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Newsletter August 2010

One of the more draconian elements of the June Budget was the announcement that tax allowances for the purchase of qualifying assets are set to reduce, our first article this month provides information about this change. We have also included articles covering cancellation of a filing concession, the pros and cons of a salary sacrifice scheme and a reminder to keep your payslips if you make student loan repayments.

The next newsletter will be published on 7 September 2010.

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Annual Investment Allowance (AIA)

Businesses can currently write off 100% of the cost of acquiring qualifying assets against their taxable profits, up to an annual limit of £100,000.

Assets that can be written off in this way include commercial vehicles, plant, computers and other equipment - cars do not qualify.

George Osborne's Budget of 22 June 2010 gave notice that the annual limit is to be significantly reduced from £100,000 to £25,000 from April 2012.


Unusually, business owners have an opportunity due to this advanced notice - they can rethink their capital expenditure plans for the next 20 months. Why you should reconsider is best highlighted if we take a look at some of the advantages offered by this AIA relief.

1. Obvious really, but you can currently reduce your taxable profits by up to £100,000.
2. If you are a higher rate, self-employed trader the AIA claim could save you 40% or 50 of your qualifying investment.
3. If you earn more than £100,000 you could use the AIA claim to protect your personal tax allowance that may be lost without an AIA claim.
4. If you are a self-employed business owner or in partnership and your AIA claim exceeds your taxable profit, the resulting tax loss can be set off against your other income in certain circumstances and perhaps generate refunds.
5. Even if you trade as a limited company or if you are a basic rate tax payer you will be able to recover up to 20% (21% if you pay small rate corporation tax in 2010-11) of your investment.

We have to assume that tax relief offered post April 2012 will stay at much lower levels for a considerable period as the Government tackles the reduction in national debt. Accordingly, this is an opportunity that should not be passed over lightly.

If you were planning significant capital expenditure during the next say five years, we recommend that you call to discuss your tax options. At minimum you should find out:

1. If your planned expenditure qualifies for AIA?
2. If a claim for AIA prior to April 2012 will be tax effective, will you be able to make good use of the allowance?
3. Importantly you should examine the non-tax considerations. Is it commercially sensible to make the required investments at an earlier date?

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7 day concession to be withdrawn!

Advance warning has been given that after 31 March 2011 HM Revenue & Customs are withdrawing a concession that allows you an extra 7 days to file certain returns.

The returns affected are:

1. Company tax returns.
2. Annual PAYE returns P35 and P14s.

The concession was granted to allow for postal delays that are no longer required as filing of these returns is now online.

The removal of the concession will not prevent taxpayers applying for a cancellation of late filing penalties if they can demonstrate a reasonable excuse.

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Salary sacrifice

Under certain circumstances it is possible to sacrifice part of your salary in exchange for a non-cash benefit.

Now that HMRC are increasing the income tax burden of the higher paid - a 50% income tax on income over £150,000 and progressive loss of personal allowance when your income exceeds £100,000 - the idea of taking a lower salary and working less hours might become attractive. If your taxable income is between £100,000 and £112,950 your marginal tax rate on the top £12,950 becomes 60% due to the progressive loss of your tax allowance. Lowering your salary to £100,000 and taking additional holiday entitlement to compensate may be worth looking at.

Salary sacrifice arrangements are particularly effective when exchanged for tax-free benefits such as child care vouchers or car parking. They are also attractive in return for employer pension contributions, especially when the employee is below the upper earnings limit for national insurance purposes. Typically pension contributions can be boosted by some 30% at no cost to the employee or employer.

To qualify as a genuine salary sacrifice arrangement an appropriate change must be made to your contract of employment - you will need to demonstrate that the loss or reduction in your salary is permanent.

If you are a lower paid individual any benefits of a salary sacrifice may be outweighed by other tax and benefit considerations. These could include:

1. Your entitlement to Statutory Sick Pay, Statutory Maternity Pay, Statutory Adoption Pay and the State Pension may be affected.
2. If the agreement with your employer is a lower salary in exchange for qualifying child care vouchers (a non-tax benefit), the value of the vouchers will likely be deducted from any Child Tax Credit that you were previously entitled to claim and of course you may be able to claim more Working Tax Credit as your earnings will have reduced.

Planning the scheme from both employers' and employees' viewpoint is essential.


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Student Loan deductions

If you make student loan repayments via your salary, the total repayments in a year need to be entered on your self-assessment tax return, if you are required to fill one in.

Your P60 from your employer at the end of the tax year will include deductions made by that employer only. If you had previous employment in the tax year it may be necessary to add student loan deductions from your payslips for the earlier employments to ensure that your tax return is correct.

Failure to show the full value of loan repayments made may result in excessive Self Assessment payments. Although the extra payments should be credited to the loan account there is an effective cash flow disadvantage.

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Tax Diary August/September 2010

1 August 2010 - Due date for corporation tax due for the year ended 31 October 2009.

19 August 2010 - PAYE and NIC deductions due for month ended 5 August 2010. (If you pay your tax electronically the due date is 22 August 2010)

19 August 2010 - Filing deadline for the CIS300 monthly return for the month ended 5 August 2010.

19 August 2010 - CIS tax deducted for the month ended 5 August 2010 is payable by today.

1 September 2010 - Due date for corporation tax due for the year ended 30 November 2009.

19 September 2010 - PAYE and NIC deductions due for month ended 5 September 2010. (If you pay your tax electronically the due date is 22 September 2010)

19 September 2010 - Filing deadline for the CIS300 monthly return for the month ended 5 September 2010.

19 September 2010 - CIS tax deducted for the month ended 5 September 2010 is payable by today.

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DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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