

JUNE 2010 - INTRODUCTION

In this month's enews we cover the key changes in the new government's first Budget.

We also look at some initiatives from HMRC to help agents and their clients to reduce risk when preparing returns and to assist individuals in understanding the tax credits system.

Please browse through the articles using the links below and contact us if any issues or questions arise.

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EMERGENCY BUDGET

George Osborne presented his first Budget on Tuesday 22 June 2010.

For the first time, forecasts were published in advance of the Budget. The Office for Budget Responsibility was formed in May 2010 to make an independent assessment of the public finances and the economy in advance of each Budget and Pre-Budget Report. Within the framework of these forecasts George Osborne stated that a tough but fair Budget was needed.

Many fundamental announcements have been made which affect the taxation of most individuals and these include:

- An increase in the personal allowance of £1,000 from 6 April 2011 for those aged under 65 but higher rate taxpayers will not benefit due to a reduction in the basic rate band upper limit.
- An increase in the rate of VAT to 20% from 4 January 2011.
- A new 28% rate of capital gains tax for higher and additional rate taxpayers.
- An increase in the maximum Entrepreneurs' Relief to £5 million from £2 million.
- A scheme to reduce NI contributions for new businesses in particular areas.
- Corporation tax rates to be reduced and the system to be reformed.
- The Annual Investment Allowance for capital allowances is to be reduced from £100,000 to £25,000 and the annual writing down allowances are to be reduced from April 2012.

Link: [Treasury Website](#)

CAPITAL GAINS TAX CHANGES

A new rate of Capital Gains Tax (CGT) of 28% will be introduced. For individuals, the rate of CGT remains at 18% where total taxable gains and income, after taking into account all allowable deductions including losses, personal allowances and the CGT annual exemption, are less than the basic rate limit. The new 28% rate will apply to gains or any parts of gains above this limit.

The new rate of CGT will apply to gains arising on or after 23 June 2010.

Subject to a number of conditions, gains on qualifying business disposals by individuals and certain trustees are eligible for Entrepreneurs' Relief. This provides an effective CGT rate of 10% and works by applying a 4/9 reduction to the chargeable gain and then charging the balance at 18%. The change to the CGT rate would mean that the normal 4/9 reduction would no longer achieve 10%. The rules will be changed so that the rate of tax for gains on qualifying disposals on or after 23 June 2010 will be 10% and the previous 4/9 reduction will cease to apply from this date.

The amount of gains that can qualify for Entrepreneurs' Relief will also be raised from £2 million to £5 million for gains arising on or after 23 June 2010.

Link: [HMRC Budget note](#)

STANDARD RATE OF VAT TO INCREASE

It is proposed to increase the standard rate of VAT from 17.5% to 20% with effect for any supply made on or after 4 January 2011. The rate change does not affect either zero-rated supplies nor those supplies subject to VAT at the 5% reduced rate.

Detailed guidance has been issued by HMRC for businesses on implementing the change.

Links: [HMRC Budget note](#) [HMRC guidance](#)

HMRC AMEND PAYE PENALTIES GUIDANCE

At the start of the tax year new late payment penalties were introduced for PAYE and other payments due from employers. The new rules apply to almost all employers and contractors, whether they employ one or a hundred employees. The rules apply to monthly, quarterly and annual periods of PAYE starting on or after 6 April 2010.

HMRC can impose late payment penalties on PAYE amounts due that are not paid in full on time, including:

- monthly, quarterly or annual PAYE;
- student loan deductions;
- Construction Industry Scheme deductions;
- Class 1 NIC; and
- annual payments of employers' Class 1A and Class 1B NIC.

HMRC have now amended their guidance to include comments on so-called 'warning letters'. HMRC state:

'The letter is only to let you know that HMRC think you have made a PAYE payment late and that a penalty could be charged. It is not a penalty notice and you can't appeal against it.

Importantly, it does not mean a penalty will definitely be charged, and you may get a penalty even if you do not get a letter.

