

What to do if you make a loss

If your sales have dropped and costs have risen, you may be making a loss. This is not a disaster, but you should take action soon to get the best out of the tax system at this difficult time.

VAT

Where your turnover for the last 12 months has dropped below £65,000 you could deregister for VAT. This will not suit all businesses, but if you sell to the public you may gain a competitive advantage by being outside the VAT net.

Loss claims

Once you have a definite loss figure from your accounts you can set this against your profits for the previous year to generate a tax repayment or tax reduction. If the current loss exceeds the previous year's profits you may be able to carry the excess back a further two years, but this depends on when your loss making period ended. You may need to change your accounting period slightly to accelerate the loss relief available. Ask us to help you get your accounts finalised as soon as possible.

Tax payments

If you are self-employed you will be due to make a payment on account for the tax due for 2008/09 by 31 January 2009. Where your accounting period that ends in the year to 5 April 09 will produce a loss, you can opt to reduce your payment on account to nil, but please ask us first as interest will be charged on any tax underpaid.

Where you are having difficulty in paying PAYE, VAT or any other business tax, contact the HMRC Business Payment Support Service to arrange a payment plan before the tax becomes overdue. The number to ring is: **0845 302 1435**, they are open every day.

Tax and pension credits

If your business is your main source of income, a loss means you may be eligible to receive Tax Credits. Ring the Tax Credits helpline on **0845 300 3900** to get a claim form. Tax credits are particularly valuable for families with children under the age of 16 or who are in full-time education, but single individuals can also claim. Your claim can only be backdated up to three months, so don't delay making your claim.

If you are aged 60 or over contact the Pensions Service on **0800 99 1234** to claim Pension Credit. You don't have to be retired to claim this support and it is a much simpler system than Tax Credits, so it's worth claiming.

However your trading loss arose, the best policy is to act quickly to reduce the business tax payments and generate tax refunds. The worst thing you can do is put your head in the sand!



Act Now!

Our tip for 2009

Many people with fixed rate mortgage deals will be concerned about what interest rates may be available when these expire. Try searching the market now, many rates can be booked up to six months in advance. You don't have to wait until the last minute to start looking around.



TAX DEADLINES 2009

1 January

Advisory fuel rates for company cars decrease. Corporation tax due for small companies with year end 31 March 2008.

19 January

PAYE & NIC due for month to 5 January, and for 3rd quarter 2008/09.

31 January

Final instalment of income tax and CGT due for 2007/08, plus first instalment of income tax for 2008/09. Submit personal tax return for 2007/08 or receive £100 fine (capped by tax outstanding). Confirm estimated figures for Tax Credits claim.

1 February

Increased penalties for accounts filed late at Companies House.

2 February

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

19 February

PAYE & NIC due for month to 5 February.

28 February

Any unpaid tax due for 2007/08 attracts automatic 5% surcharge.

19 March

PAYE & NIC due for month to 5 March.

20 March

Electronic payments of PAYE & NIC for month to 5 March must reach HMRC.

31 March

Corporation Tax return due for year end 31 March 2008.

1 April

Capital allowances for cars based on emissions. New HMRC penalty regime for all tax returns submitted from this date.

Tax Tip

Check you are not paying more business rates than you have to. Properties with rateable value of less than £15,000 (£21,500 in London) qualify for discounts under the Small Business Rate Relief Scheme. Where such a property is empty it will be exempt from business rates for the year from 1 April 2009.

Beware of switching to self-employed workers

The first target of your cost-cutting drive may be your payroll, but don't be too hasty. Can you really afford to lose those workers? Where you ask someone to leave your employment and then take them back as a self-employed contractor, you run some serious legal and tax risks.



Consider the tax and legal implications

It is possible to engage someone in a genuine self-employed capacity, but your relationship with that individual must change significantly from the employer/employee role. If you and your worker carry on as normal, with the only change being you pay on

production of an invoice rather than through the payroll, the individual is likely to remain your employee in law. If the Tax Inspector challenges this set-up you will have to pay PAYE and NIC on the amounts paid to the worker, as if those amounts were gross wages.

Interest and penalties will also be due on late paid tax.

For the Tax Inspector to accept your worker as self-employed it must be obvious that:

- the worker runs his own business,

taking on risks involved with correcting work and waiting for payment;

- the worker is not obliged to work for you;
- you are not obliged to use his services; and
- you do not have the right to control exactly what he does.

When you take on self-employed contractors the first step is to have a tax-safe contract and to ensure the conditions of the contract actually apply in practice. We can help you with this, so please talk to us before you change the employment status of any of your workers.

The tax saving season

The period from now until the end of the tax year is a golden time for tax saving. Here are some suggestions that could save tax for you and your family.

- Transfer investments to a low-earning spouse so income from those assets is taxed at a lower tax rate next year.
- Pay up to £2,880 into a pension scheme for your spouse or other relative.
- Bring your spouse or adult child into partnership in your business, to share the profits tax-efficiently in the future.
- Make gifts of up to £3,000 in this

tax year, which will be free of IHT.

- Top up your ISA to the full limit for the year of £7,200 for stocks and shares account, or £3,600 for a cash ISA.
- Where any of your investments are now virtually worthless submit a negligible value claim to crystallise a tax loss.
- When the total capital gains you have made this year exceed £9,600, consider making a disposal at a loss to cover the excess gain.
- Invest in EIS shares to cover a gain made up to three years ago. This defers the gain to a later year where the tax is due at only 18%.

- If you have special non-domicile status review the total amounts of overseas income and gains you have remitted to the UK in the current tax year.

The following actions need to be taken before 31 January 2009 if they are to apply to the tax year that ended on 5 April 2008.

- Where you were both employed and self-employed in the same year reclaim any excess NI paid.
- Charitable donations can be treated as paid in 2007/08 to gain higher rate tax relief for that tax year.

If any of these circumstances apply to you, please talk to us without delay.

Ten tips for coping with the downturn

Many businesses feel their cash resources are squeezed in the current downturn, but there are ways to make your funds stretch further:

1. Encourage your customers to pay quickly, by giving small discounts or by chasing them promptly.
2. Send out invoices for completed work as soon as possible, and ask for stage payments on account for long-term projects.
3. Analyse your stock. Can old stuff be sold off at a discount to generate cash?
4. Review your supplier agreements for on-going services such as: web-support, security, energy, or cleaning. Can you renegotiate these contracts to get a better deal?

5. Talk to your neighbouring businesses. Is there a common landlord you could collectively approach to change the payment terms of all your leases from quarterly in advance to monthly?
6. Ask your staff to reduce their working hours or to accept tax free benefits in place of a proportion of their salary.
7. Link incentives for your sales force to the profit per unit sold, or to the speed with which the customer pays for the order, rather than to the volume of units sold.
8. If you need new equipment, look for second-hand kit. Alternatively investigate leasing or HP agreements. These may be more expensive in the long term, but are

practical solutions where you can't fund the full outlay in one go.

9. Review your VAT position. If you are using the flat rate scheme, is this still providing a bonus for your business now that the flat rates have changed? Where you run several companies, including them all in one VAT group can help you manage VAT payments.
10. Paying VAT and PAYE liabilities online can give you a few more days to pay the amount due.

We can help you draw up a realistic cashflow forecast for your business, which could show you the future is not as grim as you fear.

