Copson Grandfield

CHARTERED ACCOUNTANTS

NEWSLETTER

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Inside:

Welcome to the Copson Grandfield Newsletter.

Inside you will find topical comments, & more useful tax tips.

Taxpayers 'wait longer' to speak to HMRC

Taxpayers are being forced to wait longer to speak to HMRC, with one in four calls callers hanging up before being connected to an adviser.

According to figures it takes on average four minutes to speak to an adviser on the phone, compared with an average waiting time of one minute and 31 seconds, which was recorded in 2010.

'With average call waiting times almost trebling in the last two years, this is yet more evidence of chaos and incompetence in government,' said Shadow Treasury minister Owen Smith.

He added: 'Families are facing massive cuts to tax credits as a result of the unfair policies of an out of touch Tory-led Government. So it's outrageous that they are waiting longer to get much needed information and advice.'

However, a spokeswoman for HMRC pointed out that the department handles around 60 million calls a year.

'During busy periods, there will be times when customers find it more difficult to get through,' she said. 'We are working hard to improve contact centre service levels and have made good progress.'

HMRC's lines are open between 8am and 8pm on Mondays to Fridays, and from 8am to 4pm on Saturdays.

Child Benefit? Or Expense?

The March Budget announced that child benefit would be withdrawn from households where someone earns at least £50,000, reducing the benefit by 1% for every £100 above the threshold.

This new provision throws up many anomalies. For example, it means that a two-income couple can earn £99,000 a year and keep all their benefit, while a single-income couple on £60,000 lose all theirs.

It also means that a couple can be better off separated than married. If a low-income mother no longer lives with the father she may be able to keep the benefit that would otherwise be lost if they were still together!

New income tax charge
Any excess benefit will be collected via a new income tax charge called “high income child benefit charge”. This is charged on the higher earner. So the mother may still receive the benefit while the father has to pay it all back through additional income tax.

However, there are other implications. It is possible to elect not to receive benefit; however the right to make this election rests solely with the person who receives child benefit, usually the mother, so she alone can decide whether her partner is hit with this new charge.

A person can be liable for this new charge if they are the person receiving child benefit or their “partner”. So someone who moves into a house with a person receiving child benefit could find that they are liable to an additional income tax charge as a result.

Additionally, the person liable to pay the charge needs to notify HMRC, penalties will be imposed if the person forgets or simply did not realise. No consideration seems to have been given where the mother doesn’t tell her partner she is claiming child benefit. You could have a situation where someone believes that the mother is not claiming the benefit when she is.

A final point to note is that the new income tax charge arises when a person is *entitled* to receive child benefit, not when she does receive it. So if the mother simply does not bother to collect the benefit, the income tax charge is still payable. The income tax charge can only be avoided if the mother *elects* not to receive it.

Revenue sends 12,000 penalty notices in error

Around 12,000 taxpayers have been sent penalty notice letters by HM Revenue & Customs (HMRC) in error, warning them of the new £10 daily fines for failing to file their self-assessment tax returns.

However, the taxpayers concerned were originally informed that they no longer needed to fill in a tax return.

A spokesperson for the HMRC said, ‘We can reassure these customers that we know who they are and that this letter is incorrect – they do not owe a penalty’.

The deadline for filing the self-assessment tax return online was 2 February. Under HMRC’s new penalty system, individuals who have not filed their return by 1 May are subject to daily penalties.

Further penalties apply for taxpayers who have still not filed their returns after 6 and 12 months.

Annual Return Deadline... Don’t Forget!

The deadline is looming for UK employers to get their 2011/12 annual returns to HM Revenue & Customs.

Employer Annual Returns, which provide information on employees’ tax and national insurance deductions during the tax year, must be sent online to HMRC by the 19th of May.

HMRC is currently writing this to all employers who haven’t sent their annual return, to remind them to file on time and that, if they file their return late, they will be charged a penalty of £100 per 50 employees for each month, or part month, that the return is outstanding.

Employers who are not registered for online filing need to sign up, as a matter of urgency, for HMRC’s PAYE Online service.

The registration process only takes a few minutes, but employers won't be able file online until they have activated the service using a code that HMRC sends in the post. This can take up to a week to arrive – so don't leave registration until the last minute.

Low Emission Cars

First Year Allowances (FYA's) for businesses purchasing low emission cars have now been extended to 31st March 2015.

In order to qualify for the 100% FYA, the CO2 threshold will reduce from 110g/km to 95g/km from April 2013. This will allow a 100% deduction of the purchase price in the year of purchase, rather than spreading the cost over several years.

From April 2013, the CO2 emissions threshold for the main rate of capital allowances of 18% for business cars will reduce from 160g/km to 130g/km. This will also be the new threshold above which the lease rental restriction applies.

'It has very low emissions - it's impossible to find a garage selling the fuel.'

What was 'ESC C16' and how does its replacement work?

Extra-Statutory Concession (ESC) C16 allowed directors to wind up a solvent company themselves, without appointing a liquidator and pass any surplus funds to the shareholders as capital receipts, rather than dividends. This had the dual benefits of a likely lower tax charge (capital gains tax rather than income tax, especially if Entrepreneurs Relief applied), and also avoiding the costs of appointing a liquidator.

