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Introduction

During late November early December we are due the Chancellors Pre-Budget Report. We can expect announcements that will no doubt change elements of the UK tax system and whilst we do not intend to speculate on what might happen, we will of course keep you informed.

This month we have included information on VAT for owners of Holiday Let Property, the tax consequences of loans to directors, the green agenda for cars and vans, and finally a couple of tax pointers for owners of commercial property who let to a trading business.

Our next monthly tax update will be sent out on Tuesday 6th November - be sure to check your inbox.

Tap in to extra support

As you will see, this month we have concentrated on Human Resources, an area which can appear to be a minefield of bureaucracy and legislation. For some time, we have been offering our clients an HR support service through Breedon Consulting Ltd, specialists in the provision of tailor made human resources and training services, which provide peace of mind to business owners and managers.
The team at Breedon can reduce the day to day worries associated with people management by:

- Ensuring you comply with employment legislation
- Providing contracts of employment and employment handbooks
- Developing and implementing relevant policies and procedures
- Providing ongoing support and advice
- Handling employee relations issues as and when they arise
- Developing bespoke training workshops to address specific needs

A number of our clients have already benefited from the professional but friendly advice on offer, which takes account of the latest employment legislation without resorting to legal speak, and also addresses the individual requirements of each company.

So whether you need help in a crisis, ongoing proactive support or specific project implementation, why not contact us to find out how Breedon can help.

It's good to talk!

We now live in an age where texting and e mails seem to be the norm – how many of us have sent an e mail to someone who sits near by in the same office – when you could have just spoken direct!

We are bombarded with information, but does it make us feel better informed? How many times have we heard people say “We're usually the last to hear anything around here!” “ No one tells us anything“ “ I get my news from the grape vine!” If this sounds all too familiar, then something has to change.

You need to communicate more effectively with your staff, which means you need some Internal Communications.

What is it?

In simple form internal communications is about talking regularly to your people. It's about creating a process, which is used to share information. This process would help you to explain your company direction, increase your staff's understanding and help people to see how they fit into "the grand plan" of things.   All things that many companies neglect to do, to their cost!

How is it achieved?

- Get the Boss to buy in to what you're doing, before you start anything!
- Open up a communication channel – it doesn't need to be very sophisticated! Choose something that is practical and right for you e.g. face to face briefings, company newsletter, intranet, video/DVD
- Decide what you want to share with your people – or better still ask them what they want to know, and use that to shape your future communications.
- Create an annual plan, put in each month various information that you want to share, general business performance, updates on latest orders, pension review, changes in ways of working etc.
- Consider ways in which your staff can give feedback and think what you are going to do with it, when you've got it!
- Create a timetable when you are going to start and when further communications are going to take place.

Finally, many companies who have good internal communications quickly see results. Many business improvements have been suggested from staff through feedback systems and have saved lots of companies time and money. Staff are more informed, they make better business decisions, they have greater commitment, and they feel more involved which all adds to your bottom line by improving your business performance.   So make an investment today, "start spreading the news…"

If you would like to discuss how internal communications can really work in   your company please contact us.

How to reduce absence

According to research, employee absence is an issue to 90% of businesses, costing employers an average of over nine days per year for each member of staff. Extending these figures to cover the UK as a whole, the UK workforce is 'losing' 203.5 million days per year at a total cost of £13 billion.

Despite the financial implications, many organisations have limited attendance management strategies, believing that there is little they can do if employees are sick. However, research shows that absence for most genuine unforeseen illness averages around three days per employee per year, suggesting that the implementation of effective attendance management procedures represents a sound investment.

Far from being an area with limited potential, work which we have carried out with existing clients has resulted in substantial reductions in employee absence levels, leading to increased productivity and improved morale. Well thought out policies and procedures which include positive management action when certain trigger points are reached, coupled with accurate record keeping and monitoring has enabled managers to deal consistently and effectively with employee absence. Well trained managers have been able to take control of the situation and in doing so have experienced many benefits.

If your organisation would benefit from reduced absence levels and you would like assistance in this area, please contact us.

Loans to Directors of small companies

Small company accounts often show an overdrawn position on directors loan accounts.

