

Hobsons : Newsletter September 2007

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Our newsletter this month covers the administration of dividends paid by small companies, coping with current delays in the VAT registration process, inheritance tax and business property and finally a note of tax free benefits which can be provided to retired employees by their employers.

The next issue of our newsletter will be published on Thursday 4th October 2007.

Newark Business Fair

We are pleased to announce that we will once again be sponsoring the Newark Business Fair. The event will be held at Kelham Hall, Newark from 12 noon until 7pm and admission is free.

Come along and meet us on our stand and maybe join one of the thought provoking presentations being run in the lecture room.

How about meeting like-minded entrepreneurs and promoting your business at the Speed Networking Lunch?

To book a place at the lunch or to book a stand please ring Cassandra Holmes at the Newark Advertiser on 01636 681234.

National minimum wage

From 1 October 2007 the National Minimum Wage will increase again as follows.

- Adult rate (workers aged 22 and over) will increase to £5.52.
- Development rate for 18-21 year olds will increase to £4.60.
- Development rate for 16-17 year olds will increase to £3.40

16 and 17 year olds rate

The Government accepted the Low Pay Commission's recommendations for a new rate for 16 and 17 year olds (above compulsory school leaving age) in their 2004 report.

This increased to £3.30 in October 2006 and will increase again to £3.40 from October 1st 2007. Please note that 16 and 17 year old apprentices are exempt from the young workers rate and will go onto the appropriate rate when they have gained their qualification / trade, this is usually in the second year of their apprenticeship.

Compulsory School Age

It is important to be mindful of the compulsory school age – some children leave school early and before you employ them, you need to be certain they comply with certain criteria. It is also as well to check that they have a national insurance number because if not, it will make payment of wages difficult. There are also health and safety implications for young workers that need to be observed.

The definition of Compulsory School Age is as follows:

In England and Wales: a person is no longer of compulsory school age after the last Friday of June of the school year in which their 16th birthday occurs.

In Northern Ireland: a person is no longer of compulsory school age after the 30th June of the school year in which their 16th birthday occurs.

In Scotland: pupils whose 16th birthday falls between 1st March and 30th September may not leave before the 31st May of that year. Pupils aged 16 on or between 1st October and the last day of February may not leave until the start of the Christmas holidays in that school year

Dividends - getting the paperwork right

If you run a small limited company and take part of your remuneration as a dividend, make sure you attend to the administration - get the paperwork right!

Dividends are treated as part of your income and as long as you remain a basic rate taxpayer there is no further tax to pay - in effect the company pays the basic rate tax for you. If you are a higher rate tax payer you will be assessed for the higher rate element in your annual self-assessment calculation.

When you make a dividend payment you need to generate two pieces of printed evidence:

1. Appropriate minutes sanctioning the dividend and
2. Dividend vouchers setting out the amount of the dividend, tax deducted etc.

If you don't provide this basic evidence you may give the Revenue an excuse to change the status of the payment.

For instance they may assert that the payment was not a dividend but a loan to the director - this would create benefit-in-kind charges for director/shareholders and a 25% corporation tax charge for the company. (The 25% tax charge is recoverable but potentially there could be a considerable delay in receiving a refund.)

Alternatively if the dividend is a regular payment, say monthly, the Revenue may try to argue that the payment is taxable as shareholder's salary. Assuming of course that the shareholder is a salaried employee or director. This would create unplanned National Insurance charges for the shareholder and the company, as well as income tax charges, with or without penalties.

If you need assistance preparing the required minutes and dividend vouchers or general advice and guidance please call.

VAT registration - coping with delays.

H M Revenue & Customs are currently struggling to cope with the number of new registrations for VAT - there are considerable delays. Businesses that have sent in the VAT1 registration form may have to wait months before receiving their VAT registration number.

