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newsletter

A New Company Car

**Are you due a new company car soon?
Are you considering a diesel model?**

Then don't forget that the 3% supplement applied when calculating the taxable benefit is reinstated soon (it was previously waived for many 'clean' diesels). More specifically it is reinstated with effect from 6 April 2006 for diesel cars registered on or after 1 January 2006. The message is clear - any new (Euro IV compliant) diesel company car registered by the end of 2005 will retain the benefit of the waiver even after 5 April 2006. On a £25,000 car the waiver is worth £750 a year in reduced taxable benefit. Every little helps!

The Cost of Forgetfulness

A recent survey for the Prudential found that nearly half of those surveyed didn't know exactly how much they were paying each month by direct debit and standing order or to whom they were making payments. Furthermore almost 20% continue to pay old direct debits and standing orders averaging £53 per month. Worse still, many of those continue to pay for at least six months! The cost nationally is estimated at over £400 million a month.

The message is simple - review your direct debits and standing orders and put an immediate stop to those that are out of date or irrelevant.

WINTER 2005

All Change

Change is something of a recurring theme in this edition of our newsletter.

Imminent changes

The current BACS (Bankers Automated Clearing Service) will be discontinued in the very near future and replaced with BACSTEL-IP a completely new internet-based method for making submissions and collecting reports. Is your business ready? The changes needed depend on whether you currently use BACS directly or indirectly. For further information see www.bacs.co.uk

The Revenue are in the process of phasing out payment of Working Tax Credits through employers. In future all such payments will be made by the Revenue direct. If you are an employer you should by now have written to all affected employees (as instructed by the Revenue) to let them know of the changes being made. If you have not yet done so please talk to us urgently.

April 2006....and 2007!

April 2006 will see the arrival of the long awaited pensions 'A' day. The introduction of the new Construction Industry Scheme was also originally planned for April 2006 but a recent government announcement has confirmed deferral until **April 2007**. See our article 'The Construction Industry: A Glimmer of Hope?' for a summary of a recent court case on renewal of exemption certificates.

Changes that have already taken place

To complete the picture we summarise two changes that have already taken place. Those involved in the agricultural sector have seen the introduction of the Single Farm Payment and those in the service sector will be interested to read the article on changes to the rules for income recognition.

We would welcome a call or email if you have any questions on anything we have covered in this newsletter.

Income Recognition Changes

Many businesses in the service sector may now find themselves facing accelerated tax payments as a result of changes in accounting rules for revenue recognition.

Consider the following.....

Your business has negotiated a consultancy contract with a customer for an agreed fee of £20,000. The contract is halfway to completion at your 30 September 2005 year end. The total costs of providing the service are expected to be £12,000 (and this is mostly salaries) leaving £8,000 of profit.

Previously, £6,000 (ie half) of the costs incurred by September 2005 would have been carried forward as work in progress and no income or profit would have been included in the accounts.

The new rules

For accounting periods ending after 22 June 2005, income from incomplete contracts must be included in the accounts to the extent to which the contract has been performed (under the terms of UITF Abstract 40). Smaller businesses adopting the Financial Reporting Standard for Smaller Entities (FRSSE) must do the same for accounting periods beginning on or after 1 January 2005.

Now, instead of any work in progress being included, a proportion of income (£10,000) and therefore profit (£4,000) must be included in the accounts to September 2005.

And…you guessed it, the tax treatment will follow suit and at the time of writing there is no provision to allow any spreading, although the professional bodies continue to push for this.

Some thoughts if you are likely to be affected:

- given the choice, focus on completing existing contracts as your year end approaches and defer new work until after the start of your next financial year
- ensure you have efficient invoicing and cash collection procedures so that at least you have the funds to pay the tax.

The Benefits of Learning

EMA

Have you heard of the Education Maintenance Allowance (EMA)? Do you know what it is and who is eligible for it? Read on to see whether it might apply to you or someone you know.

What is it?

The EMA is paid to young people aged 16 or over to encourage them to stay on at school or college. If certain conditions are satisfied, teenage children in the family may be eligible for EMA. It is available to those taking an academic or vocational course involving at least 12 hours of guided learning each week.

How much is it?

The EMA is a weekly payment of £10, £20 or £30 depending on household income. It is paid for every week of the course so long as the individual turns up to classes. Bonuses (worth several hundred pounds) may also be payable depending on the progress made on the course.

EMA does not affect any other benefits payable within a family. It's paid on top of these and any earnings from the student's part time job.

