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MARCH 2009 NEWSLETTER

Employing a family member

Small businesses quickly reach the stage where they need more hands, so family members get drafted in on a temporary or permanent basis. Paying for this labour is a tax deductible expense, but the Tax Inspector tends to be suspicious where the money remains within the family. You need to show the payment is made entirely for the business, and is not a means to move business profits into the hands of relatives who will pay little tax on that income.

To prove the business case for the family wages follow these guidelines:

1. Pay a commercial rate for the work done. This rate may not be easy to determine, so start with the national minimum wage (NMW) hourly rate applicable to the age of the worker:
   - 22 and over: £5.73
   - 18 to 21: £4.77
   - 16 and 17: £3.53

   If your relative lives at home, and the business is not run as a company, you don't have to pay the NMW rate, but it's a good guide to follow. When the employing business is a company you must pay at least the NMW rate to all workers, except for the company directors who do not have a contract of employment. From 1 April 2009 the Tax Inspector can impose an automatic penalty of up to £5,000 if he finds you have not paid this legal minimum rate to all eligible workers.

2. Record the work done and the hours worked, so you have solid evidence to prove sufficient work was undertaken to justify the wages paid.

3. Pay the wages into a separate bank account in the worker's sole name. The funds must be seen to leave the business bank account, and be received by the worker.

4. Where the weekly wage exceeds the PAYE threshold of £90 per week (for 2008/09), process the payment through the payroll and deduct tax and NI where necessary. We can help you with this.

5. Write down some simple conditions of employment to form the basis of the worker's employment contract. The Business Link website has a template to use:
   http://www.businesslink.gov.uk/Employing_People_files/Written_Statement.pdf

If paid correctly family members' wages are tax deductible.

If you pay a fair wage to a family member for work that is shown to be done, the payment cannot be attacked by the Tax Inspector as tax avoidance, and the payment will be tax deductible for your business.

Tax deadlines

19 March
PAYE & NIC paid by cheque for month to 5 March must reach HMRC.

20 March
Electronic payments for month to 5 March must reach HMRC's account.

31 March
Corporation tax return due for year to 31 March 2008. File accounts at Companies House for companies with year end 31 May 2008. Last day to reclaim overpaid VAT for periods before 4 Dec 1996, and claim input VAT for periods before 1 May 1997.

1 April
Capital allowances for cars restricted where CO_2 emissions exceed 160g/km New tax penalty regime and new HMRC powers in force.

6 April
Use new PAYE tables and codes for 2009/10. Employers with 50 or more employees must file forms P45 and P46 online.

19 April
Cheques must reach HMRC for PAYE & NIC 2008/09 IR35 deemed salary, and month/ quarter to 5 April.

22 April
Budget Day. Tax changes may take effect from today.
Electronic payments for month/ quarter end 5 April must reach HMRC's account.

3 May
Forms P46 (car) for changes in quarter to 5 April to reach HMRC.

19 May
Cheques must reach HMRC for PAYE & NIC due for month to 5 May. PAYE forms P14 and P35 for 2008/09 must be submitted.

22 May
Electronic payments for month end 5 May must reach HMRC's account.

31 May
Give completed form P60 to everyone you employed at 5 April 2009.

News in brief

Please be extra careful when completing your forms P11D this year, as higher penalties apply for errors or omissions on all tax forms submitted after 1 April 2009. A common error is to ignore the benefit of a company paying an employee's mobile phone bill. This payment is only tax free if the mobile phone contract is in the name of the company, rather than in the name of the employee.

Tax Tip

Company cars with CO_2 emissions of over 160g/km will attract less tax relief from 1 April 2009, so you may want to acquire any new cars in this category before that date.

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Higher penalties for late accounts

We aim to get your company's accounts drawn-up and approved within nine months, as this is the deadline for paying any tax due. We need to complete the accounts before we can tell you what corporation tax to pay. Companies House must also receive a set of your company's accounts within 10 months of the year end. Accounts for the year to 30 May 2008 must be delivered by 31 March 2009.

