



Welcome...

To September'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!**

September 2010

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Cycle to Work Scheme Update

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The cycle to work scheme allows employers to lend cycles to their employees tax-free, and in some cases the employees can purchase the cycle at the end of the loan period. However, the Taxman is looking carefully at abuses of this scheme...

- Some employers treat the loan of the cycle to employee as part of the employee's salary and reduce their cash wages proportionately. This is known as a **salary sacrifice**, and the arrangement must be agreed with the relevant employee in advance. If cycles are only provided to employees under salary sacrifice arrangements the whole cycle to work scheme may lose its tax exemption, as some employees cannot have their cash pay reduced due the National Minimum Wage rate rules.

- It is quite common for the employee to purchase the cycle from the employer at the end of the loan period. However, the Taxman says that where there is an **automatic transfer** of the cycle to the employee at the end of the loan period, the tax exemption for the cycle to work scheme is also lost.

- The second problem with the transfer of the cycle to the employee is how to establish the **market value** of the cycle at that time. If the employee pays the employer less than the market value for the cycle the difference is treated as employment income subject to tax and NI. As a top of the range sporting cycle can cost several thousand, the second hand value can be quite significant!

The Tax Office have produced a table to help employers value second hand cycles: <http://www.hmrc.gov.uk/manuals/eimanual/EIM21667a.htm>

Finally, remember to qualify as a tax free cycle, it should be used mainly by the employee for travelling to work and on work related business, although other personal use is permitted. An expensive touring cycle that is never used for work related journeys will not qualify for the tax exemption.

Dividend Planning for Tax Credits

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It is sometimes suggested that Child and Working Tax Credit awards can be maximised if the family's

income is low in one year and high in the next year. The Tax Credit award for the first low year is substantial, and the award is not changed for the second year if the income increase is within £25,000 of the total income for the first year. However, note that this '**income disregard**' of £25,000 is being reduced to £10,000 from April 2011.

This 'lumpy' income pattern can be achieved if you run your own company and take dividends from that company only every other tax year. In practice there are a number of difficulties as follows:

- Your family may need the cash. If income is not taken as dividends, it will need to be extracted in another form.
- If you take a loan from your company this can create tax charges for you and your company.
- If you deliberately deprive yourself of income to increase a Tax Credit award you can be deemed to receive that income in the appropriate tax year.

So please talk to us before varying your income for tax credit purposes.

Maximum NI Contributions

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Before the General Election NI was referred to as a 'tax on jobs', and essentially it is a tax, as once you have sufficient NI contributions to qualify for state benefits any extra payments will not entitle you to further benefits.

If you have paid in excess of the maximum NI contributions required for the tax year you can reclaim the excess amount. The PAYE system will normally ensure that you will not pay more than the annual maximum on your regular employment. However, if you have **two or more concurrent employments** in the tax year, or you are **employed and self-employed at the same time**, you may pay more NI in the year than the annual maximum.

Each taxpayer has their own annual maximum figure based on their individual earnings. The annual maximum NI for employees will be at least £4,279 and for taxpayers who are both employed and self-employed the annual maximum is at least £3,180. However, you need to add to those figures the amount of NI payable at the additional rate (currently 1%), which cannot be reclaimed.

If you believe you have paid more NI than your personal annual maximum you can reclaim the excess by writing to the NI Office in Newcastle upon Tyne. You don't have to calculate the amount of NI repayment due, as the NI Office will do this for you. But you must provide evidence of your earnings during the tax year, such as P60 forms or accounts. We can help you with all of this.

There is **no time limit** for reclaiming overpaid NI contributions, so you can submit claims for all past years where a repayment is due.

If you are likely to overpay NI for the current tax year you can apply to defer the NI charges on one of your jobs. Do this by completing form CA 72A for employees, or form CA 72B if you are also self-employed. It is not too late to submit either application.

VAT Rates and Refunds

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VAT can be very complicated at times! Most goods and services carry VAT at the standard rate, which is currently 17.5% and is due to increase to 20% on 4 January 2011. However, some transactions, such as financial services, are exempt from VAT, and some goods, such as children's clothes, carry VAT at 0%.

To confuse matters even more, certain services can carry VAT at 5%, or 17.5% or 0%, depending on the circumstances. For example, renovating a house that has been empty for at least two years can carry VAT at 5%, but repairing a roof on another building will generally require VAT to be charged at 17.5%, unless the building has 'listed' status when the work may be zero rated if it is an approved alteration.

If you find you have charged VAT at too high a rate to your customer you should refund the excess VAT

charged, if this is practical and possible. You also need to correct your VAT returns for the excess VAT paid over to the VAT office. You can only make a claim for overpaid VAT for VAT periods ending in the last four years, so don't delay if you find an error that covers several periods.

September Question and Answer Section

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Q. The Taxman has told me I owe him £3,300, and I must pay at least £200 per month or a distraint order will be served. I can only manage to pay £150 per month, so what happens now?



A. A distraint order means tax officers, or bailiffs acting on behalf of the Tax Office, will come to your home or business and ask for full payment. If you don't pay immediately, they will make a list of your possessions to take away and sell at a later date. They can't take anything that is not owned by you, or is jointly owned, but you may need to provide proof of ownership such as receipts. The bailiff should also not take any essential tools of your trade, but your vehicle may not be regarded as essential. Your best option is to try to negotiate a schedule of payments you can afford with the Tax Office as soon as possible, or you may lose your possessions and possibly be made bankrupt.

Q. I own a very successful company in the UK, which is now largely run by the management people in the UK. This allows me to live in Spain for much of the year. I charge fees to my UK company through a Spanish company which is wholly owned by my wife. Does this set-up have any implications for UK tax?

A. Your UK company and your wife's Spanish company are considered to be associated companies by the UK Taxman, because the people controlling the two companies are married to each other. It makes no difference that the companies are registered in different countries. The profit thresholds that determine the rate of corporation tax paid by your UK company must be divided by the number of associated companies plus one. For example the higher rate of corporation tax (currently 28%) is due when profits exceed £1.5 million, but where there is one associated company this higher tax rate starts when profits exceed £750,000.

Q. The technology company I jointly own has suffered in the recession, so the directors' fees due for 2009 have not been paid, although the fees are shown as owing in the company accounts. Should I make any adjustment to the accounting loss for the unpaid fees, before I send the loss claim to the Tax Office?

A. If the directors' fees are not paid within nine months of the year end they must be excluded from the loss for corporation tax purposes. However, you should check whether the contracts with the directors include a firm promise to pay the fees by a particular date. Such a promise could create a tax point for PAYE purposes, so PAYE would be due even though the fees had not actually been paid.

September Key Tax Dates

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19/22 PAYE/NIC and CIS deductions due for month to 5/9/2010

30 Closing date to claim Small Business Rate Relief for 2009/10 in England.



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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