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Why does the tax year start on 6th April and end on 5th April?

Did you ever wonder why the UK tax year runs from 6th April to 5th April? Most countries have a tax year that equates to a calendar year, and those that do not at least have the decency to have the tax year end on a month-end date. The UK alone has what appears to be a random year-end date. Except that it is not as random as you may think, and in fact is down to fiscal fine tuning by the 18th Century equivalent of HM Revenue & Customs.

The reason dates back hundreds of years. The English quarter days are traditionally used as the dates for collecting rents (on, for example, agricultural properties). The tax system was also based on a tax year starting on the first of the quarter days, Lady Day, on March 25th. In 1582 Pope Gregory XIII ordered a change of calendar from the Julian calendar (named after Julius Caesar), which had been in use since 42 BC. The Julian calendar consisted of eleven months of 30 or 31 days and a 28-day February (extended to 29 days every fourth year). Although accurate, it differed from the real solar calendar by around 11½ minutes a year. Not a significant amount, but over the course of hundreds of years, even a small inaccuracy like this adds up. By the 1500s it had put the Julian calendar behind the solar calendar by 10 days. But while Europe changed calendars in 1582 at the behest of the Pope, Britain was not minded to take orders from Rome, remained on the Julian calendar, and hence was 10 days behind the rest of Europe.

By 1752 the difference had grown to 11 days and the British finally realised they were out of step and changed to the Gregorian calendar in that year. Until 1752 the tax year in Britain started on 25th March, old New Year's Day. The Treasury argued that by fast forwarding 11 days they would lose out on 11 days' taxes. To ensure no such loss they decreed that the taxation year which started on 25th March 1752 would be of the usual length (365 days) and therefore it would end on 4th April, the following tax year beginning on 5th April. Nearly 50 years passed until someone spotted an additional difficulty, that 1800 was not a leap year in the new Gregorian calendar, but would have been under the old Julian system. This would potentially have led to a loss of one day of taxes. Therefore the Treasury moved the year start again from 5th to 6th of April, and this date has remained unchanged ever since.

Even 250 years ago, it seems, the Treasury was concerned about their coffers and frowned upon any potential loss of revenue. How little has changed. That said, UK tax legislation allows you to order your affairs in such a way as to minimise your tax liability and this booklet aims to give you some ideas that you may wish to think about and discuss with us.



Profit and loss

If you run a business – whether it's a sole trade, a partnership or a limited company – the end of your accounting period is the most important date for tax planning. You can move income and expenditure from one year to another, changing the rate of tax and delaying tax payments, by reviewing your plans for purchases and sales of capital assets or the payment of bonuses and other significant expenses.

If the accounting date is different from the end of the tax year, there are some advantages and pitfalls in the mismatch between the two – for example, a salary payment may be an expense for the company either earlier or later than it is income of the employee. It's worth thinking about the opportunities and the possible problems around the two year-ends.

One of the big changes in recent years has been the introduction of an "annual investment allowance" (AIA). At the moment, you can write off the first £100,000 of expenditure on most plant and machinery against the current year's profits, so you get full tax relief on that very quickly. If you invest more than that, you only write the balance off at a maximum of 20% a year. The AIA is going to be cut back to £25,000 a year in April 2012, and writing down allowances will be reduced further at the same time. So if you are thinking of investing in plant, it's worth looking at the date.

ACTION POINT:

HAVE YOU REVIEWED THE LIKELY TAXABLE PROFITS BEFORE YOUR YEAR END?

A good start for VAT

When you are starting or growing a business, getting your VAT registration right is very important. If you register too early, you have to account for VAT on sales that could have been VAT-free. If you register later than the law requires, you can suffer a penalty. And you might want to register before you have to so that you can claim back VAT on start-up expenses. You can lose out if you incur VAT too long before the date you put on your VAT 1 registration application, because you can't get it back.

You also can't change the date once you've sent the form in – so it's very important to plan ahead and decide when you might want to, and when you might have to, register for VAT.

ACTION POINT:

ARE YOU RUNNING A BUSINESS THAT ISN'T REGISTERED FOR VAT?

Rate of change

Mr Darling announced some rate changes to come into force on 6 April 2011, and Mr Osborne gave us more. Some have been confirmed and some are only promised. Most of the changes are small on their own, but the combined effect may change the best way to take profits out of a family company.

NIC rates are all increasing from 6 April 2011. Most employees pay at 11% on income between £5,715 and £43,875 and 1% on earnings above that. This increases to 12% on income between £7,225 and £42,475 and 2% above that. The increase in the starting point protects lower paid employees, but someone with a salary of £50,000 will see their NIC bill increase from £4,259 to £4,380.

Employer NIC rates are also increasing from 12.8% on salary above £5,715 to 13.8% on salary above £7,225. The employer contributions on a £50,000 salary will go up from £5,668 to £5,903. The increases will affect higher earners proportionately more than the lower paid.

