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November 2004

DEADLINES ***deadlines***

1 November
Forms P46 (car) for quarter to 5 October must be with Revenue.
19 November
PAYE & NIC due for month to 5 November.
30 November
Form 42 for reporting shares issued to employees to be submitted.
19 December
PAYE & NIC due for month to 5 December.
22 December
Electronic PAYE payment for month to 5 December to reach Inland Revenue's account.
30 December
File personal tax return for 2003/04 by Internet to have tax due of up to £2,000 included in your 2005/06 PAYE code.
2005
1 January
Corporation tax due for small companies with years ended 31 March 2004.
19 January
PAYE & NIC due for month to 5 January, and for 3rd quarter 2004/05.
31 January
Submit personal tax return for 2003/04, or receive automatic fine of £100. Final income tax and CGT due for 2003/04 year plus first payment on account of tax due for 2004/05.

<u>Tax Tip</u>

Letting a property to tourists on short lets for at least 70 days a year can mean the value of that property escapes Inheritance Tax (IHT) when you die. But to save IHT the holiday lettings must be run as a business, and it is important to make a Will.

Defending family companies

Fight back with board minutes

Sometimes it seems the Inland Revenue is at war with small family companies, the constant changes in the tax rules and new interpretations confuse one and all. The latest battle has been fought in a tax tribunal case concerning Arctic Systems Ltd, where the taxpayer lost on the casting vote of the tribunal chair. This has been widely reported as costing husband and wife companies huge sums in extra tax.

We believe the significance of this case has been exaggerated as the Inland Revenue cannot use the judgement to attack other companies until the appeal against the case has been decided in a higher court. However we are recommending some changes to companies where most of the work is performed by one spouse and the dividends are paid to both, just to be on the safe side.

Directors
If the non-working spouse is not a director of the company he or she should be appointed as one so that all the strategic decisions concerning the business can be taken jointly. It would be useful to have a record of these discussions that may cover matters such as; should the company pitch for a certain contract, what suppliers should it use, and how should the business be marketed. These minutes will help show that both partners are significantly involved in the business, and one cannot be said to 'gift' income to the other.

Share rights
Where one spouse holds preference or 'B' class shares that do not have the same rights as the shares held by the other spouse, the rules of the company can be changed to make both types of shares have equal rights. The Inland Revenue will be unable to argue that one spouse only receives dividends because of the generosity of the other spouse.

Assets
If there is spare cash in the company you could consider buying some equipment or holding the funds through unit trust investments. The value of company shares will then be derived partly form the value of the assets held and not be totally dependant on the future income of the company.

Please come and talk through any planned changes in these areas before taking action.

Silver lining to unpaid debt

If you guarantee a loan to a small business or lend money to it directly, what relief do you get if the business goes under? You can claim the debt written off or paid under guarantee as a capital loss to set against your other capital gains either now or in the future, if two conditions are met:

1. The borrowing business must be resident in the UK and have used the loan capital wholly for the purposes of its trade, which must not be money lending; and
2. The loan has become irrecoverable and the lender has called in the guarantee.

If this applies to you please come and discuss the situation with us.

Extracting money from your letting business

Available capital?

Once you have your money sunk into a property it can be difficult to extract your funds without selling the property and incurring a large capital gains tax bill. However there is a way to do this where the value of the property has increased since you bought it and used it say as your main home, but before you start to let it. The key is how much the property was worth when it became part of your letting business.

The answer is to remortgage the property taking out some of the surplus capital to use as you please. The Inland Revenue previously discouraged this action by arguing that as the increased loan was not used to originally buy or improve the property the interest could not be deducted from the rents received.

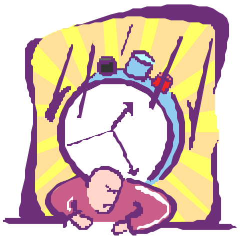
However times have changed and the Revenue now treat a letting business just like any other business as illustrated in the Business Income Manual. As long as you don't take more capital out of the business than is available the interest paid on any mortgage will be deductible. A simple rule of thumb is:

Value of property when was first let
less: loans outstanding = available capital.

Remember all the properties you let in the UK on the same basis are treated as being part of one business, so if you have several properties you can add all the initial capital values together. The Revenue do not permit you to revalue a let property while it is part of the letting business and take out the perceived increase in value as surplus capital.

Inland Revenue manual: Business Income para 45700

When to tell the Taxman?



Don't let deadlines surprise you

Sometimes it is difficult to know exactly when a hobby becomes a business. The turning point is when you start to make a profit out of your hobby or expect to make a profit. This indicates you are taking a commercial view of your hobby/business and are only investing money or effort that will yield a net monetary reward. Once you reach that point you must register the business with the Inland Revenue within three months.

The other crucial date is when your sales in the previous twelve months pass the VAT registration threshold of £58,000 or projected sales for the next month alone will top that figure. At this point you must register with Customs & Excise within 30 days. This is a relatively high sales threshold for a business starting from scratch, but it may be worthwhile registering for VAT from an earlier date if most of your customers are also VAT registered businesses.

If you are trading through a company it is also now a legal requirement to tell the Revenue within three months of starting to trade. When you use a brand new company the Revenue will automatically send out a form to be completed. However if you resume trading through an old dormant company the Revenue will not necessarily know until you send in the next set of accounts.

We can help you complete the registration forms and deal with any National Insurance issues, but you must tell us as soon as possible to avoid any late registration penalties.

Pucker VAT invoices

At the beginning of this year Customs & Excise changed the rules about VAT invoices, but they didn't shout about it so you may not be unaware that you should be doing something different.

The main change is that a VAT invoice should now include the unit price of any 'countable' goods or services. So if you charge by the hour you need to show your hourly rate. However if it is not usual practice in your business sector to show this information you don't have to, as long as your customer doesn't demand it. You no longer have to show the different types of supply on the invoice such as goods and fitting services, but you can include this information if you want to.

If you plan to, or already send your invoices electronically you need to tell Customs & Excise that you are using a non-paper method. The information to be included on an electronic invoice is the same as for a paper one, but you do need to ensure the methods of transmitting and storing electronic invoices are secure so the invoice can not be tampered with. Remember you need to keep copies of all VAT invoices sent or received for at least six years from the end of the accounting period they relate to.

If you receive an invoice that doesn't include the correct information Customs & Excise will refuse to accept it as a valid VAT invoice and you won't be able to claim the VAT back on your purchase. So it helps your customers to issue correct VAT invoices, and it will help you to avoid a penalty should Customs inspect and find your systems lacking.

VAT information sheet:	16/03 VAT invoicing changes
VAT Notice:	700/63 Electronic invoicing