

- I'll sacrifice!
- VAT Focus - Ciabattas has HMRC hot under the collar
- Records for charities
- The Companies Act 2006
- Are you resident in the UK or not?
- Traps with flat rate VAT
- Retirement news
- Additional corporate disclosures
- Repaid or not repaid? - that is the question

A New Year and a new newsletter! We hope you like the new format. As always if there is a particular subject you would like us to cover please email [info@wyliebisset.com](mailto:info@wyliebisset.com).

**The partners & staff, who have contributed to this issue.**



Tom McCrone  
Tax Partner



Elizabeth Duncan  
Manager



Torquil MacFadyen  
Partner



Allister Gray  
Partner



Jacqui Foy  
Payroll Supervisor



Alison Mackay  
Tax Manager



Brian McQuarrie  
(WBFS) Associate

## WB BULLETIN

SPRING 2007

# The Construction Industry Scheme - it's nearly here!

It seems as though the proposed changes for the construction industry have been in the pipeline forever. However, despite previous deferrals, the government has confirmed that the new Construction Industry Scheme (CIS) will be introduced on 6 April 2007.

Whilst there are tougher tests under the new CIS for subcontractors who wish to be paid gross, most of the new rules will affect contractors and the administration that they are expected to perform.

For example, contractors will have to provide:

- monthly returns to HMRC of payments, etc made
- summaries to each subcontractor, monthly as a minimum, of payments, etc made to them.

Another core procedure under the new CIS will be to 'verify' new subcontractors taken on after 6 April 2007. 'Verification' means that certain specific information will

have to be obtained from the subcontractor and checked with HMRC. This will enable HMRC to establish the identity of the subcontractor and the contractor will then be told whether that subcontractor can be paid:

- gross
- net of 20% tax
- net of 30% tax.

Both of these percentages were confirmed by the government in the Pre-Budget Report in December 2006.

There are some transitional rules which state that if the subcontractor had been paid since April 2005 and had certificates or cards due to expire after 5 April 2007, they do not have to be verified on 6 April 2007. To aid this transition, contractors were sent lists of subcontractors who will not have to be verified and will be sent further, updated, lists before April 2007.

However, these lists do not mean that the subcontractors

included are self-employed. This is a separate issue that must be considered whenever payments are made to subcontractors.

The issue of employment/self-employment is not a new one but, under the new CIS, each monthly return submitted by the contractor will have to include a statement that all the subcontractors shown on that return are genuinely self-employed. Incorrect returns could be subject to a penalty of up to £3,000 per return! It is vital therefore to consider the position of existing subcontractors prior to April.

As can be seen, the new system is complicated and is backed up by a series of automatic penalties. There is a lot that needs to be done before April.

If you are affected by the CIS scheme please contact Elizabeth Duncan or email [elizabeth.duncan@wyliebisset.com](mailto:elizabeth.duncan@wyliebisset.com)

This issue includes a 4-page tax planning supplement.

For all tax enquiries contact our tax partner Tom McCrone or email [info@wyliebisset.com](mailto:info@wyliebisset.com)

Glasgow 0141 566 7000

Musselburgh 0131 273 5222

Dunoon 01369 703 888

Greenock 01475 742 142

Rothsay 01700 500 573

Oban 01631 562 478

# I'll sacrifice!

'Never look a gift horse in the mouth', especially if it comes from HMRC!

Generally, HMRC are not eager to give away tax savings. However, the tax rules for employees contain certain exemptions that it would be foolish to overlook if they are appropriate to your business and which can make tax and national insurance savings.

Examples of common tax-free benefits for employees include:

**Childcare** - third-party childcare costs, including the provision of vouchers, can be met by the employer of up to £55 per week for both parents. Workplace nurseries are completely tax-free but less common.

**Vans** - ordinary commuting and insignificant private use in an employer-provided van mean that the provision of the van is tax-free.

**Mobile phones** - for phones provided from 6 April 2006, unlimited private use of one phone per employee and their family.

**Computers** - provided from 6 April 2006 primarily for business reasons.

**Car parking** - at or near the employee's normal place of work.

**Loans** - of up to £5,000 at any one time and for any purpose.

**Accommodation** - if necessary to perform the job, customary in that sort of job or for security reasons.

**Bicycles** - an employer-provided bicycle mainly for home-to-office journeys means the provision of the bicycle is tax-free.