Self-employed NIC rates will also go up from 8% and 1% to 9% and 2% on the same ranges of profits as the employee contributions on salary.

The basic personal allowance for income tax goes up from £6,475 to £7,475, considerably more than the usual inflationary increase. The Lib Dems have urged a move to £10,000 as soon as economically possible in order to remove very low earners from tax, but we are unlikely to be able to afford that in the immediate future. These changes to the starting points for tax and NIC make a difference to the payment of salary to the proprietor of a small company or to a spouse or civil partner working in a business.

The main rate of Corporation Tax (CT) will fall from 28% to 27% on 1 April 2011. That affects companies which, with associates, earn £1.5m in profit a year. We have been promised that this rate will fall by 1% each year until it stands at 24%, but that has to be confirmed.

The small profits rate of CT (companies earning up to £300,000 a year, split between associates) is expected to fall from 21% to 20% on the same date. This makes it better for a company to incur expenditure or claim reliefs before then – the relief will be worth more and will reduce an earlier payment of tax.

ACTION POINT:

IT'S WORTH CRUNCHING SOME NUMBERS TO SEE HOW THE CHANGES AFFECT YOU



Pension merry-go-round

Mr Darling decided that income tax relief on pension contributions was too generous, and brought in rules to restrict it that have affected people paying large extra contributions in 2009/10 and 2010/11. They were supposed to come into full effect on 6 April 2011 for people with income above £130,000 a year, but Mr Osborne has replaced them with an entirely different restriction.

The extra charge in 2010/11 will still apply to most people who have an income of at least £130,000 after pension contributions if they pay an increased contribution this year which is more than £20,000. The effect of the charge is to restrict tax relief to the basic rate of 20% rather than the taxpayer's marginal rate.

The new rule from 6 April 2011 is to allow relief at the marginal rate again regardless of the taxpayer's income, but to impose a maximum allowable pension contribution of £50,000 a year. If you pay more than that, you aren't allowed any relief on the excess – but you are allowed to top up your limit if you haven't paid the maximum in the previous 3 years.

There are new and complicated rules for working out the "deemed pension contributions" by an employer for someone in a final salary scheme. If you are a member of such a scheme and you receive a substantial pay rise, your pension entitlement may jump – and the tax system will work out how much your employer is treated as having paid to secure that. It will be important in future to monitor those entitlements to see if any tax charges arise.

The great majority of people are not affected by these changes – up to 5 April 2011 because their earnings are too low, and after that date because they don't put that much aside in pension contributions. But for those people who are affected, the rules are complicated and the effects can be significant.

ACTION POINT:

IF THIS AFFECTS YOU, TAKE ADVICE BEFORE PAYING PENSION CONTRIBUTIONS

Time to incorporate?

National Insurance is an extra tax on salaries and business profits, even if politicians won't use the "T-word". Sole traders and partnerships can reduce the impact of NIC by forming a company and paying dividends instead of salary – dividends are not NICable. This is a complex decision, which should not be taken on tax grounds alone – many other factors have to be considered. There is more paperwork and law around running a company than an unincorporated business, but the tax savings may outweigh that.

Mr Darling intended to increase the small profits rate for companies from 21% to 22% in an attempt to even up this advantage, but Mr Osborne has declared that he will go the other way – back to 20%. A sole trader making a profit of £50,000 in 2011/12 would have to pay about £13,333 in tax and NIC; someone running a small company with the same profit would only have to pay corporation tax of £8,555. If the whole of the company's profit is paid out as a dividend there will be some more income tax to pay, but there is still a substantial saving.

ACTION POINT:
HAVE YOU CONSIDERED
INCORPORATING YOUR
BUSINESS?

Penalty shoot-out

The taxman can fine you if your returns are late or wrong. The rules on errors changed in 2009, and everyone is getting used to a new system where experience won't always tell us how big a penalty is likely.

It's still the case that any penalty can be reduced if the taxpayer deals with it promptly – as soon as it comes to light it is disclosed to HMRC, the reasons are identified and explained, and the correct tax is paid without delay. If the error was just a careless mistake, dealing with it in this way can avoid a penalty altogether.

Failing to deal with an error is likely to increase the level of penalty if HMRC find out about it later. So it's important not to brush things under the carpet – if you think something may have gone wrong, it's best to face up to it and take advice on how to put things right. We can only help if we have all the available information, so it's important to put us in the picture.

ACTION POINT:
ARE YOU SATISFIED THAT
YOUR RETURNS ARE
ACCURATE?

A place in the country

The property market has been the source of big profits in recent years. Even if the recession has increased uncertainty, many people will own houses that are worth much more than they cost. Gains on your "only or main residence" are not taxable (unless you use part of it exclusively for a business purpose), but a second home or an investment property will be chargeable to CGT at 18% or 28%.