If you agree that you have made a late payment, you should make sure you pay on time and in full in future. The next time you pay late you may become liable to a penalty. HMRC will contact you before a penalty is charged. If they charge a penalty they will send you a penalty notice.

If you believe you have received a letter in error, perhaps because you have already paid, have a time to pay agreement or have a 'reasonable excuse' you don't need to contact HMRC yet. But you may find it helpful make a note of why you don't think a penalty is chargeable in case HMRC contact you about penalty action in future.'

If you receive a letter but have paid on time, it may worth telling HMRC that their records are currently wrong to avoid problems later on. If you are experiencing problems with paying PAYE or any other tax on time, HMRC may be prepared to defer payment and this, in turn, may avoid penalties.

Please get in touch if you would like to discuss this further.

Link: [HMRC guidance](#)

KEEP PROPER RECORDS!

HMRC have recently issued a reminder about the various 'toolkits' that they have developed to assist agents when preparing returns. Although the toolkits are aimed at tax professionals, they highlight common errors and the steps that can be taken to reduce those errors. The first series of toolkits cover:

- marginal small companies' relief;
- capital allowances for plant and machinery;
- personal and private expenditure;
- capital gains tax for land and buildings; and
- capital gains tax for trusts and estates.

The intriguing thing about all of the toolkits is that the main area of risk for all the above areas is record keeping or the lack of it!

In addition, for capital allowances for plant and machinery the main areas of risk include:

- record keeping e.g. different proportions of non-business use during the period of ownership and detailed records of all acquisitions and disposals;
- acquisitions and disposals e.g. whether the asset qualifies for capital allowances; and
- non-business use of assets, particularly cars.

For private and personal expenditure, the main areas of risk are:

- record keeping e.g. non-business expenses being incorrectly recorded or misposted in the business records and claimed in error as allowable expenses;
- personal bills being paid by the business;
- travel and subsistence;
- entertaining, gifts, subscriptions and sponsorship; and
- drawings and capital account.

So the moral is clear – good records today keep the taxman at bay. If you would like to discuss this area in more detail, please do get in touch.

Link: [HMRC website](#)

HMRC LAUNCH TAX CREDIT VIDEO

Every year, tax credit claimants must renew their tax credit awards by 31 July or their payments may stop. Claimants on 'nil awards', and those receiving only the full family element of Child Tax Credit, will receive a statement of their 2009/10 award. If these details are correct no further action is needed and the claims are automatically renewed. However, if the details on the award statement are wrong, claimants must tell HMRC.

HMRC have launched a series of online videos to help claimants through the annual renewal process. The interactive videos take claimants through the renewal process step-by-step, offering the chance to tailor the help to their own circumstances. The videos cover key areas such as:

- providing details of the previous year's income;
- notifying HMRC of any changes in circumstances that haven't already been reported during the year; and
- checking the accuracy of the information in the renewals pack.

HMRC's Director of Benefits and Credits, Steve Lamey, said:

'These new videos are a great way of getting help and advice on renewing your tax credits, and should be able to answer any questions you may have about the renewals process.'

Once you've received your pack, please don't put it off – renew straight away. The sooner you renew, the sooner we can make sure you're receiving the right money.'

Links: [News release](#) [Video](#)

BUSINESS LINK GUIDANCE FOR FARMERS

Business Link has set up a dedicated new online service for farmers and growers. Whether they are starting up or looking to expand and diversify, the service will help:

'...focus your planning, apply best practice and meet government requirements - whatever your agricultural sector.'

You can access guidance and tools, and sign up for email alerts to let you know when the rules change. The content is developed by government experts and in consultation with farmers' groups. At the moment this content only applies to English legislation.'

Link: [Business Link](#)

MATERNITY RIGHTS FOR THE SELF EMPLOYED

It appears as though the self employed will become entitled to maternity leave for the first time under new laws introduced by the European Union (EU).

The new rules provide equivalent access to maternity leave as for employees but on a voluntary basis. The EU is expected to adopt the legislation at the end of June and then EU countries will have two years to introduce it into national law. So...watch this space.

Link: [EU release](#)