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Business Matters

Capital allowances: timing the relief

The Annual Investment Allowance (AIA) is a kind of capital allowance which offers tax relief at 100% on qualifying expenditure in the year of purchase. From April 2010 the AIA doubled from £50,000 to £100,000 – a move welcomed by many businesses. However, the Coalition Government has subsequently announced that it intends to reduce the AIA to just £25,000 from April 2012.

Firms planning to spend a significant amount on qualifying items such as plant and machinery may therefore wish to consider the timing of their investment to ensure that it is as tax-efficient as possible.

Immediate write-off for capital expenditure

Capital allowances are the tax equivalent of depreciation, allowing businesses to write off the cost of capital expenditure on items such as plant and machinery against profits. We can help businesses to choose whether to take the relief immediately (up to the AIA limit) or to write off the cost over a number of years by means of writing down allowances (WDAs).

The AIA enables businesses to obtain an immediate deduction for certain capital expenditure on plant and machinery up to the amount of the allowance. The AIA increased from £50,000 to £100,000 for certain expenditure incurred on or after 1 April 2010 for corporation tax purposes and 6 April 2010 for income tax purposes.

This means that a business can have immediate relief for qualifying expenditure, providing that the limit has not been reached. However, relief is not automatic and must be claimed. If the AIA is not claimed, relief is given by means of WDAs, which are currently given at the rate of 20% for main pool assets and 10% for special rate pool assets. The AIA can only be claimed for the accounting period in which the expenditure was incurred. Deferred claims are not permitted and, to the extent that the AIA is not used in an accounting period, it is lost. Unused amounts cannot be carried forward.

The decision as to whether it is beneficial to claim the AIA will depend on the particular circumstances. In many cases, claiming the full allowance will be very worthwhile as it will generate an immediate tax saving. With corporation tax rates for all companies set to fall from 2011, taking relief earlier rather than later will provide greater savings.

However, if the business is only planning to keep an asset for a short while (without replacing it) and sale proceeds are likely to be high compared to the original cost, a decision not to claim the AIA now may save future balancing charges. The decision will also depend on the tax written down value of the relevant pool. As the claim is not an all or nothing claim, it is however, possible to tailor the claim to suit the situation. For example, by claiming AIA on, say, 40% of the cost (with WDAs being given on the remainder), you can achieve a higher level of immediate relief, but save the pain of a future balancing charge.

Future changes

In the Emergency Budget the Chancellor announced that for expenditure incurred on or after 1 April 2012 (corporation tax) and 6 April 2012 (income tax) the AIA will be significantly reduced to £25,000. Businesses that are planning to incur high levels of capital expenditure on plant and machinery in the next couple of years may therefore wish to accelerate purchases to before 1 April or 6 April 2012 (as appropriate). This would allow immediate write off of capital expenditure of up to the current limit of £100,000. The limit is pro-rated if the accounting period spans these dates.

The rates of WDA are also set to be reduced from April 2012 to 18% for main rate expenditure and 8% for special rate expenditure.

Please talk to us about the timing of any investments that you are planning.

Inside this Issue...

Managing an ageing workforce

As life expectancy increases, many people are choosing to work for longer. Add to this the withdrawal of the default retirement age (DRA), and it is clear that businesses will need to adapt to the changing demographic of the UK workforce. Here we consider the proposed changes to the rules on retirement, and include advice on managing an ageing workforce.

The default retirement age

The Government has announced that the DRA will be abolished from 1 October 2011. The proposals allow for a six month transition from the existing regulations, meaning that the changes could begin to take effect from April 2011. Consequently, the majority of people may soon be able to work beyond age 65 if they wish.

Currently, an employer can force a member of staff to retire at the default age of 65, irrespective of their circumstances. Although staff can request to work beyond the DRA, it is entirely at the company's discretion. More information on the removal of the DRA is expected to be released before the end of 2010. At the time of going to print further details on the change had not been published.

Employing an older workforce

Official statistics suggest that by 2020, almost a third of the workforce will be over the age of 50. Yet despite changing demographic trends, a recent study has found that just 14% of UK managers consider their organisation to be prepared to deal with ageing employees. To help ensure that your firm is well-equipped to manage an older workforce, consider the following points.