If you use more than one property as a residence – that is, you yourself live in them both – you can choose which one you want to be exempt from CGT. Although this might be the one that you live in most of the time, you are likely to obtain an advantage – and give yourself greater flexibility in the future – if you make an "election" within two years of acquiring the second home. For example, if you decide to sell the "second home" first, or if the gain on it is larger than the gain on your main home, it might be useful for it to be exempt. This has had a bad press lately because some MPs were using the rule for houses which taxpayers were already buying for them – and they weren't living there at all. But it can be a perfectly respectable plan.

You can only elect for a "residence" to be exempt, not an investment property that is let out to others. So a "buy-to-let" property is chargeable to CGT. But if you are letting out a property that you have lived in, or you move to live in a property that you have let out, you can enjoy significant extra reliefs.

ACTION POINT:
DO YOU HAVE A SECOND
HOME? DO YOU WANT TO
"MOVE-TO-LET"?



Piggy banks

If a parent gives something to a child under the age of 18, the parent remains taxable on income if it is more than £100 a year. So you cannot enjoy the benefit of the children's personal allowances by putting investments or deposits in their names.

There is no similar rule for gifts from grandparents. Of course, the Revenue might be upset if a parent gave money to a grandparent to give to a child, but a genuine and straightforward gift from a grandparent, which does not originally come from the parent, can be put into a bank account for a child and no tax needs to be paid on the interest (as long as it is less than the child's allowances).

Anyone born from September 2002 up to December 2010 is entitled to a "child trust fund" – a savings account with £250 from the Government to start with. The money cannot be touched until the child is 18 (so not before September 2020!). If you have a child who qualifies, you can add to the account (up to £1,200 a year, and the £100 'income-from-parent' rule doesn't apply) so the child will build up savings tax-free.

Children born from January 2011 onwards will not be entitled to a child trust fund. In autumn 2011 the government intends to introduce a new tax-free "junior ISA" which parents will be allowed to add to without being taxable on the income, but there will be no government contribution to these accounts.

ACTION POINT:
WHAT'S THE BEST WAY TO BUILD UP
SAVINGS FOR THE CHILDREN?

Too much NIC

If you have more than one employment, or an employment and a self-employment, you could end up paying too much in National Insurance Contributions. There is a higher rate of NIC (in 2011/12, 12% for employees, 9% for self-employed) on the slice of everyone's income above the starting threshold (£7,225 in 2011/12), then a lower charge on income over a set limit (2% above £42,475 in 2011/12). If two employers pay salaries separately, or you have employment and self-employment, you may pay the higher rate on two separate amounts that add up to more than the limit.

It is a simple matter to apply for the limit to be operated on the combined figure, but it is supposed to be done before the start of a tax year in which you are likely to pay too much. It is always easier not to pay NIC than to get it back after overpaying!

ACTION POINT:
COULD THIS AFFECT YOU?

Top-up savings

Contributions to some tax-favoured investments are capped for each fiscal year. The limit for Individual Savings Accounts (ISAs) is £10,200 in total, rising to £10,680 in April 2011. You can put up to £500,000 a year into Enterprise Investment Schemes (with 20% relief and possible CGT deferral), and £200,000 into Venture Capital Trusts (with 30% income tax relief). Extra pension contributions may get better relief – certainly earlier relief – if you make them before the end of the tax year.

Of course, the tax relief does not on its own make something a good investment – you need to take proper advice on where to put the money, as well as understanding how it will reduce your tax bill. If you are thinking of putting money into one of these schemes, you may want to do so before 5 April to maximise the benefit.

ACTION POINT:

DO YOU WANT TO TOP UP YOUR INVESTMENTS?

NIC and pensions

If you are a member of an employer's pension scheme, you can contribute from your salary and get tax relief. However, your salary is subject to NIC, and that doesn't get reduced by pension contributions that you pay. In 2011/12 the employer will pay 13.8% on most salaries, and employees will pay 12% up to a salary of about £42,475 and 2% above that.

If the employer pays pension contributions directly into the fund on an employee's behalf, there is no income tax and no NIC. Suppose an employee has a salary of £30,000, and gets £1,000 in salary to pay into the fund. That will cost the employer £1,138, and the employee will be able to invest £880 after NIC. If the employer puts £1,000 directly into the fund, there is a saving of £138 and £120 – a combined benefit of £258. It's a very basic plan, but it needs to be done properly to make sure that the Revenue can't argue there was "really" a payment to the employee anyway – it's worth taking advice if you are going to make a so-called "salary sacrifice".

ACTION POINT:

DO YOU MAKE EMPLOYEE CONTRIBUTIONS TO A PENSION SCHEME?