**Annual functions** - up to £150 per person per tax year if open to employees generally.

**Relocation expenses** - of up to £8,000 if obliged to move because of work.

**Employer pension contributions** - up to £215,000 (less employee's contributions) in 2006/07.

**Long service awards** - after 20 years, tangible articles with a value of up to £50 per year for each year of service.

And of course luncheon vouchers of up to 15p a day!

These tax-free benefits can be combined with 'low cost' benefits, such as low emission cars, to maximise savings. They can

be given in addition to, or instead of, existing salary arrangements, the latter route usually be referred to as a 'salary sacrifice'. This would involve a change of employment terms to give up pay for a tax-saving benefit.

Obviously, HMRC are keen to check that things have been done correctly, so please talk to us to discuss your remuneration policies in detail and keep you out of the taxman's bad books!



## VAT Focus - Melted ciabattas has HMRC hot under the collar



In the second half of 2006 Customs lost two Tribunal cases in connection with 'ciabatta melts' (Ainley's of Leeds v HMRC) and 'hot paninis' (RJ Warren & Son t/a Warren & Son). Customs have appealed the 'ciabatta melts'

case to the High Court and this is due to be heard on 31 January 2007. These cases are very important for traders with take-away outlets as historically output VAT has been charged on the sale of hot food which has been taken off the premises in which it was sold. Were output VAT not to be charged and the trader still charge the same price for the

product its margin would be significantly improved as no VAT would be passed over to Customs. The reason that both traders were successful is that the 'dominant purpose' was not to sell 'hot food' but in the ciabatta melt case it was to sell a tasty product and in hot panini case it was to complete the baking process of the paninis. The 'dominant purpose' issue was established in the Court of Appeal case of John Pimblett & Sons Ltd.

The supplies of hot food is a complex area and these two cases reinforce the important point that each situation requires to be looked at based on its own facts. For VAT advice please contact Tom McCrone on 0141 566 7000 or email [tom.mccrone@wyliebisset.com](mailto:tom.mccrone@wyliebisset.com)

## Records for charities

The Office of the Scottish Charity Regulator (OSCR) has published a list of 5,615 charities which will be removed on 15th March 2007, if there is no response to their request for information. This list can be viewed on the OSCR website [www.oscr.org.uk](http://www.oscr.org.uk).

If you are in anyway connected with a charity, you should check on the OSCR website to ensure that the details for that charity are up to date.

If you need assistance contact our charities team on 0141 566 7000 or email [info@wyliebisset.com](mailto:info@wyliebisset.com)

# The Companies Act 2006

## - how will it affect the small business

Following an eight year company law reform consultation process, the Companies Bill finally received Royal Assent on 8 November 2006! The resulting Companies Act 2006 (CA06) is the longest Act ever to have been passed by parliament.

In general terms the aim of the Act is to simplify and modernise current company law so that it better meets today's business needs. It also aims to provide flexibility for the future and keep company law accessible for those who use it.

CA06 repeals and restates almost all of the current Companies Acts. It introduces reforms which will affect directors, auditors, shareholders and company secretaries of private, public and quoted companies.

The government has stated that all of the Act's provisions will be

brought into force by October 2008 at the latest.

2007 will see further consultation to establish a number of more detailed requirements. Secondary legislation will eventually bring these into force.

With the exception of certain early provisions, for example those in respect of electronic communications between shareholders and the company, the current Companies Acts will continue to apply until CA06 is brought fully into force.

At the time of going to print details of how CA06 will apply to existing companies have not emerged. Again, this year will see the government consult further on this matter.

We will continue to keep you up to date with details of how the new law will affect you as it becomes effective.

# Traps with flat rate VAT

The flat rate VAT scheme for small businesses can save you a lot of time each quarter when it comes to completing your VAT return. However this saving must be balanced against the risk of falling into the trap of paying too much or too little VAT.

## The wrong sector

When you first register for the flat rate VAT scheme you need to choose a trade sector which best fits the activities of your business. There are about 90 descriptions of trade sectors and 16 different flat rates that apply to these sectors. If you do not select the correct trade sector for your business you will not pay the right amount of VAT. This can lead to interest and penalties.

Unfortunately there is little guidance available about what each trade sector covers. There is a 'ready reckoner' on the HMRC website but if you enter a term it does not recognise, such as 'child minding', it unhelpfully says 'no match found'.

