DICKINSONS NEWSLETTER

CHARTERED ACCOUNTANTS

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Reasons to incorporate

Is it time to incorporate?

Do you run your business as a sole-trader or partnership? You could be missing out on the advantages of trading as a limited company.

Tax rates

Corporation tax on small companies' profits is currently charged at 21% and is due to rise to 22% from 1 April 2010. As a sole-trader or partner you will pay income tax on your profits at 20% plus 8% national insurance (NI), and 40%, plus 1% NI on profits above about £43,000. Those NI rates are due to rise to 8.5% and 1.5% from 6 April 2011, and at the same time income above £150,000 will be taxed at 45%.

Extracting the profits

When you run your business through a company the income is trapped within that company until you extract it in the form of a salary, dividend or benefit in kind, such as the provision of a car. These extraction methods can create further tax or NI charges for you or the company, but not if the timing is right. When you take the majority of your income as a dividend plus a minimal salary, keeping your total income for the tax year within the basic rate tax band, you will pay no more income tax or NI.

Where your business has fluctuating profits year on year, you can ensure your personal income remains steady and you are not subject to varying tax bills, by taking the same amount from the company each year. Excess cash can remain within the company until you need it, without generating more tax bills. As a sole-trader you are taxed on all the profits you make in the year, whether or not you extract that income from your business.

Involving other people

You can allow other people to take a small interest in your business by issuing shares in your company, without giving away any significant control. Shares can be used to incentivise employees, although this needs to be done carefully to avoid tax traps.

Tax efficient benefits

Your company can provide you with tax efficient benefits such as pension contributions, child-care vouchers and training. The NI contributions you are credited with as an employee of your own company, (if you pay yourself at least £90 per week), provide entitlement to a wider range of state benefits than the class 2 NI you pay as a sole-trader.

Protection from creditors

A limited company can provide you with protection from creditors of the business, or from litigants who wish to sue the company.

Tax Deadlines

31 March
Corporation Tax return due for year end 31 March 2008. Last day to claim VAT refunds for earlier years.

1 April
Capital allowances for cars based on CO_2 emissions. Corporation tax due for year end 30 June 2008. VAT due on cost of temporary staff.

5 April
Last day to: invest in 2008/09 ISA, make gifts to use 2007/08 IHT allowance and top-up missing NICs for years 1999 to 2003.

6 April
National Insurance Upper Accruals Point applies for certain employees. IHT Nil rate band £325,000. Flat rate of maternity/ paternity pay: £123.06 pw.

19 April
PAYE & NI due on IR35 deemed salary for 2008/09 and for other earnings in month to 5 April, and 4th quarter 2008/09.

22 April
Budget Day. Tax changes may take effect from this day. Electronic payments of PAYE/NIC/CIS must reach HMRC.

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

19 May
PAYE & NI due for month to 5 May. Forms P14 and P35 due.

31 May
Give copies of forms P60 to those employed at 5 April 2009.

6 July
Forms 42 to reach HMRC. Submit P11Ds to HMRC and give copies to relevant employees.

31 July
Tax credit renewal forms must be returned. Pay second instalment 2008/09 income tax.

5 October
If you have not received a Tax Return form you must inform HMRC of any tax liability for 2008/09 that has not been covered by tax deducted at source.

Tax Tip

The annual paper-chase to collect information for the P11D forms can be much reduced if you apply for a 'dispensation' to cover certain expenses. HMRC will agree to this where an independent person checks the expense claims. This could be another employee, or we could do that for you.

Office News

As reported in January, Peter Tucker is running in the London Marathon on 26 April 2009 and his daughter Sam is also running!
For details of how to sponsor this run for the Prostate Cancer Charity please go to www.justgiving.com/petertucker1

Dickinsons Newsletter is written for the general interest of our clients and is not a substitute for professional advice. Please contact Dickinsons before taking any action.

Does the flat rate VAT scheme still work for you?

When you are in the flat rate scheme for small businesses you must apply the relevant flat percentage applicable for your trade sector, to all your total business income each quarter (including VAT charged), and pay the resulting amount as VAT to HMRC.

