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# NEWSLETTER

## An Arctic storm?

Some of you may remember the name of 'Arctic Systems' and the company's owners, Mr and Mrs Jones. Over the past couple of years, HMRC have been seeking to make an example of them and set a precedent which can be applied to others.

The case reads a bit like a soap opera. HMRC are concerned that individuals are incorporating their businesses and using dividends, rather than salaries, to extract profit. Combined with low rates of corporation tax, this creates substantial tax and national insurance savings. The savings can be increased by giving shares to a 'non-working spouse', which allows further tax savings by using that spouse's personal allowance and lower rates of tax.

In April 2003 HMRC issued new guidance which attempted to stop this type of tax planning by using the so-called 'settlements' legislation, which dates back to the 1930s. The Arctic Systems case soon followed.

The taxpayers originally lost their case in front of the Special Commissioners but appealed against that decision and lost again in the High Court...but then won in the Court of Appeal!

It has now been announced that the case will be heard before the House of Lords in June 2007. Watch this space for the decision and its implications.

## CIS details are finalised

In the Pre-Budget Report in December 2006, the government confirmed that the new Construction Industry Scheme (CIS) will be introduced on 6 April 2007, despite some doubts over whether HMRC will be ready.

Under the new scheme subcontractors may be entitled to receive payments without deduction of tax if they have satisfied certain criteria, such as a compliance test. Otherwise there is a standard deduction rate, currently 18%, for registered subcontractors. The government consider that an increasing proportion of subcontractors in the current scheme do not have their full tax and national insurance met by their deductions. To reduce the additional payments due after the end of the year, the new scheme will have a standard deduction rate of 20%.

A higher deduction rate is introduced in the new scheme which allows unregistered subcontractors to start work. The government has now confirmed this rate will be 30%. One of the purposes of the higher rate appears to be to encourage subcontractors to register.

To ensure that the correct rate of tax is deducted, all new subcontractors taken on after 6 April 2007 will have to be 'verified', which means that certain specific information has to be obtained from the subcontractor and checked with HMRC.

There are some transitional rules which state that if the subcontractor had been paid since April 2005 and had certificates or cards due to expire after 5 April 2007, they do not have to be verified on

6 April 2007. To aid this transition, contractors have already been sent lists of subcontractors who will not have to be verified and will be sent further, updated, lists before April 2007.

However these lists do not mean that the subcontractors shown on them are self-employed. This is a separate issue that must be considered whenever payments are made to subcontractors.

For contractors, the new CIS brings many additional compliance and administrative burdens. Contractors will have to:

- issue, monthly as a minimum, summaries to the subcontractors concerned of amounts paid and tax deducted
- submit monthly returns to HMRC
- confirm to HMRC that the subcontractors that are shown on these monthly returns are self-employed and not employees.

These rules are all backed up with automatic penalties. If you would like to ensure that your business is ready for these changes please contact us now.



## Tax reliefs for letting go

When you sell a property that you bought to let out, you may dread the large tax bill that must surely arise on the profit. It is true that property values have increased enormously over the last few years but there are legitimate ways of reducing the tax you pay on those gains.

If you have owned the property for at least two years, taper relief will reduce the gain by 5% for each complete extra year you hold the property, until 40% of the gain is relieved. If the property has been let to a business and used in its trade, perhaps as offices or storage space, the taper relief may be higher.

Where the property was purchased before April 1998 the original cost will be increased by the indexation allowance. This takes account of the change in general prices from the date of purchase to March 1998. Further rules apply if you acquired the property before March 1982. When working out the original cost don't forget to include the legal fees and stamp duties you paid on purchase. Also if you have made improvements to the property, the cost of which has not been set against the rents received, now would be the time to take those costs into account.

If you are married, or in a registered civil partnership, but the property is held in your sole name, you may want to consider transferring it into your joint names before sale. This may allow you both to set your annual capital gains allowance (£8,800 for 2006/07) against the gain which may reduce the taxable amount by up to £17,600. However this transfer needs to be a genuine part disposal which is documented properly.

## Taxing the food you eat

When running a restaurant it is traditional to provide staff with a meal at the end of their shift and you may eat with them. In both cases you may need to account for the cost of the food and drink consumed.

