



Summer Newsletter

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New penalties for late payment of PAYE & NI

From May 2010 HMRC has begun to charge penalties for the late payment of monthly/quarterly PAYE & NI. The penalties will be charged on a sliding scale; there will be no penalty for the first late payment in a tax year but a second late payment will incur a penalty of 1% of the tax paid late and this will increase to 4% depending on how many late payments are made. There is also an additional penalty of 5% of the tax due if any payment remains overdue by more than 6 months and another 5% if it's still outstanding for over a year.

VAT payments by cheque

From April 2010 all cheque payments sent by post will be treated as received on the date when cleared funds reach HMRC's bank account. This is a change to HMRC policy as date of receipt of the cheque has previously been treated as date of receipt. HMRC have indicated that this is to encourage electronic payment.

Budget Highlights

Last week the new Chancellor delivered his first budget. This budget will lead to the second Finance Act 2010 and in the Autumn, after further consultations, there will be a third Finance Act 2010. The last time there were 3 Finance Acts in one year was 1915, so there is much change on the way! One issue still to be reviewed is the IR35 legislation. We are including below some of the main points of this budget:

VAT

The VAT rate will increase from 17.5% to 20% on 4 January 2011. Anti-forestalling rules will be introduced to prevent acceleration of supplies. New penalties will also be introduced for late VAT returns and late payment of tax. A penalty of £100 will be introduced for late filing and payment which will increase for persistent failure up to a 5% surcharge. In addition there may be penalties of between 2% and 5% of the tax due. A date for implementation of these penalties is yet to be announced.

Capital Gains Tax

For basic rate tax payers, the capital gains tax for non-business assets will remain at 18% but for higher rate taxpayers, paying tax at either 40% or 50%, the rate increases to 28% from 23 June 2010.

Taxpayers will pay 28% capital gains tax if total income and gains after losses, personal allowances and annual exemptions exceeds the basic rate tax limit. Trusts will pay tax at 28%.

Entrepreneurs' Relief

The lifetime limit of £2 million will increase to £5 million from 23 June 2010. Gains on assets which qualify for entrepreneurs' relief will continue to be taxed at the effective rate of 10%.

Corporation tax

From 1 April 2011, corporation tax rates are set to fall.

The small companies rate will reduce by 1 % from 21% to 20%.

The main corporation tax rate will be reduced to 27% on 1 April 2011. The rate will then continue to reduce by 1% each year until 2014/15 when the rate will be 24%.

A programme of reform of the corporate tax system is due in the Autumn.

Capital allowances

The rates of capital allowances for businesses investing in plant and machinery will be reducing from April 2012 as follows:

From 20% to 18% a year for the main rate pool

From 10% to 8% a year for the special rate pool

The annual investment allowance which provides 100% relief on most plant and machinery (but not cars) will be reduced from £100,000 to £25,000 a year from April 2012.

Income tax

The basic personal allowance will increase by £1,000 to £7,475 from 6 April 2011. This will benefit basic rate taxpayers by up to £200. However, there are plans to reduce the higher rate threshold which will mean that higher rate tax payers taxed at 40% or more will not benefit. Further announcements are due to be made after September.

The phased withdrawal of the personal allowance for individuals with income over £100,000 and the 50% tax rate for income exceeding £150,000 remain.

National Insurance

The increase in National Insurance of 1% for employees, employers and the self-employed will come into force on 6 April 2011 as previously announced.

The threshold at which employers start to pay Class 1 NI on employees' earnings is to be increased by an extra £21 per week above indexation.

Furnished Holiday Lets

The Labour Government proposals to abolish the special rules have been dropped and the existing rules will remain in place until at least 6 April 2011. However the current rules (which may include the rules on losses and number of days let) are to be reviewed.

Tax credits


There have been a number of changes announced regarding the eligibility criteria for tax credits. Only families with annual incomes of less than £40,000 will be eligible for child and working tax credits from 6 April 2011.

Tax credits deadline

Tax credit renewal claims must be made by 31 July. You cannot renew until you have received your renewal pack so if you haven't received it yet call HMRC on 0845 300 3900 and ask for a duplicate. Even if you think your income level may be too high it may still be worth making a protective claim in case your income reduces substantially or stops, as your right to tax credits depends on your level of income for the whole tax year until 5 April 2011.

Paying Self Assessment tax by Budget Payment Plan

HMRC have introduced a Budget Payment Plan which allows you to make voluntary regular payments towards your future tax bill. It is available to anyone whose payments are up to date and who pays by direct debit. The plan is flexible and you can decide the amount of the regular payment, change your payments, suspend payments or cancel the plan at any time.

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Expenses and benefits

The MPs' expenses scandal revealed weak guidelines and it is feared that many businesses are also falling behind when it comes to their own expenses policies. It may be time to review the expenses procedures in your own company to be sure that they are adequate.

Furthermore, the question of notification to HMRC on form P11D arises, together with the Class 1A NI charge for certain benefits. Forms P11D must reach HMRC by 6 July following the tax year to which they relate and the deadline for paying Class 1A NI is 19 July.

Benefits which do not need to be reported include:

- One mobile phone provided to an employee
- Some childcare vouchers—but the rules are changing
- Annual health screening and medical check-up