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NEWSLETTER

Welcome

Welcome to our spring newsletter. It may feel as though spring is still some way off but console yourself with the fact that as we went to print there were only 327 shopping days until Christmas! More seriously spring is the time to turn your attention to an annual tax review as the end of the tax year on 5 April approaches. Read our year end tax planning supplement to help you focus on areas relevant for you. We would be delighted to discuss a plan with you and any action you may need to take.

Last December's Pre-Budget Report may seem a long time ago but a number of the important changes announced take effect later this year. Read our summary of the major changes most likely to affect you. We also summarise for you some significant recent changes to the Small Firms Loan Guarantee Scheme and point you in the direction of some useful guidance on making the most of your office space.

As ever, we hope you enjoy this quarter's news and we would be delighted to hear from you if you have any questions or comments.

TAX PLANNING SUPPLEMENT ENCLOSED

SPRING 2006

Delay not cancellation

Just as business was starting to gear up for the introduction of the new Construction Industry Scheme (CIS) due to start in April 2006, having already been deferred from April 2005, the government announced that the new scheme was to be delayed again until April 2007. The real problem was that the Revenue's systems were nowhere near ready to cope with a launch this April.

Part of the (largely unreported) background to this was the considerable pressure brought to bear on the Revenue by the construction industry who indeed announced as long ago as last September that they had withdrawn from negotiations with the Revenue because of the Revenue's refusal to delay the start date.

As we now know, the current scheme will continue until April 2007 and over the next year there will be a full joint testing programme for the new verification service and monthly contractors' returns and an analysis of areas of non-compliance in the industry.

In the run up to April 2007, the Revenue will step up their compliance activity in the construction industry. The message seems to be that there will be no light touch from April 2007, as business is being given an extra year to put its house in order. Contractors should certainly not be lulled into a false sense of security by the delay.

Please contact us if you would like to discuss any aspect of the current or new CIS.

Energy efficient cars

The threat of ever increasing fuel prices is never far from our thoughts. This might serve to focus attention a little more closely on energy efficient cars. Since April 2002, a business purchasing a car with CO_2 emissions not exceeding 120 grams per kilometre (gm/km) has been able to claim a 100% capital allowance. In other words the full purchase price can be deducted from business profits in the year of purchase unless the car is for the proprietor of an unincorporated business when the allowance will be restricted to take account of the proportion of private use. Back in 2002 the allowance whilst attractive was not a reality for many since very few cars qualified. However the list has now expanded and you may be pleasantly surprised to find the Audi A2 1.4 TDI on the list, as well as certain models of the Citroen C3, Renault Megane and VW Lupo. Try www.comcar.co.uk for a useful comprehensive list of qualifying vehicles.

A car costing say £14,000 would normally only qualify for a capital allowance in year one of £3,000 (being 25% of £12,000 since £14,000 constitutes an 'expensive' car). However the Audi A2 1.4 TDI with emissions of 116gm/km would qualify for an allowance of the full cost of £14,000.

Pre-Budget changes take effect

Last December's Pre-Budget Report now seems like a distant memory. However a number of the important changes announced will shortly take effect. We provide a reminder of the major changes most likely to affect you.

Small companies' 0% tax rate abolished
A starting rate of corporation tax of 0% was introduced in 2002 and applies to companies with taxable profits of £10,000 or less. Companies with profits between £10,000 and £50,000 currently enjoy a marginal relief from the small companies' rate of 19%.

In 2004, the government thought the system was being 'abused' and introduced a 'non–corporate distribution rate' of 19% on companies to the extent that profits were distributed.

The result has been a complex system and the government has therefore decided to replace the non-corporate distribution and zero rates with a new single banding set at the current small companies' rate of 19%.

Many will welcome the abolition of a complex system but it does mean that all small companies will pay corporation tax at 19% whether profits are retained or distributed.

Pension loopholes closed
April 2006 ('A' day) will see the introduction of the long awaited new taxation regime for pensions. Due to concerns about potential abuse two new measures will be introduced at the same time as the new regime.