Feeding the employees is treated differently to the cost of your own food, unless you are also an employee of the company that runs the restaurant. The cost of the staff meals are part of the total welfare cost of employing staff. The meals are a tax free benefit for the staff as long as they eat them in a designated staff area or while the restaurant is closed to customers.

If you run the business in your own name or as a partnership, the value of the food and drink you consume is treated as part of the profits you make from the business. However, the items consumed or taken for your own use should be valued at their cost, not at the price a customer would pay. Tax officers sometimes forget that guidance was issued on this treatment back in 1957, as set out in Statement of Practice A32.



## Legislation update

The end of 2006 saw the government pass two important new Acts, both of which have followed lengthy consultation processes.

### The Companies Act 2006

This Act is the culmination of a company law reform process that started as far back as 1998. The aim of the Act is to simplify and modernise company law so that it better meets today's business needs and provides flexibility for the future. While the reform process aimed to 'think small first', the new Act will in time have an impact on directors, auditors and shareholders of private, public and quoted companies.

The Act is the longest ever to have been passed by parliament. It repeals and restates most of the provisions in the existing Companies Acts.

At this stage many of the detailed requirements of the Act have yet to be determined and 2007 will see the government consult on these.

The government has also stated that all of the Act's provisions will be brought into force by October 2008 at the latest. Certain provisions, for example those in respect of electronic communications between shareholders and the company, have already been brought into force.

### The Charities Act 2006

Five years after legislation was first proposed the Charity Commission (CC) has wholeheartedly welcomed the introduction of the Charities Act 2006.

The Act gives the CC more independence from government. Ultimately, it will help to reduce some of the existing bureaucracy that charities face.

Key areas covered by the new Act include:

- a new definition of a charity - the CC will consult on what it means to provide 'public benefit'

- higher registration thresholds and changes to the requirements for 'exempt' and 'excepted' charities
- new thresholds for the independent examination/audit of charity accounts
- a range of methods providing opportunities to modernise and to lighten the load for trustee bodies.

For example, it will be possible to pay trustees for additional services to the charity, if it is in the best interests of the charity, without prior CC authorisation.

Some of the new legislation takes effect early in 2007, although many other areas will require further consultation, secondary legislation or guidance.

# Pre-Budget Report

The Chancellor presented his Pre-Budget Report in December 2006 and gave advance warning of some changes to come.

## Individual Savings Accounts (ISAs)

The government is now making the ISA a permanent feature of the savings landscape. Changes include:

- the overall annual investment limit will be at least £7,000
- the mini/maxi distinction within the ISA will be removed
- individuals with funds saved in the cash component of ISAs from previous years will be able to transfer those funds into the stocks and shares component without affecting their annual investment limit
- Personal Equity Plans will be brought within the ISA 'wrapper'.

## Alternatively Secured Pensions (ASPs)

The pensions tax rules require an individual to secure an income before they reach the age of 75. Most people will have an annuity or scheme pension but an ASP was provided as an alternative. ASPs were designed for those who have a principled religious objection to annuitisation.

To restrict the use of ASPs to their original limited purpose the government is:

- introducing a minimum income requirement of 65% of the annual amount of a comparable annuity
- setting a higher maximum income withdrawal of 90% of the annual amount of a comparable annuity
- imposing an unauthorised payments charge where ASP funds remaining on the death of a member are transferred to pension funds of other members in the scheme.

There is currently an inheritance tax charge on left over ASP funds on the death of the scheme member and the government is considering how this will work and interact correctly with the new unauthorised payment provisions.

## Managed Service Companies (MSCs)

In 2000 the government introduced rules to tackle the provision of services through Personal Service Companies

(PSCs). PSCs were designed to 'disguise employment' by placing an intermediary, usually a company, between the payer and worker. This minimised the amount of tax and national insurance contributions (NIC) due by paying that worker predominantly with dividends.

MSCs attempt to avoid the PSC rules. The types of MSCs vary but are often referred to as 'composite companies' or 'managed PSCs'. HMRC have encountered difficulty in applying the PSC rules to MSCs because of the large number of workers involved and the labour-intensive nature of the work. Even when the rules have been successfully applied, an MSC can often escape payment of outstanding tax and NIC as they have no assets and can be wound up.

