

Welcome...

To January'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!

January 2012

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Wind up your companies now?

Until the end of February, reserves distributed from a company being wound up could be taxed at as little as 10% under the capital gains tax regime (if Entrepreneurs' Relief (ER) is available to the taxpayer) without going through a formal liquidation.

HMRC now plan to replace the Extra-Statutory Concession C16 (ESC C16) which gives this favourable tax treatment with new tax law and Parliament will consider the proposals in January.

Under the proposals, for payments made on or after 1 March 2012 capital gains tax will only apply if the total distribution for the company is less than £25,000. If payments exceed that amount then all the payments are treated as dividends subject to income tax.

A higher rate or additional rate taxpayer may be considerably worse off paying income tax on dividends (at a rate of 25% or 36.1% respectively), than under the capital gains tax route where the rates are 10% (if ER is available) or 28%.

If the income tax liability for payments after 1 March 2012 is going to significantly exceed the capital gains tax liability, then you should consider a formal liquidation which will ensure that capital gains tax is payable on the amount paid out. The problem with a formal liquidation is that the fees can be several thousand pounds.

If you have a company with significant reserves which is no longer trading or you are winding the trade down, it is worthwhile asking us to check the tax position. It may well be significantly cheaper to wind up the company before 29 February and pay capital gains tax rather than income tax. We would need to apply to HMRC for ESC C16 to apply, and make all the payments to the shareholders by the end of February, to secure the capital gains tax treatment without a formal liquidation.

Is Your Payroll Information 'Clean'?

The Taxman is asking all employers to spring-clean their payroll data to prepare for RTI. What does RTI stand for? It stands for Real Time Information, and within the next 18 months it will become as familiar to you as PAYE. RTI is a new way of submitting payroll data to the Tax Office. Instead of sending the PAYE information in annually after the end of the tax year, all employers will have to submit the payroll data online on every occasion the payroll is run. This will allow the Taxman to understand who is being paid what amounts, and what PAYE is due, on a real-

time basis. The details of employees' pay will be passed to the Department for Work & Pensions, to allow the amount of Universal Credits (which are replacing Tax Credits from October 2013) paid to workers to be adjusted on a monthly basis.

RTI will be compulsory for all employers and pension providers by October 2013.

Before payroll data can be accepted under the RTI system it must be 'clean'. That means having an accurate date of birth, full official name (not just initials or nick-name) and correct National Insurance number, for each and every employee. If the data for one of your employees does not agree to that on the Tax Office computer, the submission of the payroll data under RTI may fail, and you may get fined.

It will take some time to check the details of every employee on a large payroll, so it would be best to start this task as soon as possible.

Online VAT Filing Compulsory

Are you already filing your VAT returns online? If not, then you need to prepare to switch to online filing as this will be compulsory for all VAT registered businesses from 1 April 2012. Don't leave this task until the last minute as it can take a few weeks to receive the unique user ID you need from the Tax Office. You will also have to create a password and set up a system to pay the VAT you owe.

You will no longer be able to pay the VAT due by cheque. You have to pay by electronic means. This includes using a direct debit, bank-transfer such as CHAPS or BACS, a personalised bank giro payment slip paid in at a bank (these need to be ordered in advance), or a debit card or credit card over the internet.

The good news is that Tax Office has now instructed its bank to accept tax payments by the faster payment service. This means the tax or VAT due will take less than a day to clear from your account to the Taxman's bank account. Before relying on this shorter timescale, check whether your bank account is set-up to use the faster payment service and if any money limits apply. Many bank accounts can only pay out up to £10,000 by electronic payments in one day. If your VAT bill exceeds that cap you may have to spread the payment over several days, or talk to your bank about other transfer methods.

We can file your VAT electronically on your behalf once you have completed the necessary authority forms from HMRC. We will also require all your VAT information in good time before the due date for the VAT return, so we can calculate the VAT due and tell you what to pay to ensure the return and payment is received by HMRC before the deadline.

Are You On The Taxman's Target List?

The Taxman has formed a number of task forces to investigate certain business sectors, where he believes tax rules are being ignored.

A summary of the current work of those task forces is listed below, but bear in mind that each task force will move on to a new geographical area once the first area has been investigated.

London Properties

This task force is investigating commercial property deals in Greater London, where the VAT rules may not have been applied correctly. Where they find such a case, the tax officers will review the entire tax compliance of the property owner, across all taxes.

Landlords

HMRC are targeting landlords with three or more let properties in the North West of England and North Wales. Have you or your family correctly declared all of your rental income?

