

Hobsons : Newsletter December 2008

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In our newsletter this month we have included a few practical tips for accommodating the reduction in the VAT standard rate to 15% on 1 December 2008, a note of the VAT consequences for house builders who rent out property, a reminder of the increased late filing penalties for companies and a commentary on the National Minimum Wage as it affects directors of small companies.

Our first newsletter for 2009 will be published on Tuesday 13 January..

VAT 15% - practical guidelines

The Chancellor announced a reduction in the standard rate of VAT to 15% from 1 December 2008. This reduction will be effective for a fixed period of 13 months. From the 1 January 2010 the rate will revert to 17.5%.

For VAT registered traders this creates a number of practical issues, some of which are highlighted in this article.

- 1.) All sales on or after 1 December 2008 should be charged plus 15% VAT.
- 2.) Zero rated, reduced rate and exempt sales or supplies are unchanged.
- 3.) Retail businesses should use the new 15% rate on all takings received on or after 1 December 2008 - except, if a customer took delivery before 1 December, in which case you should apply the 17.5% rate.
- 4.) If you supply goods to other VAT registered customers and need to issue tax invoices, you should add on 15% VAT to all invoices dated 1 December or later - except where you provided the goods or services more than 14 days before you issue the VAT invoice. For example, if you issue a VAT invoice on 1 December for goods or services provided before 18 November 2008, or you were paid before 1 December. In these cases, your sale takes place before 1 December and you must use the old rate of 17.5%. Note if you received part payment before 1 December, use the old rate for the part payment.
- 5.) Under the normal rules all invoices issued and all payments received before 1 December 2008 are subject to VAT at the old rate, 17.5%. There are also optional rules that you can adopt. See section 3 of the HMRC publication recommended at the end of this article for more information on these special rules.
- 6.) If you want to work out the 15% VAT charged in a VAT inclusive amount, multiply by the fraction 3/23.
- 7.) If you have point of sale tills etc that produce a VAT inclusive receipt you may need to contact your supplier to ensure the VAT rate applied is changed for sales after 1 December.
- 8.) If you want to reduce your current (pre 1 December) sales price to reflect the reduction in VAT to 15%, multiply your old price by 115/117.5, this is equal to 46/47.
- 9.) Do you have to pass on the reduction in VAT to your customers? The answer is no - its up to you.
- 10.) If your VAT return period does not begin on 1 December, you will have to account for VAT in the quarter which straddles this date accommodating both rates of VAT. If you use software to produce your VAT returns your supplier should be able to advise you on this.
- 11.) Make sure that you follow your accounts software supplier's instructions, or give us a call if you need help regarding the change in VAT rate.
- 12.) If you operate a cash accounting scheme you will continue to pay VAT based on receipts from customers. If the amount you receive after 1 December 2008 is payment of an invoice including VAT at 17.5% (pre 1 December 2008) or 15% (post 30 November 2008) you must include the appropriate amount in your output tax calculation. Most accounts software programs that accommodate cash accounting will do this automatically.
- 13.) If you are registered to use the flat rate scheme there are new percentage rates you should apply from 1 December 2008. The new rates are published on pages 43 and 44 of

the HMRC guide highlighted in the paragraph that follows.

HM Revenue & Customs have published a comprehensive guide to the VAT change. You can download it at: <http://www.hmrc.gov.uk/pbr2008/vat-guide-det.pdf>. It is quite a large PDF document. If you need specific advice on any aspect of the change please call.

House builders renting property

Many building firms are now holding completed residential property which is proving difficult to sell in the current property market. One solution is to rent out this property for a short period in the expectation that property prices will recover.

Ordinarily most of the VAT paid on construction costs is recoverable. Unfortunately rents received from the letting of residential property are an exempt supply for VAT purposes. Accordingly a builder who both constructs and lets residential property is considered to be a "Partially Exempt" trader. Potentially a proportion of the VAT recovered on the construction work may have to be paid back!

The builder may have to:

- adjust the VAT recovered on his submitted VAT returns
- restrict the VAT to be recovered on current and future VAT returns
- or do both

Fortunately there is an escape route! If the amount of input tax which can be attributed to the exempt rental income is below a defined "de minimis" amount, no adjustment to past or future returns is required - VAT input tax can be recovered in full.

