



KEITH STOUT & CO

Chartered Certified Accountants & Registered Auditors



For richer, for poorer

Your marital status – whether or not you are married or in a civil partnership – can make a considerable difference to your tax position.

In its election manifesto, the Conservative Party proposed recognising 'marriage in the tax system' by allowing up to £750 of unused personal allowance to be transferred between spouses and civil partners if the recipient is a basic rate taxpayer. The idea – worth a token £150 a year – could still see the light of day as the Liberal Democrats have agreed not to oppose it.

Marriage is already a factor in tax planning and can be an advantage or a drawback. Married couples can transfer assets to each other with no capital gains tax (CGT) implications, as long as they are living together during the tax year in which the transfer takes place. Using this exemption, a couple could transfer a valuable asset into their joint names before its ultimate sale, so that they can each use the CGT annual exemption (£10,100 for 2010/11) against their own portion of the gain.

One disadvantage of marriage is that there can be less CGT exemption for homes that a couple own together or separately. An unmarried couple can have two exempt residences, but a married couple can only have one CGT exempt home at any one time. You have two years from the date of your marriage to choose which one of your residences will be your CGT exempt home, but this residence must be occupied for at least some of the time.

Spouses or civil partners can save a considerable amount of inheritance tax (IHT). Couples can normally leave their entire estates to each other free of IHT. Then, when the surviving spouse dies, the estate will benefit from not just one nil rate band of £325,000 but two, because the other spouses' tax-free amount should also be available. Therefore a wealthy person marrying someone with no assets can benefit from an additional tax-free amount of £325,000, which at 40% is a tax saving of £130,000.

However, there is a restriction where the spouse who receives a transfer is not domiciled in the UK. In this case, the maximum IHT exemption for lifetime and death gifts from the UK domiciled spouse is only £55,000. A non-UK domiciled individual may become domiciled in the UK for IHT purposes once they have been resident in the UK for at least 17 tax years, at which point the £55,000 limit is removed, though it continues to apply for earlier gifts.

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Spring Budget tax changes survive into law



Many measures in the Chancellor's Budget on 24 March survived the dissolution of Parliament and became law before the general election. Smaller businesses and their owners are both winners and losers from the changes in the Finance Act, which became law on 8 April.

Business-friendly changes

- The annual investment allowance for capital expenditure on plant and machinery has doubled to £100,000.
- Entrepreneurs' relief for individuals selling their business or certain business assets has doubled. This means that up to £2 million of capital gains during a person's lifetime can currently be taxed at

the lower rate of 10% rather than the normal rate of 18% (now likely to increase).

- The 'Time to Pay' scheme for businesses in financial difficulties has been extended over the life of the next Parliament.

Not so business-friendly

- The new 50% income tax rate took effect on 6 April for individuals with taxable income above £150,000.
- The national insurance rises for employers, employees and the self-employed from 6 April 2011 are unlikely to go ahead as planned. The Conservatives are reported to have agreed with the Liberal Democrats on a partial reversal of the measure for employers.
- The restriction in tax relief for pension contributions made by people with incomes of at least £130,000 (£150,000 including contributions) is still due to go ahead on 6 April 2011.

Other measures

- From 6 April 2011, there will be a 5% rate of stamp duty land tax on properties costing £1 million and more.
- All personal allowances were frozen at their 2009/10 levels, including the basic

£6,475 allowance that is available to most taxpayers aged under 65.

- In 2010/11, the basic personal allowance of £6,475 will be progressively withdrawn down to nil for people with a total income above £100,000. As a result of this, the effective marginal tax rate for a person on income between £100,000 and £112,950 is 60%.
- Except for the new top rates of 50% tax and 42.5% dividends, there is no change in income tax rates or to the rate bands.
- The nil rate threshold for inheritance tax will be frozen at £325,000 until 2014/15.
- Where taxpayers do not disclose their taxable income or gains and there is an offshore aspect to this tax evasion, such as an offshore bank account, HMRC will be able to charge penalties of up to 200% of the tax lost.

The tax changes introduced in the March Budget and the pre-election Finance Act seem likely to survive under the new Government. The next Budget, due by late June, may contain more surprises than March's, including some unwelcome new tax changes. After all, the Treasury has forecast a £163 billion deficit for the current year.

Have you now registered with HM Revenue & Customs to submit online VAT returns if your annual sales are more than £100,000?

Online filing of VAT returns and electronic payment of VAT became compulsory for these businesses for any VAT period beginning after 1 April 2010. It is also compulsory for any newly registered business with a registration date of 1 April 2010 or later. There are advantages with online filing, including an extra seven calendar days to submit the VAT return and pay any VAT that is due. And if direct debit is your chosen method of electronic payment, you get an extra three working days before the money is taken from your bank account.



Retiring abroad – the tax consequences

If you are thinking of retiring abroad to enjoy a better climate and escape the UK tax system, you might find it harder than you expect, especially after a recent well-publicised tax case in the Court of Appeal concerning a man who went to live in the Seychelles.