Health and safety

While there is a common assumption that speed and agility decline with age, short-term absence is often lower amongst older employees and research suggests that the health and fitness of older workers is in fact improving.

However, employers will still need to consider health and safety issues and should carry out a risk assessment for all employees, regardless of their age. This may involve: assessing whether heavy lifting is needed in a particular job or whether it can be removed; adapting workstations to minimise repetitive movements; and adjusting lighting, temperature and working conditions.

Flexible working

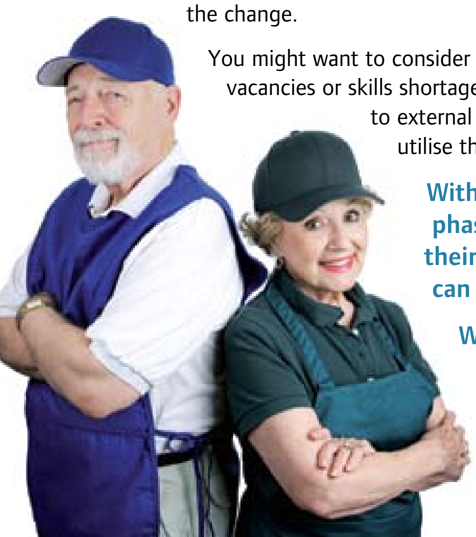
Flexible working can take many forms, including: part-time or reduced hours; job sharing; seasonal work; home working; flexi-time; term-time only; temporary contracts and unpaid leave. Research suggests that many older people would have continued to work if they had been offered the option of flexible working. Flexible employment may therefore allow businesses to retain valued employees who may have otherwise retired.

You should also ensure that members of staff, managers and supervisors are made aware of the flexible working options that are available, how decisions are made and what criteria are used.

Training and development

Providing training opportunities can help to keep staff motivated, regardless of their age or level of experience. While training is often offered to less experienced team members, such openings should also be made available to older workers, who may in fact welcome the change.

You might want to consider retraining older team members to fill any vacancies or skills shortages – this may prove to be a cheaper alternative to external recruitment. It will also allow the business to utilise the experience and skills of older employees.



With the default retirement age set to be phased out, employers will need to review their policies on retirement. Further advice can be found at: www.businesslink.gov.uk.

We can help with all aspects of running a business – please contact us for advice tailored to your requirements.

Is your PAYE code correct?

The Pay As You Earn (PAYE) system has come under the spotlight in recent months, after it emerged that coding errors had resulted in millions of people over and underpaying tax. The problems have highlighted the need for individuals to regularly check their PAYE code, as detecting errors at an early stage could avoid a substantial tax bill later on.

The PAYE system aims to collect, over the course of a tax year, approximately the right amount of tax from your earnings. This is done by the issue of one, or sometimes a series, of tax codes which are used by your employer to calculate the tax to be deducted from your earnings.

However, many people can go for years paying the wrong amount of tax – either too much or, perhaps more worryingly, too little – because they have an incorrect tax code. In particular, they may not have notified the tax office of changes in their circumstances that would affect their tax position, such as changing jobs and losing the benefit of a company car, or they may have started investing in a personal pension plan.

It is important that we check your PAYE code now, because it is much easier to rectify mistakes before the tax year ends. As a first step though, look at your salary slip and see which code is currently being applied.

The letter in the code tells us whether your code includes one of the standard allowances, and you can see if this is right for your circumstances:

L includes the basic personal allowance

P includes the full higher rate personal allowance for age 65 -74 (assumes income less than £22,901)

Y includes the full personal allowance for age 75 or over (assumes income less than £22,901)

T means that the code is to be changed only if a specific notification is received from the tax office. There is usually an adjustment in your code which requires manual checking by HM Revenue and Customs (HMRC) each year – for example, you might be over 65 with income over the limit for the full higher rate of personal allowance and therefore your allowance has to be re-calculated every time the rates and limits change.

K HMRC may try to increase the tax you pay on one source of income to cover the tax due on another source which cannot be taxed directly – for example, the tax due on your taxable employment benefits might be collected through increasing the tax you would otherwise pay on your company salary. A K code applies when the 'other income' adjustment reduces your allowances to less than zero – in effect, it means that the payer has to add notional income to your real income for PAYE purposes. The maximum tax which can be deducted using a K code is 50% of the source income.

