HOLLIS AND CO

CHARTERED ACCOUNTANTS

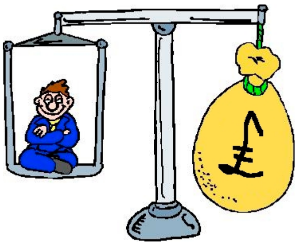
35 Wilkinson Street,
Sheffield,
S10 2GB

t: (0114) 281 6166
f: (0114) 281 6160

enquiries@hollisco.co.uk

JAN 2011 NEWSLETTER

Pay The Taxman First



Dividends or tax

Until recently HMRC has set some pretty easy pre-conditions when granting companies additional time to pay their tax bills. However, the HMRC's Business Payment Support Service (BPSS) are now asking tougher questions, particularly if the company has been granted time to pay a tax bill in the past.

For example, where the company is owner-managed, the BPSS are asking for details of the directors' personal assets and personal credit card facilities. The implication is that the directors should use their own private sources of credit to meet the company's tax debts.

Another condition imposed by BPSS is that the company must not have paid a dividend in the period between its year end and the date the tax is due for payment. In this case the BPSS will refuse to set up a time to pay arrangement, as the company is deemed to fall into the 'won't pay' instead of 'can't pay' category. The reasoning is if the company can pay a dividend (an optional cost) it should pay its tax bill first.

This new condition means director / shareholders cannot pay themselves in dividends and expect HMRC to be lenient over tax debts. It will also have serious implications for directors who have overdrawn accounts with their company at the year end. Without a dividend payment to clear the overdrawn account within nine months the company will become liable to additional tax charge of 25% of the overdrawn amount. The director may also be charged personal tax on the same debt.

If your company is going to have problems paying its tax bills please talk to us first.

Paying VAT On Time

You need to post your VAT return at least three days early if you enclose a cheque for the VAT due. The VAT office now treats the payment as received on the day the cheque clears, not when the post is opened. You can pay the VAT electronically even if you submit a paper VAT return. Electronic payments, including Bank Giro payments, give you a further seven days to pay the VAT due.

Tax Deadlines

30 December
Last day to file 2009/10 tax return and have up to £2000 of unpaid tax collected through 2011/12 PAYE coding

31 December
Accounts for private companies with year end 31 March 2010 must reach Companies House, and pay corporation tax.

2011

1 January
Changes to VAT rules for cross-border suppliers.

4 January
Standard rate of VAT increases to 20%. New rates for small business flat rate scheme.

19 January
PAYE & NIC due for month to 5 January, and for 3rd quarter 2010/11.

31 January
Submit personal, partnership and trust tax returns for 2000/10 or receive £100 fine (capped by tax outstanding). Pay balancing amount of income tax and CGT due for 2009/10, plus first instalment of income tax for 2010/11. Submit outstanding tax claims for 2004/05 if not in self-assessment for 2004/05. Confirm estimated figures for 2009/10 Tax Credits claim. Claim overpaid class 2 NIC for 2009/10. Accounts for private companies with year end 30 April 2010 must reach Companies House. Amend 2008/09 tax return.

2 February
Forms P46 (car) for quarter ended 5 January must reach HMRC.

18 February
PAYE & NIC due for month to 5 February.

28 February
Any unpaid income tax and CGT due for 2009/10 attracts 5% surcharge.

18 March
PAYE & NIC due for month to 5 March.

31 March
Corporation Tax return due for year end 31 March 2010. Final day to claim refund of overseas VAT.

1 April
All corporation tax returns must be filed online with accounts in iXBRL format.

What Accounting Records Must You Keep?

It is not easy to define exactly what accounting records you must keep to support the entries on your tax return, it depends on the nature of your business. However, if you are self-employed you must retain records of at least all your sales and takings, and all your purchases and expenses.

The Tax Inspector would like you to hang on to all the original documents for at least six years after the end of the tax year. For example, to provide evidence for the sales figure in your accounts you should retain the following where relevant:

- Till rolls and sale invoices;
- Bank statements and paying in slips.

To prove you have incurred expenses or made purchases you should retain:

- Receipts and purchase invoices;
- Credit card statements and cheque book stubs.

Where the expense is a business proportion of a larger cost you need to write down how that proportion was calculated and what it was based on. For example, record the miles travelled for every business related journey in your private car, and the reason for the journey.

Keep it

Where your business is run through a limited company, you must also record the value of the assets the company owns, such as equipment or buildings, and the stock it holds at the year end. You must also accurately record the value of all the company's debts.

There are additional requirements for employers, for VAT registered businesses. If you are doubtful as to whether you should retain a document for tax purposes, the answer is usually yes.

Tax Relief On Pension Contributions

The total tax relief individuals can claim on pension contributions is being restricted from 6 April 2011, by reducing the annual allowance (AA) cap to £50,000, subject to the adjustments described below.

You will get full tax relief at your highest marginal rate of tax on the pension contributions you make up to your AA cap. However, any pension contributions made by your employer into your pension scheme will be deducted from your AA cap.

If you (or your employer) have made pension contributions of less than £50,000 in any of the last three tax years, you can carry forward the difference between £50,000 and the actual contributions into 2011/12, to add to your annual allowance for that year. This carry-forward will roll-on for future tax years. You must have been a member of a pension scheme in that earlier year to carry forward any unused AA cap.

Example

Rob's personal pension scheme has received the following total contributions:

Tax year	Contributions	Deemed AA cap	AA carried forward
2008/09	£60,000	£50,000	Nil
2009/10	Nil	£50,000	£50,000
2010/11	£30,000	£50,000	£20,000
Total			**£70,000**

Rob can contribute up to £120,000 (£70,000 + £50,000) into his pension scheme in 2011/12 and will achieve full tax relief on those contributions.

The calculations of unused AA cap are rather more complicated where your pension scheme has a contribution year that is not aligned with the tax year. Please talk to us if this applies to you.

Your NIC Bill For Employees

National insurance rates are going up from 6 April 2011. Employers will pay class 1 NICs at 13.8% of the gross wages over £136 per week (£590 per month, £7,075 per year). Where the employee is in a contracted out pension scheme the percentage is reduced on wages between £136 and £770 per week.

Employees will pay 12% on their gross wages above £139 per week (£602 per month, £7225 per year), and below £817 per week (£3,540 per month, £42,457 per year). Any earnings over those thresholds will attract a 2% NIC charge for the employee. As above the percentages are reduced if the employee is in a contracted out pension scheme.

In 2010/11 the lower earnings threshold, where NIC becomes payable, is £110 per week for both employers and employees. The increase to £139 (for employees) and £136 (for employers), is designed to protect the lower paid, and it will provide some savings for the employer.

It's going up

For a low paid employee on £210 per week, the employer pays NICs of £12.80 per week in 2010/11, but only £10.21 per week in 2011/12. For an employee on average earnings of £490 per week the employer pays NIC of £48.64 per week in 2010/11, but from 6 April 2011 this increases to £48.85 per week. That adjustment appears small but the increase in NIC costs will much larger for higher paid employees.

We can help you calculate how much your NIC bill will increase from April 2011.