The government has therefore decided to remove MSCs from the PSC rules and introduce new rules from April 2007. The intention of the new rules is to:

- ensure that those working in MSCs pay tax and NIC at the same level as other employees
- alter the travel and subsistence rules for workers of MSCs to ensure they are consistent with those for other employees
- allow the recovery of outstanding tax and NIC from 'appropriate third parties'.

The proposals are a recognition by HMRC that they do not have the resources to enforce the PSC rules across the country. It will be interesting to see if the government takes further steps to tackle the tax and NIC savings that can be made by using dividends.

## Other changes

Other changes announced include:

- flight costs increase - Air Passenger Duty rates have been increased from 1 February 2007
- capital losses - specific rules were introduced last year to target 'contrived' capital losses created by companies. These rules have been extended to individuals.

Please contact us if you would like any more details on these changes.

# Is a second company car tax efficient?



Company cars are thought of as being a highly taxed perk and this is true if you drive an expensive car that has high CO<sub>2</sub> emissions. So if you take on a second company car for a member of your family to drive, surely the tax cost would be horrendous? Well, not necessarily.

There is actually no penalty for having a second, third or even fourth company car for an employee or director. The taxable benefit of each car is calculated as a percentage of its cost when new, based on its official CO<sub>2</sub> emissions. If you persuade the company to lease a small car for your partner, the extra cost to you could be a lot less than you would have to find out of your own pocket to run the same vehicle.

Assume the showroom price of the second car, before any discounts, is £10,000 and it has CO<sub>2</sub> emissions of 160g/km. This means 19% of its price (19% x £10,000 = £1,900) would be added to your salary as a taxable benefit. As a higher rate taxpayer you would pay an additional £760 per year in tax for this second car. If your top rate of tax is 22%, the additional tax would only be £418. For this relatively small cost to you the company would pay for the lease, all the servicing, repairs, insurance and the road tax. All that would surely add up to more than £760, even for a small car. If the company provides free fuel for the second car that would generate an extra tax charge and it is not normally tax efficient to take free fuel for private use.

The lower the CO<sub>2</sub> emissions rating of the car the lower the tax charge but you should be aware that the tax charged on company cars has periodically increased from 2002 when the system was introduced. For example the taxable benefit for a car with CO<sub>2</sub> emissions of 160g/km was 15% of its price for 2002/03 but from 6 April 2008 the same emissions will generate a taxable benefit of 20% of its price.

The final but nevertheless significant factor when considering a second car is whether the employer will fund the purchase without any commensurate change in salary!

# Blooming Maternity Pay!

The Work and Families Act of 2006 introduces some fundamental changes to Statutory Maternity Pay (SMP) for babies due on or after 1 April 2007.

The maternity pay period, for which SMP is payable, is extended from 26 weeks to 39 weeks. This is paid for the first six weeks at 90% of average weekly earnings. The remaining weeks are paid at the lower of the standard rate of SMP or the earnings related rate.

From 6 April 2007 the standard rate of SMP is increased from £108.85 per week to £112.75 per week.

Women who became pregnant before they started to work for their employer or who do not earn the national insurance lower earnings limit (currently £84 a week rising to £87 per week from 6 April 2007) are not entitled to SMP. They may however be eligible to claim Maternity Allowance (MA) which is a state benefit paid directly by the government to the employee. The payment period for MA is also extended for babies due from 1 April 2007.

For babies due from 1 April 2007 all mothers will be entitled to 52 weeks leave whether or not they qualify for SMP.



## Websites and electronic documents - additional corporate disclosures

At the very end of last year the government issued new legislation extending the requirements for companies to provide certain particulars about themselves to electronic documents and websites. As the legislation extends requirements in the Companies Act, it also applies to Limited Liability Partnerships (LLPs). Therefore all references to 'companies' below should be taken to apply equally to LLPs.

### Company particulars

The Companies Act has for some time required companies to include certain details on corporate stationery and other hard copy documents. The main requirements are in respect of:

#### • Company name

This must appear on all business letters and other business documents including bills of exchange, cheques, receipts, invoices and notices and other official publications.

This requirement is specifically extended to include all company order forms.

#### • Other information

All business letters and order forms must include:

- the company's place of registration (England and Wales, Scotland etc) and registered number
- the address of the registered office.

