

# newsletter

March  
2011



## Editorial

As the tax year draws to a close we find ourselves as usual in the midst of a busy round of tax planning with clients, particularly this year in light of changes to the pension regime. The Budget fortunately hasn't given us any nasty surprises and was somewhat encouraging for small and start up businesses, introducing a number of measures designed to promote inward investment aimed at economic growth. A number of our clients will be particularly interested in the incentives for SME R&D businesses including simplification of the R&D tax credit relief

### "Encouraging budget for small and start up businesses"

scheme and increases to the reliefs available. We're pleased to see the reduced burden of tax compliance and administration for small businesses, with the Government dropping a number of proposed regulations. However it is not a time to relax your record keeping standards with HMRC's imminent programme of business records checks on the horizon.

## Inside this issue

Editorial	1
Budget 2011	1
Key dates	1
Guidance on new pension rules	2
Tax credits: the new proposals	2
Companies house changes	2
Watch this space	3
Business record checks	3
Corporation tax: iXBRL filing	3
Andrew's adventures in Australia	4
New Faces—introducing Dale Winckel	4

## Budget 2011

### The key points

There were no major surprises in this year's Budget, although we did see the introduction of a few new minor proposals.

As part of their policy to make tax policy more transparent the Government also set out plans to consult on some significant issues that will be of interest to our clients—see page 2 of the newsletter for more details.

The following is a summary of the key changes:

### Income Taxes

Minor changes have been made to company car and fuel benefit charges. These follow the recent policy of incentivising lower emissions cars with a 1% decrease in the percentage used to calculate the benefit charge and increasing the taxable fuel benefit by increasing the multiplier used to calculate it from £18,000 to £18,800.

After the recent EU challenge, Furnished Holiday Lettings (FHL) relief has been extended to qualifying properties in the EEA. However, the offset of losses from UK FHLs will be limited to UK FHL profits, and losses from EEA FHLs will only be relieved against EEA FHL profits. In addition, from April 2012, the conditions to qualify for the relief will be tightened. If you have a rental property within the EEA but outside the UK, ask your Account Manager whether it would qualify for relief.

There were also some welcome changes to the EIS and VCT schemes, which many of our clients have benefited from in the past. From 6 April 2011 the income tax relief available under EIS will increase from 20% to 30%. There are also plans to introduce further changes in 2012 aimed at allowing more companies to qualify for EIS and VCT and increasing the annual caps for investments qualifying for relief.

### Company Taxes

As previously announced the main rate of Corporation Tax will decrease to 26% from 1 April 2011 and then to 25% from 1 April 2012. The small companies rate will also be reduced to 20% from 1 April 2011.

From April 2011 the enhanced deduction for qualifying R&D expenditure by SMEs will be increased from 75% to 100%, so a qualifying company will be able to claim a tax deduction of 200% of their R&D costs. Further plans to increase the payable tax credit for loss-making companies and allow claims to companies with very low annual R&D expenditure are planned for 2012.

### VAT

The VAT registration threshold was increased from £70,000 to £73,000 and de-registration threshold from £68,000 to £70,000. A reminder too that from 1 August 2012 it will be mandatory for all VAT registrations and de-registrations to be online. Mandatory online filing of VAT returns will also be businesses with VAT-exclusive turnover of £100,000 or less for periods beginning on or after 1 April 2012.

### Abolition of minor tax reliefs

April 2011 marks the start of a program of abolition of minor tax relief provisions, continuing in 2012 and 2013. This may be the time to look at restructuring old employment remuneration packages.

## Key dates

### Tax year end

As always 5 April marks the end of the tax year so any year-end planning needs to be in place by this deadline.

### Tax dates

#### 6 April 2011

■ New approved mileage allowance of 45p per mile for first 10,000 business miles starts.

#### 19 April 2011

■ PAYE and NIC not paid by today attract automatic interest if late.



## Guidance on new pension rules

*A summary of where we stand after all the recent changes*

Significant changes to the tax regime for pension contributions will be implemented from 5 April 2011. The proposals, due to be enacted in FA 2011, remove the £20,000 "special annual allowance" and reduce the "annual allowance" from £255,000 to £50,000 with a three year carry forward of unused relief.

