

Spring 2009 draft letter for clients

Dear

Spring 2009

We have pleasure in enclosing our new look spring newsletter. We hope you will find the new design attractive and the content as interesting and beneficial as ever.

With the usual flurry of activity for this time of year around filing returns, and the fall out from November's Pre-Budget Report, there is a lot to think about. What is unusual this spring is the continuing downturn in the economy. Many people are now thinking carefully about how to spend their money and looking to make savings. While keeping up with the news may be generally depressing, there are ways to minimise the pain. We highlight some of the current issues in the edition, including:

VAT savings with the flat rate scheme You could substantially reduce your VAT bill if your annual sales are valued at less than £150,000 by using the flat rate scheme. Since 2002, many firms have taken advantage of the scheme that can save money and simplify the VAT return process.

New rules on company cars New rules on writing down allowances coming in from 6 April this year will affect cars bought or leased from that date. The changes could make a difference to any decisions on the timing of new purchases.

Surprise decision in tax residence case A High Court decision in November in the case of an airline pilot claiming non-residence has thrown doubt on the residence criteria generally used to determine such cases.

Pay business taxes in instalments A new HM Revenue & Customs (HMRC) support service for businesses has been set up to allow firms affected by the economic downturn to temporarily delay business tax payments in consultation with HMRC. Setting up individual arrangements to prioritise your cash flow could help in getting through difficult times.

Other issues include: new advisory fuel rates; tax treatment for civil partnerships abroad; claiming VAT on bad debt; and higher VAT rates in Ireland.

If you would like to have more information about any of these or the other articles in the newsletter and their possible impact on you, please let us know.

Yours sincerely

Spring 2009 newsletter

We hope you enjoyed reading our spring 2009 newsletter. If you would like to know more about any of the topics raised simply tick below those that interest you and fax this back to us. We will get in touch as soon as we can.

- Opportunities on assets
- New rules on company cars
- VAT savings with the flat rate scheme
- Pay business taxes in instalments
- Surprise decision in tax residence case
- Claiming VAT on bad debts
- Tax treatment of civil partnerships abroad
- Other (please specify)

Name _____

Address _____

Tel _____ Fax _____

Email _____

If you know anyone who might like a free copy of this newsletter, please let us know their name and address and we will be happy to arrange it.

Name _____

Address _____

Tel _____ Fax _____

Email _____

You have received this publication because you are a client or contact of this company. All information is stored in accordance with the provisions of the Data Protection Act 1998 and will not be disclosed to outside parties.

If you do not wish to receive information from us, please tick:

Follow-up email

Dear Client

We are just sending you a quick email to check that you received our spring newsletter. We hope you have had a chance to read the articles and have found the information useful.

If there are any issues raised in our newsletter that you would like to discuss in more detail, or if there is anything we can help you with, please do get in touch. We will be pleased to hear from you.

Best wishes

Spring 2009 Newsletter – Background Notes

Opportunities on assets

Capital gains tax is often a barrier to making gifts of assets or to business reorganisations. For disposals that are not on ‘arm’s length’ terms, the disposal value for CGT is taken to be the market value of the asset at the disposal date.

It may be advisable to obtain a professional valuation of the asset at the time of the gift or transfer, in case HM Revenue & Customs (HMRC) challenges the market value later.

It is helpful for gifts of assets to be documented, including the date of the gift and the agreed value.

CGT on an individual’s gains in a tax year is payable on 31 January following the end of the tax year. Companies pay corporation tax on chargeable gains at the same time as corporation tax on profits generally.

HMRC has published extensive guidance on CGT, which is listed at <http://www.hmrc.gov.uk/agents/forms-cgt.htm>.

HMRC is able to agree the market value of an asset after the disposal in advance of submission of the tax return. You can download the necessary form at <http://search2.hmrc.gov.uk/kbroker/hmrc/forms/viewform.jsp?formId=3168>.

VAT savings with the flat rate scheme

The key HMRC notice on the flat rate scheme is VAT Notice 733 which can be downloaded from the HMRC website at <http://www.hmrc.gov.uk/vat/account-flat.htm>, giving a detailed analysis of all of the conditions of the scheme. The notice includes all of the relevant flat rate percentages – but be aware that these were reduced in most cases on 1 December 2008 following the reduction in the standard rate of VAT to 15%. The revised rates can be found on the HMRC website at <http://www.hmrc.gov.uk/pbr2008/measure1.htm> within the ‘technical brief for businesses’ issued following the Pre-Budget Report.

