HOLLIS NEWS

HOLLIS AND CO

CHARTERED ACCOUNTANTS

September 2008

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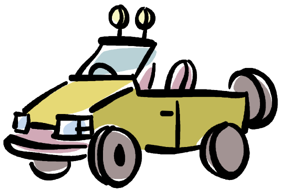
Key differences between a car and a van

Certain pick-up trucks have very high comfort standards these days, which may encourage you to use the business ‘van’ as the main family vehicle. In which case are you taxed on the private use of a van or a car? The distinction is important because the benefit in kind tax charges are far higher for a car than van (see example), and only vans qualify for the new 100% capital allowance when purchased after 1 April 2008 (or 6 April 2008 for unincorporated businesses).



Is it designed to carry goods or people?

Example

The Mazda BT-50 2.5 TD double cab pick-up has a list price of £15,010 and a CO_2 emissions rating of 244g/km. These are taxable benefits that would arise if the vehicle is classed as a car or van in 2008/09.

2008/09	Car	Van
Taxable benefit of private use	£5,235	£3,000
Fuel provide for private journeys	£2,070	£500
Total taxable benefit	£7,305	£3,500

HMRC regard small goods vehicles as vans if the design weight is no more than 3,500kg and they can carry a payload of at least 1 tonne. Larger commercial vehicles are never treated as cars. Smaller vehicles may be treated as cars unless you can show the vehicle is either designed to be a goods vehicle or is not commonly used as a private vehicle and is unsuitable to be used as one.

If the vehicle was constructed primarily to carry goods, it doesn’t matter whether the majority of its use is for private or business journeys, it is what the vehicle was designed to be used for that counts for tax purposes. However, some Tax Inspectors argue that the 100% capital allowance cannot be claimed if the vehicle has private use. This is an incorrect argument. If your business vehicle was designed primarily to carry goods rather than people, then it should be treated as a van. We can help defend your claim for capital allowances if it is challenged.

Stamp Duty Holiday

In an attempt to help those at the bottom of the housing ladder, the Chancellor has announced a temporary increase to £175,000 (from £125,000) in the starting point for Stamp Duty Land Tax on residential property. This tax exemption will apply to contracts completed on and after **3 September 2008**, and before 3 September 2009 where the value of the property is not more than £175,000. If the purchaser occupies the property before the completion date, the occupation date is the effective date for fixing the Stamp Duty charge.

The Stamp Duty holiday does not apply to commercial property, or to property that is partly commercial and partly residential, such as a shop with a flat above.

TAX DEADLINES

7 September
Employers must now use the new PAYE codes and adjust some codes for the new personal allowance.

19 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.

30 September
Final day for English businesses to claim small business rates relief for 2007/08.

1 October
National minimum wage rates increase: adult rate now £5.73. Corporation tax due for year to 31 December 2007.

5 October
Inform HMRC of new sources of income or gains if no Tax Return received for 2007/08.

19 October
Income tax and class 1B NIC due under PAYE Settlement Agreements for 2007/08. PAYE & NIC due for month to 5 October and 2nd quarter 2008/09.

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

31 October
Most tax returns completed on paper must be received by HMRC (exceptions apply). Automatic £100 fine if tax for 2007/08 is unpaid at 31 January 2009. Tax due of up to £2,000 can be collected through 2009/10 PAYE coding.

2 November
Submit forms P46 (car) for quarter ended 5 October.

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

21 November
Electronic payments of PAYE and NIC to reach HMRC for month to 5 Nov.

Tax Tip

Employees who work from home on a regular basis can now claim expenses of up to £3 per week from their employer with no receipts necessary. This is a 50% increase on the 2007/08 figure. This applies to you if you run your own home-based company.

Time to review your pension contributions

You don't have to retire

If you are making regular contributions to a personal pension scheme, you should review how much is actually ending up in the scheme to be invested for your future pension.