## The wrong rate

The trade sectors and flat rates change occasionally. The last alteration was effective from 1 April 2004 but HMRC does not write to businesses to let them know. You are expected to check the latest guidance on the HMRC website, which is not always easy to find. You leave yourself open to VAT penalties if you use an old flat rate after it has subsequently been amended.

## The wrong calculation

A common mistake is to apply the flat rate to your sales net of the VAT charged to customers. The flat rate scheme does not affect the amount of VAT you charge to each customer. You will still charge the VAT due on the sales invoices you send your clients, at the normal 17.5%, 5% or zero rates. The VAT you pay to HMRC, however, is calculated by multiplying your total supplies, including exempt supplies like rent, by the flat rate appropriate to your trade sector.

## Higher purchases

The flat rate scheme ignores your purchases for VAT purposes. If your supplies change, for example, you buy more expensive materials, it may be advisable to come out of the flat rate VAT scheme. You will then revert to reclaiming the VAT on your purchases against the VAT charged on your sales and your VAT position needs to be reviewed regularly.

VAT is a complicated area. Please contact Tom McCrone, Tax partner if you require advice.



Establishing that you are not resident in the UK for tax purposes can lead to substantial tax savings. In the modern world it has become easier to travel and, over recent years, the cost of flights has fallen considerably. This means that more people have become interested in the concept of becoming non-UK resident for tax purposes.

Strangely, tax law does not say much about what the term non-resident actually means. HMRC's interpretation and guidance is set out in their booklet IR20 which, in some situations, has

provided a pragmatic approach when looking at the issue of residence. The language of the booklet includes words like 'normally', which illustrates that HMRC will not always be bound by IR20.

A recent case has highlighted this issue. The case concerned an individual who had travelled widely during his lifetime and had kept some records of days spent in the UK. He had based his figures on HMRC's practice of ignoring days of arrival and departure.

HMRC argued that if days of arrival and departure

and also single days of presence were ignored then the picture was distorted. They argued that if an individual arrived on one day and left on the next that it should count as one day. The Commissioner accepted HMRC's approach.

This case illustrates the difficulties in establishing non-residency, especially where there is a lot of potential tax involved.

Talk to our tax department if this issue is of importance to you.



The partners take this opportunity to announce **Torquil MacFadyen's** decision to retire from Wylie & Bisset with effect from 31st May 2007.

Torquil qualified in 1976 with a Glasgow firm and joined Wylie & Bisset in 1985, from a predecessor of Ernst & Young and was promoted to partner in 1989.

Torquil will continue to work with and look after his clients, thereby ensuring a smooth handover to his colleagues on his retiral. He will continue to act as a consultant to the firm for three years.

The partners and staff wish Torquil a healthy, long and happy retirement.

## Additional corporate disclosures

If you are a company director or a member of a Limited Liability Partnership (LLP) you are no doubt aware that company law requires you to include certain particulars about your business on corporate stationery and other hard copy documents. As a reminder, two of the main statutory requirements are in respect of:

- **Company name**

This must appear on all business letters and other business documents including cheques, bills of exchange, orders for goods, invoices, receipts and notices and other official publications.

- **Other information**

All business letters and order forms must include:

- the company's place of registration (England and Wales, Scotland etc) and registered number
- the address of the registered office.

### New requirements

At the start of the year the government issued new regulations, effective from 1 January 2007, that extend these statutory disclosure requirements. Although the changes are simple in nature they are likely to require action by many companies and LLPs.

The changes outlined below apply equally to LLPs as they do to companies.

The main change is that the requirement to include company particulars has been extended to include websites and electronic documents. This means that it is now an offence not to include:

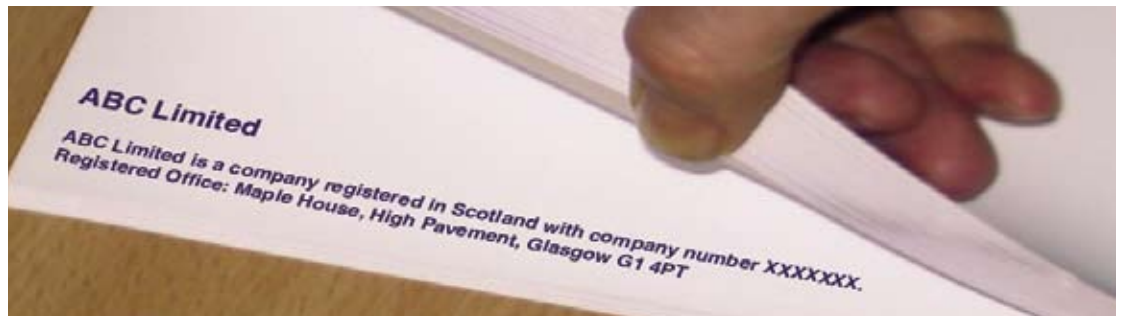
- the company's name
- its place of registration and registered number
- the address of its registered office

on all the company's websites and all its business letters and order forms that are in electronic form.

