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NEWSLETTER

Don't Get Caught Out!

The headline above could apply to more than one of the articles in our winter newsletter! It actually relates to the feature prompted by the Consumer Minister. This warns both businesses and consumers alike about the scams that have been catching people out recently. Make sure you read the tips inside so that you don't get caught out!

The headline could equally apply to the new insolvency register, launched by the Insolvency Service. The register enables you to check details of individuals who are currently bankrupt or who have been in the last three months. Details of this service can be found inside.

Finally 'don't get caught out' could apply to certain letters that the Inland Revenue has been sending out recently! Many businesses have received one of these new style letters and they have certainly sparked some controversy.

Our newsletter also includes a feature on home working. The focus is on people-related issues and we also consider some of the tax advantages of doing so. This could be an attractive prospect for those facing a long, dark winter of commuting.

As always, please talk to us if you would like to discuss any of the features in more detail.

Important News for Small Business Owners

Recent weeks have seen many small businesses receive new types of Inland Revenue letters. The letters have certainly caused some controversy and the Federation of Small Businesses has already branded them a 'complete disgrace'.

Three types of circular letters have been issued, covering widely differing subjects.

The first letter appears to be targeted at self employed businesses with a turnover of under £150,000. The letter infers there is something wrong with the 2003 self assessment return and that it should be reviewed to avoid the possibility of interest and penalties. On first sight the letter appears quite threatening. This has caused some anxiety and confusion amongst those who have received it. It has however been confirmed that the businesses receiving the letter have been selected centrally. Local tax offices do not know the reasons for selection! One of the main problems with the letter is that it does not indicate exactly which expenses the Inland Revenue is referring to. It appears that certain expenses are triggering the letters, although a full list of triggers has not been published.



Certain contractors and subcontractors in the construction industry have been sent two other types of letter. These coincide with a current Inland Revenue review of employment status within the construction industry. The letters suggest that those businesses or individuals that have received a copy may well have a problem in this regard. The letters then suggest that the employment position should be reviewed. However once again there is little indication of exactly why the Revenue believes there may be a problem.

The Revenue did not consult on these letters, did not let accountants know that they were being issued and often did not let accountants have a copy of them!

Please contact us if you have any concerns following receipt of one of these letters.

W I N T E R 2 0 0 4



Childcare Costs

Since 1990 employees provided with childcare through a workplace (or employer run) nursery have not had to pay any tax or national insurance (NI) on the benefit. However the exemption only helps a limited number of people since the vast majority do not have the luxury of a workplace nursery and must make alternative provision for childcare.

If an employee receives the provision of employer-contracted childcare or childcare vouchers as part of their remuneration package, other than through a workplace nursery, the benefit is currently taxable although specifically exempt from NI.

From next April the rules will change. Whilst the existing exemption for workplace nurseries will continue, a new tax exemption will apply to employer-contracted childcare and childcare vouchers. The exemption will be limited to £50 per week and the NI exemption will be aligned with this.

Please contact us if you would like further information on any aspect of the childcare rules.

The good news

- Extending the exemption beyond workplace nurseries is to be welcomed. Nurseries, out-of-school clubs and childminders will qualify.
- Aligning the tax and NI treatment should make the rules easier for employers to administer.
- More than one person (most commonly mother and father) may be entitled to the exemption in respect of the same child.

The bad news

- The exemption is limited to £50 per week per employee which is unlikely to cover the full costs of childcare.
- The exemption is still £50 per week even where there are several children.
- The exemption only covers 'qualifying childcare' so that a nanny working in the child's home will not qualify unless formally registered. Furthermore childcare provided by the employee's partner or other close relative in the child's home will not qualify either.
- There may be a knock-on effect to the childcare element of working tax credit.

Your Child's Trust Fund

You may remember the Chancellor's announcement of the government's intention to introduce a 'Child Trust Fund' (CTF) for every child born since September 2002. The Inland Revenue has now confirmed that an information booklet and voucher will be sent to parents automatically in the new year. The voucher will enable parents to open a CTF account on behalf of their child. Information will be sent out from January 2005 onwards and a high-profile advertising campaign will follow.