A net monthly contribution of £500 made before 6 April 2008 would deliver £641 into the scheme as the pension trustees would reclaim £141 (22% x £641) from HMRC in lieu of the income tax you paid at the basic rate. Now the basic rate of tax is only 20%, your net contribution of £500 delivers only £625 per month into the scheme, as the pension trustees can only reclaim £125 (20% x £625) from HMRC. To maintain the gross input to your pension scheme of £641 per month or £7,692 per year, you need to pay in £512.80 (net) per month or £6,153.60 (net) per tax year. These figures are all before any charges made by the scheme administrators.

If you are employed, rather than self-employed, it may be more tax efficient for your employer to make contributions directly into your pension scheme. The employer's contributions are paid gross, with no national insurance charges, and the employer should receive full tax relief on a reasonable level of the contributions.

If you are already over the pensionable age set for your particular pension scheme, which may be only 50 or 55 years, you can withdraw a tax-free lump sum of 25% of your pension fund. Technically you also need to withdraw a regular pension, but this can be as low as £0, to be increased when you need a regular income. You don't need to retire to start to draw on your pension fund. You can also carry on making tax efficient contributions to other pension schemes until you reach age 75.

There are some tax rules to be aware of when you are both withdrawing and paying into pension schemes in the same tax year, so please talk to us first.

Slack business records could cost you

HMRC say they want to understand and help small businesses, but in reality the penalties for making errors on tax forms are getting tougher. If your tax return (for any tax) submitted after 31 March 2009 is found to be incorrect, a tax penalty will be imposed according to the category of behaviour you fall into:

a. Made a mistake in spite of taking reasonable care: no penalty.
b. Failed to take reasonable care: up to 30% penalty.
c. Made a deliberate inaccuracy: 20% to 70% penalty.
d. Made a deliberate and concealed inaccuracy: 30% to 100% penalty.

You need to be aware of these new penalties now, as the accounting records you keep today will form the basis of your personal or company's tax return submitted in 2009. The penalties charged are a percentage of the tax due and must be paid on top of the actual tax due and the interest on that late paid tax.

The Inspector has some very strong ideas about what is a 'deliberate inaccuracy' which makes you fall into behaviour categories c) or d). For example, if you take money from your company but don't record whether it is say; a wage, dividend, loan or expense payment, that will be a deliberate inaccuracy in your accounting records. Also where your company pays a personal expense on your behalf, but the cost is treated as a business expense that is a deliberate and concealed inaccuracy, leaving you open to a penalty of between 30% and 100% of the tax due.

These new penalties mean that having slack accounting records could leave you wide open to some very serious tax penalties if your business is investigated by HMRC. If you have any doubts about how to treat certain expenses your business incurs, or how to record money you withdraw from the business, please talk to us.

Extra time to complete your VAT return

If your business is VAT registered you know your VAT return must be with HMRC on the last day of the month following the end of the VAT quarter. Sometimes it's a huge rush to meet that deadline, so it is well to know of the tricks that can gain you extra time.

Online gives you extra time

When the due date for the VAT return falls on a weekend or a bank holiday, HMRC say they will exercise their discretion and not record the return as being late as long as it is received on the next working day. However, you can't always rely on the postal system actually delivering the VAT return on the next working day.

If you submit your VAT return over the internet HMRC allow a further seven calendar days in which to complete the return. The downside of doing an online VAT return is that the online form cannot be matched to a cheque payment of VAT. So if you have VAT to pay for the quarter you must pay it by electronic means, such as by BACS or by setting up a direct debit. The direct debit option gives you at least ten more days of use of the VAT receipts. What's more you can submit your VAT return at any time after the end of the quarter but the VAT due is not collected by direct debit until the due date, which includes the extra ten days.

Example

The VAT return for the quarter to 30 September 2008 is due on 31 October 2008, when it is completed on paper. If the VAT return is submitted online the due date is 7 November 2008, which is the same day the BACS payment must reach HMRC. However, where a direct debit has been set up in advance of the VAT return being submitted, the VAT due for the quarter to 30 September 2008 is collected on 10 November 2008.