### Practical considerations

Many companies now conduct correspondence by email. Email messages are therefore potentially business letters in electronic form for statutory purposes. A practical method of ensuring that your company is compliant with the new law is to include the required details in the 'disclaimer footer' that often appears at the end of an email. Your email system could be set up to automatically include standard text on all emails sent.

Suitable additional words could be as shown below.



## Repaid or not repaid? - that is the question

**An employer can provide private fuel for company car drivers and a benefit-in-kind will arise. However, this benefit can be avoided where the cost of the fuel used for private purposes is repaid to the employer.**

Specifically the law requires employees to repay the cost of the private fuel 'in the tax year in question'. However, guidance states that, in cases where this does not happen, HMRC may accept this as being repaid in the year provided final settlement is made without unreasonable delay. For example where mileage records and repayments in the final months of the year take time to process.

In a recent case, two employees paid for all fuel for their company cars and kept mileage logs to record business mileage. They completed a monthly expenses claim, showing the total mileage travelled in the month, and then deducted the

business mileage recorded. The difference was shown as private mileage and they deducted 15p per private mile from the total spent on fuel in the month. The balance was then reimbursed to them by the company.

Enquiries by HMRC showed that the car mileage logs were inaccurate and that private mileage was underestimated, creating fuel benefits for the years concerned as the full cost of private fuel was not made good in those years. The employees later repaid all the monies they had previously received to try and cancel the fuel benefit arising.

HMRC won this case, creating a high tax bill for those concerned,

despite the concessionary treatment in HMRC's guidance. This case illustrates three particular points for those in a similar position:

- mileage records must be very good, so that private mileage can be accurately identified
- repayments of the private fuel must take place regularly, quickly and in the same tax year
- it may be simpler to submit expense claims for business mileage so that the company is not initially paying for all fuel.

Talk to our tax manager Alison Mackay if you would like to discuss this issue further.



**UK200Group**  
quality assured professionals



#### Disclaimer - for information of users

This newsletter is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this newsletter can be accepted by the authors or the firm.

Thursday, 5 April

09:00

TAX YEAR END

**Tax is a subject that excites very few people. It is easy to ignore awkward issues involving tax, such as those mentioned in this newsletter. Don't - it could cost you dear. It's a good idea to review your tax affairs at least once a year and the period leading up to the end of the tax year on 5 April is the best time to do this. We summarise the more important year end tax tips to help you identify areas that should be considered. As always we would be delighted to discuss with you the issues involved and any appropriate action you may need to take.**

## Income tax saving ideas for all the family

### Married couples

Consider the split of income between husband and wife. A transfer of assets (which must be outright and unconditional) may serve to redistribute income and reduce or eliminate higher rate tax liabilities. For example it may be possible to save in excess of £8,000 a year by moving £38,000 of savings income from an income-rich spouse to one with no income. This level of tax saving is unlikely to be possible for many but significant savings can be made by much smaller transfers of income. Moving just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (£5,035) will save £400 a year.

The tax treatment of married couples applies to same-sex couples who have entered into a civil partnership under the Civil Partnership Act.

Income arising from assets owned jointly but in unequal shares is automatically taxed in equal shares unless a declaration is made to HMRC stating that the asset is owned in unequal shares. This election can be made on a Form 17 but must be made before the income arises. Consider such a declaration when a new jointly owned asset is acquired. The exception to the equal splitting rule is dividend income from jointly owned shares in 'close' companies which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

Income tax savings may be made if you are self-employed. Your spouse could be taken into partnership or employed by the business. This could be just as

relevant for a property investment business producing rental income as for a trade or profession. Extreme caution must be exercised - HMRC are looking at such situations to ensure they are commercially justified.



