

## Welcome...

To July'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!**

## July 2011

- [Web Bots Are Out to Get You!](#)
- [What if You Don't Pay Your Tax!](#)
- [Must You Register for VAT?](#)
- [Repayment Claims for Tax on Interest](#)
- [July Question and Answer Section](#)
- [July Key Tax Dates](#)

### Web Bots Are Out to Get You!

[top](#)

The Taxman has announced he is going to start targeting tax evasion by online traders, private tutors, personal trainers and life coaches.

In order to find out who is failing to pay tax on all their income the Taxman is to send out web bots (automatic search programmes), to trawl the internet for data on sales and services advertised by UK residents. This data will then be compared to sources the Tax Office holds such as bank interest and tax returns.

If you declare all of your profits and earnings on your tax return you have nothing to fear. But you may have friends or family members who earn a little bit on the side by selling stuff or advertising their services online, so please pass on this advance warning.

For example, a hobby making decorative items could lead to selling the products at a market or through a website. A common misconception is that if no profit is made the income source does not need to be declared. Unfortunately the Taxman is unlikely to agree. Where the costs are not recorded any income will be treated as profit, and thus will amount to taxable income. The same applies to private tuition; even if the turnover is very small it must be declared where there is intent to make a profit from the activity.

Those online traders or private tutors who have not declared this source of income to the Taxman and who are not registered for self assessment, should contact the Tax Office by 5 October 2011 to notify them there is income received during the 2010/11 tax year. The best way to do this is to complete the self assessment registration form CWF1, either online or in paper form. We can do this for you. The Taxman will then issue the individual with a tax return form to complete for 2010/11.

Where the individual has traded online for several years without declaring the income, a more detailed disclosure to the Tax Office will be required. Please talk to us before approaching the Tax Office, as such a situation needs to be handled very carefully!

### What if You Don't Pay Your Tax!

[top](#)

July is one of those big tax-paying months...

- If you are self-employed you need to pay your income tax and class 4 NIC on-account payment for 2010/11 by 31 July.
- A company with a 30 September 2010 year end must pay its corporation tax by 1 July 2011.
- Employers must pay class 1A NICs on benefits by 19 July.
- Quarterly payments of PAYE are due by the same date. Monthly payments of PAYE and CIS deductions are due by 19th of every month, or by 22nd if paying electronically.

If you or your company will not be able to pay the tax due on time you should contact the Tax Office business payment support line (**0845 302 1435**) without delay, or we can do this for you. Once the tax due is actually late, even by a day, it is much more difficult to negotiate a reasonable payment plan with the Taxman.

The Taxman is now very keen to chase every penny of tax owed, and you will start to receive aggressively worded letters if you don't pay on time. If you do not react or pay promptly you will receive telephone calls and possibly personal visits from professional debt collectors. The situation can escalate quite quickly into bailiffs being authorised to seize your goods, or a court judgement being enforced.

If you receive a letter demanding tax due, don't ignore it. Even if you believe there is nothing owed you need to sort the situation before the heavies turn up!

#### Must You Register for VAT?

[top](#)

There is a myth in certain quarters that every legitimate business is required to be VAT registered. This is not the case. Your business (as a sole-trader, partnership or company) does not have to become VAT registered until the **total sales for 12 consecutive months exceeds £73,000**. However, this total does apply to all the businesses you run as a sole trader. You can't artificially divide your businesses to avoid registering for VAT.

Once your business is VAT registered you must charge VAT at the appropriate rate (normally 20%) on your sales. You also have to submit regular VAT returns, either quarterly or monthly, which means you need to keep your records of sales and purchases up to date. If this all sounds a bit too much to cope with there are a number of schemes you can sign up to which are designed to make VAT reporting much easier for small businesses.

One of those schemes is the **flat rate scheme** for small businesses. When you use this scheme you don't have to worry about your purchases. You just have to total-up your sales each quarter and pay over a flat percentage as VAT to the Taxman. The percentage used will depend on your trade sector. If your business makes very few purchases you can benefit significantly from being within the flat rate scheme.

Some people prefer to keep their total sales below the compulsory VAT registration threshold, so they don't have to charge VAT and submit VAT returns. They do this by turning down work that would take them over the VAT threshold. This is not illegal, but the Taxman is very suspicious of businesses who manage their sales in this way.