For most high earners this will increase the value of tax-deductible contributions that can be made in 2011/12, for those earning under £130,000 it may signify a decrease. Our December 2010 newsletter provided an overview of the changes. This article focuses on two key areas relating to the annual allowance which may significantly affect some clients.

### Pension input period:

Each pension policy has its own pension input period "PIP". The PIP usually ends on 6<sup>th</sup> April, or the anniversary of the day before the

scheme was created. Each PIP will usually be 12 months long and it is possible to change the PIP but there are strict rules that govern when you may do so.

The annual allowance is assessed against the contributions made in the PIP that ends in the relevant tax year, rather than against the pension contributions actually made in the tax year. So it is very important to understand your PIP if you believe that you might contribute close to the £50,000 annual allowance in any 12 month period.

There is a one-time opportunity before 5 April 2011 to make an election to align your PIP with the tax year. This election is retrospective and will effectively say that your PIPs have always aligned with the tax year. For many clients this will simplify their tax affairs. However if you are planning to maximise your pension contributions in 2011/12 or 2012/13 to take advantage of the carry-

forward we advise you to seek advice on your specific circumstances.

### Members of a defined benefit (final salary) scheme:

An individual in a final salary scheme is assessed against the annual allowance on their deemed contributions in a particular PIP. This is based on expected benefits arising, rather than the actual contributions made. A significant increase in your pensionable salary, for example, on promotion, could lead to a significant increase in your expected pension and consequently a tax charge in the current year as a result of exceeding the annual allowance.

### Example:

A full time employee in a 1/80<sup>th</sup> accrual scheme with 30 years' service and a salary of £60,000 who increased their salary to £70,000 between 5 April 2011 and 5 April 2012 could be deemed to have made contributions equivalent to £76,556 in 2011/12, exceeding the annual allowance by £26,556. With no carried forward relief from earlier years the tax charge would be £10,622, due 31 January 2013 so the tax charge could be greater than the gross increase in salary. We strongly advise any individuals in defined benefit schemes to take tax advice if their salary may increase in 2011/12.

■ **Bryony Baines**

## Tax credits: the new proposals

*Proposed replacement with the new Universal Credit*

The Government has announced proposals to gradually replace existing tax credits and some social security benefits with a new universal credit between 2013 and 2018. The new credit will be based on the claimant's income and circumstances and payable whether you are in or out of work.

If the proposals go ahead, **from April 2014 no further tax credit claims will be possible**, all new claimants will be paid the universal credit instead. Existing claimants will continue to be paid tax credits until they are phased-out in 2017/18.

The announced Government aim is **simplification**: one benefit, one department, and one rate at which the universal credit is withdrawn once income reaches a certain point; calculat-

ed on the taxpayer's net income after tax and NICs. More information on the new rules is needed, especially in relation to its operation for the self-employed and those setting up a new business with low profits initially. Unless you are a non-taxpayer you are likely to be slightly worse off with the proposed single system of withdrawal taper than now.

Our advice is to **consider claiming tax credits now, before April 2014**, especially if you are self-employed. This may result in a nil award because your total income (including your partner's) is too high but will at least protect you if your income falls. Contact your **Account Manager** if you wish to discuss this and we can help you with a claim. ■ **Christine Bradley**

## 50% Tax rate and PAYE

*The new tax rate is not incorporated in 2010-11 codings*

We have been informed that HMRC are unable to change their software in time to incorporate the new 50% tax band in PAYE codings for 2010-11, for those with more than £150,000 taxable income and more than one source of PAYE income.

The highest tax code for 2010-11 is 'D0': 40%, potentially giving higher

earners an interest-free loan from the Exchequer on 10% of earnings!

For 2010-11, **the underpaid tax is due for payment on 31 January 2012**, via the self-assessment return. From April 2011 a new tax code 'D1' will be issued to charge a flat 50% rate. ■ **Christine Bradley**

## Companies house changes

*New fees and services*

There will be changes to Companies House fees with effect from 6 April 2011. As a result of the substantial use of electronic filing cost savings are being passed on to customers, whilst remaining paper based documents will cost more to file.

The provision of certified copies of documents will cost more with fees increasing by £5 to £10, depending on the requirement.

