67 between 2034 and 2036 and then to 68 in 2044 to 2046.

The basic state pension would be re-linked to earnings from 2012 but only if it is affordable at that time. The state second pension would become a simple, flat rate top-up to the basic pension.

State pensions - the present

- To receive the full basic pension (currently £84.25) a man must have 44 qualifying years (a year in which basic national insurance (NI) contributions were made) and a woman between 39 and 44 years

- there are special rules for widowed or divorced women and those who have taken time out for child care or who cared for others
- a man may claim the pension at age 65; a woman at age 60 if born before 6 April 1950, 65 if born after 5 April 1955 and between 60 and 65 otherwise
- a state second pension is payable depending upon the level of earnings over a person's working life.

Pension forecast

Anyone can request a pension forecast. This can be done by telephone (0845 3000 168), by downloading form BR19 from the pension service website (www.thepensionsservice.gov.uk) or online at the same web address.

This will show the amount of pension payable assuming the current NI record continues at the same rate, advise the contributions payable to cover any missed years and indicate how much the pension will be if these payments are made.

Payment of these 'missing' contributions is voluntary but may be worthwhile based on average life expectancy. This can be complicated and you may need to contact us for advice.

The payment of contributions for missing years must be made within six years of the end of the qualifying year for which they were due so it is sensible to obtain a regular pension forecast.



Construction industry countdown

The new Construction Industry Scheme (CIS) will finally start on 6 April 2007. HMRC are anxious to ensure that contractors are ready and various mailings have been sent out, with more to follow!

The new scheme dispenses with cards, certificates and vouchers. Instead, when a new subcontractor is taken on, a verification process is required. This can be done by contacting HMRC by telephone or online. HMRC will advise whether payments may be made gross or under deduction of 18% tax.

If a subcontractor cannot be verified, tax will have to be deducted at a higher rate. This rate is yet to be decided but HMRC illustrations have used 30%.

There are no vouchers and, instead, contractors will make monthly returns and issue payment statements. The monthly return will include a declaration that the contractor has considered the status of all subcontractors and that none of them is an employee. Returns can be made online or in paper form.

Certain existing subcontractors will not need to be verified and HMRC are mailing contractors with a provisional list of subcontractors they have used in the last two years and who they may treat as verified.

In January 2007 HMRC will mail contractors with detailed packs setting out the new rules. In February 2007 contractors may commence verification of subcontractors not on the lists sent out to them. A final list of verified subcontractors will be sent out in March or April 2007. From then on each new subcontractor taken on will need to be individually verified.

At a time when identity theft is very much on the increase, one possible weakness of the system is the lack of any requirement for photographic evidence of identity. A contractor need not even see the subcontractor face to face in order to be able to verify them. They need only to be supplied with the subcontractor's details.

These are important changes for which contractors must be ready. Please contact us if you need further advice.



Online filing

In his review of HMRC online services, published in March, Lord Carter recommended that the filing dates for income tax self assessment returns should be changed from 31 January to 30 November for returns filed online and to 30 September for paper returns.

The result was a 'No to November' campaign and a good deal of negative reaction. After consultation, the proposals have been revised so that the deadlines from 2008 will be 31 October for paper returns and will remain at 31 January for returns filed online.

More online filing ahead

Currently online filing of payroll year end returns (P35 and P14s) is compulsory for employers with 50 or more employees and will be compulsory for all by 2010. In the meantime there are tax free, monetary incentives to persuade everyone to file online.

P45s and P46s must be filed online from April 2010 for all employers and from April 2008 for employers with 50 or more employees.

Although not yet compulsory, it is possible to file VAT returns online and all of the more common types of company forms required by Companies House, such as the annual return and changes in directors or registered office, may also be filed online.

In February this year, the Public Accounts Select Committee argued that electronic filing of self assessment returns, though growing, still remained low compared to other countries. They recommended that online filing should be made more user friendly and that it should be compulsory for professional tax agents.

The clear intention is to move steadily towards compulsory online filing of all kinds of returns. Broadband connections and up to date software and computer systems are essential to ensure that you are ready for these likely developments.

Please contact us if you would like to discuss this in more detail.



The benefit of a van

The number of vans on UK roads is increasing, largely as a result of internet selling and a greater need for delivery vehicles.

Where a van is available for an employee's private use, a tax charge arises based on a flat rate amount of £500 per annum or £350 if the van is more than four years old at the end of the tax year in question. A basic rate taxpayer pays a maximum of £110 per annum in tax.