HMRC will often try to collect tax on other income through your PAYE code but you may prefer to pay the tax through self assessment – we can arrange for the adjustment to be removed.

We can help you check your PAYE code to ensure that you are paying the correct amount of tax. Please contact us for assistance.

Changes to National Insurance

In June the Chancellor confirmed that National Insurance Contribution (NIC) rates will rise from next April. Here we consider the forthcoming increase and include tips for saving employer and/or employee NICs.

NICs increase

From April 2011, a further 1% will apply to the NIC rates applicable to employers, employees and the self-employed, as shown in the table below.

	2010/11 rates		2011/12 rates	
	main	additional	main	additional
Class 1 (employee)	11%	1%	12%	2%
Class 1 (employer)	12.8%	no upper limit	13.8%	no upper limit
Class 1 A/B (employer)	12.8%	no upper limit	13.8%	no upper limit
Class 4 (self-employed)	8%	1%	9%	2%

The level at which people start to pay NICs will increase by £570 above the level previously announced. Those paying the standard employee rate and earning below £20,000 will pay less NICs overall as a result.

The 1% rise in NIC rates will represent a significant increase in costs, especially for employers. If you have any questions or concerns about the forthcoming changes, please contact us.

Minimising NICs

Clearly there is more need than ever to mitigate NICs. While strategies are limited, we can work with you on ideas for saving employer and/or employee NICs.

Dividends instead of salary/bonus

For limited companies you should consider paying dividends rather than a salary/bonus (this may not suit all businesses, so please talk to us for advice). Where directors are in receipt of a salary/bonus from a company, the NIC cost may be such that part of the payment could be more cost effectively made as a dividend. There are special rules for some companies providing personal services.

The decision on whether to pay a dividend is complex because doing so may influence the value of the company's shares and therefore increase the liability to capital gains tax and inheritance tax. There is also a maximum amount that may be paid, based on the company's results.

Further strategies

You may also want to consider:

- increasing the amount the employer contracts to contribute to company pension schemes
- share incentive plans (shares bought out of pre-tax and pre-NIC income)
- salary sacrifice arrangements in respect of tax-free benefits in kind, such as the provision of childcare
- giving employees other non-cash benefits in kind may reduce their NICs.

Actions unlikely to save NICs:

- Round sum allowances – any profit element will attract NIC
- Employees' contributions to pension schemes.

For further advice on minimising your tax liability, please contact us.

Regional Employer NICs Holiday

The Regional Employer NICs Holiday, which was unveiled in the Emergency Budget, has now come into effect.

The scheme provides new businesses in certain areas of the country with a break from paying employer NICs in respect of the first 10 employees that they take on in the first year of business. It was launched on 6 September 2010 and ends on 5 September 2013.

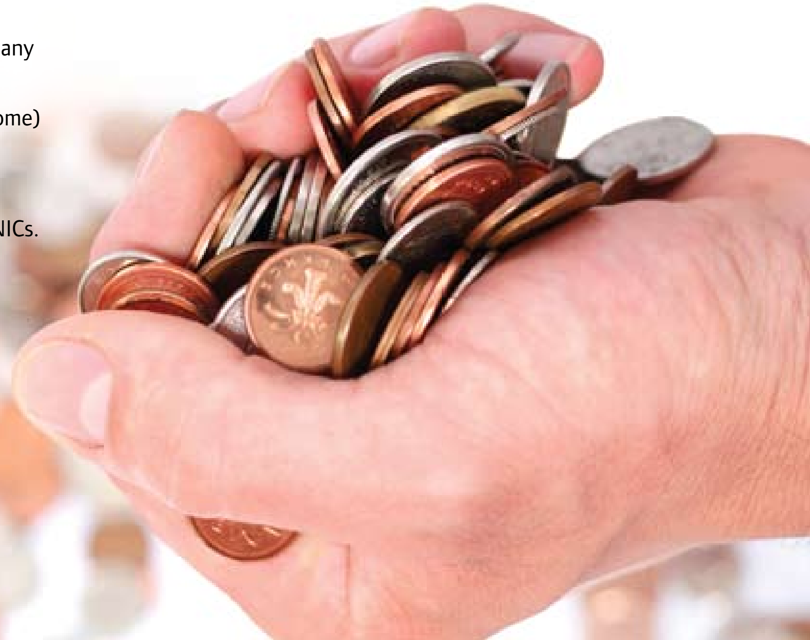
The scheme is only open to businesses that meet certain conditions. To be eligible:

- a sole trader, partnership or company must start a **new business** in the period 22 June 2010 to 5 September 2013 inclusive;
- the principal place at which the new business is carried on when it is started is **not in an excluded region** (Greater London, the East and South East); and
- **qualifying employees** are engaged for the purposes of the new business.

