

CLIENT BULLETIN

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RECENT TAX CHANGES

We begin this newsletter with notes on a number of recent tax changes which may affect many of our small business clients:

Two-thirds discount on new computers

The 100 per cent first-year allowance, for a small firm's expenditure on computers, software and 'peripherals' such as printers and scanners, has been extended for a further year, until 31 March 2004.

Where such expenditure is incurred, by a self-employed trader, between 6 April 2003 and 31 March 2004, it will usually reduce his income tax liability by 22 per cent of the cost and his Class 4 National Insurance liability by 8 per cent. If he is claiming income-related Tax Credits (that is to say, more than the basic 'family element' of £545 a year, or £1,090 if there is a new baby) it will also increase his Tax Credits claim by 37 per cent of the cost, making the total Government subsidy 67 per cent of the cost.

While it is never a good idea to spend money just to qualify for a tax allowance, if you need a new computer you should plan to buy it while the 'special offer' is open. A final point is that, if your annual accounting date falls before 31 March, you will enjoy the relief sooner if you make the purchase before your accounting date.

Tax incentives for 'green technology'

100 per cent first-year allowances are also available for a range of 'environmentally-friendly' equipment—the list of qualifying items is not limited to advanced technologies but includes everyday items such as some lighting systems, refrigerated display cabinets and even cold-water plumbing. Indeed, the range is so

wide we cannot give details here, but full information is given on the Government website www.eca.gov.uk.

Construction industry scheme

The Government has confirmed that the new scheme for the construction industry, first proposed in November last year, will not be introduced until April 2005. Under this new scheme, Registration Cards, Certificates and Vouchers will be abolished. Instead, all subcontractors will have to register with the Inland Revenue and a contractor, intending to engage a subcontractor, will have to check with the Revenue (by telephone or e-mail) that the individual or company is properly registered. This will be known as 'verification' and the Revenue will, as part of the verification process, state whether payments to the subcontractor should be made gross or net of tax.

The contractor will be required to give the subcontractor a payment advice with every payment, and to make monthly or quarterly Returns to the Inland Revenue.

Professional firms and other partnerships

The Finance Act includes changes to the legislation governing life assurance. To ensure that no unexpected tax charges will arise, group life policies of the type often used by partnerships for succession planning need to be reviewed before the end of this tax year (5 April 2004). Your insurance broker, or the life assurance company itself should be able to advise you.

CGT Taper Relief and business assets

The capital gains tax taper relief is much more generous for business than for non-business assets. Unfortunately, the definition of a 'business asset' is not only complex, but it changes from time to time. For example, from 6 April 2004 land or buildings let to a sole trader or partnership will qualify as a 'business asset'.

When an asset changes from being a non-business to a business asset (either because of a change in the law, or because of a change in the use to which the asset is put), some complex calculations have to be made, the effect of which is that full business taper relief is not available until ten years after the asset became a business asset.

In many cases it is possible to shorten that period to two years, or a little longer, by taking appropriate tax planning steps when the asset becomes a business asset, or soon after. If you have any assets which have become business assets, or which are likely in the future to become business assets, please contact us for further details.

VAT Amnesty

There is a limited amnesty for traders who failed to register for VAT when their annual turnover reached the registration threshold (currently £56,000). If they register before the end of September, they will not be charged the usual late

registration penalty. They will still have to pay the VAT they would have paid, had they registered as soon as they were liable to do so, but they will be allowed to pay by instalments.

It sometimes happens that turnover creeps over the registration threshold without the proprietor noticing, because the reference period is the last twelve months (now, in August, the year to 31 July 2003), not the trader's usual accounting year. If you have any doubts about your VAT registration position, please discuss them with us well before the VAT amnesty closes at the end of September.

Money for good causes

From April 2004, people will be able to donate their tax repayment direct to a charity, by ticking a box on their Tax Return. Any charity is able to join the scheme, so hopefully it will raise funds for small, local charities as well as the better-known national appeals.

However, to join the scheme the charity must submit an application to the Inland Revenue *no later than 30 September 2003*. The application form is very simple and may be downloaded from www.inlandrevenue.gov.uk/charities/charity_flyer_4.pdf, or obtained from Inland Revenue Charities, SA-Donate, St John's House, Merton Road, Bootle, Merseyside L69 9BB. If you are a keen supporter of a small charity, suggest to the Treasurer that you should register for the scheme and advertise the 'Tax Return donation' facility locally.

TAX CREDITS

There are continuing problems with the new Child Tax Credit and Working Tax Credit, which are likely to have affected many clients, their families and employees. It is not clear whether these problems were caused by the Inland Revenue underestimating the volume of work involved, or by their failing to put in place sufficiently robust computer and administrative systems. but the outcome has certainly been long delays in dealing with some Tax Credit applications, even longer delays in responding to written enquiries, and a telephone 'helpline' which is useless because it is permanently jammed with calls from other anxious enquirers.