Fund (CTF) has been introduced. The idea is to encourage tax-efficient savings by family and friends with the government's help to build a nest egg which the child can access once he or she reaches age 18. The government's initial contribution

amounts to £250 (£500 for low income families) with further payments promised once the child reaches age seven. Other contributions of up to £1,200 per annum can be added to the fund and although there is no tax relief on making the contributions the fund is tax exempt.

Income to use the child's personal allowance could be provided by:

- income derived from capital provided by relatives other than parents (grandparents, uncles, aunts etc)
- distributions from family trusts (set up by relatives other than parents)
- employing teenage children in the family business - remember there is now a National Minimum Wage of £3.30 per hour for 16 and 17 year olds.

Remember that dividend income is not an effective way to utilise the personal allowance - the tax credits are not repayable. Ensure other sources of income are available to use the allowance.

### And for those over 65

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £20,100. In such circumstances a move to capital growth or tax-free investments may preserve the higher age allowances.

A spouse could be employed by the family company. However the level of remuneration must be justifiable and payment of the wages must actually be made to the spouse. The National Minimum Wage rules may also impact.

### Children

Parents must remember that their children are also potentially within the tax system. It may be possible to utilise the children's personal allowances and starting/basic rate tax bands. However any income arising to a child but deriving from a parent will be taxed on the parent while the child is unmarried and under 18. This rule applies to income arising from outright gifts made by parents as well as to income from trusts set up by parents.

National Savings Children's Bonus Bonds (for children under 16) are a means by which parents can provide capital for their children and which earn tax-free interest.

For children born since September 2002 a Child Trust

## Using tax efficient investments

Some investments benefit from a favourable tax status. We consider the main ones below. Any investment decision should involve consideration of all the relevant factors, including the risk level and the need for income and capital in both the short and long term, as well as the tax advantages.

### Individual Savings Accounts

Individual Savings Accounts (ISAs) provide an income tax and capital gains tax free form of investment. The maximum investment limits are set for tax years. Therefore to take advantage of the limits available for 2006/07 the investment(s) must be made by 5 April 2007. You can invest either in a maxi ISA or mini ISAs. The maxi ISA route gives you the option to invest up to £7,000 (per tax year) either fully in stocks and shares or up to £3,000 in cash with the balance in stocks and shares. Under the mini ISA route, up to £4,000 can be invested in stocks and shares and up to £3,000 in cash. 16 and 17 year olds are able to open (mini) cash ISAs.

### Other investments

There is a wide range of **National Savings products**, eg NSB savings accounts, savings certificates and bonds. These are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

For those whose income may fall in the future, for example due to retirement, investments deferring income to a subsequent period may be attractive. For example **single premium life assurance bonds** and **'roll-up' funds** can achieve this effect.



The **Enterprise Investment Scheme (EIS)** allows new equity investment of up to £400,000 (from 2006/07 onwards) in any tax year in qualifying unquoted trading companies (including AIM). Income tax relief at 20% is available on the investment and capital gains tax exemption is given for shares held for at least three years.

Furthermore unlimited capital gains realised on the sale of any chargeable asset (including quoted

shares, holiday homes etc) may be deferred by reinvestment in EIS shares. An added benefit is that after two years of ownership EIS shares will qualify for business property relief for inheritance tax purposes.

A **Venture Capital Trust (VCT)** invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of the shares. Income tax relief, currently at 30%, is available on subscriptions for VCT shares, up to £200,000 per tax year, if the shares are held for at least five years.

## Pensions - plan ahead - don't take a chance on your future!

There are many opportunities for pension planning but the rules can be complicated. Furthermore the rules on the taxation of pensions changed very significantly in April 2006. The new regime includes a single lifetime limit (initially set at £1.5 million) on the amount of pension saving that can benefit from tax relief. This lifetime limit is measured when pension benefits are taken. There is also an annual limit on the maximum level of pension contributions (initially set at £215,000).

Pensions have received a particularly bad press in recent times for a variety of reasons. However the tax relief on pension contributions, still at 40% for a higher rate taxpayer, is attractive. Pension planning therefore forms an important part of a year end tax planning review.

Pensions simplification removes the distinction between company and personal pensions, therefore contributions can be made into both concurrently. Individuals can obtain tax relief on contributions up to £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make contributions to pension schemes. Further contributions can be made up to 100% of earnings, generally referred to as net relevant earnings.

Different rules apply to those paying old style 'retirement annuity premiums' under policies that started before 1 August 1988.

