business UPDATE

Autumn 2008

allotts
chartered accountants

Driving down the cost of company cars

With the rising cost of car fuel, any way of saving on motoring costs is welcome.

One way of doing this is to make use of the generous tax reliefs available on environmentally friendly cars. Fortunately, there is a growing range of cars with carbon dioxide (CO_2) emissions low enough to qualify for tax benefits.

If your business is buying a car, choose a new car with CO_2 emissions of 110g/km or less. That will enable you to write off the whole cost against tax in the year of purchase by claiming a 100% first-year capital allowance. For cars with higher emissions, and all used cars, tax relief is limited to a writing down allowance of 20% of the cost, with an upper limit of £3,000 where the car costs more than £15,000.

Directors and employees can be taxed heavily on the benefit of a company car, but much less so on a low emission model. Since April 2008, an employee who drives a petrol-fuelled car with CO_2 emissions of 120g/km or less is taxed on only 10% of the list price. For a diesel car, tax is charged on 13% of the list price.

These lower percentages can make a low emission company car a worthwhile benefit for an employee.

However, it is still worth making a detailed calculation of costs and benefits, because there are so many variables to consider with company cars. We can help you with this.

You will also pay little or no vehicle excise duty on cars with CO_2 emissions up to 120g/km. Up to 100g/km, car tax is nil; and with 101-120g/km the tax is currently £35. On top of all these tax savings, running environmentally friendly cars will also boost your business's green credentials.

New allowance for integral features

The new capital allowances rules for equipment installed in buildings make it more important than ever to classify correctly all expenditure on construction, refurbishment and repair of buildings.

This year's reform of capital allowances introduced a new 10% annual rate of writing down allowance for specified equipment that forms an integral feature of a building. Some of the items previously qualified for the 25% writing down allowance. Other items, such as ordinary lighting and cold water systems, did not qualify at all because they were considered to be part of the building itself.

Integral features are defined as electrical and lighting systems, water, heating, ventilation and air conditioning systems. This includes the floors and ceilings comprised in such systems, as well as lifts, escalators and external solar shading. The new 10% allowance will also be available for thermal insulation of a building, except where it is used for a residential property business.

Integral features qualify for the annual investment allowance that gives 100% tax relief for the first £50,000 a year of expenditure on equipment. For smaller businesses, planning the timing of expenditure to minimise the excess over £50,000 in any year will accelerate tax relief. Integral features cannot be classified as short-life assets to obtain faster relief.

Other plant and machinery in buildings, including toilet and kitchen facilities, qualify for the 20% rate of writing down allowances.

The cost of repairs is normally allowable in full. However, if in any 12-month period the cost of repairing an integral feature is more than 50% of the cost of replacing it in full, the expenditure will only qualify for the 10% relief.

So if you intend to carry out repairs, for example to a heating system, you will need to get an estimate of the cost of full replacement and keep a running total of your expenditure.

We can help you maximise tax relief on all your expenditure on buildings and equipment. Please get in touch with us to discuss your options – ideally when you are at the planning stage.

Allotts
Chartered Accountants
Registered Auditors
Business Advisors

www.allotts.co.uk

Doncaster
Sidings Court
Lakeside
Doncaster DN4 5NU
Tel: 01302 349218
Fax: 01302 321739
Email: donc@allotts.co.uk

Rotherham
13 Moorgate Road
Rotherham S60 2EN
Tel: 01709 828400
Fax: 01709 829807
Email: info@allotts.co.uk

Partners
A E (Tony) Grice BA FCA Cert PFS
J N (Jackie) Saunders BA FCA
Steven G Pepper FCA
Neil S Highfield FCA
Steven Watson BA ACA CTA
Kirstie J Williamson BA ATT TEP

Associate
P A Cooper BA FCA

Consultant
P W Ellis FCA

Financial Services
01709 828400
Email: fsd@allotts.co.uk

Registered to carry on audit work by the Institute of Chartered Accountants in England & Wales and authorised and regulated by the Financial Services Authority in carrying out investment business.

A clearer view on tax penalties

A new way of charging penalties for incorrect tax returns is designed to encourage taxpayers to take care with their tax affairs and comply with all their obligations.

HM Revenue & Customs (HMRC) can impose a financial penalty if an error in a tax return or other tax document results in you paying less tax than you should, or means you pay the tax in a later period. What is new is that taxpayers will no longer be liable to a financial penalty if they have taken 'reasonable care' to get their tax right, but have nevertheless made a mistake.

The penalties apply to errors in income tax, capital gains tax, corporation tax, VAT, PAYE, national insurance contributions and construction industry returns. The new rules cover periods starting after 31 March 2008, where the return is due to be filed after 31 March 2009.