See if you fit the bill

✓ Your household's income is under £30,000 a year
✓ You are between the ages of 16 and 19
✓ You're doing at least 12 hours of guided learning per week.

What next?

You can apply for EMA at any time. See www.dfes.gov.uk/financialhelp/ema or phone 080 810 16 2 19.

Scholarships

Perhaps you have left school and started a full-time job? What if your employer offered to pay you to go to college? Far fetched…..perhaps but some employers do provide some sort of 'scholarship' to help with the costs of a college or university course. In simple terms an employer could pay an employee up to £15,000 free of tax (and national insurance) in the current academic year so long as certain conditions are satisfied. The exemption is not new but the limit is. Previously the maximum was £7,000. The government now says it will review the limit on an annual basis.

The exemption applies so long as the employee is enrolled at a recognised 'educational establishment' for at least one academic year and attends full-time for at least 20 weeks of the year. Perhaps not surprisingly the employer's own internal training school or college does not count.

Any payments made are intended to cover lodging, subsistence and travel costs but not tuition fees.

Both employer and employee should watch out for the following if such payments are being considered.

1 If the payments exceed £15,000 in an academic year all or part of the exemption may be lost. It may be worth considering an interest-free loan from employer to employee instead if top-up funding is needed. Keep this below £5,000 and generally there will be no tax consequences so long as the loan is ultimately repaid.

2 Take care with courses requiring students to take a year out to gain practical work experience. Wages paid during this period are taxable (and subject to national insurance) in the normal way. Similarly for payments made for work done during the holidays or at weekends.

3 Generally speaking the exemption is not available if the scholarship is provided to a child of an employee unless it can be shown that the scholarship would have occurred regardless of the employment relationship. This restriction is not surprising but makes it practically impossible to use the exemption in a family company.

Calling all Farmers

The EU Common Agricultural Policy (CAP) reforms have led to ten major CAP payment schemes being replaced by one new single payment - the Single Farm Payment (SFP). The SFP is considered by many to be the most fundamental change to farming for many years. One of the most notable changes is the introduction of 'decoupling' - ie payments to farmers are no longer linked to production. In effect this means that a farmer can cease to produce agricultural products altogether and still receive financial support.

There is a one-off opportunity in 2005 to receive payment entitlement (PE). Thereafter SFPs can only be received by acquiring entitlement from another farmer.

How is the SFP to be treated for tax purposes? There are variations in the precise detail of the scheme across the UK but the tax implications are broadly the same.

Is the SFP taxable?

Yes, whether or not it is linked to the production of saleable produce. Expenses are deductible if they are incurred 'wholly and exclusively' for trading purposes.

What about capital gains tax (CGT)?

PE originally springs from the land. However it is a tradable asset and so in the Revenue's view it is a freestanding asset not permanently linked to any particular parcel of land. It is treated as having come into being on 1 January 2005 at nil cost. Gains arising from transactions in PE are liable to CGT. If the PE is linked to a farming trade it is likely to be treated as a business asset and therefore potentially eligible for taper relief at 75%. Gains may be deferred under the rollover relief provisions.

Will inheritance tax reliefs apply?

PE itself is not eligible for agricultural reliefs but so long as it relates to a farming trade, it will generally qualify for business property relief at 100%.

Will I have to pay VAT?

If PE is sold without land, VAT is due at 17.5% on the sale. Where PE is sold with land, the position is more complex and VAT may or may not be due.

This is only a very brief outline of a complex scheme. Please talk to us if you have any questions or require more detailed advice.

Pensions Regulation

Those of you who had dealings with the Occupational Pensions Regulatory Authority (Opra) in the past may have noticed that earlier this year, Opra was replaced by the Pensions Regulator (TPR).

The introduction of TPR came about through a wider review of the pensions sector generally, which included a new Pensions Act and the introduction of the Pension Protection Fund.

The new regulator deals with any pension scheme made available by an employer, which includes occupational, personal and stakeholder schemes. Its main objective is to tackle risks to scheme members' benefits. In this respect TPR is a more proactive organisation than Opra and will concentrate its resources on schemes where there is greatest risk to the security of members' pensions. Any schemes assessed as high risk will be closely monitored by TPR in the future.

TPR has begun to issue guidance for the pensions sector, most notably in the form of codes of practice and supporting guidance. These provide practical guidance to help trustees understand and meet their legal responsibilities.

The regulator has also publicised a free e-learning scheme for trustees. Successful completion of all the modules of the scheme will help trustees meet the requirements for trustee knowledge and understanding, required by the 2004 Pensions Act. The first sections of the e-learning scheme are expected to be available in January 2006.