Of particular interest is that online filing fees for Annual Returns will reduce to £14 (from £15) – a cost saving we can pass on to our own clients. Where Annual Returns are delivered on paper the filing fee increases to £40 (from £30).

Incorporation fees are also changing substantially and a new Web Incorporation Service will be offered with an £18 fee. Paper incorporation costs are doubling across the board, further encouraging the electronic option. ■ **Trina Hill**

## Watch this space!

*The announcement of consultations on key changes*

As part of the Budget the Government also announced the following:

### Residence Rules Consultation

The UK has never had statutory residence rules. Instead taxpayers and their advisers have had to rely on guidance from HMRC as to how the rules work in practice—a booklet called IR20. Two court judgements in 2008 and 2009 questioned the validity of that guidance prompting HMRC to withdraw IR20 and replace it with the considerably more fuzzy HMRC6. Since then Residence in the UK has been a subject of considerable uncertainty.

It is welcome news then that in June 2011 the Government plans to issue a consultation with the intention of introducing statutory residence rules from April 2012. We will wait with baited breath for the proposals set-out in the consultation.

### Non-domiciles; further changes

The tax regime for non-domiciles has undergone considerable changes in the last few years aimed at curtailing the tax advantages enjoyed by long-term UK residents who are not UK domiciled. A consultation will be issued in June 2011 on further proposed changes intended for introduction from April 2012. These proposals include:

- Removing the remittance basis charge (RBC) for non-domiciles remitting foreign

gains or income for the purpose of UK commercial investment

- Introducing a higher £50,000 RBC for non-domiciles who have been resident in the UK for 12 or more tax years
- Retaining the current £30,000 RBC for non-domiciles resident for 7 of the last 9 tax years but less than 12
- Simplifying the administration

We will keep you informed as the new proposals develop.

### Company Liquidations

No further news is available as yet on the proposed changes to informal company liquidations. We will continue to monitor developments.

■ **Joanne Lamberth**

## ACA training

### *ICAEW authorisation received*

We are pleased to announce that as of 22 March 2011 **websters** has been authorised by the ICAEW as an ACA training employer.

Our new accountant, Krishna Mistry, will be our first ACA trainee.

## Business records checks

### *HMRC targets SMEs*

In an effort to improve compliance among small and medium businesses, HMRC have announced their intention to visit businesses to carry out inspections of records in-year to pre-empt any mistakes businesses might otherwise have made on their returns.

HMRC hope both to recapture revenue that might otherwise have been lost and also reduce reliance on detailed formal enquiries. They will be able to impose on businesses with poor record-keeping a penalty of up to £3,000 even before any returns are submitted; this means that businesses can no longer put off all their bookkeeping until after the year end, making it essential to keep an up-to-date record of all business transactions.

**websters** has always found that clients who keep good records are best placed to take appropriate financial decisions to minimise tax, so we regard this as a welcome step taken by HMRC. Indeed, we specifically designed our online accounting software, WebsterAccounts, to allow clients to enter their accounting transactions on a regular basis and therefore maintain better records.

All businesses could be subject to visits, but particularly those who have not always filed their returns promptly.

If you are contacted by HMRC about a proposed visit, please contact us so we can help ensure you give the best impression. ■ **Chris Coombs**

## Termination Payments

### *New PAYE rules*

Payments in relation to redundancy are a difficult matter. There is a new complication in respect of payments made after 6 April 2011.

Hitherto, such payments were, if taxable, taxed by the employer at basic rate (20%). If more tax were due, the employee would be responsible for paying it, but usually only by 31 January after the relevant tax year.

In future, the employer will have to tax them on normal PAYE rules, which might mean some of the payment is taxed at 40% or even 50%. So the employee will receive less.

If the employer fails to deduct tax correctly, HMRC is likely to seek to recover the tax from the employer and not the employee.

So no redundancy agreement should be made which promises to deduct tax at a specific rate, unless both parties are certain the payments will have been made before 6 April 2011. ■ **Michael Gray**

## Corporation Tax

### *iXBRL and online filing*

For several years, businesses have been filing corporation tax returns online and attaching PDF accounts. From 01 April 2011, accounts must be submitted in the iXBRL format. This format is essentially a system of tagging information in the accounts so the HMRC computers can, for example, automatically identify the expenditure on travel, or on insurance etc. This will allow HMRC to more efficiently identify potential problems in accounts and tax returns and target their enquiries.

