# CLIENT BULLETIN

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**RETURN OF THE WEASEL**

Last year the Inland Revenue sent out thousands of weasel-worded letters to self-employed people and small business proprietors, suggesting that there might be something wrong with their Tax Returns for earlier years and recommending that they took extra care when compiling their figures for the current year.

Although the letters referred to 'a risk review of Returns' and claimed that the Revenue had 'identified an aspect of the Self-Employed pages of your Return which may need particular attention', in fact the letters were sent out automatically wherever the Inland Revenue's computer identified certain 'triggers', such as a substantial claim for 'travel and subsistence' or for 'advertising, promotion and entertainment'.

Despite the strongest possible protests from both trade organisations and the accountancy institutes, the Revenue are insisting on repeating the exercise this year. The letters will be sent to computer-selected traders with an annual turnover up to £150,000 a year, whether or not an accountant is known to be acting.

One reason we believe it is unfair for the Revenue to be issuing these letters is that there can be a simple explanation for Tax Return entries which look odd. For example, last year the computer selected everybody who did not show an add-back for private motoring. If there was a simple explanation – for example, that the only business vehicle was a concrete mixer lorry – good practice is to show that in the 'white space' on the Tax Return. But the Revenue didn't bother to read the white space notes before sending out the letters, and they don't intend to read the notes this year, either.

We would emphasise two points to clients. The first is that receipt of a 'weasel' letter does **not** mark the beginning of a formal Inland Revenue Enquiry – and it is not even an indication that the Revenue intends to open an Enquiry. All it means is that the Revenue are shaking the tree again in the hope that something will fall out – that a percentage of traders will have a guilty conscience about something and decide to confess.

The second point is that you should forward the letter to us immediately (the Revenue say that they are going to send copy letters to accountants, but it won't always happen) and that you should **not** contact the Revenue yourself. We are paid to deal with the Inland Revenue for you and too many cooks .....

## THE SPRING BUDGET

The Chancellor's Spring Budget Statement contained few surprises. Consultation is continuing on possible changes to small business taxation – the Government is known to regret having created a situation in which some traders can save a substantial amount of tax by incorporating their businesses – but no conclusions have yet been announced. There will be some mindbendingly complex legislation to block some fiendishly cunning tax schemes mainly used by banks and large corporations, but very little that is likely to affect the average small business, apart from some relatively minor changes to the taxation of employees.

### Payment of Working Tax Credit

Perhaps the best news for employers is that they will no longer be required to pay Working Tax Credit to their employees. Direct payment by the Inland Revenue will be phased in between November 2005 and April 2006. Employers' involvement in the process will be limited to sending one explanatory letter to each affected employee.

### Computers for employees

It is Government policy to encourage employers to make computers available to employees for home use. The objective is to help both employees and their families become computer-literate, and to ensure that they have a computer available to support other educational and training programmes.

To this end, the annual benefit-in-kind where an employer lends a computer to an employee has been exempt from tax since 1999. On the back of this tax exemption, the Departments of Trade and Industry and for Education and Skills have been promoting the 'Home Computing Initiative' or HCI, under which the employer buys or leases a new computer, lends it to an employee for (say) three years, and then sells it to him at its then current value, which will usually be very low.

Salary sacrifice arrangements are permitted, so that the employee can 'pay' for the computer by accepting a lower salary for three years. The benefit then is that the employee enjoys an effective 'discount' equal to the income tax and National Insurance contributions that would otherwise have been paid on the salary forgone.

The official literature said that no tax charge would arise under this arrangement. Unfortunately, that was not true, as tax was payable on the difference between the price paid by the employee when the computer was made over to him at the end of the loan period and its notional value calculated in accordance with special tax rules.

In the Budget, the Chancellor announced that the law would be changed to ensure that no tax charge arises where a computer, previously loaned to an employee, is sold to him for a price at least equal to its current market value.

**Bicycles for employees**

Similarly, it is Government policy to encourage employers to lend their employees bicycles for use for home-to-work travel – the same problem has arisen and the same solution implemented.

**Outplacement help for redundant employees**

On general principles, outplacement help for redundant employees (for example, advice and retraining) is taxable as a benefit-in-kind. Hitherto, there has been an exemption for counselling and for full-time training courses lasting no more than a year, but only where the recipient worked full-time. From 6 April 2005, this exemption is extended to part-time employees, to part-time training courses, and to courses (full- or part-time) lasting up to two years.