HMRC calculates the level of penalty as a percentage of the potential lost revenue and this will be based on taxpayer behaviour: up to 30% for failing to take reasonable care; 20–70% for a deliberate, but not concealed, error; and 30–100% for a deliberate and concealed error. Disclosing errors early, completely and voluntarily will place the penalty at the lower end of the range.

What counts as 'reasonable care' depends largely on the circumstances and the taxpayer's abilities. HMRC expects a higher degree of care to be taken over complex matters, including finding out about the correct tax treatment. No penalty will be charged if a taxpayer takes an arguable view of a situation that is eventually not upheld. HMRC would also not impose a penalty if good accounting systems are in place but processing errors occur, provided the errors are relatively small compared with the overall tax liability.

Simply leaving everything to your adviser is not enough. Taxpayers taking reasonable care must make sure they give their adviser all the necessary information, implement any professional advice received and check the adviser's work to the best of their ability. HMRC recognises that an ordinary person cannot be expected to challenge specialist professional advice on a complex legal point, but they ought, for example, to be able to recognise the complete absence of a major transaction.

Taxpayers also have a duty to choose an adviser who is competent for the task. Please get in touch for advice on how you can ensure you give us all the required information.

Buy or lease to equip your business?

Should you buy or lease the major items of equipment and vehicles you will need for your business? Both have advantages and disadvantages. This year's reform of capital allowances, which give tax relief for equipment purchases, may affect your decision.

From April 2008, you can claim immediate tax relief on up to £50,000 a year that your business spends on buying any type of plant and machinery, including many fixtures in buildings and vans, though not motor cars. The £50,000 annual investment allowance (AIA) is proportionately reduced if your accounting period started before April 2008. For example, a company with an accounting year starting on 1 January can claim the AIA on up to £37,500 in 2008 (9/12 x £50,000). Purchases in the two years before April 2008 qualify for the old first-year allowances of 50% for a small business and 40% if your business is medium-sized.

The AIA favours the purchase of equipment. However, if you spend more than the AIA, the excess will only qualify for writing down allowances at 20%, instead of 25% before April 2008. A hybrid rate of writing down allowance will be applied for accounting periods straddling 1 April 2008. 20% is also the current rate for most cars. Tax relief for purchases will therefore take longer.

If you lease, you cannot normally claim capital allowances unless the agreement is effectively a hire purchase contract. But the lease rentals are an allowable expense, though relief is restricted on leasing payments for a car costing more than £12,000.

Of course, tax is not the only consideration. If you buy outright, you will usually pay less overall than on a leasing agreement, but you might have to borrow the money to make the purchase, which could be costly. Leasing could tie you into long-term agreements that might be difficult to terminate, but buying could leave you with equipment that you might not need in the future.

There are pros and cons to both. If you are planning to buy or lease major equipment, please come and talk to us, and let us help you understand the costs.

Income shifting rules on hold

The government has postponed new laws that would prevent people reducing their tax liability by shifting business income to another person such as a non-working spouse or civil partner.

This may provide some valuable tax planning opportunities. Although proposals were announced last December, aimed at an April 2008 start, the government decided further consultation was needed. The difficulty is to frame legislation that distinguishes between 'acceptable' business arrangements and 'income shifting' to avoid tax, while providing clarity and certainty for businesses. It's a tall order.

The delay gives businesses an extended opportunity to save tax by paying dividends up to 5 April 2009. Since losing the Arctic Systems tax case in the House of Lords last year, HM Revenue & Customs (HMRC) has confirmed that where a non-working spouse holds ordinary shares with rights to the company's capital, dividends can only be taxed as the income of the spouse to whom they are paid.

You can therefore save tax by paying dividends in the current tax year up to the limit of a non-working spouse's basic rate income tax threshold, ie up to £40,835.

Remember though that you have to count as income the 10% tax credit as well as the cash dividend itself. You should also deduct any other income your spouse might have, such as bank interest. You can even give your spouse shares shortly before paying the dividend, provided the gift is unconditional and is of ordinary shares with full voting rights.

Because the 10% tax credit is not repayable, all or part of the personal allowance of £6,035 is wasted if other income is less than this amount. If your spouse does some work for the business, you could increase the tax saving by paying some salary as well. The salary will be deductible from business profits, provided it is reasonable for the work done.

We can advise you on how to make best use of the current rules. There are some restrictions on paying dividends, but we can check whether they affect your company. This will probably be your last chance to save tax in this way, although further delays cannot be ruled out. We can also consider whether you should change the way your business is set up for the future.

Coming clean on VAT errors

You will soon be able to correct errors of up to £10,000 in your VAT returns, and in some cases more, without making a specific disclosure. It is tempting to sweep up mistakes without drawing attention to them, but doing so could increase any subsequent penalties and interest charged for the error.