Further information about the e-learning scheme and TPR generally can be obtained from www.thepensionsregulator.gov.uk

Offshore Bank Accounts

Last year we reported that the Revenue were starting to use targeted letters to taxpayers as part of their compliance activities. They began with letters to small businesses regarding the possibility of incorrect recording of income or expenses. This was followed with letters to those in the construction industry regarding status. More recently letters have been sent to holders of offshore bank accounts. The Revenue have said that this is part of an exercise to tackle the problem of offshore accounts being used in tax evasion or to hide the proceeds of crime. Whilst this is admirable the method leaves something to be desired. The letters are strongly worded and request a response within 30 days. You should be aware that receipt of such a letter is not an indication that there is anything wrong and does not constitute the opening of an enquiry into your tax return.

Please talk to us if you receive one of these letters.

The Construction Industry: A Glimmer of Hope?

The new Construction Industry Scheme (CIS) is due to take effect in April 2006. In a previous newsletter we reported that, ahead of the changes planned for next year, the Revenue was adopting a zero tolerance policy regarding the renewal of exemption certificates. In other words renewal of CIS certificates for subcontractors was being denied where a contractor had regularly paid over their own employees' PAYE deduction late. In turn non-renewal can cause severe financial hardship.

A recent case *(Cormack v CBL Cable Contractors Ltd)* appears to offer a glimmer of hope. The Revenue had refused renewal of a CIS5 certificate on the grounds that the company in question had made late payments and late submissions of returns. In the High Court it was decided that this did not demonstrate 'a cavalier attitude' to obligations under the CIS. Even if there were defaults they may not be significant for tax purposes and it could not be inferred that the company would continue to offend. The certificate was therefore renewed. Note however that there have been other recent cases (see for example *Glaze & Frame Ltd v HMRC*) where persistent late payment of PAYE led to renewal of the exemption certificate being refused.

Please talk to us if you have any concerns over renewal of exemption certificates or any other aspect of the CIS.

Post Charges Set To Change

Royal Mail's 2004/05 accounts showed that the company made a loss of £235m on stamped mail - a loss of 5p on every item of first class stamped mail and 8p on every item of second class stamped mail. In the light of these statistics, it's no surprise that post charges are set to change in 2006.

The Royal Mail has announced that the way in which it charges for post will change from August 2006. Currently post is charged on a weight basis. However from August next year, size as well as weight will determine cost. Accordingly, post will be classified as either a:

- letter
- large letter
- packet.

The new scheme, known as 'Pricing in Proportion', has primarily been designed to enable Royal Mail to more accurately reflect the cost of handling post in its prices.

The changes are expected to affect prices on around 20% of stamped mail for consumers and 30% of business mail. For those affected some costs will be reduced however, for others, the changes will mean increased costs unless action can be taken.

The table below gives an indication of the new dimensions and prices, although prices will be subject to change next year. The new dimensions can be best viewed via the Royal Mail website.

Format	Size	Weight	Pricing in Proportion		Existing Price Range	
			First* Class	Second Class	First* Class	Second Class
Letters	Maximum 240 x 165mm 5mm thick	0 - 100g	30p	21p	30p - 46p	21p – 35p
Large Letters	Maximum 353 x 250mm 25mm thick	0 - 100g	42p	35p	30p - £2.71	21p - £2.12
		101g - 250g	61p	53p		
		251g - 500g	85p	72p		
		501g - 750g	£1.23	£1.05		
Packets	Minimum 353mm long 250mm wide 25mm thick	0 - 100g	94p	80p	30p - £3.64	21p - £2.12
		101g - 250g	£1.19	£1.04		
		251g - 500g	£1.59	£1.32		
		501g - 750g	£2.06	£1.66		
		751g - 1kg	£2.53	£1.99		

*Discounts for all franking and account customers on their first class mail will continue to apply.

Good news or bad?

It's not all bad news! For example, more generous weight allowances will be introduced. The maximum weight for letters will be increased from 60g to 100g and the maximum weight of second class mail will increase from 750g to 1kg. It may also be possible to make some simple changes that will avoid the increased costs, for example, folding A4 letters in half, so that they fit in a standard C5 envelope.

According to Royal Mail, franking machines will be able to cope with the changes, although some weigh scales may need to be replaced.

Further details about the changes can be found on the Royal Mail website at www.royalmail.com and using the quickfinder to locate the 'Pricing in Proportion' link.

Finally, if you are unhappy with the changes, remember that the UK postal market is opened to full competition on 1 January 2006. It will be interesting to see the alternatives that become available.

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