**Sandwich course students**

By concession, payments by an employer to an employee who is attending a full-time course at a technical college or university, for at least twenty weeks a year, are exempt from tax. With effect for the 2005/06 academic year (beginning 1 September 2005) the maximum qualifying payment will rise from £7,000 to £15,000 a year (and *pro rata* where full-time attendance is for less than a year). In addition, from September 2005 all such payments will also be exempt from National Insurance contributions (at present, NIC liability depends on the exact circumstances of the case).

**VAT: Scale charges where fuel is provided for private motoring**

With effect for your VAT quarter beginning 1 May, I June or 1 July 2005 (or from 1 May 2005 if you make monthly Returns), the scale charges for fuel used for private motoring will rise by approximately 6 per cent for petrol and 9 per cent for diesel, making the VAT payable per car:

| | *Quarterly Returns* | | *Monthly Returns* | |
|---|---|---|---|---|
| | *Petrol* | *Diesel* | *Petrol* | *Diesel* |
| | £ | £ | £ | £ |
| Up to 1,400cc | 36.64 | 35.15 | 12.21 | 11.62 |
| 1,401 to 2,000cc | 46.32 | 35.15 | 15.34 | 11.62 |
| Over 2,000cc | 68.06 | 44.68 | 22.64 | 14.89 |

**National Minimum Wage**

Although this was not really a Budget matter, the Chancellor also announced that the National Minimum Wage (NMW) will rise from £4.85 to £5.05 an hour, with effect from 1 October 2005, and (subject to final confirmation) to £5.35 in October 2006. The youth rate (for employees aged 18 to 21 inclusive) will rise from £4.10 to £4.25 an hour in October 2005, and to £4.45 in October 2006. However, there appear to be no plans to increase the current rate of £3.00 an hour for 16- and 17-year-olds or to reduce the qualifying age for the adult rate (even though a reduction to age 21 has been recommended by the Low Pay Commission).

Businesses employing homeworkers and outworkers should also remember that, from 6 April 2005, the piecework rates for employees with no fixed working hours should be set to allow an average worker to earn 120% of the National Minimum Wage.

## OTHER CHANGES AFFECTING EMPLOYERS

Some previously-announced changes affecting employers and employees also came into force on 6 April 2005:

### Minimum wage to frank National Insurance record

The minimum weekly wage that will frank an employee's National Insurance record for pension and benefit purposes is £82 a week for 2005/06. The nil rate contribution band (the range of earnings on which no contributions are actually payable, but which frank the employee's National Insurance record) is £82 to £94 a week (£356 to £408 a month). This is, of course, particularly important to remember when family members work part-time in the business.

### Private use of company vans

For 2005/06 there will be no benefit-in-kind charge where private use of a company van, other than for home-to-work travel, is insignificant. In appropriate cases, Coding Notices should be checked to ensure the benefit-in-kind has been removed.

### Employer-subsidised childcare

New tax and National Insurance rules for employer-subsidised childcare came into force on 6 April 2005. In general, these are more generous than the old, but in one respect they are stricter. For 2004/05 and earlier years, childcare vouchers were exempt from National Insurance contributions. For 2005/06 and future years, the exemption is limited to £50 per week, per employee (*not* per child). If you wish to subsidise an employee's childcare costs, we suggest that you discuss the options with us, so that we can identify the most tax-effective solution for your circumstances.

## ZERO TOLERANCE

Employers are required to submit their end-of-year Returns for 2004/05 to reach the Inland Revenue by 19 May 2005. These days many employers make their Returns electronically, but the Inland Revenue have made it clear (in the ironically-named 'Employer's Help Book E10') that where an employer submits paper Returns (on Forms P14 and P35), these will be rejected for the smallest imperfection – for example, if entries have been amended using correcting fluid or adhesive labels, or if the forms are stapled together, or if the Forms P14 have not been split correctly, or .....

If the employer does not correct his heinous error by 19 May, he will be subject to a late filing penalty. The penalty can of course be appealed against and it will be interesting to see whether the Appeal Commissioners uphold the Revenue's 'zero tolerance' policy.

*This newsletter 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.*