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NEWSLETTER

Calling former shareholders in Northern Rock

HMRC have now set out their understanding of the consequences of the transfer of Northern Rock plc into temporary public ownership. The guidance relates to:

- the capital gains tax position of former shareholders in Northern Rock plc; and
- the income tax and capital gains tax position of those who held shares and share options under employee share schemes.

As no monies were received for the shares, the disposal in February 2008 will normally give rise to a loss in respect of any allowable costs of acquisition. The loss will crystallise in the 2007/08 tax year.

Shareholders who are entitled to receive a payment under the Compensation Scheme Order will be subject to capital gains tax and the gain will be charged in the tax year in which the compensation is received.

Please contact us if you need more detailed assistance.

WINTER 2008

Car-tastrophic proposals?

You may be aware that the government is proposing to change the tax relief available to businesses when they purchase cars. This relief is known as capital allowances, the tax alternative to depreciation on the vehicle.

What are the proposed changes?

Although we are short on detail, the comments from HMRC in this year's Budget are reproduced below:

'With effect from 1 April 2009 for corporation tax purposes (6 April 2009 for income tax) the capital allowance treatment of cars will be reformed. Expenditure on cars with CO_2 emissions above 160 grams per kilometre (g/km) will attract 10% Writing Down Allowance (WDA) and expenditure on cars with CO_2 emissions of 160g/km or below will attract 20% WDA.'

This would appear to be a major change in the tax treatment of cars, particularly those that are known as 'expensive' cars. Cars costing over £12,000 have, for many years, had an annual maximum of £3,000 WDA. It seems as though this limit may disappear.

What is the effect of these changes?

Whilst the full effect is as yet unknown, certain general assumptions can be made. Assume a business purchases a new car for £25,000 and uses it for 4 years before it is sold for £11,000. The table below compares the differences that could arise.

	Current rules	10% WDA more than 160g/km CO_2	20% WDA up to 160g/km CO_2
	£	£	£
Year 1 - cost	25,000	25,000	25,000
Allowance	**3,000 (max)**	**2,500**	**5,000**
Amount to carry forward	22,000	22,500	20,000
Year 2 - allowance	**3,000 (max)**	**2,250**	**4,000**
Amount to carry forward	19,000	20,250	16,000
Year 3 - allowance	**3,000 (max)**	**2,025**	**3,200**
Amount to carry forward	16,000	18,225	12,800
Year 4 - sale	(11,000)	(11,000)	(11,000)
Balancing allowance	**5,000**	**None**	**None**
Year 4 - allowance	N/A	**723** (7,225 x 10%)	**360** (1,800 x 20%)
Total allowances over economic life	**14,000**	**7,498**	**12,560**

As can be seen, the main difference is that there is no final allowance when the car is sold. Whilst the effect is not too bad in respect of cars in the 20% bracket, those in the 10% bracket suffer quite badly.

...continued on next page

Retaining Customers

Research suggests that it costs between three and ten times as much to replace lost customers than to keep them. Here is a brief 'what, why and how' on customer retention.

WHAT Keep in touch with what your customers want and how their needs are changing.
WHY Prevents complacency.
HOW Regularly measure customer satisfaction levels and use market research.

WHAT Welcome complaints.
WHY Something is wrong and you need to know what it is so that you can act and keep the customer.
HOW Record and analyse the complaint so that you can see what changes you need to make.

WHAT Introduce a Customer Relationship Management (CRM) system. CRM is the process of developing ongoing relationships with existing and potential customers.
WHY As your business grows, it becomes more difficult to maintain a personal relationship with all of your customers leaving them to feel that they are not receiving the same quality of service.
HOW A CRM solution may involve databases, the internet, telemarketing, direct mail, etc.

An example of how a CRM system might work where you have a large customer base could be to communicate:

- regularly and personally with the top 20%
- through telemarketing and occasional personal contact with the next 40%
- through occasional mailings for the rest.

Car-tastrophic proposals?

Continued from front cover

What to do?

Whilst the full detail of the changes is as yet unknown, if you are buying a business car in the near future you may wish to think about its level of emissions.

And finally…a silver lining

For some years a complete write off (first year allowance) has been available for super-clean cars. This 100% first year allowance for the cleanest cars has been extended to 31 March 2013. To qualify, the car needs CO_2 emissions not exceeding 110g/km. For a list of cars that meet this test, please visit www.comcar.co.uk

Dispensations - a word of warning …

Where HMRC are happy that there is no liability to income tax or national insurance for certain expenses paid or benefits given to employees, a notice of dispensation can be issued.

This means that an employer does not need to report any of the expenses and benefits included in the dispensation on forms P9D or P11D. It also means that employees do not need to put these items on their tax returns.

Historically, once a dispensation had been granted it would continue to apply until the qualifying conditions were no longer met. However, where a dispensation had been operated incorrectly, it could be revoked retrospectively. HMRC's practice was to only revoke retrospectively in exceptional circumstances.

HMRC have become concerned that a small number of employers have taken advantage of this and have gone on to abuse the terms of the dispensation, so HMRC have now changed their practice in this area.