The man in question was a certain Mr Robert Gaines-Cooper who had made a considerable fortune in business and wanted to enjoy it as someone whom the UK tax authorities would treat as non-resident, and so broadly free from tax on all his income and gains outside the UK.

There are two main ways of becoming non-resident. If you leave the UK and work under a full-time contract of employment that will

last for at least one complete tax year, you can become non-resident from the day after departure, provided your return visits are limited to fewer than 91 days per tax year.

But if you retire abroad or you are leaving for some other purpose, there must be a demonstrable change in your normal pattern of living which clearly shows that there is a break from UK residence. In future, would-be non-residents should ensure that they can demonstrate that they have cut meaningful ties with the UK. In particular, such emigrants should:

- Sever all business, social and family ties with the UK. For example, resign from employment, close bank accounts, take their family with them, cancel membership of clubs etc.

- Sell any accommodation, or at the very least let it out on a long lease (even then, HM Revenue & Customs will want a good explanation as to why the property is being retained).

- Create meaningful ties with the new country of residence – for example, buy a property, register to vote, make a will there or have children educated there.

If you are going to live abroad, but not under a full-time contract of employment, you will need to take care to sever your ties with the UK. Even if you manage to achieve non-resident status, remember that when you are counting days in the UK, any day in which you are here at midnight is considered to be a day spent in the UK.

Did you know that childcare vouchers worth up to £55 a week are currently free of tax and national insurance for all employees? The previous government announced plans to restrict tax relief for higher paid employees who join a childcare voucher scheme from 6 April 2011. Such employees will only be entitled to receive up to £28 (for 40% taxpayers), or £22 (for 50% taxpayers), of tax and national insurance-free childcare vouchers per week. Basic rate taxpayers will be entitled to up to £55 of tax-free childcare vouchers per week. This means that the rate of tax relief will be the same regardless of a person's marginal tax rate. Employees who join a childcare voucher scheme before 6 April 2011 will not be affected by this change, as long as they remain within the same voucher scheme. It seems unlikely the new government will stop the change.



Payroll changes – keeping up to date

If you employ people, you must submit the end of year PAYE returns for the tax year to 5 April 2010 (and for subsequent years) by electronic means, such as online using the HM Revenue & Customs (HMRC) website. You can be exempted only if you:

- Operate the simplified PAYE deduction scheme for staff who work for you personally.
- Are a member of a religious society whose beliefs are incompatible with electronic communications.
- Employ one or more care workers to assist yourself or a relative who is elderly or disabled.

In all cases, you need to write to your HMRC office to claim the exemption, but if an agent submits the PAYE forms on your behalf, the exemption will not be granted.

You can now be subject to a penalty if you are late with any payroll deductions that are due to be paid to HMRC after 18 May 2010, such as PAYE, NICs, Construction Industry Scheme (CIS) and loan repayments. All employers and CIS contractors can be subject to these new penalties, even those who only employ domestic or care workers in their own home.

No penalty is due for the first late payment, although the employer may receive a warning letter. The penalty for the second and subsequent late payments in the same tax year increases from 1% to 4% of the total amount paid late. Further 5% penalties may be applied where a payment is more than six months late and over 12 months late.

If the total paid for the tax year agrees with the total of the monthly payments, and these are all paid on time, then any discrepancy between months may not be discovered unless HMRC undertakes a PAYE audit. There is also no penalty where an employer has a reasonable excuse for being late.

Former students can now arrange to repay their student loan directly to the Student Loan Company (SLC), in place of deductions made through the payroll. An arrangement to repay the loan within 23 months by direct debit to the SLC must be made. When this arrangement is in place, the SLC will send a stop notice to the employer and payroll deductions for the student loan will end.

If the SLC is aware that a loan may be repaid by way of payroll deductions within the next 23 months, it will attempt to contact the borrower to offer the direct debit facility.

Overseas VAT issues

1 January 2010 was a key date for businesses with EU activities. An EC Sales List (ESL) must now be completed if you are VAT registered in the UK and sell services to an EU business customer without charging VAT. Another important change is that any claim for a refund of VAT paid in another EU country is dealt with by a modern electronic claims system.

EC sales lists

The ESL needs to be submitted on a quarterly basis. If you submit the return online you get an extra seven days to file it, so it is due within 21 days of the end of the quarter – which is 21 April 2010 for the March 2010 return.

The details that have to be given on the return are very simple: they are the value of sales to each customer for the period covered by the return, their VAT registration number, and their country code. A code 3 entry confirms that a sale relates to services, not goods.

You must contact HM Revenue & Customs (HMRC) if you need to complete an ESL – it is not up to them to contact you.

EU VAT refunds

A UK VAT registered business is entitled to reclaim much of the VAT it pays in other EU countries. So if you pay VAT on exhibition space you hire in France, you can normally reclaim this VAT from the French tax authorities.

