



Robert Whowell & Partners
Chartered Accountants

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Dealing with late payments

Getting your customers to pay you promptly is critical to your cash flow and ability to plan ahead. The longer it takes customers to pay, the more likely it is that they will not pay at all. Happily, there are steps you can take to encourage faster payment.

Your first move should be to carry out credit checks on new customers. If they are satisfactory, you can then agree credit limits and time scales before any transaction takes place. You can set any credit period you like, but if you do not have one, the law sets a default period of 30 days from the date of supply of the goods or services or the invoice date, whichever is later. It is best to put your terms and conditions in writing. Don't just credit check your new customers: your existing customers' circumstances may change.

Issue invoices quickly and make sure they are clear. State when payment is due and warn that you will charge interest on late payments. Where a debt becomes overdue, actively chase the payment. Send a statement of account by post and email, but also phone the customer. If the customer does not commit to a payment date, tell them you will not be able to supply further goods or services until the bill is paid. Where a customer has cash flow difficulties, you might be able to agree a payment plan.

All this takes time and effort, but it is worthwhile if it reduces your borrowing costs and the risk of non-payment. Customers who know that you will actively chase payment are more likely to prioritise your invoices, even before you start chasing them.

Alternatively, you could use a debt factoring or invoice discounting service, under which you borrow, in effect, against your unpaid invoices for a fee. But it can be expensive. If, after trying everything, your customer still does not pay, you can consider more formal means, for example, a solicitor's letter or using a debt collection agency, although this can be costly. You can issue a statutory demand stating you will apply to court for the winding up of the customer's business if payment is not made. Legal action, where worthwhile, should be a last resort – and remember that you cannot usually recover legal fees for debts under £5,000.

Finally, remember to pay your own bills on time. Other businesses also need good cash flow.

Partners

Robert H. Whowell, F.C.A.
Ian C.F.S. Agar, F.C.A.
John W. Mills, F.C.A.
Jason R. Whowell, A.C.A.
Bradley J. Peake, F.C.A.
David Potter, C.T.A.

Associate

Mark A. Cavanagh, F.C.C.A.

Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales.

Westwood House, 78 Loughborough Road, Quorn, Leicestershire LE12 8DX
Tel: 01509 622830 Fax: 01509 622831 Email: rwp@rwpaccountants.co.uk Website: rwpaccountants.co.uk

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice as at May 2012.

Tax hurdles for higher income earners

The Budget was both kind and cruel to high income earners. There is no change to tax relief for pension contributions, and the income tax additional rate will be reduced to 45% – 37.5% for dividends – after 5 April 2013.



Additional rate taxpayers should consider legitimately delaying income until next year. If you have your own company, then bonuses and dividends can be postponed, and this has the added benefit of later due dates. Delay cashing life policies, if these will result in chargeable gains. If you are self-employed, you may be able to bring forward revenue and capital expenditure that will reduce your assessable profits for 2012/13. And where possible make pension contributions and charitable donations this year rather than next.

From 6 April 2013, the proposal is that a cap will be applied to most reliefs that are currently unlimited. The cap will be the higher of £50,000 or 25% of a person's income, and excess amounts will not qualify for a tax deduction. From the moment this was announced, charities expressed concern that a cap would discourage philanthropic donations, and the furore was such that the Government has just announced that charitable donations will not now be included – they can continue to be made without limit.

Carrying losses forwards or back against profits of the same trade will not be

affected, but there is no detail yet regarding the treatment of other loss relief claims. Individuals who suffer losses on investments in unquoted trading companies will be affected, and it may be worth making negligible value claims this year to crystallise losses before the cap bites. The cap will also affect qualifying loan interest, and it will apply across all uncapped reliefs on a combined basis.

Another proposal for next year is the introduction of a general anti-abuse rule. The introduction of such a general rule in other countries has shown how difficult it is to formulate a provision that clarifies what it does and doesn't cover and is practical to implement. The concern is that a general rule against tax avoidance could introduce enormous uncertainty into the tax system. The Budget also introduced several targeted anti-avoidance provisions with immediate effect, including a 15% stamp duty land tax rate where companies are used to acquire residential property valued at over £2 million.

If you are concerned that any of these changes will affect you, please contact us.

Benefits, expenses and pay: what's new

In the wake of the recent Budget, here's a timely reminder of the changes to the tax treatment of employee benefits, expenses and pay for future years.

Cars Currently, the percentage used to calculate a company car benefit is 5% of the car's retail list price when new for CO₂ emissions up to 75g/km, 10% between 76g/km and 99g/km, then it rises from 11% to a maximum of 35% for emissions of 220g/km or more. A 3% supplement applies to diesel cars. There is no benefit for zero-emission cars. Over the next four years, these factors will all change:

- **2013/14:** 1% increase for emissions between 95g/km and 219g/km.
- **2014/15:** 1% increase for emissions between 76g/km and 214g/km.
- **2015/16:** The special treatment of low-emission cars will cease. The percentage will be 13% for emissions up to 94g/km, then rising from 14% to a maximum of 37% for emissions of 210g/km or more.
- **2016/17:** The charge will be a percentage of 15% for emissions up to 94g/km, then

rising from 16% to a maximum of 37% for emissions of 200g/km or more. The 3% diesel car supplement will cease.

