HOLLIS NEWS

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HOLLIS AND CO
CHARTERED ACCOUNTANTS

35 Wilkinson Street, Sheffield S10 2GB
Tel 0114 281 6166
Fax 0114 281 6160
Web www.hollisco.co.uk
Email enquiries@hollisco.co.uk

TAX DEADLINES

12 March
Budget Day. Tax changes may take effect from today.
19 March
PAYE & NIC due for month to 5 March must reach HMRC.
20 March
Electronic payments for PAYE must reach HMRC's account.
31 March
Submit CTSA return for year to 31 March 2007. File accounts at Companies House for companies with year end 31 May 2007.
1 April
Small company tax increases to 21%. £50,000 Annual Investment Allowance available for business equipment purchases.
5 April
Last day for individuals to dispose of assets and use indexation allowance and/or taper relief.
6 April
New PAYE codes for 2007/08 take effect from today. IHT nil rate band threshold increases to £312,000 and can be transferred to surviving spouse
19 April
Cheques for PAYE & NIC due for: 2007/08 IR35 deemed salary; month to 5 April; and 4th quarter 2007/08 must reach HMRC.
22 April
Electronic payments for PAYE must reach HMRC's account.
3 May
Forms P46(car) for changes in quarter to 5 April to reach HMRC.
17 May
Use new post Budget tax tables from today.
31 May
Give completed form P60 to everyone you employed at 5 April 2008.

Tax Tip

Don't forget to use your £7,000 ISA investment allowance before 6 April 2008, as it can't be carried over to 2008/09. If you want to restrict yourself to a cash-only ISA the annual investment limit is £3,000. These limits will rise to £7,200 and £3,600 in 2008/09.

Do I need a separate business account?

Separate bank accounts can save you tax

You need to think of your business as a separate entity that exists to support you. This can be difficult to do when the business is just you working on your own as a sole-trader. However, the Revenue expects all business records to be treated separately to the business owner's personal records. In the HMRC self assessment booklet: *A guide to keeping records* it says: "Whatever records you keep you will need to make sure that you can separate your business from your personal expenses."

The easiest way to keep the business records separate is to open a bank account to be used only for your business. All the business takings, whether in cash or cheques, should be paid into this account, and all the business expenses should be paid out of this account. If you use a trading name such as 'Rainbow Plumbing', the bank account should be set up in that name.

When you need money to fund your personal requirements a payment should be made from the business bank account into your personal bank account. This makes it clear which funds were used for business expenses, that can be set against earnings for tax, and which funds are used for personal expenses, which cannot be set against profits to reduce tax.

If you only have one bank account your business and personal expenses quickly become mixed up, and you need to record exactly whether each payment was for a business or personal use. If you don't have these records it takes an age to sort out your business accounts, and costs more to calculate what tax you should pay.

The Tax Inspector is also likely to assume that most of the expenses paid out of the single account were for personal requirements (cannot be set against tax), and all the income paid in was generated by your business (all taxable). So by using only one bank account you may pay more tax than if you can clearly separate your business income and costs from personal income and expenses.

Please talk to us about how to keep records of your business expenses. If your business is ever picked for enquiry by HMRC, it is vital to have complete and separate business records, as good records can persuade the Tax Inspector to close the enquiry without asking lots of tedious questions.

Saving Indexation Allowance

When you sell an asset you have held for 10 years or more, you get a deduction from the gain for the effect of inflation on the original cost, (or 31 March1982 value). This so-called indexation allowance is only calculated for the period to 5 April 1998, as it was then replaced by taper relief.

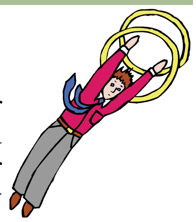
Both indexation allowance and taper relief are withdrawn completely for all disposals made after 5 April 2008, when the tax rate is reduced to 18%. This will save tax for some, but if your asset had a high cost 20 or more years ago you may pay more tax because of the loss of indexation allowance. You can preserve the indexation allowance by transferring the asset to your spouse or civil partner before 6 April 2008. Ask us to explain how this works.