Construction Industry

The targets are self-employed builders (including small companies) in the North West of England and North Wales. The task force is looking for under-declared sales (such as cash jobs) and over-claimed expenses (where there are no supporting invoices). Remember to keep every receipt for purchases and keep a log of all business mileage. We

can help you by advising what expenses are allowable to claim against your income.

No Tax Return Submitted

This task force is currently operating in the South East of England, looking for businesses who have not submitted tax returns for corporation tax, VAT, PAYE or income tax.

Tax numbers for 2012/13

Tax rates and thresholds for 2012/13 have been announced as follows:

Income Tax Personal Allowances

Under 65: £8,105
65-75: £10,500
75 and over: £10,660
Minimum marriage allowance: £2,960
Maximum marriage allowance: £7,705
Blind person's allowance: £2,100
Income limit for those aged 65 or more: £25,400
Income limit for under 65 personal allowance: £100,000

Income Tax Rates

Savings rate* (10%): £0 - 2,710
Basic rate (20%): £0 - 34,370
Higher rate (40%): £34,371 to 150,000
Additional rate (50%): Over £150,000

* Rate does not apply where other income exceeds the savings rate threshold.

Different tax rates apply for dividend income as follows:

Basic rate (10%): £0 - 34,370
Higher rate (32.5%): £34,371 to 150,000
Additional rate (42.5%): Over £150,000

NI

The rates and weekly thresholds for NI contributions will be:

Employer's class 1 above primary threshold (above £144): 13.8%
Employee's class 1 not contracted out (from £146 to £817): 12%
Employee's additional class 1 (above £817): 2%
Self-employed class 4 (annual figures from £7,605 to £42,475): 9%
Self-employed class 4 additional rate (above £42,475 per year): 2%
Self-employed class 2: £2.65 per week
Voluntary contributions class 3: £13.25 per week

Capital Gains Tax

Tax rates for individuals

Up to basic rate band: 18%
Above basic rate band: 28%
Annual exemption: £10,600

Corporation Tax

From 1 April 2012:

Profit of £0 - £300,000: 20%
Profit of £300,000- £1,500,000: 26.25%
Profit of £1,500,000 and over: 25%

These rates apply where there are no associated companies.

Question and Answer Section

Q. My energy bills have soared since I started using a room in my home as the base for my company's business, as I have to have the heating on all the time. I've heard that my company can pay up to 1/3 of my gas bills tax-free, is that true?

A. Your company can pay you (as the company's employee) £3 per week, £156 per year tax free, for working at home and no evidence has to be provided to support that payment.

If you can prove your heating bills increased because you heating the property while working there, when otherwise it would be empty and not heated, then your company can pay that extra heating cost to you tax free. However, if the Taxman asks you will need to provide copies of the gas bills for a period before you worked at home compared to a similar period when you have worked at home, to prove the increase in costs. The Taxman may also want to see a schedule of the days you work at home and days when you work at clients' premises. This type of claim is referred to as 'use of home as office' which can also cover other costs incurred in running your business from home. Contact us for further guidance.

Q. I received a letter yesterday addressed to my new company, asking for a payment of £320 to register the company on the 'Intercom VAT Registry'. Should I pay this fee? Is it compulsory?

A. Do not make any payment or respond to this letter. It is a known scam. The 'Intercom VAT Registry' does not exist and it is not an official EU body as the letter suggests. If you are ever suspicious about letters or emails your business receives, check them against the list of known fraud on the Action Fraud website: www.actionfraud.org.uk. We are more than happy to check any suspicious correspondence you receive, so contact us if you are unsure of the legitimacy of any letters or emails sent to you.

Key Tax Dates for January 2012

1 - Due date for payment of Corporation Tax for the year ended 31 March 2011

14 - Return and payment of CT61 tax due for quarter to 31 December 2011

19/22 - PAYE/NIC and CIS deductions due for month to 5/1/2012 or quarter 3 of 2011/12 for small employers

31 - Deadline for filing 2011 Self-Assessment personal, partnership and trust Tax Returns - £100 first penalty for late filing even if no tax is due or tax due is paid on time.

Balancing self-assessment payment due for 2010/11.

Capital gains tax payment due for 2010/11.

First self-assessment payment on account due for 2011/12.

Interest accrues on all late payments.

Half yearly Class 2 NIC payment due.

Need Help?

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

In addition, if there is anyone who you think would benefit from the newsletter, please email action@wrightvigar.co.uk to ask to be added to the newsletter list.

New Clients Welcome

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

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 www.wrightvigar.co.uk for more information or call **0845 880 5678**