Where there's a Will

Inheritance tax is often thought of as a tax for the rich, but it is really a tax for the unprepared – the rich have usually made their arrangements and pay very little. Although IHT is not so closely related to the tax year, an annual review of tax matters can usefully include checking the exposure to IHT and whether anything can be done to mitigate it. In particular, it is useful to have a clear and up-to-date Will, which has been drafted with tax in mind. This is particularly important if you have total assets, including a house and any insurance policies which would be paid to your estate on death, in excess of £325,000 – the current starting point for IHT (unchanged for the last couple of years).

There are a number of standard, unobjectionable measures which people can take to save very significant amounts of IHT. These include:

- reviewing the payees of the proceeds of insurance and pension policies – if the insured person's executors are entitled to the money on a death, there will be unnecessary IHT;
- giving surplus assets away as early as possible – they will fall out of IHT altogether if you survive 7 years after the gift;
- making regular gifts out of surplus income during lifetime rather than saving up for a big legacy on death – the regular gifts are often not chargeable at all, while the big legacy is likely to cost 40% in tax.

In October 2007, there was an important change to the way married couples and registered civil partners are taxed if they leave property to each other when the first one dies. It's possible to leave everything to the survivor without wasting the £325,000 nil rate band. If you drew up a Will before then, you may have been advised to put in an IHT plan that's now out of date, and it's worth reviewing it. If you haven't done the planning, Mr. Darling may have saved you the trouble – but it's still worth looking at!

ACTION POINT:
HAVE YOU CONSIDERED HOW MUCH IHT YOU MIGHT PAY?

Company cars

Company cars are taxed on a percentage of their original list price, based on the CO₂ emissions rating of the vehicle. The benefit has been rising recently to raise the tax on "gas guzzlers", and it's going to increase again over the next few years.

From 6 April 2010 we were given a big incentive to use electric cars – anything which cannot produce CO₂ does not create a taxable benefit either (for the 5 years to 2014/15), even if it's a pure perk. For cars rated up to 75g/km, the charge will be based on only 5% of the list price.

From 76g/km to 120g/km, the charge is based on 10% of the list price. Above that, 15% of list price applies on ratings up to 129g/km – lowered from 134g/km in 2010/11 – and above that the charges go up by a percentage point at 130g, 135g etc. There will be further changes on 6 April 2012. The percentage for diesel cars is 3% higher, but the maximum for either type is 35%.

The main planning point arises if you are due for a change of company car. You may consider a lower-rated car because of the lower tax charges. You may also think about owning the car yourself and claiming a mileage allowance for business use – the employer can pay 40p a mile tax-free for up to 10,000 miles in a year (and 25p a mile after that).

The taxable benefit when an employer provides free fuel for private motoring in a company car is worked out by applying the same car benefit percentages to a fixed figure. It's worth checking that the tax you pay to HMRC isn't more than what you are saving in not paying for petrol. If you pay tax at 40% and have a car rated at 170g/km, the tax on a petrol benefit in 2011/12 will be £1,728, and your employer will pay NIC of £596. If your private petrol would cost less than £2,324 altogether, it could be cheaper to pay for it yourself than to have it free (hard though that is to understand!).

Fluctuations in the cost of fuel make the sums complicated, but it's possible that "free fuel" is not as good an idea as it sounds.

ACTION POINT:
ARE YOU PAYING MORE TAX THAN YOUR BENEFITS ARE WORTH?

Associated or not?

Companies with “small profits” (up to £300,000pa) pay Corporation Tax at a lower rate – likely to be 20% rather than 27% in 2011/12. The limit has to be divided between “associated companies” – so if there are three associates, each one has to pay a higher rate on profits over £100,000.

In deciding which companies are associated, HMRC have always looked at the shareholdings of associated individuals – close relations and business partners. So if Mr X owned X Ltd and Mrs X owned Y Ltd, they would have to divide the small profits limit between them. In some circumstances, such holdings could be ignored if the businesses could be completely independent, but the assumption was that the companies would be associated.

From 1 April 2011, there will be a significant change in the rules. Holdings of associated individuals will not count unless there is substantial commercial interdependence between the companies, whether financial, economic or organisational. The starting point will be to look at the businesses operated by the companies, rather than simply considering the relationship between the shareholders.

If two companies are associated at any time during an accounting period, the limits have to be divided for the whole of the period. For this reason it is worth reviewing the old and new rules to see if any changes can usefully be made before the next accounting date so the small profit limit rises from the beginning of the next period.

ACTION POINT:
DO YOUR COMPANIES
CURRENTLY HAVE TO DIVIDE
UP THE SMALL PROFITS LIMIT?



Going online

HMRC are keen for everyone to file and pay online as much as possible. After all, computers are cheaper than people, and they have budget cuts to implement. From the taxpayer's point of view, filing online can be more efficient and secure – it's all good until something goes wrong, and then trying to find someone who knows how to put it right can be a trial.