Technically a company cannot loan funds to a director, this is a breach of the Companies Act. Fortunately, for private companies, this apparent breach of the law is not subject to criminal sanctions.

Where the amount of the loan exceeds £5,000 it is good practice to get the written permission of the shareholders to the granting of the loan - unless the director is also the sole shareholder.

The loan will have a number of tax consequences. Two are highlighted below.

S419 Corporation Tax

If a small company had loaned say £10,000 to a director and this amount was unpaid at the year end, 31 December 2006, then an additional corporation tax charge could be created. Whether the tax would fall due depends on when the loan is repaid.

If the loan is unpaid 9 months after the year end, 30 September 2007 in the above example, the Revenue would issue an assessment based on 25% of the loan, £2,500, which would be payable on the 1 October 2007. This is not a permanent loss of revenue for the company as a claim can be made to have this £2,500 refunded when the loan is paid back to the company. Unfortunately the refund of tax will be delayed until the due date for corporation tax in the trading period in which the directors loan was repaid.

In our example above if the loan is paid back in full on the 30 November 2007, and as this is after the 9 month cut off (30 September 2007), the additional tax would have to be paid on the 1 October 2007. As the directors loan was cleared in the trading year to 31 December 2007 the refund of £2,500 would not be forthcoming until the 1 October 2008.

This provision applies to all loans outstanding at the accounting year end, even those under £5000.

As you can see from this example the timing of repayments of the loan is critical.

Directors' personal tax

The grant of a loan by the company to a director is deemed to benefit the director and not surprisingly the Revenue will want their pound of flesh.

There are two possible outcomes.

1. If the company charges the director interest for the term of the loan the Revenue will not seek to assess the director for any additional benefit. The rate of interest charged must be at least the official rate of 5%. This will increase the company's taxable profits by the amount of the interest and will of course increase the amount that the director has to pay back overall.
2. If the company does not charge interest or charges at less than the 5% official rate, the Revenue will assess the deemed shortfall in interest, which they consider should have been charged, as a benefit in kind. This will need to be returned on the form P11D at the tax year end. The current rate of interest applied is 5%.

Please note loans to individual directors that do not exceed £5000 at any time during the relevant year will not attract a benefit in kind charge.

Personally owned properties used in someone else's trade

The notes that follow point to some of the tax consequences if you personally own a commercial property that is used by a trading business.

1. Capital Gains Tax on sale.

As long as the property is let to an unlisted trading company, (could also be a sole trader or partnership if let after the 5 April 2004) it will be classified as a business asset for taper relief purposes. Potentially higher rate tax payers may only pay 10% tax on sale if the property is owned for more than 2 years. Don't forget that if you let the property to a sole trader or partnership before the 6 April 2004 this earlier period up to the 5 April 2004 will complicate the calculation of the final capital gains tax bill - owners in these circumstances can expect to pay more than 10% tax on a subsequent sale of the property.

There are no restrictions on this favourable tax treatment if the owner charges rent for the use of the property.

2. Owner's income tax status.

Any rents charged by the owners, less allowable costs, interest charges and in some cases Industrial Buildings Allowances, will be subject to tax.

If the property is provided rent free this may result in the loss of tax relief for costs met by the owner.

In search of the 'X-Factor'

As the search for high calibre recruits gets ever more difficult, city firms have recently reported trying 'speed-placing', a recruitment tactic similar to speed dating. Candidates have been offered 12 month placements with top firms after spending only a few minutes getting to know each other.

Whilst to many business owners and managers, the idea of offering a job on the basis of such a short assessment of capability might seem particularly risky, it is fair to say that most sectors are experiencing difficulty in attracting and retaining quality candidates. As the competition for the better recruits increases, the whole recruitment method has become much more of a two-way process with candidates keen to check out the credentials of the recruiting organisation.

With this in mind, we have seen a move away from the traditional question and answer session at interview towards assessment processes, which give a more rounded view of both the organisation and the candidates. Using games and group exercises that pit potential recruits against one another in activities designed to draw out their personalities and skill sets, employers can better determine their suitability for the role and candidates can gain more understanding of the company and its culture.

We have found that recruiting in this fun and relaxed environment has led to sound recruitment decisions, often with reduced timescales and costs. If you would like to discuss how this approach could help with your recruitment, please contact us.