This creates a difficult issue for these businesses. If you are required to register by a certain date, you must account for VAT to be added to your sales from this date - unless you sell goods or services that are normally zero rated or if your trade does not normally issue VAT invoices, say a hairdresser. However you cannot issue a VAT invoice until you are notified of your VAT registration number.

You will also have to secure the co-operation of your customers.

Two possible strategies you could employ between the date you are required to account for VAT and the receipt of your VAT number from HMRC are set out in the following paragraphs.

1. Increase your price to include VAT. Although you cannot charge VAT before you are registered or show VAT as a separate item on any invoices you issue, you can change your prices to include VAT. You will need to explain to your customers that you will be sending them VAT invoices later - the following words should be added to your invoice:

"This invoice is raised pending a VAT registration number. A full VAT invoice will be issued on receipt of the VAT registration number."

Once you have your registration number you should send replacement invoices, showing VAT, within 30 days. If you have asked for voluntary registration you will need to start accounting for VAT from the registration date you asked for on your application form, as long as you actually made supplies/provided services from that date.

2. Invoice net amount before VAT is added. An alternative strategy is to issue your customers with an invoice that shows the net sale value (before VAT is added). Agree that you will send a

further VAT only invoice when you are issued a registration number. This will require the co-operation of your customers as they will be processing, and hopefully paying, two invoices for each supply. (One for the net sales value and one for the VAT.)

If you need our help in setting up a "coping" process, to bridge the period before you receive your VAT number, do call.

Finally do not forget to revise your cash flow management so that you save the VAT added to your sales ready for the payment of your first VAT return.

Inheritance Tax and business property.

Ordinarily business property qualifies for a 100% exemption from inheritance tax. This article highlights a particular problem for the estate of business property owners when the time comes to consider inheritance tax - usually date of death. The following comments only apply if you own the property personally and the property is used by your company or a trading partnership of which you are a member.

- If you own the property personally business property relief is restricted to 50% of the value of the property used by the company and
- This 50% is only available if you own more than 50% of the shares in the company when the property is subject to an inheritance tax charge.

Accordingly if you have given away your shares prior to your death it is likely that no relief will be given.

It would of course be possible to transfer the property into the company's ownership prior to your demise but this would trigger a stamp duty land tax charge and thus limit the effectiveness of the plan.

Of course in the real world other taxes need to be taken into account when planning for the acquisition and disposal of business property, particularly capital gains tax. If you are considering the purchase or sale of commercial property and would like to discuss strategies to minimise the inheritance tax and other tax risks please contact us and make an appointment to meet.

Post retirement benefits.

On Budget Day the Revenue clarified its position regarding the provision of continuing benefits to retired employees. The following benefits will not be taxable. The first tax year affected by this announcement is the year ending 5 April 2007.

Non-taxable benefits are:

1. Continued provision by former employers of accommodation and related removal expenses.
2. Welfare counselling.
3. Recreational benefits.
4. Annual parties and similar functions costing up to £150.
5. Equipment for disabled employees.
6. Writing of wills costing up to £150.
7. Benefits where the right to the continuing benefit arose on retirement BEFORE 6 April 1998.

Tax Diary September/October 2007

1 September 2007 - Due date for corporation tax due for the year ended 30 November 2006.

19 September 2007 - PAYE and NIC deductions due for month ending 5 September 2007. (If you pay your tax electronically the due date is 22 September 2007)

19 September 2007 - Filing deadline for the CIS300 monthly return for the month ending 5 September 2007.

19 September 2007 - CIS tax deducted for the month ending 5 September 2007 is payable by today.

1 October 2007 - Due date for corporation tax due for the year ended 31 December 2006.

19 October 2007 - PAYE and NIC deductions due for month ended 5 October 2007. (If you pay your tax electronically the due date is 22 October 2007)

19 October 2007 - Filing deadline for the CIS300 monthly return for the month ended 5 October 2007.

19 October 2007 - CIS tax deducted for the month ended 5 October 2007 is payable by today.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this newsletter are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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