

Welcome...

To October'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 Corner.

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!**

October 2011

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Business Record Checks Update

The Taxman believes that many businesses are not paying the correct amount of tax as they do not accurately record their business income and expenditure. In other words their business records are not of a high enough standard to produce accurate accounts. We agree that many businesses are not keeping perfect records but we work with business owners to help them retain the necessary documents, using those records alongside a good understanding of the business to produce a reasonable statement of profit or loss for the tax return.

Unfortunately the Taxman is not taking such a helpful approach and is now sending out 120 tax officers to examine the unsorted raw records held at thousands of businesses. If the tax officer (who is not a trained accountant) judges the business records to be inadequate, the business owner could receive a **penalty of up to £3,000**.

Some businesses have been visited already as part of a training exercise for the tax officers. Following those 'test and learn' visits the tax officer may have made recommendations, but would not have raised a penalty unless there were categorically no business records to examine.

Now that the learning stage is over we expect penalties to be imposed on many businesses by these lightly-trained tax officers. If a tax officer asks to examine your business records please contact us immediately. Potential penalties can be avoided if we are able to explain to the tax officer exactly how your basic business records are turned into an accurate profit/loss statement.

Splitting Businesses to Avoid VAT

The standard rate of VAT is now 20% and some business owners are tempted to split their businesses into different entities so that both parts fall under the compulsory VAT registration threshold when split. This results in neither business having to register and charge VAT to their customers. The taxman is aware of this tax planning approach and where he believes that businesses have been artificially separated to avoid VAT, he will direct that the businesses should be recombined.

A frequent target of the Taxman on business-splitting grounds are VAT-registered farms where a member of the family runs a bed & breakfast business which is not VAT registered from the same location. He will argue that because some buildings have both a farm use and a B&B function, the two businesses are part of a whole and should come under one VAT registration.

Although the use of the same building can be a factor that indicates two businesses are connected, the

Taxman is required to consider a range of factors to determine whether the businesses are genuine separate entities. He must judge whether each factor points towards one business, two separate businesses, or is neutral. If the majority of the factors are either neutral or point towards separate businesses, the Taxman should not direct that the businesses be combined for VAT purposes. If you are not happy with the Taxman's decision you can appeal to the Tax Tribunal.

Where you operate two or more businesses within your family, the following questions can help you decide whether the Taxman will challenge your businesses as being artificially split:

1. Is the business designed to operate as an individual business despite utilising central resources, for example a franchised business?
2. Is the business so intrinsically linked with other 'connected' businesses that it can only be considered to be one indivisible business, for example wet sales and catering in public houses and restaurants?
3. Is the business carried on in separate departments or divisions but is in reality one legal entity, for example a quasi partnership?
4. How much independence does the business have from any other 'connected' businesses by way of legal and technical resources?
5. Does the business owner have autonomy in the way he/she operates the business, for example access to premises, opening times, recording sales, purchase of stock and materials, bank accounts and annual accounts?
6. What would happen if the business owner was unable to operate their business personally?
7. Has the business owner registered the business with HMRC for corporation tax or income tax separately from those businesses that are 'connected'?
8. Is the business owner working together with their partner/spouse in his/her business as a quasi co-owner or just assisting them as a family member in their business?

The Taxman has the power to direct that two or more businesses should be treated as one business for VAT purposes, even where those businesses are contained within separate legal entities, such as limited companies. Please discuss your business structure with us if you think it could be challenged by the Taxman.

Stuck in the UK?

If you have been forced to leave your job in the Middle East and return to the UK, you may be considered resident for tax purposes in the UK in the current tax year (2011/12). This will affect your tax position for this year and possibly next tax year (2012/13).

Your residence status for tax purposes can depend on whether you have a full time job in another country and do not undertake significant duties in the UK. Due to the unrest that arose this spring in a number of countries, the Taxman decided to relax the rule about not performing significant duties in the UK, but only for the tax year 2010/11. The relaxation only applies to workers who have been forced to return to, or stay in the UK, following Foreign Office advice concerning the following countries; Bahrain, Egypt, Libya, Syria, Tunisia and Yemen.