In many cases, a client’s business will not exactly fit one of the 55 different categories that are available. In such cases, the client’s category will usually be either ‘any other activity not listed elsewhere’ or ‘business services that are not listed elsewhere’. In cases where a business has two or more activities, the relevant flat rate percentage depends on the activity with the greater turnover.

It is important to recognise that the scheme does not save tax for every small business – in certain cases, the scheme could produce higher tax bills and should therefore be avoided. But

many clients can benefit from the savings and also the fact that they do not need to keep such detailed accounting records, eg there is no need to keep a separate VAT column in purchase records.

New rules on company cars

The proposed new rules are explained in Pre-Budget Report notes 17 and 18. All the Pre-Budget Report documents are available on the HMRC website at <http://www.hmrc.gov.uk/pbr2008/index.htm>. A further technical note on the company car changes was published on 8 December 2008 and can be downloaded at http://www.hm-treasury.gov.uk/taxrelief_cars_technote.htm.

Legislation to implement these rules will be in the Finance Act 2009. There could be changes to the details, but the general principles and overall scheme is unlikely to be altered.

Pay business tax in instalments

Full details of the arrangement are at <http://www.hmrc.gov.uk/pbr2008/business-payment.htm>. The facility to delay tax payments is obviously very helpful, but it is important for businesses also to take the advice at the end of the article on managing cash flow. The government has not indicated how long this scheme will last, but the Pre-Budget Report billed this as a short-term measure.

Surprise decision in tax residence case

The full High Court judgement in HMRC v Lyle Dicker Grace [2008] is available at <http://www.bailii.org/ew/cases/EWHC/Ch/2008/2708.html>.

HMRC guidance in the form of notes to help complete the non-residence pages of the tax return is at <http://www.hmrc.gov.uk/worksheets/sa109-notes.pdf>.

HMRC is currently rewriting its booklet on residence and domicile, IR20, and hopes to publish the new version in March 2009. The present version, which includes the Finance Act 2008 changes to the residence and domicile provisions, is at <http://www.hmrc.gov.uk/pdfs/ir20.pdf>.

Tax treatment of civil partnerships abroad

The website <http://www.ilga-europe.org/Europe/Issues/LGBT-Families/Marriage-and-partnership-rights-for-same-sex-partners-country-by-country> highlights the main features of the law on recognition of same-sex partnerships in European countries. In the US, the law varies by state. There is no reliable single source of worldwide information, but there is a Wikipedia article that brings together information on the recognition of civil unions (for tax and other legal purposes) throughout the world and includes a large number of references and links to more details. Be aware, however, that Wikipedia articles are not professionally checked and should only be used as a general guide.

Claiming back VAT on bad debt

The cash accounting scheme is a way of obtaining automatic bad debt relief. However, it can only be adopted by a business with annual turnover (excluding VAT) of £1.35m or less. The advantage of the cash accounting scheme is that output tax is never included on a VAT return until payment has been received from the customer – but input tax cannot be reclaimed until a supplier has been paid.

The scheme is particularly useful for a business that has mainly standard rated sales where it encounters a time delay between raising an invoice to a customer and receiving payment.

A common question from clients relates to what happens if a bad debt is written off, but is then subsequently paid by a customer. In such cases, output tax again needs to be declared on the value of any payment received.

The relevant HMRC notice on the cash accounting scheme is Notice 731 which can be found on the HMRC website at <http://www.hmrc.gov.uk/manuals/vcasmanual/VCAS1200.htm> and 700/18/02 in relation to VAT on bad debts.

VAT increase for Ireland

The concept of ‘distance selling’ is very important if a UK business sells goods to non-VAT registered customers in other EU countries. If the ‘distance selling’ thresholds are exceeded (sales value of goods excluding VAT), then the supplier of the goods has to register for VAT in that country.

Each country has a choice of adopting a lower threshold (35,000 Euros) or a higher threshold (100,000 Euros). Once these levels are exceeded in a calendar year, the supplier must register for VAT in that country. Ireland has adopted the lower threshold of 35,000 Euros – this tends to be the case for most countries with the higher rates of VAT in the EU.