On 1 March 2012 the Enactment of Extra-Statutory Concessions Order 2012 came into force putting ESC C16 onto a legislative, if restrictive, basis. This means that "ESC C16" is no longer a concession that needs to be applied for, it is now automatic and has a £25,000 cap on the amount that can be treated as capital.

This means that if a company's distributions in the winding up are £25,000 or less, "capital treatment" will apply – whereas distributions in excess of £25,000 will be treated as income in the shareholders' hand, leading to an additional tax liability for higher-rate taxpayers.

What if, though, a company distributed all but £25,000 as ordinary dividends, and then applied for dissolution? HMRC could argue that the **intent** to strike off the company pre-dated the actual application; therefore any prior dividends should be taken into account when determining whether the £25,000 limit has been breached. This will no doubt lead to many questions of intent being resolved in the Tribunal.

Another issue is for companies that applied for ESC C16 before 1 March 2012, but have not started or only partially completed their distributions. While it is clear that a company commencing its distributions wholly after 1 March 2012 will fall under the new rules, it is not yet clear what will happen if there are multiple distributions straddling that date, for instance a company distributing £20,000 under ESC C16 in February 2012, and a further £20,000 under the new rules in March 2012.

The Institute of Chartered Accountants in England and Wales have suggested that pre 1 March 2012 distributions should not count towards the £25,000 limit, yet HMRC takes the opposite view.

The replacement for ESC C16 has created its own uncertainties which will take time to resolve. Company owners wishing to take advantage of "capital treatment" will need to ensure that the amount to be distributed in the striking off process does not exceed £25,000.

One way of achieving this, without incurring a tax charge, would be to make pension contributions on behalf of employee-shareholders. Such contributions would need to be made before trading ceased, to ensure that they were deductible in arriving at the company's taxable profits.

The new rules will no doubt raise many issues for shareholders; consequently expert advice should be sought prior to any decisions relating to the dissolution of your company.

Please also note that you can still distribute all of the profits of a company as Capital if you go through a formal winding up procedure using a Licenced Insolvency practitioner. This can be expensive, however if there are sufficient funds to distribute then the tax saving could outweigh the cost. Please speak to us before distributing any funds of this nature.

'Electricians Tax Safe Plan' - one week to register!

The Electricians Tax Safe Plan is a campaign by HM Revenue & Customs, where electricians can disclose any undeclared income and can pay any tax and interest that they owe, while benefiting from lower penalties of only 10 per cent, with a maximum of 20 per cent. Normally, penalties of up to 100 per cent of the tax owed can be charged, with possibility of criminal investigation in the worst cases.

This campaign is aimed at anyone who installs, maintains and tests electrical systems, equipment and appliances – and covers any tax owed. The deadline for electricians to register is **15 May 2012**. Any tax owed needs to be paid by 14 August 2012. Marian Wilson, head of HMRC Campaigns, said:

"Electricians who think they owe tax should get in touch and get their tax affairs in order, we are gathering information from various sources, including online advertising, industry bodies, trade directories, professional 'electrical safety' certificates, trade suppliers and tax records. Our software allows us to use this information to find people who should come forward and use the Electricians Tax Safe Plan."

The Electricians Tax Safe Plan is the second part of a campaign aimed at tradespeople. The first targeted plumbers and heating engineers.

Fourteen plumbers have been arrested so far, and one was jailed for 12 months in March for evading £91,000 of tax and national insurance.

To come forward under the Electricians Tax Safe Plan taxpayers will need to use a form on HMRC's website: www.hmrc.gov.uk/campaigns/index.htm or call HMRC on 0845 601 5041.

If you think that this applies to you, or anyone you know, it is essential that professional advice is taken immediately, please contact us as a matter of urgency if you require any assistance.

Reminder! - Increased Personal Allowance from 6th April 2012

The Personal Allowance (the amount you can earn each year before you pay any Income Tax) has increased from £7475 to £8105, as from 6th April 2012.

If you operate your own PAYE scheme you should be thinking of increasing any director's salary's in order to utilise the new allowances.

If Copson Grandfield currently runs your payroll you should be aware that we have increased the director's salary to £7800 for the 2012/13 year.

VAT Online Filing

Since April 2010 most VAT-registered businesses have been required to submit their VAT Returns online and pay any VAT due electronically. From 1 April 2012 HM Revenue & Customs have extended this requirement to virtually all VAT-registered businesses.

From 1 April 2010, you were required to submit your VAT Returns and pay online if any of the following applied:

- You registered for VAT before 1 April 2010 and had an annual VAT-exclusive turnover of £100,000 or more for the 12 months ended 31 December 2009.
- You registered for VAT on or after 1 April 2010 (regardless of your turnover)

From 1 April 2012, virtually all remaining VAT-registered businesses - those registered for VAT before 1 April 2010 with a VAT-exclusive turnover of less than £100,000 - will **also** have to submit VAT Returns online and pay any VAT due electronically, for all accounting periods starting on or after 1 April 2012.

Accountants are a Joke!

1. When does a person decide to become an accountant? When he realises that he doesn't have the charisma to become an undertaker.
2. Why did the accountant cross the road? To bore the people on the other side.
3. What do Accountants do for fun? Add up the telephone book.