

CI Accountancy Ltd

Newsletter

January 2008



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May we take this opportunity to wish all our readers a very happy and prosperous new year. 2008 promises to be a challenging year as we await significant changes to Capital Gains Tax and the taxation of certain partnerships and small companies.

The Government have delayed, yet again, the publication of the new legislation affecting capital gains taxation from 6 April 2008. We hope to be able to bring you up-to-date on this issue when we write our February 2008 newsletter.

On 31 January 2008 any balance of tax due for the year to 5 April 2007 becomes payable, together with the first payment on account for 2007-2008. If any clients are unsure of their liabilities please call.

This month we have included articles on two possible downsides to the drop in income tax basic rate on 6 April 2008; the new VAT invoicing rules from 1 January 2008; a reminder of ways in which tax losses can be utilised; and finally a reminder of the new advisory fuel rates for company cars, that also apply from 1 January 2008.

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January Client of the Month – Mucho Gusto Coffee Shop & Delicatessen

Mucho Gusto Coffee Shop and Delicatessen, situated in the heart of Hexham's historic Market Place is open seven days a week.

Whether you are a native Northumbrian or a visitor to beautiful Tynedale, Mucho Gusto's fully licensed coffee shop is the ideal meeting place if you are seeking a friendly, relaxed atmosphere in bright surroundings.

The menu offers simple, value for money food to suit all palates, from Wraps to Waffles and Porridge to Prawns. Enjoy a cappuccino or hot chocolate "The Works" whilst perusing the complimentary newspapers and magazines, or listen to the subtle background music whilst "people watching" through the large front windows.

The delicatessen offers a wide variety of treats. Wherever possible local produce is used to prepare the takeaway menu and stock the shelves. The soup and quiches are home-made on the premises each morning, as are the delicious fillings for the sandwiches and jacket potatoes.



VAT invoicing changes from 1 October 2007

If you are in business and registered for VAT, from 1 October 2007 you are required to add certain information to your sales invoices. However in the first year of the new requirements HMRC will issue penalties for non compliance with the new requirements in exceptional cases only.

Who does this affect?

While the new regulations apply to the whole of the VAT population, most businesses will already comply. Those most likely to be affected are:

- Businesses who do not presently operate a sequential sales invoice number system
- Businesses using the margin scheme for second-hand goods, works of art, antiques and collectors items
- Businesses involved in making travel related supplies that fall within the scope of the Tour Operators Margin Scheme
- Businesses making supplies where the customer accounts for the VAT

What is required?

1. Invoice numbering – all VAT registered businesses should now sequentially number their sales invoices.
2. Second hand margin scheme – if you use this VAT scheme you should note this fact on your sales invoice. We suggest you add the following line to your invoice: "This invoice is for a supply covered by the VAT second-hand margin scheme."
3. Tour operators margin scheme – if you use this VAT scheme you should note this fact on your sales invoice. We suggest you add the following line to your invoice: "This invoice is for a supply covered by the VAT tour operators margin scheme."
4. Cross border EC supplies – if you make such a supply, which would be exempt if supplied in the UK or subject to the reverse charge provisions, you will need to make an appropriate note on your invoice. As this is a more complex area we suggest you call if you would like our help with the compliance aspects of the relevant invoicing changes
5. Intra EC supplies of goods – these supplies tend to be zero rated for VAT in the UK. A simple statement to include on your invoices could read: "Intra-community supply, subject to VAT in the country of acquisition."

Income Tax – downsides to basic rate reduction

On 6 April 2008 the basic rate of income tax will reduce from 22% to 20%. More importantly the starting rate of 10% is abolished from the same date. (In the tax year 2007-2008 the first £2,230 of taxable income is taxed at 10%.)

Three possible adverse affects of these changes are:

1. Low incomes

If you have a low income you may actually be worse off! The drop in the basic rate to 20% may not fully compensate for the loss of the 10% starting rate band.

2. Pension Contributions (Basic Rate tax payers)

An unwelcome effect of the lower basic rate tax rate is a lowering of total contributions to your pension scheme. At present if you pay £78 into your scheme the Government will top up the contribution with the basic rate tax deducted, £22 - total contributions invested £100. After 5 April 2008 you will need to increase your contributions to £80 per month, tax top up £20, to achieve your £100 total investment. If you do nothing your monthly contributions will decrease at the rate of £2.50 per month, for each £100 presently invested. (2007-2008 net contribution £78 plus tax credit £22 = total contribution £100. 2008-2009 net contribution £78 plus tax credit £19.50 = total contribution £97.50.)

Note for Higher Rate tax payers: If you pay tax at 40% from 6 April 2008 you will be able to claim an additional 20% relief on your pension contributions - prior to 6 April 2008 this was limited to an additional 18%.

3. Gift Aid contributions

The reduction in the basic rate will reduce the total amount received by charities. If you presently pay £78 per year to a charity under the Gift Aid provisions the Government provide a tax rebate of £22 to the charity, total gift £100. After 5 April 2008 the same gift of £78 will create a tax rebate of £19.50. As in the pension example in 2 above, to maintain the combined cash benefit of your gift you will need to increase your contribution to £80.