Private fuel The car benefit percentage is multiplied by a fixed amount, which has increased from £18,800 to £20,200 in 2012/13.

Smart phones An employee can be provided with one tax-free mobile telephone, and HMRC now concedes that this exemption includes smart phones. If you have paid tax and class 1A national insurance contributions (NICs) in respect of the provision of smart phones, you can backdate any tax repayment claims to 2007/08.

Advisory fuel rates An employee can claim the actual cost of fuel used in a company car for business trips; but it is often easier and more convenient to use the HMRC advisory fuel rates.

The current rates until 31 August 2012 are:

Engine size	Petrol	LPG
1,400cc or less	15p	11p
1,401cc to 2,000cc	18p	13p
Over 2,000cc	26p	19p

Engine size	Diesel
1,600cc or less	12p
1,601cc to 2,000cc	15p
Over 2,000cc	18p

The rates will be reviewed on 1 September, and for September either the current or new rates can be used.

IR35 and non-executive directors The March Budget included a proposal that office holders and controlling persons integral to the running of an organisation must have PAYE and NICs deducted at source by the organisation by which they are engaged. There will be legislation in the Finance Act 2013. The change should not affect genuine freelance workers and contractors. But the tax position can be quite complex where non-executive directors are paid through personal service companies, and such arrangements should be reviewed.

Enterprise management incentive (EMI) and entrepreneurs' relief (ER) The 5% shareholding requirement to qualify for ER will be removed where an employee acquires shares on the exercise of EMI options after 5 April 2012.

VAT revisions get ready to roll

In the March Budget, Chancellor George Osborne announced a range of measures aimed at ending anomalies in the VAT system which currently result in VAT being payable on some items while other similar products escape the VAT net. The changes attracted criticism, and the Chancellor has been forced into a U-turn as regards the more controversial aspects. The changes will generally take effect from 1 October 2012.

The way that VAT is charged on food can often be bizarre. VAT is payable at the standard rate on hot takeaway food, but supermarkets have argued that their hot food, such as rotisserie chickens, is not for immediate consumption and is only kept hot to improve appearance and aroma – and so their hot food has therefore been zero-rated.

The original proposal was that VAT would be charged on all food above the ambient air temperature when provided. VAT will now apply to food which is kept hot or where the natural cooling process is delayed, if food is cooked hot to order or if sold in heat retaining packaging. The meaning of 'premises' has been clarified so that shared food courts and tables and chairs outside a café are included.

Currently, the sale of a caravan towable by a typical family car is subject to VAT, but larger caravans escape VAT even though they may be used for holiday purposes. This treatment will be replaced by one that zero-rates only those caravans that have been designed and constructed for continuous year-round occupation. Originally, VAT was to apply at 20% from 1 October, but it will now be at the reduced rate of 5% – and not until April 2013.

The VAT treatment of listed buildings is also

complex. Currently, repairs and maintenance are subject to VAT, but approved alterations are not. The rules therefore give an incentive for change rather than repair. The zero-rating of alterations will therefore be removed. The supply of self-storage is currently exempt from VAT, but other types of storage services are not. Again, the playing field is to be levelled by the removal of the exemption.

When hairdressers rent a chair to self-employed stylists, VAT must be paid on the rent charged. Nothing has actually changed, because the High Court had previously decided that such a supply cannot be exempt. The hairdressing business is supplying a whole package of services – not just the supply of 'land'. However, the matter has now been put beyond doubt and will force the remaining minority of non-complying salons to conform.

Child benefit changes – not as simple as A B C

If either you or your partner have an income of more than £50,000, then you may be about to lose your child benefit thanks to proposed Finance Bill changes.

Although the child benefit will continue to be paid, usually to the mother, HMRC will take the equivalent value back through a special new income tax charge on the higher income partner. The change comes into effect for benefit paid from 7 January 2013, but now is the time to start looking to reduce your income and avoid the tax.

For people with 'adjusted net income' over £60,000 the income tax charge will be equal to the full amount of the child benefit payments. For income between £50,000 and £60,000, the tax will equal 1% of your child benefit for every £100 of income above £50,000. So, for example, if your income is £54,000, and your partner's income is less, you will pay additional tax equal to 40% of the child benefit paid to you or your partner.

Child benefit is £20.30 for first child and

£13.40 for subsequent children, so a family with two children is entitled to £1,752.40 before the tax charge, which, in the example above, would reduce the benefit to £1,051.44. The Treasury estimates that 15% of families will lose all or part of their child benefit.

'Adjusted net income' is income after deducting the gross amount of your pension payments and donations to charity under gift-aid, so one way of keeping your child benefit may be to make additional payments into your pension scheme. As well as saving child benefit, you will benefit from the basic and higher rate tax relief on the pension payment.