Your total business income includes all the sales you make, whether they are standard rated, zero rated, or exempt from VAT. Exempt items such as the sale of a second-hand car, or rents from residential property, must be included in your total income figure. This means you effectively pay VAT on the gross receipts of sales on which you have not collected any VAT. HMRC has also recently confirmed that you should include any bank interest received from business bank accounts in your total income figure.

If you are a sole-trader your business income includes your main trade, and any letting income you receive in your sole name, as lettings are regarded as a business for VAT purposes. Lettings undertaken as a partnership, perhaps jointly with your spouse, are not counted as part of your sole-trader business income.

The flat rate scheme provides a real trap for buy-to-let landlords who have joined the scheme because of a separate trade undertaken within the same legal entity (sole-trader, company or partnership). In this case the proceeds from selling a let property must be included as business income and the flat rate should be applied to the total. You can withdraw from the flat rate scheme before you sell a high value item such as a property, but you have to stay out of the scheme for at least 12 months.

Remember the flat rates for most business sectors changed on 1 December 2008, when the standard rate of VAT was reduced to 15%, so check you are using the correct flat rate for your sector.

Flat rates from 1 December 2008
http://www.hmrc.gov.uk/vat/account-flat.htm#6

A golden time to reduce inheritance tax and capital gains

Asset values in nearly all areas are currently low, so now is a good time to move family-owned assets down a generation to escape inheritance tax (IHT).

Let properties, shares, antiques or other assets may be gifted outright to another person and there will be no IHT to pay on the value transferred if the doner survives for seven years after the date of the gift. A gift to a trust may attract an immediate IHT charge.

However, the gift may attract capital gains tax, as the disposal is treated as being made at current market values. Although with market values low, the deemed gain will be smaller now than in previous years. If total gain is less than your annual exemption of £9,600 (for 2008/09) there will be no capital gains tax to pay.

To avoid arguments with HMRC, you should commission an independent valuation of the gifted asset from a qualified valuer. If you owned the asset on 31 March 1982, a value at that date will also be required.

Where a let property is transferred, any sitting tenants will reduce its market value, as a property sold with vacant possession is worth more than an occupied property. However the reduction will depend on the length of the tenancy agreement. No stamp duty will be payable on the transfer if the property is not mortgaged.

Where you have made large capital gains in the previous three years, on which you paid capital gains tax at 20% or more, you could obtain a partial repayment of that tax by moving the gain forward in time. This is done by reinvesting the gain in Enterprise Investment Scheme (EIS) shares. When the EIS shares are disposed of the original gain is taxed at just 18%. A similar deferral of the gain can be achieved where a gain on business assets is reinvested in other business assets within three years. Talk to us about the details of your gain before making any investment decisions.

What can you pay tax-free on redundancy?

Review employment law requirements prior to the redundancy process

If you are considering a redundancy program, first check the employment law requirements. You need to consult with your workers at least 30 days in advance if you are planning to make 20 or more employees redundant over a 90 day period. In this case you also need to notify the Department for Business, Enterprise and Regulatory Reform (BERR) by letter or by using form HR1 available from the Insolvency Service website (see below).

You can pay redundancy pay at any level you wish, you must pay at least the statutory redundancy pay appropriate to the employee's age and length of service, unless the business is already insolvent. There is a tool for working this out on the BERR website.

The tax-free element of redundancy pay is capped at £30,000 per employee but that amount can only include the following elements:

- Statutory redundancy pay
- An ex-gratia payment, which was not included in the employee's employment contract.
- Pay in lieu of notice, which was not provided for in the employee's contract.
- The value of any benefits provided as part of the redundancy package, such as the use of a car.

Even if the employee's contract does not include provision for a lump-sum to be paid on redundancy, the payment will not be tax free if the employee reasonably expected to receive the cash. HMRC will not agree that a payment made on the retirement of an employee can be considered as part of the £30,000 tax-free amount. If you make a payment as a registered pension scheme for your departing employee, this may be tax free if the conditions for making a pension contribution are met.

Statutory redundancy calculator
http://www.berr.gov.uk/cgi-bin/er_feb07_reconner.pl

Form HR1
http://www.insolvency.gov.uk/pdfs/rpforms/hr1.pdf

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