For VAT periods that started before 1 July 2008, errors do not have to be disclosed if their total value is not more than £2,000. This limit goes up to £10,000 for periods starting on or after 1 July 2008, except for businesses with a turnover of more than £1 million. For these larger businesses, the limit is 1% of turnover up to a maximum of £50,000.

A potential difficulty arises under the new penalty regime that applies to returns for periods starting after 31 March 2008, where the return is due after 31 March 2009. If the error arose because the taxpayer did not take reasonable care, or made a deliberate misdeclaration, a voluntary disclosure can significantly reduce the penalty.

However, for a disclosure to reduce a penalty, you have to specifically write to HM Revenue & Customs (HMRC) describing how the error happened, give HMRC reasonable help in quantifying it and allow HMRC access to records necessary to verify that you have fully corrected the error.

In future, if you find you have made errors on a past VAT return, as well as quantifying them, you will need to find out how they occurred. There will be no penalty if you took reasonable care but made a genuine mistake.

If you are confident of this, you can safely include errors below the limit on a subsequent return, but you should keep evidence of the processes you followed. However, if you conclude that the error occurred because you did not take reasonable care, you should make a separate disclosure to HMRC even if the error is under £10,000. From September 2008, any errors separately disclosed to HMRC will also attract an interest charge where that error resulted in an underpayment of VAT.

Clearly it is far better not to make mistakes in the first place. If you need advice on accounting for VAT, completing your VAT returns or correcting or disclosing errors, do ask us.

law LINES

Hard times for the hard sell

If your sales staff pride themselves on their hard selling techniques then be careful. They could be breaking the law.

The Consumer Protection from Unfair Trading Regulations (CPRs) 2008, which came into force on 26 May 2008, ban unfair commercial practices by businesses dealing with consumers in all business sectors. The main areas they affect are marketing and the selling of goods and services.

Practices are unfair if they are unacceptable when measured against an objective standard and materially affect the decision of an average consumer, for example to buy a product or cancel a contract. The regulations, which replace many detailed rules on trade descriptions, also prohibit commercial practices that are misleading (by action or omission) or aggressive. For example, failing to give important information about a product is a misleading practice.

There are also 31 specific practices that are banned in all circumstances. Examples include advertising a product at a very low price without disclosing that you will only have very limited supplies at that price, or falsely stating that a product will be available for only a short time to encourage customers to make an immediate decision. Other examples are advertising a closing down sale when a shop is not about to close down, or including in an advertisement a direct exhortation to children to buy a product or persuade their parents to buy it for them.

The regulations do not affect transactions between businesses or private transactions. They contain wide enforcement powers and limited defences for traders. Any investigations would be time-consuming, and you could be served with a civil enforcement order, which could result in an unlimited fine or two years in prison. Investigation and prosecution would also damage your business reputation.

Most UK businesses will welcome the regulations because they should clamp down on unfair competition. But to make sure you are treating your customers fairly, you and your staff should gain a clear understanding of what is good commercial practice and what is banned. We can point you in the right direction.

business MATTERS

The cash flow crunch

A quarter of Britain's small and medium-sized firms regard the state of the economy as their biggest current concern, and nearly a third describe the present situation as a fully blown recession, according to a new poll by the Orange SMS Business Jury.

Overhead costs (23%) and fuel costs (17%) are the other major concerns, suggesting that businesses are increasingly worried about the need to economise.

A strong and steady cash flow through a business is critical at all times, but particularly during periods of market uncertainty.

Nevertheless, many firms fail to take even the most basic precautions. The Bank of England estimates that only half of all companies agree their payment terms in writing.

Here is a checklist of some basics to help you improve your everyday cash flow:

- **Get paid more quickly** – Ask your customers to pay sooner or ask for full/part payment in advance. You could also look at offering a discount if they pay by an agreed date.
- **Avoid late payments and non-payments** – Agree payment terms in writing and set them out clearly on all invoices. Issue invoices promptly and carry out credit checks on potential customers. Consider including a retention of title clause in your contracts for the sale of goods.
- **Be alert to customers changing their behaviour** – If customers start post-dating cheques or become difficult to get hold of, it could be a sign they are struggling with cash flow.
- **Chase debts** – Be prompt and systematic in chasing debts and be firm when you ask for payment.
- **Seek extended credit terms** – If you are in a strong negotiating position, ask your suppliers to give you extended credit terms.
- **Consider factoring** – Debt factoring may be one way of getting cash into your business quickly. This involves selling your invoices to a debt factoring company against which you can draw loans.

Once you have the basics in place, you can use cash flow forecasting to identify problems, avoid cash crises and help make business decisions, such as reviewing recruitment and investment strategies.

Now may also be a good time to review business costs, such as VAT arrangements, that tend to get overlooked when the going is good.

This newsletter is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. The newsletter represents our understanding of law and HM Revenue & Customs practice as at August 2008.