- The removal of the tax advantages for investing in residential property or certain other assets (such as fine wines, classic cars and art and antiques) from pension schemes which are 'self-directed' such as SIPPs and SSASs. The effect will be to remove all tax advantages from holding prohibited assets in these types of schemes.
- Pension 'recycling' will be blocked. This device works by taking a tax-free lump sum from a scheme which is reinvested back into another scheme giving further tax relief. This in turn allows a further tax-free lump sum to be paid out. The new rules will remove tax advantages in relation to lump sums which are artificially recycled in this way.

Tax spreading available for 'contracts for services' (UITF 40)
Changes were made in March 2005 which require income to be recognised as a 'contract for services' progresses, and before an invoice has been raised. This will mean that many businesses, including accountants and other businesses who work under service contracts, will be recognising income before an invoice has been issued to a customer and therefore before payment has been received.

Legislation will be introduced to allow businesses to spread any additional tax charged over three (or in some cases six) years. This is a most welcome response to lobbying by the professional bodies. Talk to us if you feel your business may be affected by these changes.

More certainty with tax credits awards
Claims are based initially on the previous tax year's income. From April 2006 increases in income of less than £25,000 will be disregarded when finalising awards. The previous limit was £2,500. This change should mean that 90% of awards can be finalised without the need for adjustment.

VAT cash accounting scheme
Subject to EC approval the turnover limit for joining the cash accounting scheme will be increased from £660,000 to £1,350,000 with effect from April 2006. This is an increase of more than 100% and may benefit up to one million small businesses.

Please talk to us if you want to plan for any of the changes, most of which will be effective from April 2006.

Does your business need a loan?

If you run a small or medium-sized business then you may well have found yourself in the position of having plans for the future of your business but without the necessary funding to put those plans into action. It is often the case, particularly with a relatively new business, that a conventional loan is out of reach because there are no assets to offer as security.

The Small Firms Loan Guarantee (SFLG) was introduced to get over this problem by providing lenders with a government guarantee against default. It was established in 1981 as a joint venture between the Department of Trade and Industry (DTI) and participating lenders. Over 100,000 guarantees have been issued since the SFLG was launched supporting £4 billion of lending to over 90,000 businesses. The SFLG guarantees 75% of the loan and the borrower pays a premium of 2% of the outstanding loan per annum to the DTI.

Some important changes have recently been made to the SFLG. They are intended to widen use of the scheme and took effect in December 2005. Here are the main ones:

- introduction of a single lending limit of £250,000 (previously limited to £100,000 for businesses under two years old)
- an increase in the turnover limit for all eligible businesses to £5.6 million (previously £5 million for manufacturing and £3 million for other businesses)
- the availability of the SFLG now limited to businesses under five years old (previously there was no such restriction).

Please talk to us if you would like any further information on any aspect of the SFLG.

Proposed dividends - the new rules

UK companies have always been able to relate dividends declared after the year end but before the signing of the accounts back to the previous year's profit and loss account. However this is no longer an option under new rules effective for accounting periods beginning on or after 1 January 2005.

The change follows the introduction of Financial Reporting Standard (FRS) 21, Events after the Balance Sheet date, and a corresponding change in company law. The two now require that dividends declared after the balance sheet date should not be reported as a liability in the previous year's accounts.

The practical effects of the change

The directors of a company meet on 1 March 2006 to discuss the accounts to 31 December 2005. On that date they declare a dividend of £1 per share for 2005. As the company's year end had passed when the dividend was declared, the dividend cannot be included as a liability in the 2005 accounts. Instead the dividend will be disclosed in a note to these accounts.

In order for the dividend to be included as a liability in the 2005 accounts, the directors need to declare the dividend and either pay it or have it approved by the shareholders in general meeting before 31 December 2005. This requires the relevant statutory procedures to be followed. A directors' meeting should be held and the declaration of the dividend should be minuted. This would then need to be followed by the payment of the dividend or the formal approval by the shareholders which will also need to be minuted.