Employers are now required to file more of their PAYE forms online and will be penalised for failing to do so. From April 2011, companies will have to file accounts electronically with their Corporation Tax returns, and will have to do so using a particular type of software called iXBRL. HMRC will provide a basic facility to do this on their website, but a commercial package may be more efficient. Companies House will also accept accounts in iXBRL, but will not require them.

ACTION POINT:
ARE YOU READY FOR
ELECTRONIC FILING?

Holiday lets rerieved

In his last Budget Mr Darling confirmed an intention to end the favourable treatment of furnished holiday lettings (FHL) as a “trade” rather than as property investment. The Conservatives removed this from Labour's last Finance Act and said they would reform the rules rather than abolishing them. They have now announced the main changes that will be introduced:

- restriction on the ability to relieve losses against other types of income (from April 2011);
- 50% increase in the time for which a property must be available and must be let in order to qualify (from April 2012).

Anyone who has benefited from the advantageous treatment of FHL in the past should now review the changes to see if they are adversely affected. If an owner's properties all cease to qualify on the change of rules, it could still be possible to enjoy one CGT advantage – Entrepreneurs' Relief, charging a rate of only 10% on the gain – provided that the disposal is timed correctly.

ACTION POINT:
IF YOU HAVE ANY FHL,
THINK ABOUT THE CHANGE
OF TAX TREATMENT

Splitting gains

Everyone has an annual exemption for CGT (£10,100), but you only use it if you dispose of something. That means that making a gain of £50,000 in five years' time is likely to cost you a lot in CGT, but if you can split it up into chunks of £10,000 each year you will pay none.

If you have a portfolio of investments, it is common for your investment manager to sell some near the end of the tax year to trigger capital gains, reinvesting the proceeds in something else. There is a cost in commission, but the tax saving is almost certainly much greater. It's important to make sure that the manager knows if you have realised gains on other assets – if you have used up your tax-free allowance elsewhere, the switching plan won't save you tax.

ACTION POINTS:
ARE YOU TAKING FULL ADVANTAGE OF
THE CGT EXEMPTION?

Standard VAT or flat VAT?

A simplified “flat rate VAT scheme” is available for businesses with VATable turnover of up to £150,000. You pay a lower rate of output tax on your sales, but you don't claim input tax on your expenses. The rate depends on the type of business you are – some rates seem to be generous, and some are less so. It is at least worth considering the figures if you qualify, to see if it might save you money or time, or even both.

There are bigger savings – or pitfalls – if you have two different activities which on their own would have different flat rates. The rules say you should use one rate for the whole business, and it's the one appropriate for the larger part of your turnover. That can be a very good thing or a very bad thing, and it's important to think about it.

The rise in the standard rate of VAT on 4 January 2011 also affects FRS traders, but not always by the same amount. You have to look up your business category and see what the new rate is. After three recent rate changes it's worth double checking that you are using the right rate, and that the scheme is still to your advantage – particularly as HMRC have adjusted the differences between business categories rather than applying the same increase across the board.

ACTION POINT:
COULD YOU SAVE UNDER
THE FLAT RATE SCHEME?

Show me the money

Because Corporation Tax rates are lower than the top rate of Income Tax, company owners may save money by leaving their profits in the business. The company pays tax at 21% in 2009/10, but if the profit is paid out the owners will pay more tax on the remaining 79%. The problem is that the point of making a profit is usually to spend it on yourself and your family – if it's locked up in the company, that's no good.

There are very different tax charges which apply to the different ways of taking money out of a company, as well as company law rules which prohibit some transactions, such as dividends where there are no accumulated profits. Successive Chancellors of the Exchequer have continually tinkered with the tax rates for all the taxes involved – Corporation Tax, Income Tax on salaries, interest and dividends, and NIC – so the best course of action can change from year to year. If you are thinking of winding up or selling the business, a new range of possibilities has to be considered.

The difference can be substantial – it's something that's well worth taking advice on.

ACTION POINT:
WHAT'S THE BEST WAY TO GET PROFIT OUT OF YOUR COMPANY?

Paperwork, paperwork

The taxman sometimes seems to believe that the main reason for running a business is to fill in official forms. He wonders how you can be late submitting something to him, when that is the most important task there is!

The penalties for lateness start off annoying and end up very expensive, particularly for VAT. If you have been late filing VAT returns, you will be sent a "default surcharge liability notice". If you are late again within 12 months – usually the next four returns – you may have to pay a penalty based on a percentage of the VAT outstanding. The percentage goes up every time you are late – the maximum rate is 15%, which is very harsh if you are just a day over. Sometimes even the most careful trader gets into difficulties, and it is possible to get out of the fine if you have a "reasonable excuse". But it's better to identify the possible problems and do something about them. If you have received a liability notice, it's really important to file four returns on time and get rid of it. It's worth taking advice on the various ways available to make this easier.

