

How To Make The Best Use Of Losses

Some of the strongest of businesses are making losses in the current economic climate, so there is no shame in admitting your business is facing difficulties. But how you deal with those losses could make the difference between survival and failure.



Act fast for a tax refund

The first step is to quantify the loss as quickly as possible after the accounting year end, by drawing up accounts for that period. In most cases the loss can be set against profits or income earned in earlier years. This can produce a tax repayment, or avoid the need to pay tax for that earlier year, if you act quickly enough.

If you have reduced the wages you take out of your own company, or you operate your business as a sole-trader or partnership, you should consider making a claim for Tax Credits. Pension Credits can be claimed if you are aged 60 or more. For families with children aged under 16 the Tax Credit payments can make a big difference.

If you are already claiming Tax Credits you need to tell the Tax Credit office about your loss as soon as possible. The loss you make as a sole trader or partner will reduce your family income for Tax Credits, and possibly increase the amount of tax credits you receive each month. If the loss is made by your company it will not affect your Tax Credit claim.

Where your sales have dropped off significantly in the last year, so your total turnover is now less than £66,000, you can ask HMRC to cancel your VAT registration. Once out of the VAT net you will not have to add VAT to your sales (which will effectively lower your prices), but you also will not be able to reclaim VAT on purchases. For the HMRC to accept your application for deregistration you must convince them that your turnover is not likely to rise above £66,000 in the next 12 months. We can help you complete the VAT deregistration form.

Filing At Companies House

If you have old Companies House forms in store be prepared to shred them now. All the old Companies House forms, used to report events like the appointment of a director, are replaced with new versions for events occurring on or after 1 October 2009. You must use the new form as the old form will be rejected and this could lead to the company being fined if the event is not reported within the statutory deadline.

Most of the new forms can be filed online through the Companies House website, which is quicker, cheaper, and more secure than the post. If you sign-up to the Companies House PROOF scheme you can only file changes to your company's details online. But this prevents anyone hijacking your company by submitting a fraudulent paper form.

Tax Deadlines

18 September
PAYE & NIC to reach HMRC for month to 5 September.

22 September
Electronic payments of PAYE & NIC to reach HMRC for month to 5 Sept.

1 October
New National Minimum Wage rates: adult rate £5.80 per hour; £4.83 for those aged 18 to 21; £3.57 for 16-17 year olds.
Corporation tax due for year to 31 December 2008.

5 October
Inform HMRC of new sources of income or gains if no Tax Return received for 2008/09.

19 October
Income tax and class 1B NIC due under PAYE
Settlement Agreements for 2008/09. PAYE & NIC due for month to 5 October and 2nd quarter 2009/10.

22 October
Electronic payments of PAYE & NIC to reach HMRC for periods to 5 Oct.

31 October
Paper tax returns must reach HMRC (exceptions apply). Automatic £100 fine if tax for 2008/09 is unpaid at 31 January 2010.
Tax due of up to £2,000 can be collected through 2010/11 PAYE coding.

2 November
Submit form P46 (car) to HMRC where a car is first provided in quarter ended 5 October.

19 November
PAYE & NIC to reach HMRC for month to 5 November.

Tax Tip

If you find an error in your VAT records, which amounts to less than £10,000 of VAT, this can be easily corrected on your next VAT return. You don't have to write to the Tax Office, just make a note of what went wrong and how you corrected it.

Lower Your Business Risk Profile



How does the Tax Inspector see you and your business? If the Inspector views your business as high risk, he is more likely to pick it for a compliance

check; the new name for a tax investigation. As it is far better to avoid a tax investigation rather than experience one, it would seem sensible to reduce your business risk profile if possible.

The Tax Inspector does not publish how he assesses a business risk profile, but from snippets revealed in published tax cases, we can say the following will produce high risk scores:

- Minimal accounts information reported on the tax return;
- High expenses for the type of trade;
- Persistent losses;
- Fluctuating levels of turnover;
- Incorrect claims for tax relief;
- Not enough income reported to support the lifestyle;
- Tax returns submitted late.

Some risk factors are easier to eliminate than others. Submitting all your tax returns within the time limit reduces one risk score, and paying your tax on time helps another. If you want to make a claim for tax relief, perhaps for a pension contribution, make sure the figures in your claim are supported by the pension company's paperwork.

There is not much you can do about

genuine losses, or fluctuating levels of sales, but the Tax Inspector will want reassurance that your accounting records accurately reflect all of the sales and expenses in your business. It all comes down to recording your sales and purchases meticulously, with invoices and receipts kept as back-up evidence. Cash based businesses are at a particular disadvantage as the Tax Inspector will be suspicious that some cash sales pass straight through the pocket to the pub, by-passing the accounting records on the way.

If you are not certain about how to record certain expenses, especially those where you might not get a receipt such as tolls or parking charges, please talk to us.

Beware Scam Emails Promising Refunds

Many people are currently waiting for a tax rebate from the Tax Office, as they have claimed for losses to be set against an earlier year's income (see page 1). If you are expecting such a tax refund, or even if you are not, take care not to be drawn in by emails that claim to have a tax rebate ready for you. These emails tend to ask for details of your bank account to pay the refund into, but they are scams.

The UK tax office: HM Revenue & Customs (HMRC as it also known) does not send emails to taxpayers

informing them of tax rebates. All such emails are fraudulent, and potentially very dangerous. You should not respond to the email. Do not click on link embedded in the email as this may allow the scammers access to your computer through a virus included in the link.

Fraudulent emails normally stand out as they are not correctly addressed to you personally. The email may have missing address details or say 'Dear Applicant' or 'Dear Taxpayer'. Some scam emails include what looks like a

tax refund form including a fax back number. You should never complete such a form sent to you by email supposedly from HMRC. To complete genuine HMRC forms you need to login to the HMRC secure website using a password and User ID which will have been sent to you in the post.

If you have doubts about an email supposedly from HMRC, forward it on to the HMRC email security centre at: phishing@hmrc.gsi.gov.uk then delete it.

How To Flip A House To Save Tax

If you own and occupy more than one property as your home you can elect, within a set time period, for one of those properties to be treated as your main home for tax purposes. Once you have made this election you can change it at any time, so a different property is designated as your main home, hence the term 'flipping'. When you sell your main home the increase in value that has built up while it was your main home, and for the last three years of ownership, is free of capital gains tax.

Three years of the ownership period will be free of tax, even if the

property was only designated as your main home for a very short period, perhaps only a week. This is the tax rule many MPs used to avoid paying tax on the home that had been largely funded by their expense claims.

You can flip your properties just like an MP, if you make the first election within two years of acquiring another residence, or within two years of marrying. If you have missed this deadline on your current properties, you could acquire a very small

third property to give you the opportunity to make the election again. However, if you haven't made the election your main home for tax purposes is the property you occupy to the greater extent, and you may not want to change this.



Please beware that the law in this area could be changed with little advance notice. If you want to take advantage of this flipping rule, talk to us without delay.