Directors of small companies should consider making additional employer's contributions to existing company pension schemes. If a spouse is employed by the company, consider including them in the company pension scheme or setting up such a scheme for the purpose. Even where salary levels are modest, such a scheme can provide significant benefits.

For accurate pension advice contact Brian McQuarrie, Wylie & Bissett Financial Services (WBFS) or email [brian.mcquarrie@wyliebissett.com](mailto:brian.mcquarrie@wyliebissett.com)



## National Insurance issues

### Entitlement to a state pension

Where a spouse is employed by the family business, the earnings are often kept below the National Insurance (NI) threshold to avoid payment of contributions.

For 2006/07 it is worth paying earnings of between £84 (the lower earnings limit) and £97 (the earnings threshold) per week. There will be no employees' contributions due on the earnings but entitlement to a state retirement pension and certain other benefits are preserved. No employer contributions are payable unless earnings exceed £97 per week in 2006/07. Note that the limits will be £87 and £100 per week in 2007/08. A PAYE scheme would be needed to establish the employee's entitlement to benefits.

### Small earnings exemption

For the self-employed there is a requirement to pay a flat rate contribution (Class 2). If your profits are low you can apply for exemption. The limit for 2006/07 is £4,465. If contributions have been paid for 2006/07 and it subsequently turns out that earnings are below £4,465 a claim for repayment of contributions can be made. The deadline for this claim is 31 December 2007. On the other hand it may be advisable to pay the contributions in any event in order to maintain a contributions record. The alternative voluntary Class 3 contributions are £5.45 a week higher.

## Family companies - maximising the potential, minimising the extraction costs



A director/shareholder of a family company can extract profits from the company in a number of ways. The two most common are by way of bonus or dividend. For every £1,500 net paid to the higher rate taxpaying individual, the cost to the company is £2,000 if a dividend is paid and £2,322 if a bonus is paid. This assumes the company is liable to corporation tax on its profits at the small companies rate of 19%, however, companies with taxable profits over £300,000, may well find bonuses more attractive. There are many issues to consider in making the decision but paying a dividend can often result in significant tax savings for some family companies.

If the payment of bonuses to directors or dividends to shareholders is contemplated, careful thought must be given as to whether payment should be made before or after the end of the tax year. This will affect the payment date for any tax and may affect the rate at which it is payable. Remember that any bonuses must be paid within nine months of the company's year end to ensure tax relief for the company in that period.

## Charity watch - please give generously!

The government has made favourable changes to the rules on tax efficient giving over recent years. There are a number of ways of securing tax relief on charitable donations.

**Example 1** - Alex makes a one-off donation under Gift Aid. The scheme potentially applies to any charitable donation large or small, whether regular or one-off. The charity is able to claim basic rate tax (at 22%) back from HMRC. As a higher rate taxpayer Alex will also qualify for 40% tax relief on the gift. Tax relief against 2006/07 income is possible for charitable donations made between 6 April 2007 and 31 January 2008 providing the payment is made before filing the 2006/07 tax return.

**Example 2** - Ben agrees to a regular deduction from his salary

under the Payroll Giving scheme. There is no upper limit on the amount that can be donated in this way. His tax bill is reduced as his PAYE liability is calculated after deducting the charitable donation.

**Example 3** - Camilla decides to leave a substantial bequest to charity in her Will. This saves inheritance tax.

**Example 4** - David gives some quoted shares to a charity, on which there is a substantial unrealised capital gain. However no CGT arises on a gift to a charity. The charity can then sell the shares free of CGT providing it applies the proceeds for charitable purposes. Furthermore income tax relief is available to David on the value of the shares gifted. The same rules apply to gifts of land and buildings.

## Capital gains tax - could you benefit from planning ahead?

If you have assets that could give rise to capital gains tax (CGT) when sold then here are some points to consider.

Each individual has an annual exemption of £8,800 for CGT purposes. Review your chargeable assets and consider selling before 6 April 2007 to utilise the exemption. Note that husband and wife both have their own annual exemption. A transfer of assets between them may enable them both fully to use this. Bed and breakfasting (sale and purchase) of shares is no longer effective. However sale by one spouse and repurchase by the other, or sale outside an ISA and repurchase inside, can achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

Children also have their own annual exemption and this may be utilised by investing for capital growth.