ACTION POINT:
DO YOU HAVE DIFFICULTY FILING VAT RETURNS AND PAYING ON TIME?

Happy returns?

Since April 2010, traders with turnover of more than £100,000 a year and all newly VAT-registered traders have had to file their VAT returns online and pay by electronic transfer. Smaller traders who registered before that date can still file paper returns, but this will be reviewed by 2012. A VAT return is quite a simple document to file online, and most businesses have a computer these days – but it is still necessary to obtain authorisation for filing in good time.

ACTION POINT:
EVEN IF YOU CAN STILL FILE ON PAPER, WOULD IT BE EASIER TO GO ONLINE?

Credits and debits

Child Tax Credits (CTC) and Working Tax Credits (WTC) have now been around for several years. The system for rebating tax to people who need it has been criticised as over-complicated, and there have been examples of people being paid too much and then finding the Revenue pursuing them to get the money back. But in spite of all the bad press, it's still worth thinking about making a claim, particularly if you are couple where both of you work and you therefore pay childcare costs.

Mr Osborne has announced cutbacks to the amounts paid out in WTC and CTC for 2011/12. WTC support for childcare costs will be cut from 80% of qualifying costs up to £300pw to only 70%. The joint income level at which the basic CTC of £545 starts to be withdrawn will fall from £50,000 to £40,000. The "baby element" of CTC, which doubles the entitlement in the year a child is born, will be removed from April 2011.

If you have claimed either of these credits in the past, it's worth looking at how the changes will affect you.

ACTION POINT:
SHOULD YOU CLAIM CTC/WTC?

Gains favoured

The recession may have turned CGT into a problem many people wish they had, but there are still lucky people sitting on unrealised gains that are exposed to tax at 18% or 28%. If the economy recovers – as we hope it will – investments bought now may be showing big gains in a few years.

A lower rate of 10% is available to people who dispose of their own businesses – there's a limit of £5m of gains over your lifetime. The conditions for this "Entrepreneurs' Relief" are complicated and it's worth checking that you are entitled to it if you are hoping to benefit. Don't sell up in the expectation of 10% and be disappointed to find the tax is nearly two or three times as much.

Mr Osborne raised the CGT rate for higher-rate income tax payers on 22 June 2010. It used to be clear that gains were more favourably taxed in every case: now the picture is more confused. A basic rate tax payer suffers 18% on gains and 20% on income (plus, perhaps, high levels of NIC). A 40% taxpayer suffers only 28% on gains, but the higher rate of tax on net dividend income is effectively only 25% (with no NIC), making gains slightly worse than dividends. A 50% taxpayer has a clear preference for gains – a 22% differential in the headline rate (with possible further NIC on income), and an effective rate on a net dividend of 36.1%.

In spite of the attempt to level the playing field, it is likely that many people will still arrange to have their investment returns in the form of gains rather than income. HM Revenue & Customs are aware of this – there was a similar difference before 1988, and they will be dusting off old rules that let them charge people at income tax rates on what the taxpayers think are gains. If you are hoping to take advantage of the lower CGT rate, it's worth being sure that none of these anti-avoidance provisions can be applied to you.

ACTION POINT:
DO YOU KNOW HOW MUCH CGT YOU MIGHT PAY ON YOUR ASSETS?



VAT's up again

By now, anyone running a business should already have dealt with the increase in the standard rate of VAT to 20% on 4 January 2011. The first business day of the new year may not be the best moment to have to change all the prices, but at least we had practised with a similar increase a year before.

As this is the third change of rate in just over two years, most people will be familiar with the problems of a VAT change – but there are still things that can catch you out. If you only account for your VAT when the cash comes in, you have to worry about what appeared on the invoice – if you charged 17.5% in December, then 17.5% is what you owe HMRC, even if you receive the money in January. If you have to issue a credit note, it should carry the same rate as the invoice.

HMRC say that they appreciate the difficulties that businesses go through on a rate change, and will operate a "light touch" where people have made mistakes. Being "touched lightly" by HMRC may still be more than most people want!

ACTION POINT:
ARE YOU CONFIDENT THAT YOU KNOW THE RULES ON CHANGING THE VAT RATE?

Interesting times

Tax relief on home loans is a distant memory. But if you run a company or a business, or if you buy property to rent out, it's possible to enjoy tax relief on interest paid. Although the terms of such "business-related" loans may be different from a domestic mortgage, the tax relief for a top rate taxpayer can reduce the cost to half of what it would otherwise be. 50% of 8% is less than 100% of 6%! If the rates and terms are the same for two loans, tax relief is a pure advantage.

