

# IN TOUCH



## HMRC invite taxpayers to own up!

It's amazing how many people still believe that income from offshore accounts is not subject to UK tax!

HMRC have now received information from many banks about offshore accounts and to encourage taxpayers to declare their offshore income HMRC have announced what the newspapers are calling a 'Tax Amnesty'. The so-called 'amnesty' actually only applies to the penalty that will be charged on unpaid tax, which HMRC have promised to cap at 10% if a voluntary declaration is made before 22 June 2007. HMRC could in theory impose a 100% penalty. The tax and penalties due will need to be paid by 26 November 2007.

The penalty cap also applies to undeclared UK income if a declaration to a local HMRC office and full payment of the tax due is made by the same dates.

If you have any concerns about the disclosure facility, please contact us as soon as possible, as the timescale to take advantage of the facility is short.

## Should I ditch the company?

This is what you may think following the tax changes for small companies announced in the Budget. The corporation tax rate for small companies with profits of up to £300,000 has already increased to 20%, and it is due to increase again in April 2008 to 21%, and once more in 2009 to 22%.

These corporation tax changes for small companies are intended to discourage businesses from incorporating just to save tax, as the corporation tax rate will be higher than the basic rate of income tax (20%), which will apply on all profits of up to around £40,500 (not allowing for inflation) by 2009. However an individual also has to pay Class 4 national insurance (NI) at a further 8% on his self-employed profits, in addition to the income tax due.

To assess the overall effect of these different tax charges, consider a business making profits of £55,225 in 2009. If it operates as a company, after paying a salary of £5,225 to the director, there is

£50,000 to be taxed at 22%, giving a tax bill of £11,000. Trading as an individual with the same profits, the total income tax and NI payable will amount to approximately £16,000. This assumes the basic rate band and NI thresholds increase as the government has indicated.

The tax saving for operating the business as a company is thus expected to be about £5,000 per year. However these funds are held within the company, and transferring the money to the shareholder can create a further tax charge, if the shareholder pays higher rate tax.

If you are considering forming a company, or want to go back to being self-employed, please come and talk to us first so we can help you work through the numbers. There will be a different answer for each business.





## What happens if you die without a Will?

Most people think that when they die all their assets automatically belong to their husband or wife but that may not be the case. If you die without making a Will your assets are divided up according to the intestacy rules, which set out a strict order of relations who will inherit your worldly goods.

In England and Wales, if a spouse dies intestate and their estate was worth more than £125,000 at their death, their spouse (or civil partner) would only get £125,000 and a right to use half of the remainder during their lifetime. The balance would be divided between their children, or if they had died, their grandchildren.

If there are no children or spouse the situation is worse, as without a Will the parents get the residue of the estate, which may well push the total of their assets over the inheritance tax (IHT) exemption threshold of £300,000. This could create a tax charge on the parents' deaths where none may have existed before.

In Scotland and Northern Ireland similar concepts apply, although the exact details are different to those in England and Wales.

Only those who are legally married, or same sex couples who have registered a civil partnership, have any rights to their partner's assets on death. If you are not married and don't have a Will or life insurance arrangements, your partner will receive nothing on your death, even if you have been living together for years and have children together.

If you have a properly written Will, you can make gifts to whoever you wish to, free of IHT, if the total value of those bequests is less than the IHT threshold of £300,000. The balance of your estate can be left tax free to your spouse, although there are limits on the tax free amount a non-domiciled spouse can receive.

If you would like any help with arranging your tax affairs to mitigate the effect of IHT, please contact us.



## Can we look forward to a 'simpler' tax system?

This year's Budget was unusual in two respects:

- it was the last to be presented by Gordon Brown
- it gave a picture of our tax system not just for the current tax year but set out some principles which will not be fully in place until 2009/10.

To get from where we are now to the 'simpler' tax system involves a number of complex changes which are being introduced in different tax years. However by 2009/10 the key part of the changes is the alignment of the income tax and national insurance (NI) bands.