Another way of reducing income if you are an employee is to buy childcare vouchers through salary sacrifice, resulting in no tax and no employee's national insurance contributions on the amount of salary you give up.

The more control you have over your income, the more options you have. You might be able to transfer investments to



your partner so that the income on them becomes theirs and taxable on them. If you are self-employed or carry on business through your own company, you may be able to pay your partner (but you must be able to justify the payment) or control the timing of some of your income to keep it below £50,000.

The only thing clear about the changes is how complex the process of finding a solution can be. Please get in touch with us if you think you may be affected.

Did you know that your private bank account could be part of your statutory business records if you put business transactions through it?

That would mean you would have no right of appeal against an HMRC request to see the statements. HMRC can generally only demand private bank statements if they are 'reasonably required' to check a tax return. A taxpayer can appeal against this. However, a recent decision in the first-tier tax tribunal rejected a sole trader's contention that business expenses put through a private bank account should be treated as capital introduced, and the tribunal decided that the transactions made the account part of the business.



A proper wind-up

If you are thinking of winding-up your company, then be warned that one beneficial approach suitable for small companies is now severely restricted.

For a company with straightforward affairs and paid-up creditors, the cost and administrative burden of a formal winding-up can be avoided by simply having the company struck off. The drawback to this approach is that leftover cash withdrawn from the company is treated as income instead of capital – with tax rates up to 36.11% instead of a possible 10%. You were once able to opt for the more beneficial capital treatment using an HMRC extra-statutory concession, but the concession has been replaced by legislation and

there is now a £25,000 cap on the amount that can be treated as capital. Exceed the limit and all withdrawn cash is treated as income.

If your company has more than £25,000 to distribute, then careful planning is now necessary. It may be an option initially to pay normal dividends, leaving £25,000 as capital – although this is not a satisfactory solution if there is substantial surplus cash. Alternatively, your company could purchase back its own shares, but this will not work for sole shareholders. Ultimately, the only solution may be to go down the formal winding-up route.

Wake-up call for your dormant accounts

Money from bank customers' dormant accounts has now been transferred to the Government's Big Society Bank, but account holders can still get it back if they can prove ownership.



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The bank's money, £400 million of which comes from dormant bank accounts that have been left unused for at least 15 years, will be lent to social enterprises and charities but remains the property of the customer. Since 2009, the government has been able to take control of money left untouched for 15 years. However, while the definition of 'dormant account' varies from bank to bank, most declare untouched accounts 'dormant' after either a year or three to five years.

If you remember a bank account that you have not used for 15 years or more, you should contact the bank to check what has happened to it and gather any documentary evidence that the money is

yours. Banks have been trying to trace owners of dormant accounts since the Big Society Bank was announced in early 2011, but if you have forgotten about an account, the bank might not have your current address.

If you are unsure where you held an account, there is a free central tracing scheme spanning banks, building societies and NS&I, including instances where the bank or building society has closed or merged. You can download a claim form at www.mylostaccount.org.uk and you should receive a response within three months. You will still have to prove ownership before the bank reactivates any account found.

KEY TAX DATES	Every month		
	<p>1 Annual corporation tax due for companies with year ending nine months and a day previously, e.g. tax due 1 January 2013 for year ending 31 March 2012.</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 CT600 for year ending 24 months previously.</p>	<p>File accounts with Companies House for private companies with year ending nine months previously and for public companies with year ending six months previously.</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>schemes and employment-related securities for 2011/12 (forms 34, 35, 39, 40 and 42).</p> <p>14 Due date for CT61 return and CT payment for quarter to 30 June 2012.</p> <p>19 Class 1A NICs for 2011/12 due (22nd if paid electronically).</p> <p>31 Confirm tax credit claims for 2011/12 and renewal for 2012/13.</p>
	July 2012		
	<p>5 Final date to agree 2011/12 PAYE Settlement Agreements (PSA).</p> <p>6 Deadline for employers to make returns of expenses and benefits (forms P11D, P9D and P11(b)) for 2011/12 to HMRC and provide copies to employees.</p> <p>Last date to submit annual returns for employee share</p>	<p>Due date for second payment on account of 2011/12 income tax and Class 4 NIC.</p>	<p>2 Second 5% penalty imposed on tax still unpaid for 2010/11. Submit employer forms P46 (car) for quarter to 5 July 2012.</p> <p>14 Deadline for traders who have notified their intention to take part in the Electricians' Tax Safe Plan to make their disclosure and pay all liabilities.</p>
August 2012			
<p>1 Penalty of 5% of the tax due or £300, whichever is the greater, charged for returns for 2010/11 that have not been filed.</p>	October 2012		
		<p>5 Deadline to notify HMRC that tax will be due for 2011/12 (for taxpayers who have not been sent a return).</p> <p>14 Due date for CT61 return and CT payment for quarter to 30 September 2012.</p> <p>31 Deadline to file 2011/12 self-assessment tax return if filed on paper.</p>	