Tip

It would be possible for the dividend of £1 per share to be **declared** and properly authorised by the shareholders in December 2005 but not **paid** until March 2006 and the dividend still be included in the December 2005 accounts.

- This change only concerns the timing of the inclusion of the dividend within the company's statutory accounts. It will have no effect upon when a dividend is actually paid to the shareholders. It will not have any tax consequences.
- If a company's only income is a dividend from a subsidiary, the timing of the declaration and payment or authorisation by the shareholders of the dividend could be an important issue.
- If a company needs to ensure that part of its profit is distributed each year, the timing of the declaration of the dividend could be a particularly important issue this year. If no interim dividend has been paid, a dividend must be declared by the directors and paid or authorised by the shareholders by the year end in order for it to be included in the current year's accounts.
- Finally, following the change in the rules, a prior period adjustment will have to be considered in the accounts for proposed dividends of previous years.

Please get in touch if you would like to discuss the new proposed dividend rules and how they may affect your company in more detail.

AIMing high

2005 saw the 10th anniversary of AIM, the London Stock Exchange's market for growing companies. Since its launch in 1995 more than 1,900 companies have been admitted and more than £17 billion of capital has been raised.

The requirements for admission to AIM are less onerous than the main market with no requirement for a three year trading record and no need to place 25% of the shares in public hands. Furthermore the AIM structure is designed to support the requirements of smaller, growing companies.

The decision to float your company on AIM will mark a major milestone in its development. It can be exciting but also stressful and time consuming. Neither is it a cheap exercise; initial costs are likely to run into hundreds of thousands of pounds. There are many potential advantages as well as disadvantages and these are summarised below.

Advantages

- Access to a large pool of capital especially given the keen interest on the part of institutional investors.
- Possibility of financing expansion by use of shares as an 'acquisition currency'.
- Creation of a market in the company's shares together with an objective market valuation.
- Provision of an exit route for existing investors.
- Ability to broaden the shareholder base.
- Enhancement of the profile and image of the company.
- Ability to motivate employees by creating a share scheme.
- Tax breaks for investors.

Disadvantages

- Closer public scrutiny of the company and its performance.
- Increased accountability to shareholders for the directors.
- Institutional shareholder pressure on dividends and short term profitability.
- Uncertainty of market conditions which may affect the share price.
- Need to comply with regulatory requirements.
- Possible loss of control.

If you would like to find out more visit www.londonstockexchange.com/aim

Taper relief: the (il)logical song

Capital gains tax taper relief has been with us now for almost eight years, yet still there are illogicalities and points that are unclear in its operation. The joys of tax!

In this article we focus on a common scenario. If you own the freehold of a shop which you use in your business you would expect any capital gain on eventual sale to be reduced by business taper (maximum of 75% after two years of ownership). If you own a residential flat which you let out you would expect non-business taper (maximum 40% after ten years of ownership). Simple!

But what if you own a single property comprising a ground floor shop used in your business and the flat above which you let out?

Assume you bought the freehold of such a property three years ago and that 2/3 of the property represents the shop and 1/3 the flat.

You plan to sell off the flat now and the shop in a couple of years' time.

When you sell the flat you might think that, logically, because the flat has been an investment, non-business taper would apply to the whole gain. Wrong! The Revenue treat the whole building (ie shop + flat) as a single asset so that 1/3 of the gain gets non-business taper but the other 2/3 gets business taper. Better than you might have expected.

When the shop is sold you might expect the whole gain to qualify for business taper – wrong again. The gain attributable to the first three years when you owned the shop and the flat (ie 60% of the gain) has to be apportioned on the 1/3, 2/3 basis and only the gain attributable to the last two years (when you owned just the shop) qualifies fully for business taper. Overall this means that 80% of any gain ((60% x 2/3) + 40%) qualifies for business taper and the remaining 20% for non-business taper.