The new system from 1 January 2010 is based on electronic procedures:



- An electronic claim is submitted in the country where you are VAT registered, so for a UK company that is submitted to HMRC.
- HMRC will then forward the claim (also by electronic means) to the country where the VAT was paid. The tax authority in that country then has four months to process it and a further ten days to make a repayment.
- The return is mainly based on numbers, so language issues are no longer a major problem.

Before submitting a claim, it is important to check that the country in question does not have any block on claiming for certain categories of expenditure. For example, many countries do not allow claims to be made for travel or hotel related costs.

Making the most of charitable giving



You can receive tax relief for charitable gifts under Gift Aid, the Give As You Earn scheme, or by using a scheme such as the Charities Aid Foundation Account.

For Gift Aid you simply declare to the charity that you pay enough UK tax to cover the basic rate tax due on the gift, and the charity reclaims that tax from HM Revenue & Customs. For a gift of £80 you must pay at least £20 in UK tax. Any relief for higher or additional rate tax is obtained by making a claim on your tax return. You can also elect for the gift to be treated as paid in the previous tax year.

Gift Aid is also available to companies. However, donations are made gross and then deducted from profits when calculating the corporation tax liability. The company must be profitable when it makes the gift, because the gift cannot be carried over to another accounting period, or added to a loss. The tax relief is restricted where the company, or a connected person, receives a benefit from the charity.

If your marginal income tax rate is higher than the rate paid by your company, it makes sense for you personally to make charitable gifts, rather than have your company make the donations.

New flexibility for dispensations

Some of the work required in completing the annual returns of expenses and benefits for each employee (forms P11D) can be eliminated if you have a dispensation from HM Revenue & Customs (HMRC) to omit tax deductible expense payments. Also, where a dispensation is in place, the employees' PAYE codes will not include expenses for which they can claim a tax deduction, so the accuracy of PAYE codes will be improved.

HMRC will readily grant dispensations for one-person companies, even where no independent person is available to check the expense claims, as long as the following conditions are met:

- All the expenses incurred are supported by receipts.
- The claims do not include disallowable items.
- All the amounts claimed are reasonable.

In addition, all receipts and supporting information must also be retained for at least six years.

If the expense claims include items that are not supported by receipts, such as where HMRC authorised mileage rates are used to calculate mileage paid for use of a private car, HMRC insists that an independent person checks and authorises each claim. We could do this checking for you. You can apply for a dispensation online through the HMRC website, or by using the paper form P11DX.

KEY TAX DATES	Every month		
	<p>1 Annual corporation tax due for companies with year ending nine months and a day previously, eg tax due 1 July 2010 for year ending 30 September 2009.</p> <p>14 Quarterly instalment of corporation tax due for large companies (depending on accounting year end).</p> <p>19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.</p> <p>22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.</p> <p>30/31 Submit CT600 for year ending 12 months previously. Last day to amend</p>	<p>CT600 for year ending 24 months previously.</p> <p>File accounts with Companies House for private companies with year ending nine months earlier and for public companies with year ending six months earlier.</p> <p><i>If the due date for payment falls on a weekend or bank holiday, payment must be made by the previous working day.</i></p>	<p>31 Last day to issue 2009/10 P60s to employees (Bank Holiday Monday).</p>
	June 2010		
	<p>19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.</p> <p>22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.</p> <p>30/31 Submit CT600 for year ending 12 months previously. Last day to amend</p>	<p>19 File 2009/10 end of year PAYE forms. All employers must file online. Penalties may be charged if forms are late and are automatic from 26 May 2010.</p>	<p>30 Deadline for medical professionals to make a disclosure under HMRC's Tax Health Plan and pay all liabilities.</p>
May 2010			
July 2010			
<p>19 File 2009/10 end of year PAYE forms. All employers must file online. Penalties may be charged if forms are late and are automatic from 26 May 2010.</p>	<p>5 Final date to agree 2009/10 PAYE Settlement Agreements (PSA).</p> <p>6 Last date for returns of expenses and benefits (forms P11D, P9D and P11(b)) for 2009/10 to reach HMRC. Relevant employees to receive copies of forms P11D and P9D.</p>	<p>Last date to submit annual returns for employee share schemes and employment-related securities for 2009/10 (forms 34, 35, 39, 40 and 42).</p> <p>14 Due date for CT61 return and CT payment for quarter to 30 June 2010.</p> <p>19 Class 1A NICs for 2009/10 due (22 if paid electronically).</p> <p>31 Confirm tax credit claims for 2009/10.</p> <p>Due date for second payment on account of 2009/10 income tax and Class 4 NIC.</p> <p>Last day to pay 2008/09 tax to avoid second automatic 5% surcharge (unless late payment agreed with HMRC).</p> <p>Last day to file 2008/09 tax return to avoid second automatic penalty up to £100.</p>	