The same goes for paying off borrowings. If you want to reduce the cost of interest payments, look at the net cost rather than the gross – you might want to reduce "private" borrowings even if the rate is lower before you pay off loans on which you get tax relief.

ACTION POINT:
REVIEW BORROWINGS TO SEE IF RELIEF CAN BE OBTAINED

His and hers

Because husbands and wives are separately taxed, they can split certain types of income between them to better use their allowances and tax rates. HMRC may question this – for example, if one employs the other in a business and pays a salary, the salary can't be excessive for the duties involved. If one gives investments to the other, it has to be an "outright gift" of something which is not "wholly or mainly a right to income" – a proper capital asset.

In a House of Lords case in 2007, HMRC tried to show that the income from a "husband and wife company" should all be taxed on the husband. They lost, and immediately said they would change the rules so they would win next time. Their proposals were so complicated that they decided to delay any changes, and later Mr Darling announced that a recession is not the time to bring in a measure that would be likely to damage small businesses. Tax advisers say there is never a good time to bring in such a rule, but HMRC seem keen to revisit this at a later date! In opposition Mr Osborne seemed less keen on such an idea, but he is no doubt looking at all possible ways of reducing the budget deficit.

Meanwhile, husband-and-wife businesses have a breathing space in which the tax saving still works – within limits. It's still important to know what works under the current rules and what the taxman can already object to.

ACTION POINT:
DO YOU JOINTLY OWN A BUSINESS WITH YOUR SPOUSE?

Benefit going

One of the more controversial changes announced by Mr Osborne is the withdrawal of the universal entitlement to Child Benefit, currently £1,056pa for the first child and £697pa for subsequent children. The rates will be frozen for the next 3 years, and entitlement is planned to cease in 2013 for couples where one partner is a higher rate taxpayer. There has been a lot of press and political criticism of the harshness of this withdrawal on people who are on the borderline of higher rate tax. The withdrawal is still some way away, and how it works may be modified by the time it takes effect.

ACTION POINT:
IF YOU ARE ENTITLED TO CHILD BENEFIT, THIS IS ONE TO KEEP AN EYE ON

Pay tax later

If you are within PAYE, most or all of your tax is collected before you see your income. If you are self-employed, it is likely that you will pay most of your tax through self-assessment. This normally involves making payments on account (POA) on 31 January during the tax year and 31 July just after the end of it.

The 2010/11 POA, due on 31 January and 31 July 2011, are initially based on the tax that was due for 2009/10. If your final 2010/11 tax is higher, you pay the balance on 31 January 2012. If your liability drops, you will get a repayment when you send your tax return in – but waiting for that rebate will leave you out of pocket in the meantime.

It's also possible to claim to reduce the POA to "what they ought to be" before you send in the 2010/11 tax return. You don't need to have a precise calculation, but you can usually tell when the POA will be much too large. If the 2010/11 self-assessed income has fallen – the business has had a bad year, interest rates on your savings are pitiful, or maybe you've taken a job within PAYE instead – it's worth making the claim so the money is in your bank account rather than theirs.

ACTION POINT:
IS YOUR TAX BILL FOR 2010/11 LIKELY TO BE LESS THAN IT WAS IN 2009/10?

Tax-free benefits

The taxman usually wants a slice of any "benefits in kind" provided by an employer to employees – particularly if they are directors of their own limited company. But there are quite a few benefits that are tax-free by law, and so if your employer buys them for you, that's cheaper than paying you salary (with tax) for you to buy them yourself. There is a long list of possibilities, but here is a selection:

- pension contributions up to £50,000 (in 2011/12);
- childcare vouchers of up to £55pw (for basic rate employees – lower amounts for higher rate taxpayers);
- one mobile telephone where the employer owns the phone;
- vans where the private use is restricted to home-to-work travel;
- loan of a bicycle for commuting;
- health checks for employees or members of the household;
- 40p per mile mileage allowance for business use of your own car;
- annual party costing up to £150 per person attending.

ACTION POINT:
CAN YOU BENEFIT FROM THESE?

Home and away

For many years, foreign domiciled people enjoyed a tax break in the UK on their foreign income and gains – if they left the money overseas, they didn't have to declare it here. Since 2008, people who have lived in the UK for 7 years have a choice: pay tax here on your worldwide income and gains, or pay a flat-rate charge of £30,000 a year and forgo your tax-free allowances in the UK. The only exception is if your total amount of foreign income and gains is under £2,000. Short-term UK residents such as expats on a secondment of less than 7 years still enjoy the tax break.

A rough-and-ready calculation shows you will be better off paying £30,000 if your overseas income is more than £75,000 and you pay tax at 40%, or £60,000 for a 50% taxpayer – of course, it's more complicated than that with different tax rates applying to income and gains, but that's a starting figure. However, many people with substantial foreign assets and connections may do the even easier calculation and decide it's cheaper to live somewhere else. Anyone who has been using the "remittance basis" and has lived in the UK for 7 years should already have reviewed their plans; anyone who is approaching the 7 year limit should think about it as a matter of urgency.