### What's changed?

The above requirements are now extended to also include the company's website. The second change is that the reference to any 'document' is extended to include that document in electronic or any other form. This means that it is now an offence not to include:

- the company's name

- its place of registration and registered number
- the address of its registered office

on all the company's websites and all its business letters and order forms that are in electronic form.

The legislation became effective on 1 January 2007 and there are penalties for those who do not comply.

### Action

If you have not already taken action in respect of the new requirements you should do so immediately. The legislation does not stipulate where the information should appear on your website but you could for example use the 'about us' or 'contact us' page.

As many of us now conduct business correspondence by email, emails are potentially business letters for statutory purposes. You could consider adding the required information to any 'disclaimer' that typically appears at the end of an email. Your email systems could be set up to include these automatically. Suitable extra wording could be along the lines of:

XYZ Limited

XYZ Limited is a company registered in England and Wales with company number -----.

Registered Office: Ash House,  
Lower Road, London EC XXX.

## Budget trivia

With the Budget only weeks away we thought would share some lesser known facts from previous Budgets.

- Out of 20 post war Chancellors only 3 have gone on to become Prime Minister.... so far. (Harold Macmillan, James Callaghan and John Major).

- The Budget Box was first used by William Gladstone around 1860.
- When George Ward-Hunt opened his budget box in 1869 he found that he had left his speech at home!
- Geoffrey Howe named his dog Budget.

## And finally.....

Some excuses purportedly given to HMRC, first published in the Daily Mail, for not doing things:

- 'Please send me a claim form as I have had a baby. I had one before, but it got dirty and I burnt it.'
- 'I received your income tax form but had to go into hospital an hour afterwards.'



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.

## Tax saving tips for the family

### Married couples

Marriage gives limited scope for income tax planning but spouses are taxed separately. Therefore, by careful planning, maximum use can be made of personal reliefs and the starting and basic rate tax bands. Given that the personal allowance cannot be transferred between spouses it may be necessary to consider gifts of assets (which must be outright and unconditional) to even up incomes. A transfer of just £1,000 of savings income from a higher rate taxpaying spouse to one with income below the personal allowance (currently £5,035) will save £400 a year.

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

Income from jointly owned assets is generally shared equally for tax purposes. This applies even where the asset is owned in unequal shares unless an election is made to split the income in proportion to the ownership of the asset. The exception 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.

### Tip

If you are self-employed, consider employing your spouse or taking them into partnership as a way of redistributing income. This could be just as relevant for a property investment business producing rental income as for a trade or profession.

### Note

Care must be taken because HMRC may look at such situations to ensure they are commercially justified. If a spouse is employed by the family company, the level of remuneration must be justifiable and the wages

actually paid to the spouse. The National Minimum Wage rules may also impact.

### Those aged 65 and over

Taxpayers aged at least 65 should consider how to make full use of the available age allowances. The higher allowances are gradually withdrawn once income exceeds £20,100.

### Tip

Consider switching to non-taxable or capital growth oriented investments to avoid losing out on allowances.

### Children

Children have their own allowances and tax bands. Therefore it may be possible for tax savings to be achieved by the transfer of income producing assets to a child. Generally this is ineffective if the source of the asset is the parents and the child is under 18. In this case the income remains taxable on the parents unless the income arising amounts to no more than £100 gross per annum.

### Tip

Consider transfers of assets from other relatives (eg grandparents) and/or earnings from the family business for teenage children to use personal allowances, starting and basic rate tax bands.

Remember that children also have their own capital gains tax (CGT) annual exemption (£8,800). It may be better for parents to invest for capital growth rather than income.

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 further payments 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.

### Non-taxpayers

Children or any other person whose personal allowances exceed their income are not liable to tax. Where income has suffered tax deduction at source a repayment claim should be made. In the case of bank or building society interest, a declaration can be made by non-taxpayers to enable interest to be paid gross.

Remember that the 10% starting rate applies to all types of income so that if the only source of taxable income is bank or building society interest the first £2,150 (for 2006/07) is liable at only 10%. If 20% tax has been deducted at source a repayment may be due.

### Tip

Tax credits on dividends are not repayable so non-taxpayers should ensure they have other sources of income to utilise their personal allowances.

