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BUSINESS UPDATE

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Offshore accounts latest target

It's amazing how many people still believe that income from offshore accounts is not subject to UK tax!

HMRC have now received information from many banks about offshore accounts and to encourage taxpayers to declare their offshore income HMRC have announced what the newspapers are calling a 'Tax Amnesty'. The so called 'amnesty' actually only applies to the penalty that will be charged on unpaid tax, which HMRC have promised to cap at 10% if a voluntary declaration is made before 22 June 2007. HMRC could in theory impose a 100% penalty. The tax and penalties due will need to be paid by 26 November 2007.

The penalty cap also applies to undeclared UK income if a declaration to a local HMRC office and full payment of the tax due is made by the same dates.

If you have any concerns about the disclosure facility, please contact us as soon as possible, as the timescale to take advantage of the facility is short.



This year's Budget was unusual in two respects. It was the last to be presented by Gordon Brown and it gave a picture of our tax system not just for the current tax year but set out some principles which will not be fully in place until 2009/10.

To get from where we are now to the revised tax system involves a number of complex changes which are being introduced in different tax years. However by 2009/10 the key part of the changes is the alignment of the income tax and National Insurance (NI) bands.

The starting rate band on earned income disappears, the basic rate of income tax falls to 20% but the amount of NI payable goes up for many due to the jump in upper earnings limit so that this limit is aligned with the point at which higher rate tax is payable.

So considering income tax and NI together on employment income, there would be three effective tax rates:

- 0% on income up to the personal allowance
- 31% (20% income tax and 11% NI) on income in the basic rate band
- 41% (40% income tax and 1% NI) for higher rate taxpayers.

The self employed will pay Class 4 contributions at 8% on the profits falling within the basic rate band so their tax rates are 0%, 28% and 41%.

Do these changes mean you are better or worse off? The answer for many is that there will be little difference in the overall tax and NI bills. Broadly what has been saved in income tax will be taken back again in increased NI.

There the simplification ends because if your main income

consists of interest or dividend income, the starting rate band remains and the tax rates will be:

Tax Year 2009/10	Bands (ignoring inflation)	Tax Rates	
		Interest	Dividends
Personal allowance	5,225	0%	10%
Starting rate band	2,230	10%	10%
Basic rate band	38,395*	20%	10%
Higher rates start at:	40,625*	40%	32.5%

*Estimated from changes announced to NI bandings

So taxpayers with little earned income end up paying no NI and less tax than taxpayers with earned income. This is a rather strange conclusion for those with long memories as in times gone by the tax system charged investment income to a surcharge.

The Budget also gave us significant changes to corporation tax rates with profits of up to £300,000 already increased to 20%, and set to rise again in April 2008 to 21%, and once more in 2009 to 22%.

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The previous ten Budgets of Gordon Brown

In addition to looking back at this year's Budget we thought we would also take a very brief look at the previous ten.

There have been some highs and lows. His decision to remove repayable tax credits on dividend income for pension funds in his first Budget has eventually been held to be responsible by many for the poor financial health of pension funds. But there have been positive developments for example:

- the new pension tax relief rules from April 2006 allow someone with, say, £150,000 of earned income to be able to make a pension contribution of the same amount and get full tax relief
- the capital gains tax taper relief rules first introduced in April 1998 may give a taxpayer with shares in an unquoted trading company or with a commercial property used by tenant for their trade an effective 10% tax rate no matter how large the gain.

Time will tell how much of the existing taxation rates and reliefs survive the actions of future Chancellors.



How to pay the National Minimum Wage

The National Minimum Wage (NMW) has been in force since 1999 but there is still some confusion about who is entitled to receive it and what deductions can be made.

Currently all workers aged 22 and over must be paid at least £5.35 per hour, which will increase to £5.52 from 1 October 2007. Younger workers aged 18 to 21 must be paid at least the development rate of £4.45 per hour, which will also increase on 1 October 2007 to £4.60. The development rate also applies to anyone, of any age, who is receiving accredited training during the first six months of an employment contract.

