

WINTER 2011

## PAYE Problems

HMRC has stopped sending copies of PAYE notices of coding to tax advisers. In our experience, significant numbers of PAYE codings issued by HMRC are wrong, many seriously so. If you receive a notice of coding, please send it to us so that we can check it: it is no longer safe to assume that we will already have seen a copy.

## In the News

In September, tax partner Paul Aplin was interviewed on BBC News 24 about the problems with HMRC's new PAYE computer system. He was also quoted in the Independent and over recent months he has been quoted on tax issues in the Times, Financial Times, Daily Mail and in Accountancy Age and Taxation magazines. In his role as Chairman of the ICAEW Tax Faculty Technical Committee, he was recently called to give evidence on HMRC's service standards to the House of Commons Treasury Select Committee.

## iXBRL

From 1 April, all companies will be required to file their accounts and tax computations with HMRC using iXBRL, a special electronic process that "tags" items of data. We were one of the first firms in the UK to file iXBRL computations and accounts to HMRC and we have worked closely with HMRC and with our software suppliers Iris to perfect the submission process. We have remained at the cutting edge of electronic filing since filing the UK's first ever electronic tax return back in 1997 – thirteen years on, just short of 80% of personal tax returns nationally are now filed electronically.

## Beware Unreal Refunds

Beware of scam emails purporting to be from HMRC telling you that you are owed a tax refund: HMRC will never contact you about a refund by email. Under no circumstances should you follow the links in such emails or give personal information.

# Changes afoot

31 January saw two changes to the firm, with Nigel Banks retiring and Amanda Gunter being admitted as a partner.

Nigel began his career in London, qualifying in 1975. He took fourth place in the order of merit in the Institute's final admitting examinations and won the prize for the auditing paper. After a spell with KPMG in Bristol he moved to Taunton in 1978, subsequently becoming a partner with Apsleys. In 1999, Apsleys Taunton office merged with A C Mole & Sons. Nigel will not be putting his feet up in retirement – he will continue his involvement with local charities and as Recorder of Taunton's ancient Court Leet.

And there will be more free time to devote to bird watching and to following the fortunes of Exeter City.

Amanda joined Apsleys in 1995 and qualified as a member of the Association of Accounting Technicians in 1998. After the merger with A C Mole & Sons in 1999 she qualified as a Chartered Accountant and as a Chartered Tax Adviser. For the past ten years she has specialized in tax and now handles the tax affairs of our largest corporate groups as well as managing a mixed tax portfolio covering a wide range of clients. She has considerable experience of corporate acquisitions, disposals and restructuring. Away from the office Amanda's time is fully occupied looking after her young family.



# All change *again* for pensions

In 2006 radical changes were made to the rules for contributions to pension schemes. Further significant changes were made in 2009 to limit the amount that would attract higher rate tax relief. The rules for the current tax year and those proposed for the future were extremely complicated.

The Coalition Government has looked at the rules and while it has decided to stick with the last Government's changes for the current year, it has thankfully proposed much simpler rules going forward.

The new Government's proposed changes are:

- Currently, the annual limit for contributions by someone who is employed or self employed is the lower of £255,000 and their earnings for the year. From 6 April 2011, the £255,000 limit will fall to £50,000.
- From 6 April 2011 relief will be given at the individual's marginal tax rate, potentially up to 50%
- The lifetime allowance – the maximum that an individual can contribute into their pension fund – will fall from £1.8 million to £1.5 million from 6 April 2012, but those who have already exceeded £1.8 million will be protected.
- Those who contribute less than £50,000 in a year will be able to carry forward unused relief for up to three years. In deciding how much relief is available, it will be assumed that the relief was available at £50,000 each year for the tax years ended 5 April 2009, 2010 and 2011.
- Things are not so straightforward for defined benefit schemes. The contribution for an employee in a defined benefit scheme will be deemed to be 16 times the increase in annual pension benefit.
- The maximum tax free lump sum will remain at 25% of the lifetime allowance.

Although the reduction from £255,000 to £50,000 is considerable, in practice very few people made contributions at or above that level.

With higher rate tax now at 50% using pension contributions to mitigate tax liabilities is potentially more attractive than ever. And while speculation that relief at 50% and even 40% may be withdrawn at some point has died down, the possibility cannot be completely discounted. It may well be a case of catch it while you can.

## Are you covered?

When was the last time you reviewed your life assurance? All too often we speak to clients who have no life cover. While you should always balance the cost against the potential benefits, a life assurance policy can be an excellent way of providing a sum of money to partly or wholly cover Inheritance Tax (IHT) liabilities. It is, however, important to ensure that the payout falls outside your estate (or else it will add to the IHT bill rather than reducing it). Insurance will generally only ever be one element of good IHT planning, but it can be a vital one.

And if you are in business, have you considered insurance to cover you for inability to work because of sickness or for the loss to the business of a key individual through death or illness? If you are not insured, could you cope?