Confusing isn't it? That's why we're here to help. We can help you to plan to maximise the potential taper relief available. Give us a call if you have any questions or concerns in this area.

Out of space?

Not a lot of people know that...

…….each of Britain's 6.9 million office workers occupies over 14 square metres of office space at an annual cost to business of over £4,000 per person.

Royal Institute of Chartered Surveyors (RICS) research also found that property is the biggest business cost after staff and that businesses could boost profits by up to 13% annually with the right property strategy.

Are you making the best use of your available space?

Are your premises too small?

Think about new working practices such as open plan, hot desking, making minor alterations or simply taking a critical look at your office furniture.

Do you have too much space?

It might be possible to section off a part and sub-let it creating a valuable additional income stream.

Any business can take advantage of new guidance available from RICS designed to help improve business property management. See www.propertyinbusiness.co.uk for further information.

Student loans: changes afoot

Student loans taken out after August 1998 start to be repayable once the borrower has started work and has earnings (or profits if they are self employed) in excess of £15,000 per annum.

If an employee liable to make student loan repayments changes jobs the theory is that the old employer marks the appropriate box on the P45 and when this is handed to the new employer, student loan repayments continue uninterrupted.

The problem

All well and good except that over 70% of those changing jobs fail to give a form P45 to their new employer.

The solution

From April 2006 there will be a new style form P46 which will require a new employee to state whether they are liable to make student loan repayments. A 'yes' will give the new employer the necessary authority to deduct repayments from the employee's pay.

And another thing…

There will also be a number of other changes to the P46 including asking the employee to state whether he or she has another job. This is so that tax can be deducted at the basic rate rather than using the Emergency Code. However it also means that the employee must declare to the 'main' employer whether there is also a 'second job'.

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Year End Tax Planning

Tax is a subject that excites very few people. It is easy to ignore awkward issues involving tax, such as those mentioned in this newsletter. Don't - it could cost you dear. It's a good idea to review your tax affairs at least once a year and the period leading up to the end of the tax year on 5 April is the best time to do this. We summarise the more important year end tax tips to help you identify areas that should be considered. As always we would be delighted to discuss with you the issues involved and any appropriate action you may need to take.

Income tax saving ideas for all the family

Consider the split of income between husband and wife. A transfer of assets (which must be outright and unconditional) may serve to redistribute income and reduce or eliminate higher rate tax liabilities. For example it may be possible to save in excess of £8,000 a year by moving £37,000 of savings income from an income-rich spouse to one with no income. This level of tax saving is unlikely to be possible for many but significant savings can be made by much smaller transfers of income. Moving just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (£4,895) will save £400 a year.

The tax treatment of married couples applies, from December 2005, to same-sex couples who have entered into a civil partnership under the Civil Partnership Act.

Income arising from assets owned jointly is generally split equally between the spouses unless a declaration is made to the Revenue stating that the asset is owned in unequal shares. This election can be made on a Form 17 but must be made before the income arises. Consider such a declaration when a new jointly owned asset is acquired. The exception to the equal splitting rule is dividend income from jointly owned shares in 'close' companies which is split according to the actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people.

Income tax savings may be made if you are self-employed. Your spouse could be taken into partnership or employed by the business. This could be just as relevant for a property investment business producing rental income as for a trade or profession. Extreme caution must be exercised - the Revenue is looking at such situations to ensure they are commercially justified.
A spouse could be employed by the family company. However the level of remuneration must be justifiable and payment of the wages must actually be made to the spouse. The National Minimum Wage rules may also impact.

Parents must remember that their children are also potentially within the tax system. It may be possible to utilise the children's personal allowances and starting/basic rate tax bands. However any income arising to a child but deriving from a parent will be taxed on the parent while the child is unmarried and under 18. This rule applies to income from outright gifts by parents as well as to income from trusts set up by parents.

National Savings children's bonus bonds (for children under 16) are a means by which parents can provide capital for their children, which earns tax-free interest.