Provided the exempt input tax is below:

- £625 per month, on average, up to £7,500 per year; and
- is not more than half of total input tax,

then the exempt input tax is de minimis and recoverable in full.

If you are a house builder, and considering the rental of residential building stock, do contact us at an early stage so we can help you through the partial exemption calculations which are tedious and complex.

Company late filing penalties increasing from 1 February 2009

Small limited companies are required to file a copy of their accounts each year with Companies House. If you file even one day past the filing deadline you will be penalised. The new late filing penalties which will be levied from 1 February 2009 are increasing dramatically!

The new fines for private companies are:

- Not more than 1 month - £150 (presently £100)
- More than 1 month but not more than 3 months - £375 (presently £100)
- More than 3 months but not more than 6 months - £750 (presently £250)
- More than 6 months - £1,500 (presently £500 between 6 to 12 months, £1,000 over one year)

The new fines for public companies are:

- Not more than 1 month - £750 (presently £500)
- More than 1 month but not more than 3 months - £1,500 (presently £500)
- More than 3 months but not more than 6 months - £3,000 (presently £1,000)
- More than 6 months - £7,500 (presently £2,000 between 6 to 12 months, £5,000 over one year)

Additionally if you were late filing in the previous year (and the previous financial year had begun on or after 6 April 2008) the above fines are doubled.

The new fines also apply to flat management and dormant companies.

The message is clear. If you are responsible for the management of a limited company make sure you give yourself plenty of time to prepare and file accounts on time.

Filing deadlines

Companies with accounting periods beginning on or after the 6 April 2008 should note the following changes to the filing deadlines with Companies House.

- 1.) Private companies and LLPs - the delivery deadline has been reduced by one month from 10 to 9 months.
- 2.) Public companies - the delivery deadline has been reduced by one month from 7 to 6 months.

Consequential changes include:

- Full calendar months for filing periods have been introduced. Where the accounting period ends on a month end date the accounts filing period will end on a month end date. (Except for the first accounting period)
- Qualifying companies can still file abbreviated accounts..

Directors and the National Minimum Wage

There are many directors of small companies that are effectively paid at rates lower than the National Minimum Wage (NMW). This is perfectly legal as long as the director concerned does not have a contract of employment. As soon as a contract of employment is signed the NMW must be applied.

This choice, to be a contracted employee or not, also affects a director's eligibility for Working Tax Credit (WTC).

- If you are a director with no contract of employment you will not qualify for WTC unless your partner works the required number of hours each week.
- If you do have a contract of employment and pay yourself at least NMW for hours worked, you should qualify for WTC.

For ease of reference the current rates of National Minimum Wage are published below.

The rates from 1 October 2008 are:

- Adults (which means people aged 22 and over), £5.73 an hour
 - Workers aged 18-21, £4.77 an hour - the 'development rate'
 - Young people (those older than school leaving age and younger than 18; you're under school leaving age until the end of summer term of the school year in which you turn 16), £3.53 an hour
 - Apprentices under the age of 19 are not entitled to the National Minimum Wage. Apprentices who are 19 or over and in the first 12 months of their apprenticeship are not entitled to the National Minimum Wage.
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Tax Diary December 2008/January 2009

1 December 2008 - Due date for corporation tax payable for the year ended 28 February 2008.

19 December 2008 - PAYE and NIC deductions due for month ended 5 December 2008. (If you pay your tax electronically the due date is 22 December 2008)

19 December 2008 - Filing deadline for the CIS300 monthly return for the month ended 5 December 2008

19 December 2008 - CIS tax deducted for the month ended 5 December 2008 is payable by today.

1 January 2009 - Due date for corporation tax payable for the year ended 31 March 2008.

19 January 2009 - PAYE and NIC deductions due for month ended 5 January 2009. (If you pay your tax electronically the due date is 22 January 2009)

19 January 2009 - Filing deadline for the CIS300 monthly return for the month ended 5 January 2009

19 January 2009 - CIS tax deducted for the month ended 5 January 2009 is payable by today.

31 January 2009 - Last day for electronic filing of Self Assessment returns for 2008

31 January 2009 - Due date for payment of any balance of self assessment liability for the tax year ending 5 April 2008, plus any payment on account due for the tax year ending 5 April 2009.

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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