Changes to Fuel Rates from 1st January 2008

A reminder that from 1 January 2008 the Revenue have published new mileage rates that company car users can use to calculate the fuel cost of running their vehicles for private purposes. If this private element is repaid to employers the employees will avoid the penal car fuel benefit charge.

The new rates are:

Engine size:

1400cc or less: petrol 11p, diesel 11p, LPG 7p.
1401cc to 2000cc: petrol 13p, diesel 11p, LPG 8p.
Over 2000cc: petrol 19p, diesel 14p, LPG 11p.

Employers can also use these rates to calculate the VAT input tax on fuel included in staff mileage claims - employers will need to retain fuel receipts from staff to prove the fuel was purchased. (Obviously it is unlikely that staff will have receipts that exactly match the fuel element on their claim forms. Receipts should cover the same time period and be sufficient to cover the VAT claimed.)

Tax Losses from Trading – how to make the most of them

As we approach the end of yet another tax year readers with possible tax losses for the current tax year may find this article of some interest. A claim to set off losses has to be "all or nothing". For example, in setting a £10,000 loss against income of £10,000, the claimant would probably prefer to claim only £5,000 of relief, as the remaining income would be covered by their personal allowance, and therefore not taxable. This would preserve some loss to carry forward and set against the profits of a later year. Such a partial claim is not possible. Once a decision about loss relief claims has been made, either the full amount of the loss, or the full amount of the income (if the loss is greater) will be used.

1. **Pension contributions** – don't forget that if you reduce your taxable income by utilising tax losses you are also reducing your income for pension premium purposes.
2. **Carry forward against future profits of the same trade** - this is normally regarded as the relief of last resort, as it delays loss relief recovery. Losses are set against the first available profits generated from the same trade, and cannot be "partly disclaimed" to preserve personal allowances. If the business ceases, then subject to terminal loss relief rules (see below), any remaining losses are lost forever.
3. **Set off against other income of the year and the preceding year** - more immediate relief for the loss is available by setting it against other income sources. Relief is given by setting the loss against other income of the year of the loss, or the preceding year.
4. **Extending claims to capital gains** - it is possible to extend a loss relief claim to set the trading loss off against the capital gains of the year of the loss and the preceding year. There are a number of potential disadvantages to this form of loss relief recovery. They include the potential loss of taper relief for CGT purposes (up to 5 April 2008) and loss of the annual exemption.
5. **Losses in the early years of trade** - when businesses incur losses in the first four tax years in which the trade is carried on, special relief is available to allow the loss to be carried back three years and set against the total income of those years, earliest year first.
6. **Terminal losses** - The loss sustained in the last 12 months of trade of a business is available for terminal loss relief. Relief is given against the trading profits (not other income) of the last three fiscal years of the business, taking later (most recent) years first.

Tax Diary January/February 2008

- 1 December 2007** - Due date for corporation tax due for the year ended 28 February 2007.
- 19 December 2007** - PAYE and NIC deductions due for month ended 5 December 2007. (If you pay your tax electronically the due date is 22 December 2007)
- 19 December 2007** - Filing deadline for the CIS300 monthly return for the month ended 5 December 2007.
- 19 December 2007** - CIS tax deducted for the month ended 5 December 2007 is payable by today.
- 1 January 2008** - Due date for corporation tax due for the year ended 31 March 2007.
- 19 January 2008** - PAYE and NIC deductions due for month ended 5 January 2008. (If you pay your tax electronically the due date is 22 January 2008)
- 19 January 2008** - Filing deadline for the CIS300 monthly return for the month ended 5 January 2008.
- 19 January 2008** - CIS tax deducted for the month ended 5 January 2008 is payable by today.
- 31 January 2008** - Filing deadline for all individual, partnership, and trust self assessment tax returns for the year ending 5 April 2007.
- 31 January 2008** - Due date for payment of any balancing self assessment tax and/or NIC class 4 contributions due for the year ending 5 April 2007.
- 31 January 2008** - Due date for payment of any first payment on account of self assessment liabilities for 2007-2008.
- 1 February 2008** - Due date for corporation tax due for the year ended 30 April 2007.
- 19 February 2008** - PAYE and NIC deductions due for month ended 5 February 2008. (If you pay your tax electronically the due date is 22 February 2008)
- 19 February 2008** - Filing deadline for the CIS300 monthly return for the month ended 5 February 2008.
- 19 February 2008** - CIS tax deducted for the month ended 5 February 2008 is payable by today.
- 28 February 2008** - Last day to pay your balance of self assessed tax for the year ending 5 April 2007 in order to avoid interest and surcharges. Payment made after this date will be subject to a 5% surcharge on tax outstanding, and interest will in any case apply from 1 February 2008.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this newsletter are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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Directors of the Company are members of the Association of International Accountants (AIA). This body has its headquarters in the UK and its rules of professional conduct can be obtained from its website.