

Welcome...

To August's Tax Tips & News, our newsletter designed to bring you tax tips and news to keep you one step ahead of the taxman.

If you need further assistance just let us know or you can send us a question for our [Question and Answer Section](#).

We are committed to ensuring all our clients don't pay a penny more in tax than is necessary.

Please contact us for advice in your own specific circumstances. **We're here to help!**

August 2010

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Withdrawal of CIS Gross Payment Status

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Every month the Taxman's computer reviews the tax records for a number of subcontractors in the **Construction Industry Scheme (CIS)** who qualify for gross payment status. This means that tax does not have to be deducted from payments made by contractors. Every subcontractor's tax record should be reviewed about once a year, but it is not possible to predict exactly when this review may be undertaken.

If the tax compliance record is regarded as unsatisfactory, taking into account the acceptable minor breaches, the computer automatically issues a letter to the subcontractor informing them that their gross payment status will be withdrawn in 90 days. This is serious stuff as the withdrawal of gross payment status can mean the **loss of large contracts**, as well as **cash-flow difficulties**.

If you have recently had problems paying your tax on time, you may have agreed a **time to pay arrangement** with the Tax Office. Where the tax payments are made as per the agreed schedule, the Taxman should not issue penalties for late paid tax. Unfortunately the computer that performs the CIS review of tax records knows nothing about your time to pay arrangement, so any late payment of tax within the review period is marked as a failure. This can cause a notice of withdrawal of gross payment status.

You need to appeal in writing against that notice within 30 days of it being issued. Include in your appeal the following details:

- the date you or your firm requested time to pay from the Tax Office;
- which tax debts are included in the arrangement; and
- the agreed payment amounts and dates.

Your gross payment status should be restored if there are no other late tax payments or late tax forms delivered in the review period.

Business Assurance Visits

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If the Taxman suggests he should visit your business as part of their Business Assurance programme, should you agree? The answer is, almost certainly not!

The Business Assurance programme involves Tax Officers offering to visit new businesses to help them understand what sort of business records they should be keeping. During the visit the Tax Officer will ask the business owner how they record sales, purchases and expenses, how they handle cash, and how they calculate and record drawings or remuneration.

These questions amount to a tax compliance check and any answers you give will be recorded by the Tax Officer. What may not be recorded is any advice given by the Tax Officer in answer to your own questions. For example, you may ask: 'Is this expense tax allowable?' If the tax officer gives the wrong answer, and you act on it, you could be penalised in the future for getting it wrong.

Penalties for errors in tax returns are now dependent on your behaviour, so it is crucial that the Taxman does not form the impression that you have a careless approach to keeping business records. If you are offered a business assurance visit, either politely decline, or ask us to be present to ensure you are not tricked into saying something that may incriminate you in a future tax investigation. For any advice you need, you should talk to us, not the Taxman!

VAT on Google Adwords?

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Google Adwords is a popular form of marketing for getting your website onto the Google search results page. It is an international service for VAT purposes as it is sold to UK businesses by Google Ireland Ltd from Dublin.

If you are a UK business you should not be charged VAT on the cost of the adwords service, as it is subject to the **reverse charge regulations**. This means, if you are VAT registered you need to add VAT at the standard rate applying in the UK to the adwords cost and add the gross cost to both your purchases and sales for the period. You pay the VAT due as if you had made the sale, and you reclaim the VAT due on your purchase of the same service. The net effect for a VAT registered business should be zero, unless it makes VAT exempt sales.

Certain accounting software programmes need some tweaks to cope with the reverse charge mechanism. Please ask us to check your system if you are not confident that it is processing the VAT on adwords costs correctly.

If you have been charged Irish VAT at 21% on your Google adwords, this may be because Google Ireland Ltd has recorded you as being a personal customer, not a business. If you are a UK business, not necessarily VAT registered, you can **reclaim** this erroneously charged VAT from Google Ireland Ltd. You cannot reclaim this VAT through the international VAT refunds service operated by HMRC as the VAT should not have been charged by Google in the first place. You should not include the Irish VAT on your UK VAT return as it is not correctly charged VAT.

Please contact us if you want further advice about VAT on international services.