In summary, the bands will be (ignoring increases expected due to inflation but including proposed NI banding increases):

	2007/08	2009/10
Income tax		
Personal allowance	5,225	5,225
Starting rate band on earned income	2,230	Nil
Basic rate band	32,370	35,400
Higher rates start at:	39,825	40,625
NI		
Lower earnings limit	5,225	5,225
Upper earnings limit	34,840	40,625

So considering income tax and NI together on employment income, there would be three effective tax rates:

- 0% on income up to the personal allowance
- 31% (20% income tax and 11% NI) on income in the basic rate band
- 41% (40% income tax and 1% NI) for higher rate taxpayers.

The self employed will pay Class 4 contributions at 8% on the profits falling within the basic rate band so their tax rates are 0%, 28% and 41%.

Do these changes mean you are better or worse off? The answer for many is that there will be little difference in the overall tax and NI bills. Broadly, what has been saved in income tax will be taken back again in increased NI.

There the simplification ends because if your main income consists of interest or dividend income, the starting rate band remains and the tax rates will be:

Tax Year 2009/10	Bands	Tax Rates	
		Interest	Dividends
Personal allowance	5,225	0%	10%
Starting rate band	2,230	10%	10%
Basic rate band	38,395	20%	10%
Higher rates start at:	40,625	40%	32.5%

So, taxpayers with little earned income end up paying no NI and less tax than taxpayers with earned income. This is a rather strange conclusion for those with long memories as in times gone by the tax system charged investment income to a surcharge.

What else did the Budget give us? Well, potentially significant changes to corporation tax rates and capital allowances and these are examined elsewhere in this newsletter.

# Employers' update



## Smoke free

The Health Act 2006 includes provisions to make enclosed public places and workplaces smoke free from 1 July 2007. This date applies to England, as Wales and Ireland became smoke free on 2 and 30 April 2007 respectively and Scotland has already passed its first anniversary of the introduction of the law which became effective from 26 March 2006. The Act obliges employers to prohibit and take steps to prevent smoking on their premises. Clearly visible 'No Smoking' signs must be displayed at the entrance to premises that are 'enclosed' or 'substantially enclosed' (these terms are defined in the regulations).

Smoking rooms will no longer be allowed as complete smoking bans must be imposed. However you can decide to provide a smoking area outside but still on your premises, providing the area is not 'substantially enclosed'. All company vehicles used by more than one person are covered by the legislation and must display an appropriate 'No Smoking' sign.

The Smokefree England website contains lots of useful information to enable businesses to get ready for the change. For those parts of the UK which are already smoke free it enables businesses to ensure that they are complying with the law. The website address is [www.smokefreeengland.co.uk](http://www.smokefreeengland.co.uk)

## Minimum holiday entitlement to rise

The Department for Trade and Industry (DTI) has been consulting on the proposal to increase the minimum holiday entitlement from the current 20 days to 28 days. The current limit of 20 days includes statutory bank holidays.

The proposal is to increase the statutory annual leave entitlement in two stages:

- rising from 20 to 24 days on 1 October 2007, and
- from 24 to 28 days on 1 October 2008.

If the proposal becomes law employers will have to increase holiday entitlements from 1 October 2007. As this may not coincide with the holiday year it will have to be awarded proportionally from 1 October.

An employee currently entitled to the statutory minimum entitlement of 20 days (including bank holidays) with a holiday year to March 2008 would be entitled to two additional days for the 6 months covered by the increased minimum entitlement from 1 October 2007 to 31 March 2008. (4 day increase from 1 October 2007 pro rated for 6 months)

Research has shown that up to six million workers would benefit from the extra eight days holiday each year under the proposals.

The DTI consultation closed in April and details of the findings will be announced in May, too late to be included in this article. We will keep you informed of developments.



# Capital allowances - the new proposals

When you buy a piece of equipment to use in your business you normally cannot set the full cost against that year's profits, unless the value of the item is quite small, or a special tax relief applies. The cost of more expensive items is written off against profits over a number of years, using the capital allowances system. A similar principle applies for expenditure on certain industrial or agricultural buildings.