If you don't meet this 10-month deadline you will receive an automatic penalty based on how late the accounts are:

Up to one month	£150
Up to three months	£375
Up to six months	£750
More than six months	£1500

If you are persistently late with your accounts, such that the previous year's accounts were also late, this year's penalty is doubled.

Ensure your accounts are submitted on time

Note the penalty applies whether your company was trading or not during the period, so these penalties will apply to dormant companies and to flat management companies. The penalty is not waived if the accounts are delayed or lost in the post so retaining proof of postage is not a reasonable excuse. There are facilities to submit accounts online to Companies House, but these are not suitable for small companies who wish to file abbreviated accounts.

Accounts for Limited Liability Partnerships (LLPs) must also be filed at Companies House, within 10 months of the year end. Where the accounts for an LLP are filed late, the same penalties apply.

As an advanced warning, the filing period for accounts to be at Companies House is reduced from 10 months to 9 months for accounting periods that commence on or after 6 April 2008. So accounts for the year to 30 April 2009 will have to be at Companies House by 31 January 2010.

It is worth topping up your NIC record?

The amount of state pension you receive on retirement is based on the number of years you have worked and paid national insurance contributions (NICs), called qualifying years. If you reach state retirement age before 6 April 2010, or are already over that age, you will need up to 44 qualifying years to achieve a full state pension. This is pretty difficult to achieve if you have spent some years in full-time study or caring for children. The number of qualifying years needed for a full state pension is therefore dropping to 30 for those who retire on or after 6 April 2010.

The National Insurance office is supposed to inform people when they have not paid enough NICs in a tax year to make it a qualifying year, but for the years 1996/97 to 2001/02 they forgot to do this. Many people received letters telling them they hadn't paid enough NICs for past years, which gave them until **6 April 2009** to top-up their NIC record. This deadline also applies to late paid NICs for the tax year 2002/03.

Top-ups normally have to be paid in the form of voluntary class 3 NICs at £8.10 per week. However, if you were self-employed or living outside the UK for the relevant year, you can pay class 2 NICs at £2.30 per week. Class 4 NICs paid by the self-employed do not count towards the state pension or other benefits, you have to pay class 2 NICs to build up your contribution record.

If you leave topping-up your NIC record until after 6 April 2009 you will have to pay the NICs at £12.05 per week, but you will be able to pay for any six tax years since 1975 where you are missing contributions. Currently you can only top-up the last six tax years back to 2002.

Reduce your business rates

Business rates can be crippling, but many small businesses don't realise they can claim a reduction in their bills as their local authority doesn't advertise the small business rate relief scheme (SBRR). A claim under this scheme can reduce your business rates by over 50% if your building has a rateable value of less than £5,000. Smaller discounts apply for properties with rateable values of up to £15,000 in England, or £21,500 in Greater London.

You need to apply for relief under the SBRR from the billing authority that collects your business rates.

You can now make one application to cover all the years from 2007/08 to 2009/10, and reclaim any excessive business rates paid for those earlier years. Each billing authority has a different claim form, and some forms haven't been updated to show the extended deadline for claims under the SBRR, which is now **30 September 2010** for the current valuation period.

If you own a vacant business property you can claim an exemption from business rates, but only for limited periods. Before 1 April 2008 industrial and warehouse units qualified in full for the exemption while they were vacant, but other commercial properties were only exempt from rates for up to three months. After this three month period a 50% discount applied.

From 1 April 2008 to 31 March 2009, full exemption from rates for industrial properties was limited to six months, and full business rates were charged after this period, subject to any SBRR reductions due. For the year from 1 April 2009 all empty properties with a rateable value of less than £15,000 are fully exempt from business rates. We don't know what exemptions will apply for empty properties from 1 April 2010.