In preparation we provide a brief reminder about the mechanics of the scheme below.

- A child will be eligible for a CTF account if Child Benefit has been awarded for them and they are living in the UK.
 - Children born before September 2002 will not be able to benefit from the scheme.
 - The government will make an initial award of £250. The amount will be higher for children in low income families and a further award will be made when the child reaches age seven (the amount yet to be decided).
 - The vouchers for children born between September 2002 and April 2005 will have a higher value.
 - There will be different accounts available including cash deposit accounts, unit trusts, life products and a stakeholder CTF account which will be a low-cost equity account.
 - Family and friends can add further contributions of up to £1,200 a year to the fund.
 - Income and capital gains within the fund will be tax-free.
 - The child cannot access the money, including any income or capital gains accumulated, until age 18.
- This final point may come as particularly good news to some parents!

Compensation for Financial Mis-selling - The Tax Consequences

Many individuals are being paid compensation for the mis-selling of financial products such as mortgage endowment policies. The Inland Revenue has been asked whether an enhancement element added to the compensation is interest and so taxable.

Although the Inland Revenue acknowledges that payments have to be viewed on a case-by-case basis, as different payments are calculated in different ways, the basic answer seems to be that most forms of payment include a taxable interest element. Therefore this should be included on the self assessment return.

Home is Where the Workplace is

With the number of employees who work entirely or partly at home continuing to grow, it is easy to imagine the immediate cost savings involved. However there are a number of important people-related issues to consider when planning for a successful transition from office to home working.

- **Involve people from the start.** Staff may well identify issues that employers have not thought about.
- **Sell the concept effectively.** Communication is key and everyone should be clear about the benefits and not feel alienated by the decision to move to home working.
- **Assess training needs.** The individual members of a team are likely to have different training needs. Remember those working from home have no colleagues to just 'show me how to' when they become stumped by an IT problem!
- **Plan how your virtual team will be managed.** As managers can no longer literally see what is going on, outcomes become key and trust is vital.
- **Support staff proactively.** Staff may feel isolated from the workplace and as such need to feel that they are still part of the team. Structures need to be set up to solve problems, particularly customer-related ones and periodic brainstorming meetings can help to sort out relevant issues. From a social perspective, employers should consider setting up electronic ways of exchanging news and views and hold regular social events.

Government policy generally looks to support employers that try to provide better work-life balance opportunities for their employees. In the last few years there have been a number of changes to legislation to help employers support those working from home without incurring a tax or NI charge.

- Employers can essentially provide all of the computer facilities, telecommunication links, office furniture and supplies that an employee needs to work at home without a tax charge. Where the benefits are exempt from tax there is no liability for NI.
- There is no tax charge where an employer makes payments to employees to reimburse the additional household expenses they incur in working from home. The Inland Revenue has published a guideline rate of £2 per week that can be paid to employees working regularly from home without the employer having to justify the amount or the employee having to keep records to demonstrate the additional expenditure. This amount is not however a maximum.
- Where the office is no longer a permanent or regular workplace, travelling expenses incurred in irregular or self-contained visits to the office may be allowable for tax purposes. This is a complex area and each case would need to be looked at carefully.



New Customs and Excise Website

As part of its programme to improve and enhance online services, Customs and Excise has launched a new website. Recently going live, the new website has been designed to provide easier access to information and transaction services.

You can now complete an improved online VAT return and request changes to basic business details. The site's information services allow you to create your own page with email alerts, document tracking and clipboard features. Further improvements will continue to be added to the site.

The website address is www.hmce.gov.uk



Tax Free Shopping

Customs and Excise has announced a number of changes to the VAT Retail Export Scheme. The scheme, commonly known in UK shops as 'Tax Free Shopping', allows visitors from outside the European Community (EC) to receive VAT refunds on goods they have personally exported from the EC.

The following changes are being made to counter misuse and fraud.