There is also a lower rate of £3.30 per hour that must be paid to workers aged 16 and 17, who work after the

compulsory school leaving date. This date varies across the UK. In England and Wales it is the last Friday of June of the school year in which the individual became 16. This lower rate will increase to £3.40 on 1 October 2007.

None of the NMW rates apply to apprentices aged under 19, or those aged 19 and over in the first year of their apprenticeship. They also do not apply to directors who do not have a service contract with their own company.

Benefits in kind provided to the workers generally do not

count toward the NMW, even if the benefit is taxable. Where the employer provides free accommodation, they may offset up to £4.15 per day against the worker's wages to cover costs, and this includes the cost of heat and light provided with the accommodation.

The NMW rules can be complicated and the government are encouraging HMRC to be much tougher in their enforcement. Please talk to us if you have any concerns.

Implementation of Companies Act 2006

The new Companies Act received Royal Assent in November 2006 and, as promised, the government has subsequently issued consultation documents on a number of the Act's detailed provisions.

Published at the end of February 2007, the consultation documents included an overview of the commencement timetable. This confirmed the government's intention that all parts of the Act would be commenced by October 2008. October 2007, April 2008 and October 2008 emerged as the common commencement dates, as the Act will be implemented in a number of stages.

The sections of the new Act that will govern company accounts and reports and audit will take effect from 6 April 2008. Sections dealing with new company formation and constitutional matters will take effect from 1 October 2008, although sections dealing with resolutions and meetings will take effect from an earlier date of 1 October 2007.

The first two Commencement Orders, which brought individual sections of the new Act into force, have also been issued. The sections introduced include those enabling:

- the further use of electronic communications with shareholders
- Community Interest Companies to be operated in Northern Ireland.

Certain sections of the 1985 Companies Act have also been repealed.

These include:

- restrictions on public companies (and private company subsidiaries of public companies) appointing directors over the age of 70
- the requirement to maintain a register of directors' interests, although there are other relevant requirements for listed company directors.

Most of the new Act's provisions will come into force on the dates prescribed by Commencement Orders.

We will continue to keep you up to date with the implementation of the new Act. If you have any further questions about how the Act may affect you and your company please contact us.



Should you buy more shares or make a loan?

When you are considering making a further investment in your company you may be faced with this decision; whether to provide the funds as a loan, or buy further shares in the company.

A loan may seem the more straightforward and secure option, as the capital should be repaid according to the terms agreed, and interest will be payable whether or not the business makes a profit. However you won't directly make a profit from the loan itself if the business is later sold for a significant gain. To realise those gains you need to hold shares in the company. If you are already the majority shareholder in the company this may not be an issue.

Looking at the downside; if the company goes bust and your loan is not repaid you should be able to claim tax relief for capital loss. As long as the funds you provided were used for the trade, the company was not quoted and

certain other detailed conditions are satisfied you will have a capital loss. This can be set against capital gains you make from that point on, but as you already have an annual exemption of £9,200 to set against capital gains, the loss may not be that useful.

If you opt for more shares in the company, and the business fails, the loss you suffer may be available to reduce your income tax for the year of the claim. This is far more useful than a loss that can only reduce your capital gains. However to claim the loss against income you must subscribe for new shares and not buy them second-hand from another shareholder. The company must also be unquoted, trade mainly in the UK, and not be

involved in a range of non-qualifying trades that include leasing and property.

The decision as to how to finance the expansion of a company can be complex. Please contact us if you would like to discuss this matter further.

Using your home for business

HMRC have now given some guidance to the self-employed on what costs are potentially allowable and how to apportion the costs associated with your home when you use that property partially for your business.

The main point is that HMRC are now explicitly allowing a proportion of the fixed costs associated with the home including mortgage interest, insurance, repairs and maintenance.

You need to consider these questions:

1. What area is used for business compared to the total area of the property?
2. How long is it used for and is the area used for anything else?
3. What fixed costs have been incurred over the year?
4. What other services are consumed and are they metered?