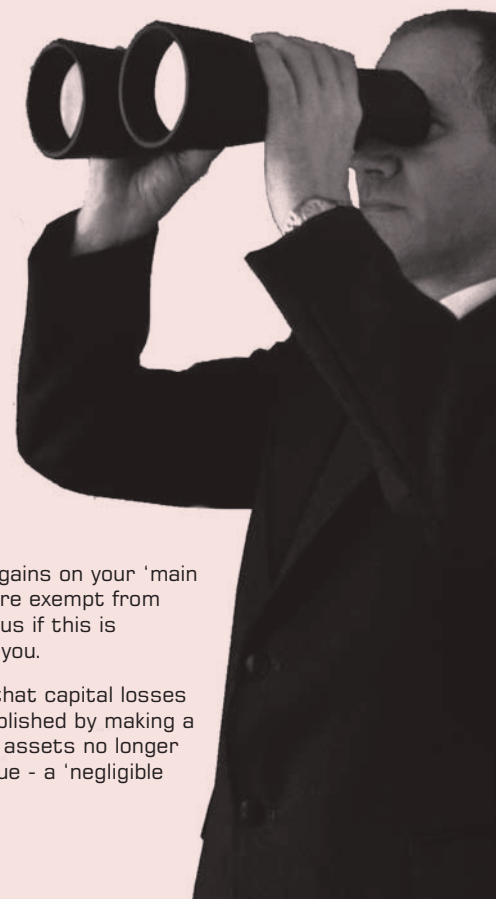
Traded or 'second hand' endowment policies (SHEPs) can also produce gains to utilise the annual exemption. An unwanted policy is acquired and paid to maturity. On maturity, the proceeds payable less the acquisition cost and premiums paid creates a capital gain. Careful planning could lead to £8,800 of gain per family member being realised every year tax-free.

If a planned disposal is likely to give rise to a gain in excess of the annual exemption and therefore a CGT liability, then it may be better to defer it until after 5 April 2007 as this will delay the payment of CGT. The due date will be deferred from 31 January 2008 (for 2006/07) to 31 January 2009 (for 2007/08).

Deferral of a gain to a later date may also give a higher rate of taper relief. This can make a very significant difference to the ultimate chargeable gain. Capital gains can be deferred by investing via the EIS scheme.

If you have two homes then consider making an election so that future gains on your 'main residence' are exempt from CGT. Talk to us if this is relevant for you.

Remember that capital losses can be established by making a claim where assets no longer have any value - a 'negligible value' claim.



## Deadlines looming for employers

Ignore them at your peril! Remember that in most instances interest will be charged on tax paid late and penalties can be levied if forms are late or incorrect.

**19 April 2007** - Interest will run on any 2006/07 PAYE and NIC deductions not paid over by this date (22nd for electronic payments).

**19 May 2007** - Employers' year end returns (P35/P14/P38) due for submission.

**31 May 2007** - Employees must be provided with their P60 (certificate of pay and tax deducted).

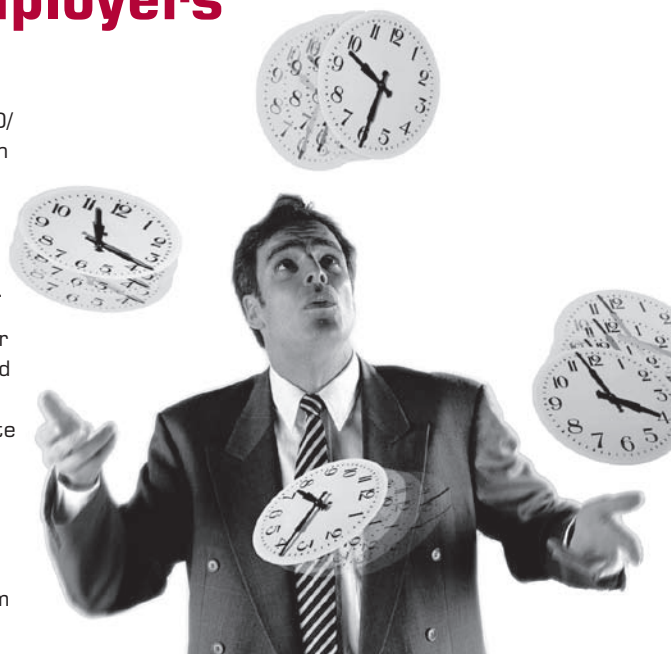
**6 July 2007** - Submission of P11Ds and P9Ds returning

details of expenses paid and benefits provided to employees and directors. A copy of the P9D/P11D must also be given to each employee.