The definition of residence in the UK for tax purposes is due to change from 6 April 2012, and the new definition will look back to the taxpayer's residence status in the immediately preceding years. Thus the number of days you are in the UK during 2011/12 could have an impact on your tax residence status for 2012/13.

Student Loan Notices

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As an employer you are required to collect repayments of student loans taken out by your employees through the Student Loan Company (SLC) whilst they were studying, during the years after September 1998.

You will be told to start making SLC deductions on a form SL1 issued by the Tax Office (HMRC) as they are currently tidying up the data held on employers who collect student loan repayments. You may receive an unexpected SL1 notice for a current employee from whom you are already collecting SLC deductions. Alternatively you may receive SL1 notices for employees who have left your employment. In both cases you

should simply file the SL1 notices and take no further action.

If you have an SLC loan yourself and are self-employed, the SLC loan repayments should be collected through your annual self-assessed tax bill, which is generally split over three payment dates. You need to tell us about your student loan so that we can ensure the right boxes are completed on your tax return form.

If your self-employed profits are less than £15,000 per year, you are not required to make any SLC repayments. This also applies if your salary is under £15,000 or you have a number of jobs from which you earn under the £15,000 threshold in each year.

Question and Answer Corner

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Q. My cafe was badly damaged in the recent riots, but my loyal customers have collected £3,000 to help me open the business as quickly as possible. How should I treat this sum for tax purposes? Is it a personal gift, or a contribution to be set against my repair costs?

A. This gift from your customers should be treated as business income for income tax or corporation tax purposes. You are likely to have a considerable amount of repair expenditure to set against your income for the current period so may well not have a profit to declare even after including the gift as income.

Q. I've received a tax refund for 2010/11, but I'm worried that it's not correct as I usually have tax to pay each year. Also I haven't even submitted my 2010/11 tax return yet.

A. You are right to be worried about the tax refund as the Taxman's computer has issued some incorrect refunds recently. If you normally complete a self-assessment tax return but also have some income taxed under PAYE, the computer should wait until your tax return has been submitted before calculating the tax to be refunded. In a few cases this has not happened and the tax refund has been based only on the taxpayer's PAYE income. Please ask us to check the tax calculation that should have arrived with your refund cheque.

Q. The Tax Office has written to me saying that the £2,800 tax I owe will be collected by restricting my PAYE code for 2012/13. What does this mean?

A. The Taxman is now permitted to collect up to £3,000 of unpaid tax or overpaid tax credits through PAYE codes. Your PAYE code tells your employer how much of your income to treat as tax free, and thus how much tax to deduct from the rest. A common PAYE code for 2011/12 would be 747L, which gives you tax free income of £7,475 for the year. If you owe £2,800 in unpaid tax, and your highest marginal tax rate is 40%, your tax free income will be reduced by £7,000 (£2,800/ 40%), leaving you with tax free income of £475 and a PAYE code of 47L. The numbers will be slightly different in 2012/13, but essentially you will pay more tax each month from April 2012 until the tax debt is eliminated.

Key Tax Dates for October 2011

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1 - Due date for payment of Corporation Tax for the year ended 31 December 2010

5 - If a Tax Return has not been received, individuals and trustees must notify HMRC of new sources of income and chargeability in 2010/11

14 - Return and payment of CT61 tax due for quarter to 30 September 2011

19 - Tax and Class 1B National Insurance due on PAYE settlements for 2010/11

19/22 - PAYE/NIC and CIS deductions due for month to 5 October 2011 or quarter 2 of 2011/12 for small employers

31 - Deadline for 2010/11 self assessment paper returns to be filed for HMRC to do the tax calculation. If a paper return is being filed also, the deadline for tax underpaid to be collected by adjustment to your 2012/13 PAYE code (for underpayments of up to £3,000 only)

Need Help?

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

In addition, if there is 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 like to meet 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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Wright Vigar Chartered Accountants are based in Lincoln, Gainsborough, Newark, Retford, Sleaford and London offering local business owners and individuals a wide range of services.

Visit our website <http://www.wrightvigar.co.uk> for more information.