Employers count the cost of bullying

Just recently a city bank had to pay out £800,000 compensation to an employee who had been subjected to bullying. This case together with the recent landmark ruling in the House of Lords, which held that employers can be sued even if they were unaware of the harassment taking place, has serious implications for employers. Put simply, employees who are bullied or harassed at work now have further basis on which to claim compensation from their employers.

So what does this mean?

If you haven’t got a Bullying and Harassment Policy you had better get one quickly!

A recent survey conducted by the Employment Law firm Peninsula found that out of 3000 workers questioned:

- 4 out of 5 workers had been bullied / intimidated but most had not made a complaint.
- Bullying at work was increasing.
- Many employers were unaware as to the extent of bullying in their workplace.

So what can you do to protect your staff and avoid bullying in your company?

- Hold briefing sessions for all staff to raise awareness, explain the policy and stress it's importance.
- Provide training for managers/ supervisors to help identify bullying and harassment and understand your policy

In summary, it is clear that this issue is on the increase, ignore it at your peril, you don't want to be the next landmark ruling.

VAT and Holiday Let Property

There are a number of well known tax advantages for the owners of UK furnished and let property that has been classified as a "Holiday Lets Property" by the Revenue. A major tax advantage is the treatment of rents received as trading income.

For example this would ensure that losses sustained in letting the property can be set off against other income, and that surplus rents count towards earnings for pension purposes.

There are, however, VAT considerations which should not be overlooked.

The letting of holiday accommodation is generally a standard rated supply. If the property owner is already registered for VAT as a sole trader, then such letting income will be subject to VAT.

If the property is owned jointly by a married couple or other partnership that is already VAT registered, then again relevant letting income will be subject to VAT.

If the property owners are not already registered for VAT, these gross rents received from all properties owned by the same person or partnership count toward the VAT registration limit - currently an annual turnover of £61,000.

If such rents, together with any taxable turnover from other business interests, exceed the threshold, the owner(s) will need to register for VAT and charge VAT at 17.5%

It would be difficult to argue that the takings were not business income for VAT purposes, as this would involve claiming that this was not a business activity. Such a claim would certainly undermine the favourable tax treatment.

Cars and vans – the green agenda

As you will see from the comments made below, there are currently a number of incentives to buy and use low emission cars. There are also a number of disincentives to discourage private use of company vehicles.

100% Capital allowances for very low emission cars

This 100% first year allowance was introduced in the 2002 Budget, and lasts until 31 March 2008. The allowance is 100% on the cost of new cars which emit at no more than 120 g/km of CO_2, or are electrically propelled.

Benefits in kind on very low emissions cars

In the 2006 Budget, the Chancellor announced that from 2008/09 very low emission cars, those with emissions of no more than 120g/km would attract only a 10% of list price benefit in kind charge, rather than the rate currently applying, which would be 15% for petrol models, and 18% for diesels.

Capital allowances on expensive cars

The Government is likely to announce a change in the way capital allowances are given to businesses that buy expensive cars. The changes will probably include:

- linking the rate of allowance given to the CO2 rating of the car – expensive cars tend to have higher CO2 ratings.
- expensive cars will be "pooled". In this way tax advantageous balancing allowances when the vehicles are sold will no longer be available.

For both these reasons it is likely that the new system will act as a disincentive for businesses to buy and run expensive cars. Please note that "expensive" for these purposes means costing over £12,000!

Company Vans - from 6 April 2007

Don't forget that from the 6 April 2007 company van drivers who are allowed private use will see a swingeing increase in the benefit in kind tax charge.

Presently van drivers (vehicles under 4 years old) will only suffer a benefit charge of £500 per year to cover private use. From next year this will increase to a benefit charge of £3,000, plus £500 for free private fuel.

We may be coming to a watershed in the way in which relief is given and tax is charged for the use of company vehicles. Now would be an opportune time to review this area and create a new strategy - please call if you would like to discuss this.

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1 October 2006 - Due date for corporation tax due for the year ending 31 December 2005.

19 October 2006 - PAYE and NIC deductions due for month ending 5 October 2006. (If you pay your tax electronically the due date is 22 October 2006)

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