For children born since September 2002 a Child Trust Fund (CTF) has been introduced. The idea is to encourage tax-efficient savings by family and friends, with the government's help, to build a nest egg which the child can access once he or she reaches age 18. The government's initial contribution amounts to £250 (£500 for low income families) with a further payment promised once the child reaches age seven. Other contributions of up to £1,200 per annum can be added to the fund and although there is no tax relief on making the contributions the fund is tax exempt.

Income to use the child's personal allowance could be provided by:

- income deriving from capital provided by relatives other than parents (grandparents, uncles, aunts etc)
- distributions from family trusts (set up by relatives other than parents)
- employing teenage children in the family business - remember there is now a National Minimum Wage of £3 per hour for 16 and 17 year olds.

Note that dividend income is not an effective way to utilise the personal allowance - the tax credits are not repayable. Ensure other sources of income are available to use the allowance.

Taxpayers aged 65 and over are able to claim higher personal allowances. The benefit of these allowances is eroded where income exceeds £19,500. In such circumstances a move to capital growth or tax-free investments may preserve the higher age allowances.

Deadlines looming for employers

Ignore them at your peril! Remember that in most instances interest will be charged on tax paid late and penalties can be levied if forms are late or incorrect.

19 April 2006 - Interest will run on any 2005/06 PAYE, NIC and student loan deductions not paid over by this date (22nd for electronic payments).

19 May 2006 - Employers' year end returns (P35/P14) due for submission.

31 May 2006 - Employees must be provided with their P60 (certificate of pay and tax deducted).

6 July 2006 - Submission of P11Ds and P9Ds returning details of expenses paid and benefits provided to employees and directors. A copy of the P9D/P11D must also be given to each employee. Also Form 42 covering 2005/06 share issues.

A dispensation, allowing certain items to be omitted from the forms, can be granted by the Revenue.

19 July 2006 - Class 1A NIC for 2005/06 on most benefits in kind provided to employees must be paid. Interest runs from this date on late payments.

19 October 2006 - PAYE settlement agreement liabilities for 2005/06 due, together with Class 1B NIC. Interest runs from this date on late payments.

NI issues

Entitlement to a state pension

Where a spouse is employed by the family business, the earnings are often kept below the national insurance (NI) threshold to avoid payment of contributions.

For 2005/06 it is worth paying earnings of between £82 (the lower earnings limit) and £94 (the earnings threshold) per week. There will be no employees' contributions due on the earnings but entitlement to a state retirement pension and certain other benefits is preserved. No employer contributions are payable unless earnings exceed £94 per week in 2005/06. Note that the earnings threshold will be £97 per week in 2006/07. A PAYE scheme would be needed to establish the employee's entitlement to benefits.

Small earnings exemption

For the self-employed there is a requirement to pay a flat rate contribution (Class 2). If your profits are low you can apply for exemption. The limit for 2005/06 is £4,345. If contributions have been paid for 2005/06 and it subsequently turns out that earnings are below £4,345 a claim for repayment of contributions can be made. The deadline for this claim is 31 January 2007. On the other hand it may be advisable to pay the contributions in any event in order to maintain a contributions record. The alternative voluntary Class 3 contributions are £5.25 a week higher.

Using tax efficient investments

Some investments benefit from a favourable tax status. We consider the main ones below. Any investment decision should involve consideration of all the relevant factors, including the risk level and the need for income and capital in both the short and long term, as well as the tax advantages.

ISAs

Individual savings accounts (ISAs) provide an income tax and capital gains tax free form of investment. The maximum investment limits are set for tax years. Therefore to take advantage of the limits available for 2005/06 the investment(s) must be made by 5 April 2006. You can invest either in a maxi ISA or mini ISAs. The maxi ISA route gives you the option to invest up to £7,000 (per tax year) either fully in stocks and shares or up to £3,000 in cash with the balance in stocks and shares. Under the mini ISA route, up to £4,000 can be invested in stocks and shares and up to £3,000 in cash. 16 and 17 year olds are able to open (mini) cash ISAs. The government is committed to retaining the annual limit of £7,000 until 2010 so a couple starting to invest in ISAs now could save a total of £70,000 by 2010.