- **The timing of completion of the VAT refund forms.** A concession exists that allows refunds to be made on production of receipts for past purchases. Retailers who fail to maintain sufficiently robust procedures to prevent misuse risk the concession being withdrawn. Procedures must ensure that the receipts are genuine and that a refund for the goods has not been obtained.
- **The description of goods on the form.** Retailers who fail to include adequate descriptions on the form will risk its rejection.
- **Use of the scheme by overseas students and migrant workers.** These individuals are now only permitted to buy goods under the scheme when they intend to remain outside the EC for at least 12 months.

The change concerning students and migrant workers was introduced from 1 October. Customs intend to be more flexible regarding the timing of the other changes. If you are involved with the scheme and would like further guidance in respect of the changes please contact us.

Insolvency Statistics Bring Mixed News

Official insolvency statistics released by the DTI showed there were 3,151 company liquidations in England and Wales in the second quarter of 2004. The good news is that this figure was virtually consistent with the previous quarter and represented a decrease of 17.4% on the same period a year ago.

However the news regarding individual insolvencies was not so good. This number continues to rise. The DTI statistics showed that there were 11,214 individual insolvencies in the same period. This was an increase of 7.9% on the previous quarter and 28.7% on the same period a year ago. This figure included some 8,740 bankruptcies.

If you have particular concerns about an individual that you currently, or are about to do business with, you may be interested to know that the Insolvency Service maintains an individual insolvency register. The register contains:

- details of bankruptcies that are either current or have ended in the last three months
- current individual voluntary arrangements and fast track voluntary arrangements
- current bankruptcy restrictions orders and undertakings.

The register can be searched on-line, by post or fax or by visiting an Official Receiver's office. There are no charges for searching the register and you can expect to find out not only the bankrupt's name but also:

- any other name by which they were known
- their occupation and trading details
- their date of birth and last known address
- the details of the current bankruptcy order
- the automatic discharge date.

The Insolvency Service can be found at www.insolvency.gov.uk

Records of company liquidations and disqualified directors are maintained by Companies House.

Don't Get Caught Out!

Remember the old adage that if it looks too good to be true - it probably is. The Consumer Minister would probably agree, as he has recently warned consumers and businesses alike about the type of scams that have been prevalent in the last year. These include companies that are:

- running 'get rich quick' property schemes
- advertising 'buy to let' properties in poor condition and make claims about unrealistic rental returns
- advertising individual plots of agricultural land where there is virtually no development potential
- selling advertising space in a range of publications, claiming that part of the money raised will go to good causes
- offering the chance to make a profit from buying up debts
- charging for unsolicited office consumables
- targeting the compensation packages of retired or redundant staff.

The DTI does act against scammers, sometimes winding up the companies involved and taking the directors to court. However the scams and schemes can resurface under a different guise and sadly more individuals find themselves being caught out.

Make sure that you and those around you don't get caught out by considering the following tips on avoiding scams:

- only do business with companies you know and trust
- make sure you fully understand all the terms and conditions of any offer made to you
- take your time before making any decision
- don't provide financial or personal information before you establish whether the company is legitimate
- don't judge the credibility of a company or sales person by how 'professional' they or their promotional material or website appears
- don't fall for high pressure sales tactics
- don't let embarrassment or fear keep you from reporting fraud or abuse to the appropriate authorities
- don't be afraid to ask as many questions as you like.

Further information can be found at www.dti.gov.uk

Staying Green

Environmental regulators have warned businesses that they must comply with environmental legislation or face large fines. One newsagent was recently fined almost £4,000 for 'failing to take reasonable measures to prevent the illegal dumping of waste'. He paid £20 to have someone remove his rubbish which was then fly-tipped.

The Environment Agency has launched a new website 'Netregs' (www.environment-agency.gov.uk/netregs) to help businesses, particularly small businesses, stay on the right side of 'green' laws. The website includes guidance on the environmental regulations governing more than 100 industry sectors. In addition there is information on forthcoming legislation and good practice advice that can help businesses to save money.

The Agency estimates that around 60% of commercial waste is produced by small businesses yet, in a recent survey, less than one in five small businesses questioned could name any environmental legislation. Furthermore less than a third of businesses were aware of the Duty of Care Regulations which control the 'storage, handling and disposal of waste' and apply to all businesses.

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