If you use this strategy to avoid VAT registration, you need to be able to prove all your sales are correctly recorded and declared. Later this year the Taxman will offer a **limited amnesty** to those who have sales over the VAT threshold but who have not registered for VAT. Once that amnesty period is over he will start to actively investigate traders who report total sales just below the VAT threshold. Contact us for further information if you are interested in taking advantage of the amnesty.

#### Repayment Claims for Tax on Interest

[top](#)

You may be able to claim a tax repayment from the Tax Office if your bank has deducted 20% tax from interest paid. If your tax-free allowance (up to £9,640 for those aged 75 or more in 2010/11), completely covers all of your income, the full 20% tax deducted from interest received can be reclaimed. Or you may only be due to pay 10% tax on the interest if your tax-free allowance is

exceeded with savings income up to £2,440 in 2010/11. This may well apply to older relatives.

Where a tax repayment is due, and you don't submit a self-assessment tax return each year, the tax due back should be claimed on **form R40**. Unfortunately the R40 form cannot be submitted online, it has to be sent to the Tax Office in paper form. However, you can claim tax repayments for the years 2005/06 to 2010/11 all at once, with a separate R40 form for each tax year. We can help you with this.

To avoid these tax repayment claims being necessary in the future, if you have a low income you can register to receive interest from banks and building societies with no tax deducted. This is done by completing **form R85** for each account held.

You cannot use the R40 form if you have a taxable capital gain to report for the tax year. In this case you must register for self-assessment and complete a full self-assessment tax return form. This applies even if you may be due a refund of income tax for the same tax year.

### July Question and Answer Section

[top](#)

**Q. I've always prepared the accounts for my own company and submitted them to Companies House and the Tax Office with no problems. However, this year the Taxman sent back my company's accounts and tax return saying they were in the wrong format. I'm confused. What have I done wrong?**



**A.** Company accounts for periods ending after 31 March 2010 that are sent to the Tax Office on or after 1 April 2011 must be submitted online in iXBRL format. Please ask us if you would like help in submitting your company accounts and tax return online.

**Q. My company pays a business subscription to LinkedIn, the business networking site. It allows me to make business contacts that generate work for me. Is the LinkedIn subscription a tax allowable expense for my company?**

**A.** The LinkedIn subscription is tax allowable for your company as it is a means to generate work for the business. However, there may be a benefit in kind charge for you if the LinkedIn subscription is raised in your name rather than in the name of your company. If this is the case the company is paying your personal liability (the subscription fee). As LinkedIn does not appear on the list of approved professional organisations whose subscriptions are tax allowable for employees, the Taxman will argue that there should be a personal tax charge. It will be necessary to prove that there is only a business purpose to the subscription.

**Q. My wife and I acquired a cottage in 2002 and let it as furnished holiday lettings from 2005. We ceased advertising the property this year and it is now on the market. Will we get the lower 10% rate of capital gains tax on any profit we make on the property sale?**

**A.** Yes, as long as the property is sold within three years of the date the holiday lettings business ceased you should both qualify for entrepreneurs' relief on the gain. This relief gives you the lower 10% rate of CGT after deduction of your annual exemption, for gains of up to £10 million per person.

### July Key Tax Dates

[top](#)

**5** - Deadline for PAYE settlement agreement for 2010/11

**6** - Deadline for 2010/11 forms P11Db, P11D and P9D to be submitted and copies of P11D and P9D to be issued to relevant employees Deadline for employers to report share incentives for 2010/11 - form 42



**14** - Return and Payment of CT61 tax due for quarter to 30 June 2011

**19/22** - PAYE/NIC and CIS deductions due for month to 5/7/2011 or quarter 1 of 2011/12 for small employers

**19** - Class 1A NIC due in respect of the tax year 2010/11

**31** - Second self assessment payment on account due for 2010/11.

Second 5% penalty surcharge on any 2009/10 outstanding tax due on 31 January 2011 still unpaid.

Second £100 penalty if 2009/10 tax return due for filing on 31 January 2011 is still outstanding.

Deadline for Tax Credits to finalise claims for 2010/11 and renew claims for 2011/12

Class2 NIC payment due

### Need Help?

[top](#)

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

[top](#)

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

[top](#)

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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