Until 6 April 2005 this was charged irrespective of the amount of private use but, since then, travel from home to work and back and insignificant private use, such as going to the rubbish tip once or twice a year, is disregarded.

Private use beyond this still attracts a tax charge and, from 5 April 2007, this tax charge will be based on an annual amount of £3,000 with no reduction for older vans. Furthermore, there will be an additional benefit of £500 if free or subsidised fuel is provided for private use. This means a total potential tax charge of £770 per annum for a basic rate taxpayer.

Employees who only use their van for business journeys should be encouraged to maintain a mileage log. Without this they may have difficulty in satisfying HMRC that there is no private use.

Basic errors in VAT

Many registered businesses assume that they have a clean bill of health when it comes to VAT compliance. However, when the control officer comes calling, it is the same basic errors that lead to the recovery of most of the underpaid tax. It is worthwhile knowing what the most common mistakes are:

- if you buy fuel for a motor car which is put to private use, do not forget to add a fuel scale charge for each car to your output tax
- you may not claim the input tax on the purchase of a motor car except where there is 100% business use or, in the case of a taxi or driving school car, predominantly business use
- do not reclaim input tax on any form of entertaining
- if you take goods from your business you must account for output tax on their full sales value
- if you sell an asset used in your business you must account for output tax on this sale (there are special rules for cars)
- do not reclaim VAT on purchases of goods or services unless you have a valid VAT invoice
- do not reclaim VAT on purchases of goods or services for personal use, such as home telephone
- if you sell goods to private individuals or unregistered businesses in other EU countries you must charge VAT as normal
- if you have reason to use a rate of VAT on a sale of anything other than 17.5% make certain that this rate is correct.

Simple errors over long periods can lead to a substantial bill for undeclared VAT. Please contact us if you would be interested in a VAT health check for your business.

Sage advice

For our IT tips section this time we concentrate on two important routines in Sage accounts.

Check data

Everyone knows that regular backups are absolutely vital. In version 8 onwards, the user is prompted to check their data every time they perform a back up. Despite this, check data is often ignored. It is important to check the data from time to time, even if not necessarily with every back up. It should be done at least once a week or more often if you input many transactions on a daily basis.

In all versions, go to File and then Maintenance and click on CHECK DATA.

If ERRORS are reported try clicking the FIX button. If ERRORS remain your data is corrupt and you should restore an earlier back up.

WARNINGS and COMMENTS refer to anomalies that, in many cases, you can correct yourself or which are not usually serious.

VAT returns

The VAT return routine in Sage is useful but you must be disciplined in your use of it.

- In version 10 onwards run the VAT verification routine first
- in 'Financials' (found in the 'Modules' menu for version 12 onwards) click on VERIFY and follow the instructions
- check through the items reported and make any amendments that may be needed
- in all versions click on VAT in 'Financials' to run the VAT return. You can run this as many times as you like
- once satisfied and your VAT return is completed click on RECONCILE to flag the transactions included.

If you do not reconcile, you will not be able to identify any transaction subsequently entered or amended but which has a date prior to the end of the last return that you completed. This may lead to errors on your VAT returns.

Sage released version 13 of their Line 50 accounts program in August although, in a concession to the superstitious, they have called this 2007!

Minimum wage, maximum debate

New National Minimum Wage (NMW) rates took effect from 1 October 2006 and, as is inevitable, this triggered renewed debate about their impact. Both the Forum of Private Business and the CBI are concerned about movements above the rate of increase in earnings and, perhaps in response, the government has asked the Low Pay Commission to consider the impact of the NMW on small business in the future.

The TUC, on the other hand, argues that a rate of £6 by October 2008 should be 'easily affordable' and they have called for a compliance crackdown claiming that some industry sectors are ignoring the law.

Ensuring compliance with the NMW is the responsibility of HMRC, which operates 16 teams of compliance officers across the UK. They can inspect employers' records, give advice and secure pay arrears.

Recently they gave examples of excuses used by employers who had not paid the minimum wage. These varied from simple misunderstandings, such as not applying the NMW to an employee over 65, to a claim that the worker 'doesn't deserve it'!

The rates are now £5.35 for workers aged 22 and over, £4.45 for those aged 18 to 21 and £3.30 for those aged 16 or 17. Please contact us for further advice if you are unsure about your responsibilities under minimum wage legislation.



If you have five minutes why not try our numbers game?

What number is missing in this sequence? and this one? and this one?
1 6 30 35 175 180 ? 905 0 0 1 1 2 4 7 13 24 ? 81 1 8 27 ? 125

Answer to the numbers game: 900, 44, 64