ACTION POINT:

DO YOU CURRENTLY PAY TAX ON REMITTANCES OF FOREIGN INCOME?

Opportunity knocks again

In 2007, the taxman offered a "disclosure facility" to people who had undeclared income or gains in offshore accounts. This was prompted by HMRC obtaining lists of people who had offshore accounts with the high street banks, and finding that there were far more of them than declared foreign income on their tax returns. If people came forward then to pay the outstanding tax and interest on it, they were offered only a 10% penalty instead of the potential maximum 100%. The implication was that they would then come looking for everyone else and impose higher penalties.

A second "disclosure opportunity" ended in March 2010. There remains open a special deal for people who have some investments in Liechtenstein – the "Liechtenstein Disclosure Facility" is planned to run until 2015. Anyone who fails to take advantage this time can expect a higher penalty if they are discovered later by HMRC – however, it seems that the barman in the last chance saloon keeps calling "last orders".

ACTION POINTS:

DO YOU HAVE ANY OFFSHORE BANK ACCOUNTS? IF YOU DO, ARE YOU SURE THAT EVERYTHING THAT SHOULD BE DECLARED HAS BEEN DECLARED?

Can't pay, won't pay?

HMRC have in the past been criticised for being too ready to close a business down if it could not pay its tax: since late 2008, it has been official policy to be flexible and to try to keep the business going. Delaying a payment to HMRC is likely to be easier and cheaper than extending a bank overdraft.

There are conditions: the taxpayer must be in genuine financial difficulty, and it must be likely to be able to pay if given more time. It is worth having detailed financial information to make a case to HMRC. If the business has no prospect of ever paying the liability, they are likely to take the usual enforcement action and cut their losses.

There are some major concessions: if you agree a "time to pay" arrangement before VAT falls due, there are no default surcharges to pay. A construction industry business can defer tax without losing entitlement to be paid gross.

The important thing is to be prepared. The business is supposed to put a proposal to HMRC before the due date – not wait until HMRC are sending red letters for overdue tax.

ACTION POINT:

COULD YOU MAKE A CASE TO HMRC FOR EASY TERMS ON BUSINESS TAX PAYMENTS?

Childcare vouchers



The benefit of a workplace nursery for employees' children is not taxable. For some years employers have also been able to provide childcare vouchers of up to £55pw without a tax charge as an alternative which may be more practical for someone without the space or resources to provide a nursery. This is changing for employees joining voucher schemes from 6 April 2011 – the tax exempt amount will be restricted for people

who pay tax at higher rates. Details are available on HMRC's website.

ACTION POINT:

IF YOU RUN A CHILDCARE VOUCHER SCHEME, CHECK OUT THE CHANGES

Family fortunes

Everyone has a "personal allowance" of tax-free income (£7,475 in 2011/12), and the next £35,000 is taxed at 20%. You pay £7,000 income tax on the first £42,475 and £16,990 on the next £42,475 (taxed at 40%). If your income includes dividends, which are taxed at different rates, the amounts may vary.

The problem is that not everyone can use their allowances in full. In a family where one partner goes out to work and the other raises the children, the carer (and the children) may not have much income. If the "breadwinner" is a higher rate taxpayer, this is a waste.

Take two couples. In one, each partner has £45,000 in salary. They'll pay about £12,290 in tax and NIC each, £24,580 in all. That's just over 27% of their combined income of £90,000. In the other couple, one partner gets £90,000, and the other has no income. The earner pays about £31,190 in tax and NIC – over a quarter more than the couple who split their income. If the income isn't subject to NIC, the difference gets bigger – there's more NIC to pay on two separate salaries than on one big one.

It is not always easy to transfer income between husband and wife in order to take advantage of allowances, but the following methods are possible:

- an outright gift of savings and investments which produce taxable income;
- putting savings and investments into joint names and sharing the income;
- employing the spouse in a business;
- taking the spouse into partnership. HMRC can challenge some of these if they think the transfer is not genuine – it's important to take advice to be sure that the plan will work.

The biggest saving (about £10,000) comes from moving £42,475 in investment income to someone with no income, but smaller gifts are also worthwhile. A 40% taxpayer can save £400 a year on a transfer of just £1,000 of taxable interest income if the spouse stays below £7,475 in total.

Capital gains are easier to pass on for tax. If you are likely to realise a gain above your annual exemption, you could transfer the asset to your spouse first and save up to £1,818 (if you are a basic rate taxpayer) or £2,828 (if you pay income tax at 40% or 50%).

ACTION POINT:

CAN INCOME OR GAINS BE TRANSFERRED TO REDUCE THE TAX?