Andrew Webster Limited

Imaginative solutions for your
tax, legal, financial planning & accountancy needs

www.tax.uk.com

newsletter september 2009

Editorial

Since the last newsletter we have seen the final version of the Finance Act. This, together with the new Corporation Tax Act means that the UK has moved into second place in the world league table for longest tax statutes. I am told that only India lies ahead of us in the battle for increased complexity.

The first edition of the Taxes Acts that I used had two volumes and the latest version arrived this week with seven.

> "the UK has ... second ... longest tax statutes"

This increased complexity is despite having governments of both parties who pledged to "simplify taxation"

We don't pretend that this newsletter can summarise all the new legislation but we hope that it will keep you up-to-date on the issues that affect you as well as giving you a little more background to the firm and some of the people in it. We are also pleased to have the first tax article written by one of our clients on the Charities Aid Foundation. ■ **Andrew Webster**

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Tax rises for higher earners

New rules increase tax rates and reduce rates of tax relief

If your earnings exceed £100,000 in the next tax year you may be subject to higher rates of tax.

First, if your salary plus total pension contributions has exceeded £150,000 in **any** of the years 2007/08, 2008/09, 2009/10 or 2010/11 you could be subject to reduced tax relief on pension contributions in the current tax year – 2009/10. The £150,000 limit includes one off payments e.g. a redundancy , or share exercise, even if your average annual salary is considerably less.

Second, from next April – the rate of tax will be 50% on income > £150,000.

With the higher rates of tax for high earners, pension contributions would look increasingly tax efficient but there are also new restrictions on the relief available. From April 2011 pension relief for those with "relevant earnings" over £150,000 will be restricted, the relief tapering such that for those earning above £180,000 only the basic rate relief at 20% will be available.

To prevent individuals from accelerating their pension contributions anti forestalling provisions have been brought in which will effect contributions made in the years 2009/10 and 2010/11. Individuals who make in excess of £20,000 gross pension contributions in any year, including employer contributions, may suffer a tax charge.

You may be affected if:

- You have total income > £150,000 in **any** of the tax years 2007/08, 2008/09, 2009/10 or 2010/11, **and**
- You are making a total gross pension contribution, including employer contributions of greater than £20,000 in either 2009/10 or 2010/11

In considering the £20,000 limit certain regular contributions made either personally or by your employer may be excluded in certain circumstances, and it may be possible to increase the limit to £30,000 by considering average contributions in previous years.

Third, personal allowances will be gradually reduced on income above £100,000. A marginal rate of 60% on income between £100k and £110k.

> "contact your account manager for ... a review of what you could do"

Certain salary sacrifice schemes, pension contributions under the £20,000 limit and gift aid contributions will reduce your relevant earnings. If this will take you below the two thresholds then this should be strongly considered. There may be planning opportunities by regulating your income across the years e.g. by planning the optimum dates for share exercises, bonuses and realisation of other assets. Please contact your account manager for details of the new legislation, and a review of what you could do. ■

Key dates

NDO

New Disclosure Opportunity begins on 1 September 2009. You have until 30 November to notify HMRC and then the disclosure must be made by 12 March 2010. See Page 3. There are separate arrangements for investments in Lichtenstein.

Tax dates

05 Oct 09
■ Last day to tell HMRC if you need to complete a return & none has been sent.

31 Oct 09
■ Last day to submit paper returns.

31 Jan 10
■ Last day for filing online returns.

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Retrospective taxation?

HMRC change a tax ruling on Mansworth v Jelley issued in 2003 and may demand more tax

In December 2002 the Court of Appeal made a decision on a person who had exercised share options and sold the shares. He was granted those options whilst overseas and successfully argued that he should be taxed on the basis that the cost of acquiring the shares should not be the very low price he paid for the shares but the market value on the day he exercised.

> "HMRC ... announced that their .. advice was wrong"

Following that decision the Revenue issued a number of statements on their website saying that the effect of this decision affected all individuals who exercised unapproved share options schemes. The very odd result was that these people could claim a loss for tax purposes by deducting both the market value of the shares on exercise **plus** the amount on which they had been liable to income tax as an employee benefit. A double deduction to set against the amount of the sale proceeds.

We have had nearly thirty clients able to claim significant refunds or who have tax losses to carry forward.

HMRC have now quietly announced that their original advice was wrong and that it may be appropriate for some individuals to amend their self-assessment returns. They give no guidance as to which people this will affect. So a lot of clients are rightly concerned that they may have to pay significant extra tax.

There are a range of issues which need to be considered. What is the status of HMRC advice? and so what happens if that advice changes? Also whether HMRC can challenge the amount of a loss in the year when it is claimed or only when the loss is incurred? At the moment we are drafting detailed advice to see what action is necessary (if any).

> "We are offering a fixed price £200 review of their circumstances"

The professional bodies are applying a lot of pressure on HMRC to give answers to some of these questions, but as yet they are not giving any more information.