HMRC will now consider revoking a dispensation retrospectively where there is any evidence of negligence or misrepresentation by an employer, such as where:

- an application for a dispensation did not provide all the relevant information; or
- there was a change in the way the expenses and benefits were made available to employees, meaning that the conditions were no longer met, and HMRC have not been informed of the change.

Whilst HMRC state that this will not affect the great majority of employers, the second point is potentially very wide ranging.

If you rely on a dispensation, you may wish to ensure that it is up to date and covers all relevant benefits and expenses. If you have any concerns in this area, please do not hesitate to get in touch.

Companies Act 2006 Update

The ongoing introduction of this important legislation continues, with three of the key implementation dates having now passed.

October 2007 saw changes in respect of formal company procedures, such as meetings and resolutions brought into force.

April 2008 saw changes in respect of company reports, accounts and audits introduced, although a number of these only take effect for accounting periods beginning on or after 6 April 2008. It will therefore be April 2009 year ends and beyond before we really begin to see the effects of these.

More recently, **1 October 2008** saw the following changes introduced:

- Every UK company is required to have at least one director who is a 'natural' person. In everyday language this means an individual. There are transitional rules in place until October 2010 to enable certain existing companies with only corporate directors to comply with this change.
- All directors must be at least 16 years of age.
- The general duties of directors to avoid conflicts of interests came into force.
- The restrictions under the Companies Act 1985 on financial assistance by a private company for the acquisition of its own shares were repealed.
- A new procedure was introduced for private companies wishing to reduce their share capital, which involves a director's solvency statement rather than court approval.
- A new annual return form 363a was introduced, with reduced information on company shareholders.

The final implementation date of **1 October 2009** will see the remaining sections of the new Act brought into force. A large number of provisions will then take effect, mainly dealing with company formation and administration.

The end of the private company secretary?

You are by now likely to have heard the news that private companies are no longer required to have a company secretary. Previously, all private companies were required to have a minimum of two officers - a director and a company secretary, as a sole director could not also be the company secretary.

The change arises from the Companies Act 2006, which aims to make it easier to set up and run a company. The change took effect from 6 April 2008 and also means that it is now possible for a private company to be formally run by a single individual.

Existing companies that have a company secretary in place, whose details are registered at Companies House, are now able to decide whether or not they wish to continue with a formal appointment in this role.

Decision making considerations

The tasks to be undertaken
While the position of company secretary does not need to be filled, many of the tasks that a company secretary traditionally undertook remain. Directors will continue to be legally responsible for these, which include for example, filing documentation at Companies House and maintaining statutory registers. These tasks may be delegated to an individual or to a corporate entity specialising in this administrative function.

The size and complexity of the company
Doing away with this role is a realistic possibility for smaller owner-managed companies, where statutory tasks are often undertaken by the director-owner or company accountant. There may be a more significant 'real' company secretarial role to play in larger companies.

Signing official documents
Documents can be signed by just one director, provided this is in the presence of a witness.

The company's Articles of Association
These may expressly require the company to have a company secretary, therefore these will need to be amended if the company no longer wish to have a company secretary.

Action

If you decide that your company no longer needs a formal company secretary, the secretary must resign or the directors must resolve to remove the secretary. Companies House must be notified of any resignation or removal.

Extracting profits wisely…

Where a business is trading through a limited company, the issue of tax efficient extraction of funds is always of practical interest and an area where decisions can change depending on changes to tax rules and rates.

Corporation tax (CT) rate changes have been the most recent factor to impact on the ever popular issue of whether it is more cost efficient to pay a bonus or a dividend, as this alters the true real cost of the bonus option….

Dividend or salary/bonus

This article considers the factors which impact upon the cost of providing a dividend or bonus by a company, to a shareholder/director, where the aim is to provide a set amount of post tax income in the most beneficial way.

Overview of the company position of providing a bonus

Firstly the company needs to ascertain the tax and National Insurance position of the director/shareholder to determine the pre tax cost of the bonus. This depends on:

- the tax position of the director – ie basic or higher rate taxpayer

- the rate of employee National Insurance (NIC) - 1% where the director already has remuneration with the employer which exceeds the upper limit for the main rate of NIC or 11% where that limit has not yet been reached.

The company then needs to allow for the additional employer NIC cost, currently charged at 12.8%.

All costs are then reduced depending on the CT rate of the company. This primarily depends on the level of company profits but other factors may affect the exact CT rate in a company's circumstances so advice is recommended.

To demonstrate how this might operate the illustration below assumes:

- the director is a higher rate tax payer
- the relevant rate of employee National Insurance is only 1%
- the aim is to provide a director with £10,000 **after the deductions** for the higher rate tax of 40% and the NIC cost of 1%
- employer NIC is 12.8%.

The £10,000 received by the director has to first be grossed up for the tax and NIC:

£10,000 x 100/59= £16,949.

Then the employer NIC of 12.8% is added to this to find the total pre tax cost:

£16,949 x 112.8/100 = £19,118

The true cost to the company is now determined by the (CT) rate saving. The following table uses the effective CT rates, at different profit levels, for a single company for the period 1 April 2008 to 31 March 2009.