*While we cannot advise on specific products, we would be pleased to introduce you to an adviser who can.*

# Making things simpler

Nothing is ever simple – certainly not tax. In the past ten years or so, the amount of UK tax legislation has almost doubled.



Left to Right: OTS Chairman John Whiting, Treasury Minister David Gauke MP and Paul Aplin in conversation.

The Coalition Government has thankfully recognised the problem and has committed to doing something about it. Their first Finance Bill was very much thinner than the Bills we had become used to in recent years and the date of the 2011 Budget was announced months in advance. They have also set up an Office of Tax Simplification (OTS) within H M Treasury and have asked a number of people outside the Civil Service and Government to contribute to its work. Paul Aplin has been asked to join one of two steering committees overseeing this work. The fact that the Government has sought input from people who deal with small and medium sized businesses and with individuals is encouraging.

The UK has more than one and a half times the volume of tax legislation that the USA has, despite the fact that the USA has over five times the UK's Gross Domestic Product. That is an absurd situation. The OTS has identified over a thousand tax reliefs and is now consulting on which reliefs could be simplified and which may be redundant. A recommendation will be made to ministers in due course. The scale of the problem is huge, but an important corner has at last been turned.

# Budget Preview

One major change in approach has been the publication not only of the Budget date – in the past a well kept secret until the last minute – but of much of the draft legislation for the 2011 Finance Bill.

This gives an unprecedented opportunity for draft legislation to be scrutinised and commented on and has to be a better way of doing things.

One of the most welcome announcements is the retention of the special tax rules for furnished holiday lettings (FHL) which the previous Government had intended to scrap. This will come as a relief to many in the tourism industry and particularly to farmers and land owners who have diversified into providing holiday accommodation. The rules are being tightened however and to qualify for FHL relief, the period the property has to be available for letting will increase (from 6 April 2012) from 140 to 210 days and the period of actual letting required will increase from 70 to 105 days. UK and non UK lettings will also be distinguished and losses on one will not be available for offset against profits on the other.

Losses will also no longer be available for offset against non letting income from 6 April 2011. The FHL Capital Gains Tax reliefs remain intact. If you have FHL properties please talk to us about the changes sooner rather than later; there may well be scope for tax planning.

The announcements in relation to pension tax relief are covered on page two of this edition of Proactive. Those looking to draw their pensions will welcome the announcement that the obligation to purchase a pension annuity by age 75 is to be scrapped. There are also changes to the rules for Employee Benefit Trusts.

So will there be any surprises left for Budget Day? Despite the new openness, it is likely that this Chancellor will, like his predecessors, find the temptation to pull rabbits out of the hat on the day irresistible.



# Going Green

Going green isn't just good for the environment; it can be good for your tax bill too.

## Here are seven green tax breaks:

If you are in business and own a car, the kind you buy can make a huge difference to the business tax you pay. If you buy a car with CO<sub>2</sub> emissions of over 160g/km the cost is written off at 10% a year on the reducing balance. If you buy a car with CO<sub>2</sub> emissions of over 110g/km but less than 160g/km the cost is written off at 20% a year on the reducing balance, a considerable difference. If, however, the emissions do not exceed 110g/km the full cost of the car can be written off for tax in the year of purchase.

There is also an incentive to think green if you are an employee and you have a company car. The value of the taxable benefit is found by multiplying the original list price of the car by a percentage related to the CO<sub>2</sub> emissions. The percentage ranges from 5% for cars with emissions of 75g/km or less to 35% for cars with emissions of 230 g/km and above. The cash cost to a higher rate taxpayer is of course greater than that to a basic rate taxpayer and anyone exposed to the new 50% rate will be hit harder still by a high percentage.

If all of this makes you think that it might be better to buy a bicycle, there are tax breaks available here too. An employer can lend a bicycle (or equipment such as a helmet, panniers, lock and chains and reflective clothing) to an employee free of tax. The bike must be used "mainly" for travelling between the employee's home and workplace or between workplaces but there is no requirement to keep a log of journeys. The employer can claim capital allowances on the cost of the bike, reclaim the VAT on purchase and potentially save employers national insurance too. The scheme must be made available to all employees and there are, as you would expect, rules to be complied with.

While the tax free business mileage rate for cars (40 pence per mile for the first 10,000 miles and 25 pence per mile thereafter) is fairly well known, the rate for motorcycles (24 pence per mile) is less well known and the rate for bicycles (20 pence per mile) less so still.

Out of town employers – like A C Mole & Sons, can provide a free – and tax free – bus service to staff, reducing the number of individual journeys made.

Employers can also offer an incentive to employees to share transport on business journeys, paying the driver up to 5 pence per business mile per passenger free of tax and national insurance.

Enhanced capital allowances are available on some energy and water saving equipment. The allowances effectively write off the entire cost of the equipment in the year of purchase, but the conditions are strict. Only items appearing on a special list qualify.

*And just to prove that we act on our own advice, we recently received a Smarter Travel Management award from Somerset County Council for our policy of encouraging sustainable transport and smarter travel management – including both a tax efficient cycle to work scheme and bus service into town.*