This has inevitably affected the service we can provide for clients. Not only is it very difficult to chase up delayed claims, it is not unknown for the Revenue simply to return a Tax Credit application form, which has been fully completed, with the bald comment that it must be resubmitted 'because you have not provided all the information requested'. What information is still required is not specified; it is of course impossible to get through to the 'Helpline'; and letters are not answered promptly, if at all.

The Inland Revenue have attempted to solve the problems by recruiting 700 extra staff, but we hear that many of these are University students recruited to work

evening shifts at the call centres, after only minimal training.

Very worryingly, it also appears that a high proportion of the Tax Credit payments made by the Inland Revenue (or authorised by them to be made by employers) are just plain wrong. Many Tax Credit Awards have been made for amounts which are much less, or much more, than the amount due. Even if a Tax Credit Award notice has been issued — and in many cases the Inland Revenue are now paying Tax Credits without issuing a formal Award — the notice simply states the amount payable, without showing how it was calculated, so it is difficult for claimants to check the figures and most will be unaware of any mistakes — unless the error is obvious just because it is so large.

If the Tax Credits paid are too low, the claimants may suffer hardship. If the payments are too high, claimants will have to pay the excess back — and so may suffer hardship later. It is therefore important that Awards are checked, so if you receive, or have received, a Tax Credit Award, or begin to receive payments, and are not sure that the figures are correct, please let us verify them for you.

Have you claimed for your beautiful baby?

There is a special ‘baby tax credit’ for families with a new baby. For the tax year 2002/03 it took the form of a £520 reduction in the parents’ income tax liability; from 6 April 2003 it takes the form of an addition to the Child Tax Credit.

It has been reported that two-thirds of eligible families have not claimed the tax reduction for 2002/03, possibly because it was not clearly signposted on the Tax Return form. The reduction is available if the baby was born between 6 April 2002 and 5 April 2003, both days inclusive. Because the income tax rules apply, claims may be made until 31 January 2009.

By contrast, the Tax Credit is an addition to the weekly or monthly Child Tax Credit payment, until the baby is a year old. Thus if the baby was born (say) on 1 January 2003, it will create a tax allowance for 2002/03 *and* a Tax Credit entitlement from 6 April to 31 December 2003. However, Tax Credit claims cannot be backdated for more than three months, so time is of the essence.

Pension Credit the next disaster?

In theory, the new Pension Credit - which is to be administered by the Department for Work and Pensions (DWP), not the Inland Revenue is to be introduced on 6 October 2003. But in practice, the DWP has already admitted that they will be unable to process applications from every eligible pensioner by that date. Instead, existing Minimum Income Guarantee (MIG) claimants will be transferred automatically to Pension Credit in October, and by September ‘claim packs’ will have been sent to approximately one-fifth of other pensioners. The remainder will be invited to claim later, under a rolling programme running through to June 2004, though their payments will then be backdated to ()ctober 2003.

The Pension Credit will be income-related. The rules are quite complex, but broadly speaking, some Credit will be due if a single pensioner's income is less than £102.10 a week (age 60 to 64) or £139.10 (aged 65 or more); or a couple's joint income is less than £155.80 (£203.80 if either is aged 65 or more). Higher limits apply where the claimant is severely disabled, or cares for a severely disabled person, or is still paying mortgage interest on his home. The Government estimates that nearly half of those aged 60 or more will qualify for some Pension Credit.

At present, a substantial number of older people with very small pensions do not qualify for the Minimum Income Guarantee, because MIG is not payable to people with savings of £12,000 or more. They may become entitled to worthwhile amounts of Pension Credit from October, because the capital cut-off will no longer apply. They need not wait until they receive their 'claim packs', as they can claim now by telephoning the DWP on 0800 99 1234 (8am to 8pm, Monday to Friday and 9am to 1pm Saturday). The call is free and the operator will take down details to complete a form, which will then be sent to the claimant for signature. When calling, the claimant will need to have to hand his or her National Insurance number, and that of any spouse or partner, and details of pensions, any current earnings, and any savings or investments.

..... AND FINALLY

Although the Inland Revenue are having trouble paying out Tax Credits, they are continuing to improve the collection side of their operations. Their computer system will now block an income tax repayment if there are unpaid Class 2 National Insurance contributions. This can have the effect of delaying a tax repayment that is far larger than the outstanding Class 2 contributions and so is another reason for keeping Class 2 contributions up-to-date, preferably by using the Direct Debit facility.

We understand that it is also their intention to block tax repayments where Tax Credits have been overpaid. Tax Credit overpayments may also be clawed back from future Tax Credit awards, or through the PAYE system.

This client bulletin deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.