Capital gains tax relief on selling a business

If you are planning to sell your business after 5 April 2008, you may be eligible to claim the new Entrepreneurs' Relief on the first £1 million of gains made. Under this relief the taxable gain is reduced by $4/9^{\text{ths}}$, making the effective CGT rate 10%. This restores the reduction given by business asset taper relief, which is abolished on 5 April 2008.

Say you sell your company in May 2008 and make £450,000. Entrepreneurs' relief reduces that gain to £250,000 (5/9 x £450,000). Capital gains tax is charged at 18% making the tax due £45,000 (18% x £250,000). You can also deduct your annual exemption and any capital losses made in the same or an earlier tax year, to reduce your tax bill even further.

To claim Entrepreneurs' Relief you must have owned your business for at least a year before the sale. Where you sell a company you must hold at least 5% of the voting ordinary shares, and have either worked in, or been a director or company secretary of the company for a year or more.



Know the conditions for the new relief

There is no minimum age requirement for claiming Entrepreneurs' Relief, so you don't have to 'retire' when you sell your business to qualify. However the new relief will not apply when you sell assets that do not amount to 'part of a business', such as a parcel of land from a large estate, or a property that has been used by the business, if the rest of the business is not sold at the same time. The business must also be defined as 'trading', which excludes purely property letting businesses.

If you sell a subsequent business in the future you can claim Entrepreneurs' relief on that gain as well, as long as the total of all your claims made under the new relief since April 2008 do not exceed £1 million. Any gains in excess of £1 million are taxed at the new flat rate of CGT of 18%.

Ask us if your proposed sale will qualify for the new relief.

Maximise your tax deductions when selling property

When you sell your let property you will have to pay capital gains tax (CGT) on any profit or gain you make. But there are a number of deductions that can reduce that taxable gain.

First check exactly when you formally agreed to purchase then sell the property. These are normally the dates when you exchanged contracts and are used to calculate the period you owned the property. The completion date; when you actually received the proceeds, is irrelevant for CGT. An earlier exchange date may increase the indexation allowance and taper relief you can deduct from a gain made before 6 April 2008. If you owned the property on 17 March 1998 you are given a bonus year of ownership when calculating taper relief.

Remember to deduct all the costs of sale and purchase, including the estate agent's and solicitor's fees. The stamp duty you paid when you bought the property is also deductible from the sale proceeds. You can't deduct the interest you paid on a mortgage or loan while the property was empty waiting to be sold.

Where you have made improvements to the property, add the cost of those works to the purchase cost of the property when calculating the gain, if you have not already deducted these costs from the rental income.

Did you own the property jointly with your spouse or a friend? If you did the gain must be split between the owners in the proportions in which you actually held the property. Check whether you held the property as 'joint tenants', when the ownership was probably split equally, or as 'tenants in common' when a different ownership split such as 30:70 may have been used. Only report your own portion of the gain on your own tax return.

What to do when your CIS gross payment status is revoked

Danger of falling back to net payment status

HMRC have the power to revoke your gross payment status as a contractor registered under the Construction Industry Scheme (CIS) *at any time*, and this is starting to happen following what the Revenue call 'scheduled reviews'.

Under the scheduled review system the HMRC computer selects a random sample of gross registered contractors and checks their tax compliance records. This involves looking at whether your business, you and any other partners or directors of your business, have submitted all your tax returns on time, including PAYE and monthly CIS returns, and paid all the tax when it was due, in the 12 months ending with date of the review.

If you and your business pass the test, you will hear nothing at all from HMRC. If your tax compliance record is not satisfactory, taking into account the minor breaches allowed, such as up to three late payments of PAYE/ CIS tax, you will receive a notice to say your gross payment status will be withdrawn in 90 days.

This allows the Revenue time to consider any appeal you make against this decision. If you want to appeal you must do so in writing and within 30 days of the date of the notice you received. Your appeal grounds are likely to be that you have a reasonable excuse for failing, or have a near perfect tax compliance record, or some other fact was incorrect. We may need to help you find out exactly which forms or tax payments you failed to deliver on time, as the HMRC notice may not spell this out.