Other investments

There is a wide range of National Savings products, eg NSB savings accounts, savings certificates and bonds. These are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

For those whose income may fall in the future, for example due to retirement, investments deferring income to a subsequent period may be attractive. For example single premium life assurance bonds and 'roll-up' funds can achieve this effect.

The Enterprise Investment Scheme (EIS) allows new equity investment of up to £200,000 in any tax year in qualifying unquoted trading companies (including AIM). Income tax relief at 20% is available on the investment and capital gains tax exemption is given for shares held for at least three years.

Furthermore unlimited capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) may be deferred by reinvestment in EIS shares. An added benefit is that after two years of ownership EIS shares will qualify for business property relief for inheritance tax purposes.

A Venture Capital Trust (VCT) invests in the shares of unquoted trading companies. An investor in the shares of a VCT will be exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of the shares. Income tax relief, currently at 40%, is available on subscriptions for VCT shares, up to £200,000 per tax year, if the shares are held for at least three years. The ability to defer capital gains by investing in VCT shares has been abolished.

Film partnerships

Investors become partners in a business that purchases a qualifying film. The loss created can, in certain circumstances, be set against income and/or capital gains, to give higher rate tax relief. The current scheme comes to an end on 31 March 2006 subject to certain transitional provisions. The government has announced proposals to replace the relief with a new system of enhanced tax deductions for British film production companies.

Enterprise Zone Trusts (EZTs)

Investing in commercial buildings via an EZT will give tax relief on the investment. Packaged loans, which work in a similar way to film partnerships, are often available.

There are no monetary limits to either of these schemes.

Pensions - plan ahead - don't take a chance on your future!

There are many opportunities for pension planning but the rules can be complicated. Furthermore the rules on the taxation of pensions will change very significantly in April 2006. The new regime will include a single lifetime limit (initially to be set at £1.5 million) on the amount of pension saving that can benefit from tax relief as well as annual limits on the maximum level of pension contributions (initially to be set at £215,000). Please talk to us if you would like further information on the new regime.

Pensions have received a particularly bad press in recent times for a variety of reasons. However the tax relief on pension contributions, still at 40% for a higher rate taxpayer, is attractive. Pension planning therefore forms an important part of a year end tax planning review.

Employees who are members of a company pension scheme obtain tax relief on additional voluntary contributions to the extent that, together with the employee's other contributions, they do not exceed 15% of remuneration.

The self-employed or those in non-pensionable employment obtain tax relief for payments under personal pension contracts. Individuals can contribute £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make substantial contributions to pension schemes. Further contributions can be made depending on age and earnings levels, generally referred to as net relevant earnings. Earnings in excess of £105,600 (for 2005/06) are ignored.

Different rules apply to those paying old style 'retirement annuity premiums' under policies that started before 1 August 1988.

Family company directors should consider making additional employer's contributions to existing company pension schemes. If a spouse is employed by the company, consider including them in the company pension scheme or setting up such a scheme for the purpose. Even where salary levels are modest, such a scheme can provide significant benefits.

Capital gains tax - could you benefit from planning ahead?

If you have assets that could give rise to capital gains tax (CGT) when sold then here are some points to consider.

- Each individual has an annual exemption of £8,500 for CGT purposes. Review your chargeable assets and consider selling before 6 April 2006 to utilise the exemption. Note that husband and wife both have their own annual exemption. A transfer of assets between them may enable them both fully to use this. Bed and breakfasting (sale and purchase) of shares is no longer effective. However sale by one spouse and repurchase by the other, or sale outside an ISA and repurchase inside, can achieve the same effect. This can be done either to utilise the annual exemption or to establish a capital loss to set against gains.