For the first question an approximation of the number of rooms is acceptable. So if you use one room out of eight, use the fraction 1/8.

Next work out the time in each day the room is typically used for business purposes and the time used for other purposes. Also consider whether the room has a primary purpose of being used for your business (eg an office) or is it primarily for some other use (eg a bedroom).

Then comes the tricky bit. A proportion of the fixed costs will be allowed according to the answers from questions 1 and 2. Say one room out of eight is a bedroom and an office. It is used for 8 hours each day as an office and the total fixed costs are £4,000. A reasonable business proportion of the fixed costs may be: $1/8 \times 8/24 \times £4,000 = £167$. Alternatively if the room is rarely used as a bedroom, a reasonable proportion may be $1/8 \times £4,000 = £500$.

The cost of metered services can be apportioned according to area and usage,



remembering that little light and heat is used while you are asleep. Telephone bills, including the line rental, can be apportioned according to the cost of business calls made compared to the total cost of all calls, and a similar reasonable apportionment can be made for a broadband internet connection.

When this has been done, the total business cost must be reasonable for the use made of the property, so stand back and consider the result. If the costs are small you can use a reasonable estimate, such as £2 per week.

The cost for the use of your home can be claimed either as part of your accounts expenditure or on your self assessment tax return.

Is the cost of training tax deductible?

If you pay for training courses for your employees the cost is tax deductible for your business. Your employees are not taxed on the value of the training, as long as the course relates to their work or to some task they may have to perform as part of their job.

The same does not apply if the employee pays for the training directly. An employee cannot claim a tax deduction for training costs unless the training was actually carried out as part of their job, not to prepare them to do the job. It is highly unlikely that an employee who pays training costs personally will obtain any tax relief for the costs, so if the cost is high you could agree with the employee to reduce their salary to compensate.

Training costs for the self-employed are not automatically tax deductible. If the training tops up the existing knowledge or skills of the individual, the cost can be deducted from the business profits. However if the training is to develop completely new skills, HMRC view this as capital expenditure. The cost cannot be deducted for tax purposes and there is no mechanism for spreading the cost of the new skills training over several years.

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Are you entitled to a full state retirement pension?

The issue of whether or not you will be entitled to a full state retirement pension is complex but changes included in the Pensions Bill are intended to simplify this.

The National Insurance Contributions Office in Newcastle issue a deficiency notice to employed persons whose earnings and national insurance (NI) contributions have not been sufficient in a particular tax year for that year to count as a 'qualifying year'. These notices invite you to pay additional contributions for the year. Although these notices should not be ignored, as there are time limits on making additional contributions, it may not be advisable to make additional payment at this stage because of the Pensions Bill proposals.

What is your state pension entitlement?

Your state pension entitlement depends on a number of factors which include:

- your age
- your sex
- your (NI) contribution history.

Those years for which you have paid sufficient NI to ensure a state pension entitlement are known as 'qualifying years'.

An NI 'credit' may be given for any of the years for which you have not paid sufficient or any contributions. NI credits are given in a number of situations and there are proposals in the Pensions Bill to increase the circumstances where credits will apply.

How many qualifying years do you need for a full state pension?

In broad terms, a male pensioner is entitled to a full basic pension if he has paid or been credited with the requisite number of NICs for 44 years, starting with the contribution year in which he became 16 and ending with the contribution year ending before the year in which he became 65.

Women who reach the age of 60 before 6 April 2010 currently need 39 years. Between 2010 and 2020 the state pension age for women is being gradually increased to 65 so the number of qualifying years a woman needs will gradually increase to 44 years.

However the Pensions Bill proposes that the qualifying years will be reduced to 30 years for those reaching state retirement age from 6 April 2010.

Where can you obtain a forecast of your pension entitlement?

A forecast of your pension entitlement can be obtained from the Pensions Service (part of the Department for Work and Pensions). An application form can be obtained from www.thepensionservice.gov.uk

If you are an employer your employees may find a copy of this article useful.