With only a few days to go, the main software providers have now released new versions of their software to handle this change. **websters** already uses a number of pieces of software that use the new standard, so we do not anticipate our clients will notice any changes.

The iXBRL requirement applies to periods ending after 31 March 2010 and HMRC have said they will be sympathetic as businesses get used to the new requirements. ■ **Chris Coombs**

## Andrew's adventures in Australia

*The formal launch of our Australian office*



L to R: Dale, Joanne and Andrew

It is now over two years since Joanne Lamberth told me that she would be leaving the UK to live in Australia. My immediate reaction was that this presented us with an opportunity to gain a new business stream rather than lose a highly valued tax consultant. So it is very rewarding to now be in Australia seeing the new business in operation and hopefully, helping it to grow.

My first task here was to confirm the appointment of Dale Winckel, who will be responsible for business development. Then the three of us confirmed our strategy of offering ourselves as a niche tax practice advising both individuals and businesses moving between Australia and the UK.

Dale immediately set to work arranging appointments for me to meet people who will be important for us to work with. For people going to Australia this will largely be migration agents, who advise people on the highly complex visa regulations. For Australians moving in the other direction then it is largely smaller firms of accountants that are not familiar with the UK tax system. We are also working with Australian financial advisers who have clients who have retained UK investments after leaving the UK.

We have been very pleased by the positive reception we have been given. There appears to be a need for the services we are offering and at the moment only the international firms of accountants can offer that service, at a significant price.

So far, I have been to visit potential clients in Sydney, which is where we are based; Melbourne, Adelaide and Brisbane. Being from the UK it is difficult to get used to the large distances between the well-known cities.

Whilst in Australia I have also been busy helping setup the activities for a UK charity that we act for which has just started-up in Australia. Despite being based in the UK legal system the Australian rules on charities are very different to those in the UK, so we are forging new ground trying to

set-up something to operate between the two countries. Much advice that we have been given has immediately been contradicted by the next adviser and this has been very time consuming. Hopefully we will have a full article in our next newsletter.

Finally we have set-up our office arrangements. Most day to day work will be done from an office in the North Shore area of Sydney but we have arrangements with a firm of accountants in the central business district to share their facilities when required.

I have managed to fit a few days of holiday into my schedule and would certainly recommend Australia as a destination. I can't see me wanting to live here permanently but I am sure I will return regularly for both business and relaxation. We now have good contacts to help any UK client who is thinking of setting-up in Australia or emigrating. ■ **Andrew Webster**

## New faces

*Welcome to Dale Winckel*



I am delighted to announce that Dale Winckel has joined our Sydney Office as Business Development Manager.

Dale's confidence and professionalism along with excellent organisation

skills and great ideas will help to ensure the success of our new Sydney Office.

Dale will be responsible for identifying and pursuing business development opportunities and ensuring that we maintain effective communication with the contacts made during Andrew's visit to Australia. ■

**Joanne Lamberth**

## Congratulations to Joanne Lamberth

*Master of International Taxation*



Since arriving in Sydney in 2009, Jo has been supplementing her international tax training by studying for a Masters Degree at the

University of New South Wales. She graduated with distinction on 15 March 2011.

"Having already completed a Graduate Certificate of Professional Accounting in Australian Tax and Commercial Law before I arrived, the Masters course allowed me to

strengthen my understanding of Australian International Tax Law and Anti-Avoidance, areas of critical importance to clients of the Australian office. I was also able to expand my understanding of the operation of the tax systems of other Asia-Pac nations such as the US, Hong Kong, Singapore, China and New Zealand."

With Paulette Petersen's international tax experience and Bryony Baines currently studying for an Advanced Diploma in International Taxation **websters** is very well-placed to continue to develop these services to our many clients whose tax affairs are located across international boundaries.

■ **Andrew Webster**

## Contact us

Please contact us with any questions that you may have. Feedback on our newsletter is also always welcome! [info@tax.uk.com](mailto:info@tax.uk.com)



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