From April 2008 it is proposed that up to £50,000 spent on equipment in one year by any business will be set-off in full against the profits for that year. This allowance should cover most items of plant and machinery purchased by smaller businesses, although cars will not be included in this total. Where the expenditure on equipment exceeds £50,000 in one year the excess will be written off at a rate of 20% per year (on a reducing balance basis).

The capital allowances that are currently available for the cost of buildings (currently 4% of cost per year) will be phased out by 2011. Where equipment is integrated within a building used for your business, you can currently claim 25% of the remaining cost each year against profits. This will be reduced to 10% per year from 2008.

Up until April 2008 the old system of capital allowances largely remains in place. Small businesses can claim a 50% first year allowance for the cost of new equipment purchased before 1 April 2008 by companies, or before 6 April 2008 by unincorporated businesses.

Please do get in touch if you are planning any significant capital expenditure so that we can maximise the capital allowances and tax relief available.

# Companies Act 2006 update

An overview of the commencement timetable for Companies Act 2006 was published by the government at the end of February 2007. A number of common commencement dates were announced:

- 1 October 2007
- 6 April 2008
- 1 October 2008.

Further legislation will bring the detailed sections of the new Act into force in line with these dates. Some of the changes you can expect to see over the forthcoming months include:

- from October 2007

Private companies will no longer be required to hold an Annual General Meeting.

Written resolutions will no longer be required to be signed by all shareholders.

- from April 2008

The filing deadline for private company accounts will reduce from ten to nine months (and from seven to six for public companies). The exemption from preparing consolidated accounts for medium-sized groups will be lost.

Private companies will no longer be required to appoint a company secretary.

- from October 2008

New companies will be able to adopt default model Articles of Association. Existing companies will also be able to adopt these new Articles.

Directors will be required to file a service address for the public record at Companies House. This may be their company's address, rather than their residential address.

The precise implementation dates for Companies Act 2006 will be given in secondary legislation. To date there have been two Commencement Orders under the new Act. These have, for example, enabled further use of electronic communications with shareholders and have also repealed certain sections of the 1985 Companies Act.

We will continue to keep you up to date with the proposed changes. If you would like to discuss the impact of the new Act on you and your company please contact us.

## Using your home for business

As a self-employed person you may use your car or van for private journeys as well as for business trips. HMRC guidance has always been to include the portion of the vehicle's costs in your accounts based on the business miles compared to the total mileage. However until recently there has been little guidance on how to apportion the costs associated with using your home for your business.

The main point in the new guidance is that HMRC are now explicitly allowing a proportion of the fixed costs associated with the home including mortgage interest, insurance, repairs and maintenance.

You need to consider these questions:

- 1 - What area is used for business compared to the total area of the property?
- 2 - How long is it used for and is the area used for anything else?
- 3 - What fixed costs have been incurred over the year?
- 4 - What other services are consumed and are they metered?

For the first question an approximation of the number of rooms is acceptable. So if you use one room out of eight, use the fraction 1/8.

Next work out the time in each day the room is typically used for business purposes and the time used for other purposes. Also consider

whether the room has a primary purpose of being used for your business (eg an office) or is it primarily for some other use (eg a bedroom).

Then comes the tricky bit. A proportion of the fixed costs will be allowed according to the answers from questions 1 and 2. Say one room out of eight is a bedroom and an office. It is used for 8 hours each day as an office and the total fixed costs are £4,000. A reasonable business proportion of the fixed costs may be:  $1/8 \times 8/24 \times £4,000 = £167$ . Alternatively if the room is rarely used as a bedroom, a reasonable proportion may be  $1/8 \times £4,000 = £500$ .

The cost of metered services can be apportioned according to area and usage, remembering that little light and heat is used while you are asleep. Telephone bills, including the line rental, can be apportioned according to the cost of business calls made compared to the total cost of all calls, and a similar reasonable apportionment can be made for a broadband internet connection.

When this has been done, the total business cost must be reasonable for the use made of the property, so stand back and consider the result. If the costs are small you can use a reasonable estimate, such as £2 per week.

The cost for the use of your home can be claimed either as part of your accounts expenditure or on your self assessment tax return.