We are offering any client who might be affected a fixed price £200 review of their circumstances. If you think you could be affected and we have not contacted you then please let us know. ■ **Andrew Webster**

Check your pension entitlement

Your national insurance or pension record may not be complete

The National Audit Office, announced that 3% of NI contributions received are not correctly linked to the person who made them. This misallocation will effect what benefits you are entitled to, and the sooner an error is detected the easier it will be to correct. We recommend that you request a state pension quote to check that HMRC have your NI records up to date or ask us to do it.

Call the State Pension Forecast Centre on 0845 300 0168. They will ask for your NI number, and some identification questions. You will then be sent a letter stating the weekly state pension amount that you are currently entitled to. You will also be given details of how to request a breakdown of this figure. The breakdown will include the number of years of contributions that HMRC believe you have made. You should check this against your own records – bearing in mind that periods where you were caring for someone, in receipt of child benefit or a foster carer may be covered by Home Responsibilities Cover. Please speak with Bryony Baines or Christine Bradley if you need any assistance with the calculations.

In addition, if you have worked for an employer some years ago, changed address, or may have lost contact with the employers pension office or think you may have an old personal pension, then ring the Pension Tracing Service on 0845 600 2537. This is a free service and we understand that they should be able to assist you and provide you with the contact details. ■ **Bryony Baines**

Using SIPPs

How a Self Invested Personal Pension can work

Some clients have decided against investing in pensions because they do not wish to invest in the stock market. You should be aware that you can claim the tax benefits of a pension and make your own investment decisions by starting a SIPP. Typically the rules of a SIPP would let you leave all the money in a bank account if that was your preference—although it would be very unusual for us to recommend that approach. The key point is that having a SIPP separates the tax benefits from the investment choices—although there is a charge to be taken into account. Contact me for details. ■ **Karen Miles**

Pension key pointers

A reminder of some limits

Tax relief on pensions limited to the lower of:

- 100% of UK taxable earnings,
- £3,600.
- Annual Allowance of £245,000

However you may not get 40% relief because of the new restrictions. The net cost of adding £10k to your pension will vary depending on your income and the amount of the pension

Earnings	Cost
£20,000	£8,000
£45,000	£6,000
£110,000	**£2,000***
£160,000	£6,000

*For an individual caught by the Personal Allowance Abatement in 2010/11 a contribution of £8,000 will lead to a tax rebate of £6,000 as well as £2,000 BR tax contributed to the scheme: a cost of £2,000 to put £10,000 into the pension pot. This will be on income just above £100,000. ■ **Bryony Baines**

Our Expert Team

Bryony Baines

Bryony Baines BA Cantab, ATT, CTA.

Joined the firm in 2006, the first graduate entrant to specialise in tax rather than first qualifying as an accountant. Having now passed her final exams she is a full member of the Chartered Institute of Taxation from September 2009. She is a personal tax specialist in our Private Client Department.

Andrew. Why do you like tax?

Bryony. I like that it's technical and complex. It is varied every day - no two clients' situations are the same so what I am doing always changes. It has been brilliant working in a smaller firm, closer to our clients. I was very shy when I started as a trainee, but I now really enjoy meeting people face to face.

A. What is Andrew Webster Ltd like to work for?

B. We do a lot of consultancy work, so the workload is very varied across several taxes and covers legal, accountancy and financial planning. So that makes it interesting intellectually. We are small enough to work well as a team, and I have enjoyed learning from some very skilled and insightful people. The atmosphere is very supportive, both professionally and personally, and barring the odd black morning in January I almost always look forward to coming into work .

A. Tell me about your work?

B. I manage my clients through the personal tax return procedure, and act as first point of call for if they need other services. I deal with international issues, working with our Expatriate Tax Manager, Paulette. A fifth of my time is allocated to consultancy work e.g. technical research, drafting reports, and working with the consultancy team.

A. What's been your proudest moment?

B. Difficult to say. The January 2009 cycle was the first year where I had responsibility as Account Manager. We were understaffed due to illness, but the team really pulled together and we did not incur a single penalty despite last minute records deliveries. It meant quite a few very late nights.

On the technical side, I handled some of the disclosures that we submitted to HMRC under the New Disclosure Opportunity in 2008, including one case spanning 20 years, with overseas income, gains from multiple sources & complicated transactions on the remittance basis. It was an epic task, but for a delightful client.

A. What will you do now you are qualified?

B. I really want to make the most of my role as account manager. I've been working with Christine, improving our turnaround time, & encouraging people to bring their records in earlier. We're making that easier with webforms and WebsterAccounts. On the tax side it's keeping my clients informed of changes in the legislation that affect them, & looking for planning opportunities as we work through the returns.

A. What do you do outside work?

B. I'm from South Wales, the edge of the Brecon Beacons, & have an enduring love for wild, remote places. I do hill walking; joined the University Caving Club last November. & Medieval Re-enactment, covering the period of the Wars of the Roses. I try to catch up with my reading list, in the rare moments of time left over! ■

My current challenges

Dealing with HMRC on offshore accounts

This September sees the beginning of a second Offshore Disclosure Facility, as covered on the website at www.tax.uk.com. This may result in significant extra work for us. HMRC has obtained account numbers and details from several offshore and overseas banks, and is bringing legal pressure to bear on many others.