### Family companies

If the payment of bonuses to directors or dividends to shareholders is under consideration, give careful thought as to whether payment should be made before or after the end of the tax year. The date of payment will affect the date tax is due and possibly the rate at which it is payable.

### Tip

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.

Alternatively consider the payment of a pension contribution by the company on behalf of an employee since this is tax and national insurance free.

# Investments - are yours tax efficient?

**There is a wide range of investments with varying tax treatments. We take a look at some of the main ones that have special tax rules.**

## WARNING

When choosing between investments always consider the differing levels of risk and your requirements for income and capital in both the long and short term. An investment strategy based purely on saving tax is not advisable.

## Individual Savings Accounts

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 2006/07 the investment(s) must be made by 5 April 2007. 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.

## Other investments

**National Savings products** are taxed in a variety of ways. Some, such as National Savings Certificates, are tax-free.

**Single premium life assurance bonds** and 'roll up' funds provide a useful means of deferring income into a subsequent period when it may be taxed at a lower rate.

## The Enterprise Investment Scheme

**(EIS)** allows income tax relief at 20% on new equity investment (in qualifying unquoted trading companies) of up to £400,000 per tax year.

Capital Gains Tax (CGT) exemption is given on shares held for at least three years.

Capital gains realised on the sale of any chargeable asset (including quoted shares, holiday homes etc) can be deferred where gains are reinvested in EIS shares.

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 shares in the VCT. Income tax relief currently at 30% is available on subscriptions for VCT shares up to £200,000 per tax year so long as the shares are held for at least five years.

## Second hand endowment policies

**(SHEPs)** can be very attractive. Purchasing a SHEP will give an initial cost plus subsequent premiums payable to maturity. On maturity a capital gain arises less the purchase price and premiums paid. It may be possible for each member of a family to use their CGT annual exemption in this way.

Finally, review your **borrowings**. Full tax relief is given on funds borrowed for business purposes. Your mortgage does not qualify for any tax relief.

# Capital gains tax

The availability of taper relief at 75% on business assets after just two years of ownership means that the effective rate of capital gains tax (CGT) for a higher rate taxpayer is often only 10%.

## Annual exemption

The first £8,800 of gains made in 2006/07 are CGT-free being covered by the annual exemption. Note that husband and wife both have their own annual exemption, as indeed do children. A transfer of assets between spouses may enable them both to fully use this. Consider selling assets standing at a gain before the end of the tax year on 5 April to use the annual exemption. Bed and breakfasting (sale and repurchase) of shares is no longer effective but there are two variants which still work:

- sale by one spouse and repurchase by the other
- sale followed by repurchase via an ISA.

These techniques may also be used to establish a loss that can be set against gains. The timing of such disposals may be critical because losses are used against gains before applying taper relief.

## Tip

On the other hand if a disposal is deferred until a date after 5 April 2007 then not only will next year's annual exemption be available but the tax payable will be due a whole year later. Additional taper relief may also be available.

## Two homes?

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.

## Other ideas

A capital gain can be deferred if the gain is reinvested in the shares of a qualifying unquoted trading company via the Enterprise Investment Scheme.

A capital loss can be claimed on an asset that is virtually worthless. Where the asset is of 'negligible value' by 5 April 2007 the capital loss can be used in 2006/07.

Moving abroad can take you outside the CGT net. However it is clearly not a decision to be taken lightly and requires very careful planning. Please talk to us if this is an area of interest for you.

No CGT planning should be undertaken in isolation. Other tax and non-tax factors may be relevant, particularly inheritance tax in relation to capital assets. Please talk to us soon if there are any issues in relation to CGT planning you wish to discuss.



# Employers...the form-filling starts here

**If you are an employer the end of the tax year marks the start of the form-filling season! Here's a reminder of important deadlines for sending information (and money!) to HMRC.**

**19 April 2007** - Interest will run on any 2006/07 PAYE, NIC, student loan and CIS deductions not paid over by this date (22nd for electronic payments).

**19 May 2007** - Employers' year end returns (P35/P14/P38) due for submission.

**31 May 2007** - Employees must be provided with their P60 (certificate of pay and tax deducted).

**6 July 2007** - Submission of P11Ds and P9Ds which show details of expenses paid and benefits provided to employees and directors. There is a penalty for submission of late or incorrect returns. Employees must also be given a copy of their P9D/P11D by this date.