Profits	≤ 300k	> 1.5 mill	300k-1.5mill
Rate of corporation tax	21%	28%	29.75%
	£	£	£
Cost before CT saving	19,118	19,118	19,118
Tax relief for company @ 21% / 28% /29.75%	(4,015)	(5,353)	(5,688)
Net overall cost	15,103	13,765	13,430

Cost comparison - dividend route

The cost to the company is solely determined by the income tax position of the director/shareholder. The only direct outlay of the company is the dividend payment. There is no additional NIC cost for either the employee or employer on a dividend but there is no CT relief saving either.

Assuming again that the individual is a higher rate taxpayer then on receipt of a cash dividend, 25% effectively needs to be retained to pay the higher rate tax.

If a dividend of £13,333 is paid then, after settling the 25% tax £10,000 cash will be available. As can be seen from the table above, in the current financial year this is currently a cheaper cost alternative compared to a bonus whatever the rate of company tax.

There are a range of other considerations aside from the numerical comparisons which may need to be borne in mind. These include but are not limited to:

- the status and needs of other shareholders
- other profit extraction methods such as pension provision and rent
- preserving minimum NICs for the state retirement pension
- the possible impact on share valuation of regular dividend payments
- the impact of proposed income shifting legislation.

As this area is constantly subject to changes in rules and rates please contact us to discuss what strategies would be suitable for you and your company.

10% band survives….

The issue of the abolition of the 10% starting rate for non-savings income became a highly emotive one which resulted in concessions from the Chancellor in the so-called 'Mini Budget' in May 2008. The primary effect of the climb-down was that changes were made to both the personal allowance and the basic rate band limit but not to tax rates. The personal allowance was increased to £6,035 and so any income up to that amount is tax free. The increase is aimed at individuals on low earned income, which is the main type of non-savings income, to ensure that they do not end up with a higher tax liability this tax year compared to the previous year.

However as an increase in the personal allowance applies to all taxpayers, all basic rate tax payers benefit. Higher rate taxpayers do not benefit overall but are in a neutral position. This is because the effect of the increase in the tax free personal allowance has been offset by reducing the upper limit at which you start paying higher rate tax from the planned £36,000 to £34,800.

So what about the 10% starting rate on savings?

The table below usefully summarises the revised tax band position for the current tax year. It also shows the tax rates for different types of income and the retained 10% starting rate on savings income.

Between	Non savings rate	Savings rate	Dividend rate
£	£	£	£
0 -2,320	20%	10%	10%
2,321-34,800	20%	20%	10%
Over 34,800	40%	40%	32.5%

Tax law sets out a strict order in which sources of income are charged to income tax as follows:

- non-savings income (broadly earnings, pensions, taxable social security benefits, trading profits and property income)
- savings income, including bank and building society interest
- dividends.

Effectively, this means that savings and dividend income are treated as the 'top slice' of income. If taxable non savings income (after deducting the personal allowance) exceeds the starting rate band of £2,320, then this band will not be available for any savings income received.

However if the taxable non savings income is below the starting rate band, this band will be available in full or part for savings income up to the limit of £2,320.

Christina only works part time but following a recent inheritance has a significant sum on deposit at a bank and so has the following forecast income this tax year:

	Non savings £	Savings £
Part time wages	5,500	
Bank interest income		4,035
Less personal allowance	(5,500) *	(535)
Taxable income	Nil	3,500

*The personal allowance is always allocated against non-savings income before other sources of income.

As there is no taxable non savings income, the whole of the starting rate band is available on the savings income and the balance is then charged at the normal basic rate of tax of 20% as follows:

First £2,320 is @10%	£232
Next £1,180 is @ 20%	£236
Total tax due	£468

Don't forget to claim a refund

Christina will be able to claim a tax refund as 20% tax is automatically deducted at source on most savings income. Tax of £807 (£4,035 @20%) will have been deducted at source so she will be able to reclaim £339 (£807- £468).

Please do get in touch if you need any help with this.

Focus on features

UK tax law has never been regarded as kind when it comes to tax relief on buildings expenditure. As a result many battles have been fought over the years in the courts as businesses have contested that certain expenditure is plant and machinery not premises. The war will never be over but the introduction of a new category of plant for capital allowances is a compromise akin to a truce.

This new category is integral features and includes:

- electrical systems (including lighting systems)
- cold water systems
- space or water heating systems
- powered systems of ventilation, air cooling or air purification, and any floor or ceiling comprised in such systems
- lifts, escalators and moving walkways
- external solar shading.

Some of these items were already treated as plant and machinery in the past but general electrical and cold water systems for buildings have only ever qualified as building expenditure. Unless the building then qualified as an industrial or agricultural building there were no allowances, meaning that many commercial premises did not attract any form of tax relief.

An Annual Investment Allowance of £50,000 is now available for a business to use against plant and machinery costs which can include this type of capital expenditure. In the case of certain energy saving expenditure such as lighting systems you may alternatively qualify for a 100% enhanced capital allowance irrespective of cost. Where immediate write off is not available using these alternatives, a lower 10% annual allowance can be claimed, ensuring that the business will get tax relief over time.

If you require further information or advice before making such expenditure commitments please contact us.

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