- Children also have their own annual exemption and this may be utilised by investing for capital growth.

- Traded or 'second hand' endowment policies (SHEPs) can also produce gains to utilise the annual exemption. An unwanted policy is acquired and paid to maturity. On maturity, the proceeds payable less the acquisition cost and premiums paid creates a capital gain. Careful planning could lead to £8,500 of gain per family member being realised every year tax-free.

- If a planned disposal is likely to give rise to a gain in excess of the annual exemption and therefore a CGT liability, then it may be better to defer it until after 5 April 2006 as this will delay the payment of CGT. The due date will be deferred from 31 January 2007 (for 2005/06) to 31 January 2008 (for 2006/07).

- Deferral of a gain to a later date may also give a higher rate of taper relief. This can make a very significant difference to the ultimate chargeable gain. Capital gains can be deferred by investing via the EIS scheme.

- If you have two homes then consider making an election so that future gains on your 'main residence' are exempt from CGT. Talk to us if this is relevant for you.

- Remember that capital losses can be established by making a claim where assets no longer have any value - a 'negligible value' claim.

Benefits for employees

Much of the planning for employment income (including directors' remuneration) focuses on the provision of tax efficient benefits. However most taxable benefits in kind give rise to employers' (but not employees') national insurance. To discuss remuneration packages and the provision of benefits further, please contact us.

Electronic filing and payment

All employers with at least 50 employees must file their 2005/06 end of year returns electronically. Employers with fewer than 50 employees do not have to start online filing until 2009/10 but there are tax-free incentives for early take up. Large employers (those with at least 250 employees) must also pay their PAYE electronically.

Employers' action points

Contact us if:

- you have any concerns over the accuracy or completeness of your PAYE records
- you need assistance with the completion of P11Ds or application for a dispensation.

Have you thought about:

- a PAYE settlement agreement as a useful way to account for tax on minor benefits provided to employees
- obtaining a dispensation.

Charity watch - please give generously!

The government continues to make favourable changes to the rules on tax efficient giving. There are a number of ways of securing tax relief on charitable donations.

Example 1 - Alex makes a one-off donation under Gift Aid. The scheme potentially applies to any charitable donation large or small, whether regular or one-off. The charity is able to claim basic rate tax (at 22%) back from the Revenue. As a higher rate taxpayer Alex will also qualify for 40% tax relief on the gift. Tax relief against 2005/06 income is possible for charitable donations made between 6 April 2006 and 31 January 2007 providing the payment is made before filing the 2005/06 tax return.

Example 2 - Ben agrees to a regular deduction from his salary under the Payroll Giving scheme. There is no upper limit on the amount that can be donated in this way. His tax bill is reduced as his PAYE liability is calculated after deducting the charitable donation.

Example 3 - Camilla decides to leave a substantial bequest to charity in her Will. This saves inheritance tax.

Example 4 - David gives some quoted shares to a charity, on which there is a substantial unrealised capital gain. However no CGT arises on a gift to a charity. The charity can then sell the shares free of CGT providing it applies the proceeds for charitable purposes. Furthermore income tax relief is available on the value of the shares gifted. The same rules apply to gifts of land and buildings.

Family companies -

maximising the potential, minimising the extraction costs

A director/shareholder of a family company can extract profits from the company in a number of ways. The two most common are by way of bonus or dividend. For every £1,500 net paid to the higher rate taxpaying individual, the cost to the company is £2,000 if a dividend is paid and £2,322 if a bonus is paid. This assumes the company is liable to corporation tax on its profits at the small companies rate of 19%. There are many issues to consider in making the decision but paying a dividend can often result in significant tax savings.

If the payment of bonuses to directors or dividends to shareholders is contemplated, careful thought must be given as to whether payment should be made before or after the end of the tax year. This will affect the payment date for any tax and may affect the rate at which it is payable. Remember that any bonuses must be paid within nine months of the company's year end to ensure tax relief for the company in that period.