**19 July 2007** - Class 1A NIC for 2006/07 on most benefits in kind provided to employees must be paid. Interest runs from this date on late payments.

**19 October 2007** (22nd for electronic payments) - PAYE settlement agreement liabilities for 2006/07 are due, together with Class 1B NIC. Interest runs from this date on late payments.

## Electronic filing and payment

All employers with at least 50 employees must file their 2006/07 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.

Talk to us if you are interested in using a PAYE settlement agreement to account for the tax due on minor employee benefits. It can reduce administrative hassle and SAVE TIME!



## Giving to charity

Charitable donations made under the Gift Aid scheme can result in significant benefits for both the donor and the charity. The charity is able to claim back tax at 22% on any donations and if the donor is a higher rate taxpayer the gift will qualify for 40% tax relief. Therefore a cash gift of £78 will generate a tax refund of £22 for the charity so that it ends up with £100. The donor will get higher rate tax relief of £18 so that the net cost of the gift is only £60.

### Tip

Tax relief against 2006/07 income is possible for charitable donations made between 6 April 2007 and 31 January 2008 providing the payment is made before filing the 2006/07 tax return.

Always remember to keep a record of any gifts you make.

It is also possible to make gifts of quoted shares and securities or land and buildings to charities and claim income tax relief on the value of the gift. This may be tax efficient for larger charitable donations.





## Pension contributions

There are many opportunities for pension planning but the rules can be complicated. Furthermore the rules on the taxation of pensions changed very significantly in April 2006. The new regime includes a single lifetime limit (initially 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 set at £215,000).

Tax relief is available on pension contributions at the taxpayer's marginal rate of tax. Therefore a higher rate taxpayer can pay £100 into a pension scheme at a cost of only £60. Indeed for some individuals, in particular where income consists largely of dividend income, the marginal rate of tax may be as high as 44.5%. For such an individual the true cost of a £100 pension contribution is £55.50. With the inability of the state to provide adequate levels of retirement pensions widely acknowledged, it is more important than ever to provide for a secure old age.

All individuals, including children, can obtain tax relief on personal pension contributions (not retirement annuity premiums) of £3,600 (gross) annually without any reference to earnings. Higher amounts may be paid based on net relevant earnings (NRE).

Individuals can make pension contributions of up to 100% of their NRE in a tax year. One of the significant changes under the new regime is that contributions must be paid during the tax year. There is no facility to carry contributions back to the previous tax years.

Directors of family companies should, as an alternative, consider the advantages of setting up a company pension scheme or, alternatively, arranging for the company to make employer pension contribution. If a spouse is employed by the company consider including them in the scheme or arranging for the company to make contributions on their behalf. Even with modest salary levels, significant benefits can accrue.

## National insurance matters

If a spouse is employed by the family business it is probably now worth paying earnings in 2006/07 of between £84 (the lower earnings limit) and £97 (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 if earnings do not exceed £97 per week in 2006/07. Note that the thresholds will be £87 and £100 per week respectively in 2007/08.

### Tip

A PAYE scheme would be needed to establish the employee's entitlement to benefits.

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 2006/07 is £4,465. If contributions have been paid for 2006/07 and it subsequently turns out that earnings are below £4,465 a claim for repayment of contributions can be made. The deadline for this claim is 31 December 2007.

### Tip

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 £5.45 a week higher.



## Company cars and fuel

Company car benefits are calculated by reference to the CO<sub>2</sub> emissions. The level of business mileage is not relevant. The greener (environmentally!) the car, the lower the charge.

Businesses purchasing 'green' cars with CO<sub>2</sub> emissions not exceeding 120 gm/km can generally write off the full cost of the car in the year of purchase. If the car is for the proprietor of an unincorporated business the allowances will be restricted to take account of the proportion of private use.

### Tip

Check your position to confirm that the company car is still a worthwhile benefit. It may be better to receive a tax-free mileage allowance that could be up to 40p per mile for business travel in your own vehicle.

Where private fuel is provided, the charge is also based on CO<sub>2</sub> emissions. You should review the arrangements to ensure no unnecessary tax charge arises. If you have opted out of free fuel during the year, the charge will be proportionally reduced. However where you opted in during the year a full charge is applied.