A dispensation, allowing certain items to be omitted from the forms, can be granted by HMRC.

**19 July 2007** - Class 1A NIC for 2006/07 on most benefits in kind provided to employees must be paid. Interest runs from this date on late payments.

**19 October 2007** - PAYE settlement agreement liabilities for 2006/07 due, together with Class 1B NIC. Interest runs from this date on late payments.



## Benefits for employees

Much of the planning for employment income (including directors' remuneration) focuses on the provision of tax efficient benefits. However most taxable benefits in kind give rise to employers' (but not employees') national insurance. To discuss remuneration packages and the provision of benefits further, please contact our payroll department.

## Employers' action points

Contact us if:

- you have any concerns over the accuracy or completeness of your PAYE records
- you need assistance with the completion of P11Ds or application for a dispensation.

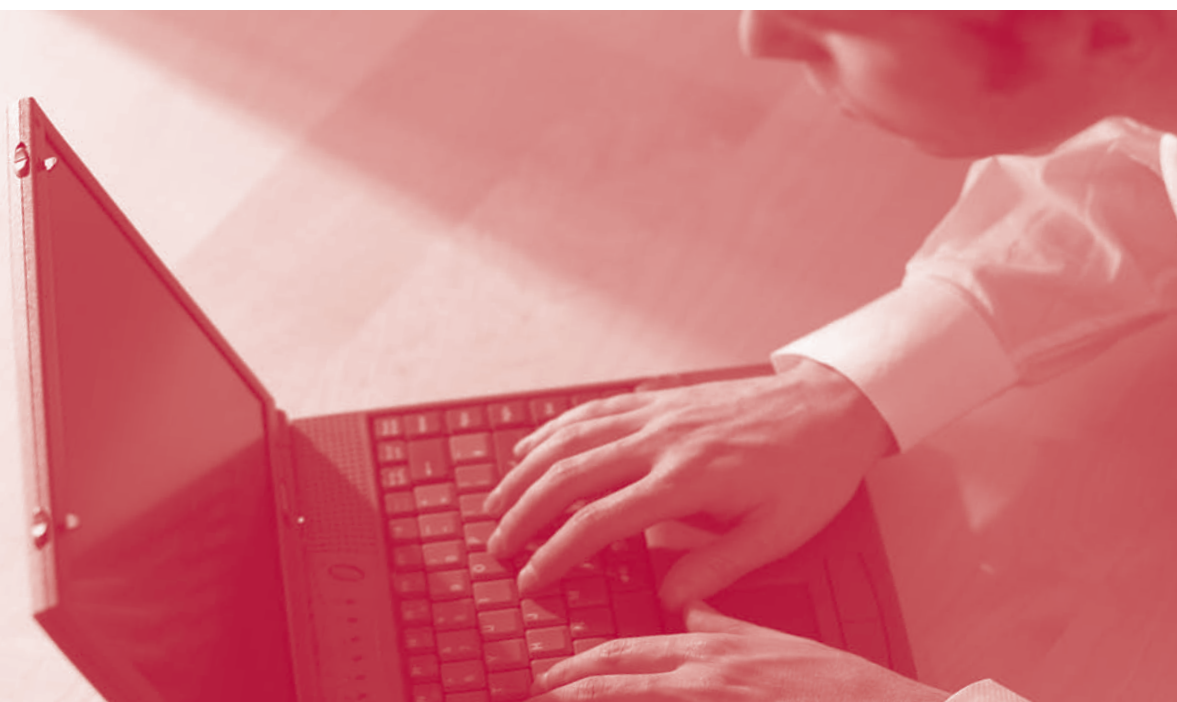
Have you thought about:

- a PAYE settlement agreement as a useful way to account for tax on minor benefits provided to employees
- obtaining a dispensation.

## Electronic filing and payment

All employers with at least 50 employees must file their end of year returns electronically. Employers with fewer than 50 employees do not have to start online filing until 2009/10 but there are tax-free incentives for early take up. Large employers (those with at least 250 employees) must also pay their PAYE electronically.

Contact us if you would like help with your payroll procedures.



### Disclaimer - for information of users

This newsletter is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this newsletter can be accepted by the authors or the firm.