HMRC are looking for tax on interest on these offshore accounts but also believe that in many cases the money deposited was income on which UK tax has not been paid.

If you know of anyone with tax owing on an offshore account then you should suggest that they use this opportunity to make a full disclosure. We are able to help with quantification of tax and any negotiations with HMRC.

However another concern is the information HMRC has obtained is not complete. I have several clients who hold offshore accounts that have no income, who have rightly not mentioned these accounts on their tax return or who have properly declared income on offshore accounts. HMRC have still launched wide ranging enquiries based merely on the knowledge that on offshore account existed.

I would advise clients with dormant offshore accounts to inform their account manager. Any action should be decided on an individual basis.

■ **Bryony Baines**

Who's who

Private Client team

Our other Private Client team members and consultants are:

Liz Hooley Our Solicitor. Advises on Inheritance tax, wills, trusts etc and is the first contact for potential clients

Christine Bradley an ex-Inspector of Taxes with over 30 years experience as a personal tax specialist

Paulette Peterson our International Personal Tax Specialist. Mainly works from France.

Jo Lamberth Chartered Tax Advisor. Mainly one-off tax consultancy advice

Andrew Webster an ex-Inspector has overall responsibility for the Private Client team and related consultancy.

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Working with clients

Simon Peyton Jones

In this issue we are featuring an article by one of our clients on the benefits of Charities Aid Foundation. Simon is a computer science researcher at Microsoft's Cambridge research lab, focusing on the design and implementation of functional languages.

http://research.microsoft.com/~simonpj

Pretty Painless Philanthropy

You know the feeling. Someone comes to the door and asks for money for a Worthy Cause. You drag a £20 note from your wallet, and hand it over. It feels like a lot - but you know it isn't really.

Giving piecemeal in cash is the worst of both worlds: it is painful, and it is also mean. Typically we spend far more on the pub, eating out, or even newspapers than we give away in a year. We don't really intend it to turn out like that, but it does.

As it happens, it's incredibly easy to fix the problem, and make giving tax-efficient too. Here's how:

- Open an account with the Charities Aid Foundation (CAF).
- Fuel it with a standing order from your main bank account, or directly from your salary via Give As You Earn (GAYE).

Your money goes into your CAF account gross. If you use GAYE, it comes out of your pre-tax salary; if you use a standing order you can reclaim the tax. Either way, if you are a higher-rate tax payer, for every £1 you give up, your CAF account gets £1.66, for you to give away.

After that, it's all joy. The CAF account works just like a bank account, with the sole condition that all outgoings must go to charities. You can:

- Write cheques to charities. That includes your local school & church.
- Set up standing orders to charities.

If you use GAYE there is literally zero administration. The money goes in gross, and your P60 shows your net salary after the GAYE has been deducted, so there is nothing to declare on your tax return.

If you want to change your GAYE amount, just tell your employer. It's not much harder if you use a standing order from your bank account; you simply have to declare the total on your tax return.

Best of all, if you do nothing at all, the money just accumulates in your CAF account. Once it's there, all you can do is give it away. So when that Worthy Cause comes to the door, you can grab your CAF cheque book and write a cheque for £100. After all, there's nothing else you can do with it.

It's incredibly liberating. Once you have set up that initial standing order or GAYE arrangement, it's like the mortgage: you get used to it appearing on your bank statement each month. There's no long-term commitment: you can stop all payments into your CAF account at any moment, if you are suddenly hard up.

> "it's incredibly easy … the CAT account works just like a bank account "

Find CAF at **www.cafonline.org**. If you aspire to give money away, at all, this is the way to do it. It's painless, it's fully tax efficient, and it's satisfying.

■ **Simon Peyton Jones**

Editors comment

It can also save you time & a little money on preparing your tax return since you only need to keep a record of one charitable payment each year and enter this in your tax return.

Other Charitable Clients

Illustrating how setting up your own charity can be beneficial

A number of other clients have set up their own charities. Below are some of the reasons why that can be more suitable than CAF for larger donations.

Doing your own good works. The single most important reason for setting up your own charity is to undertake or directly fund charitable activities rather than to only transfer funds to another charity to fund their work. You will need independent Trustees to ensure that the money is genuinely used for charitable purposes.

Cost. There is an administration fee for CAF which would be significant if you were looking to give £200,000.

Transfer of assets. If you are about to sell (say) shares for a large sum then you might want to gift some to your own charity to save both CGT & IT on the value of the gift: 58% tax relief.

Investment Return. The CAF bank account does not pay interest and this is a significant loss for larger donations.

We can advise on the tax planning and I can deal with all the documentation to set up a charity. ■ Liz Hooley

Childcare

Vouchers & salary sacrifice

Childcare Voucher Schemes can potentially save 41%-61% on childcare costs for employees. AW Ltd can set up and administer schemes for your employer, or advise your HR department.

Contact us

Please contact us with any questions that you may have. Feedback on our newsletter is also always welcome! **info@tax.uk.com**

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