Deferring a Capital Gain and EIS

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We are now in a new regime for Capital Gains Tax where the total of your gains and your taxable income for the year influences the rate of Capital Gains Tax (CGT) you pay. This means you could pay CGT at 28% in tax years where your income and gains are high, but only 18% on gains in years where your income is low.

If you have made a gain this year that will be taxed at 28% you could defer it to a later tax year when you might pay tax at 18%. Alternatively the deferred gain may be taxed at 0% as it may be covered by your annual exemption in the future period.

One way to defer any capital gain is by subscribing for **Enterprise Investment Scheme** (EIS) shares. The shares must be subscribed for in the period that starts one year before the date you made the gain and ending three years after making the gain.

You only need to reinvest the amount of the gain you want to defer, not the full net proceeds from your disposal, or the full amount of the gain. You can leave some of the gain in charge in the current tax year if that part carries CGT at 18%, or it is covered by your annual exemption.

The deferred gain comes back into charge to CGT when you dispose of the EIS shares, and this may be done gradually over many tax years. This spreads out the gain, so only small parts are taxed in each year, and you can therefore avoid the 28% rate of CGT.

One drawback is that you must pay any CGT due for 2010/11 by 31 January 2012, which is well within the period in which you can to subscribe for EIS shares. You may need to pay the 2010/11 CGT on time, then reclaim the tax once you have received your EIS shares and your deferral claim has been processed.

Do be aware that EIS shares are risky investments and they can only be issued by unquoted companies.

August Question and Answer Section

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Q. I work as a self-employed decorator. If I transfer my business to a new company will I be able to take advantage of the NIC holiday announced in the last Budget?



A. The full details of how the NIC holiday scheme will operate have not yet been released, but we do know it won't apply to businesses established in London, the South East or East regions of England. However, even if you are based outside of those areas, we also know the scheme will only apply to new businesses set up after 21 June 2010. 'New' will be defined as a new economic activity, so where an existing sole-trader business such as yours, is transferred to a new company the business is unlikely to qualify as 'new' for the NIC holiday scheme.

Q. My brother and sister in law each lent my company £10,000 some years ago. The company is still trading, but it is unlikely to ever be able to repay those loans. If I write off the debt in the company accounts will my relatives be able to claim tax relief for the irrecoverable loans?

A. Lenders in this position can sometimes treat the irrecoverable loan as a capital loss, which can be set against capital gains, but not against income. However, the Taxman will only grant this tax relief if the loan really is irrecoverable. This is taken as read where the business has gone broke. While the company is still trading there is a possibility that the money could be repaid, even if the amounts have been written off in the company accounts. The Taxman will need some considerable evidence from the company's bankers and other sources, such as Court judgements, to be convinced that the loans cannot be repaid by a trading company.

Q. I have volunteered for redundancy at the age of 59 and expect to receive a pay-off worth £60,000. The first £30,000 will be paid free of tax, but is there anything I can do to reduce the 40% tax I will be charged on the balance?

A. You could ask your employer to divert some of the redundancy payment into a registered personal pension scheme for you. You will not be taxed on this pension contribution as long as your total income for this tax year is not more than £130,000. You also need to have income below this level in the previous two tax years. If your employer is not willing to make the pension contribution, you could make the contribution yourself, but be sure to make the payment in the same tax year in which you receive the redundancy payment. Your pension contribution will be treated as being made net of 20% tax and you can reclaim a further 20% tax relief through your tax return. In both cases, as you are already over 55, you can withdraw 25% of the pension fund value as a tax free lump sum immediately. You should take advice from a pensions expert before embarking on any investment in pensions.

August Key Tax Dates

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2 Last day for car change notifications in the quarter to 5 July - Use P46 Car



19/22 PAYE/NIC, student loan and CIS deductions due for month to 5/8/2010

Need Help?

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Please contact us if we can help you with these or any other tax or accounts matters.



In addition, if there's anyone else who you think would benefit from the newsletter, please forward the email to them or ask them to contact us to be added to the newsletter list.

New Clients Welcome

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If you are not already a client and are interested in becoming one, we would love to come to meet with you to discuss how we can help and provide you with a competitive quote for our services.



All new client consultations are provided free of charge and without obligation.

About Us

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Leavitt Walmsley Associates are based in Cheshire, offering local business owners and individuals a wide range of services.

All clients receive fixed fee and work delivered on time. Visit our website <http://www.lwaltd.com> for more information.

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