Possible savings

The scheme offers new businesses the opportunity to save up to £50,000 in employer NICs. There is no limit on the amount that can be paid to a qualifying employee under the scheme, although the relief available in respect of any one employee is capped at £5,000. For 2010/11 this means that an employer can obtain relief in full for the employer contributions that they pay in respect of qualifying employees earning £44,778 or less.

Further information on the scheme, including an application form and postcode checker, can be found at www.businesslink.gov.uk.



Business Round-Up

Proposed extension to flexible working

The Government has announced plans to extend the right to request flexible working to parents of children under the age of 18 from April 2011.

The right to request flexible working is currently available to parents of children under 17, as well as parents of disabled children under 18 and carers of certain adults.

A consultation is taking place to consider how the extension will be implemented and to examine a new system of flexible leave.

Meanwhile the Additional Paternity Leave regulations, which came into force in 2010 and apply to parents of children due on or after 3 April 2011, will remain in force 'as an interim measure'.

Increase in savers' compensation limit

The deposit protection limit for savings is increasing from 1 January 2011. Under the new regulations, the compensation limit for savers who lose money when a bank or building society goes under is rising to the equivalent of the first €100,000 (around £84,450).

It follows new European legislation aimed at 'harmonising' the amount of money that is paid out to savers throughout Europe. The new rules also stipulate that compensation claims should be made within 20 days of an institution being declared in default.

The compensation limit was last raised in 2008 to fully protect the first £50,000 of savings – up from the previous limit of £35,000.

Cap on pensions tax relief to be reduced

The Government has announced that the annual tax-free amount that individuals can invest into a pension will be significantly reduced from April 2011.

The Treasury has confirmed that the annual allowance for tax-privileged pension saving is being cut from £255,000 to £50,000. The Government claims that an annual allowance of £50,000 will affect 100,000 pension savers – 80% of which it said will have incomes over £100,000. It was originally thought that the cap on tax relief would fall to a figure between £30,000 and £45,000.

In addition, the lifetime allowance on money that can be accrued in a pension fund and still receive tax relief, is set to fall from £1.8 million to £1.5 million. The new annual allowance will come into force in April 2011. However, the cut in the lifetime allowance is not expected to take effect until April 2012.

Self assessment reminder...

Don't forget, 31 January 2011 is the last day for filing your 2010 Tax Return online. We can help you prepare your Tax Return for submission to HMRC – please contact us for more information. Returns filed after 31 January may attract a penalty, so please collate all the relevant documentation as soon as possible to ensure that you meet the deadline.

Web Watch

Essential sites for business owners

www.legislation.gov.uk
New website launched by The National Archives which gives clearer, faster and simpler access to legislation.

www.thepensionsregulator.gov.uk
The UK's regulator of work-based pension schemes, which aims to promote high standards and protect the benefits of members.

www.ibe.org.uk
The website of the Institute of Business Ethics, which is aimed at encouraging high standards of business behaviour based on ethical values.

www.efa.org.uk
The website of the Employers Forum on Age, which promotes the importance of age diversity in the workplace.

Reminders for your Winter Diary

December 2010

30 Last day to file your 2010 Tax Return electronically if you wish to have a 2009/10 balancing payment of less than £2,000 collected through your 2011/12 PAYE code.

31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2010.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2009.

January 2011

1 Due date for payment of Corporation Tax for period ended 31 March 2010.

4 Standard rate VAT increases to 20%.

14 Due date for income tax for the CT61 quarter to 31 December 2010.

19/21 Quarter 3 2010/11 PAYE remittance due.

31 First self assessment payment on account for 2010/11.

Capital gains tax payment for 2009/10.

Balancing payment – 2009/10 income tax/Class 4 NICs.

Last day to renew 2010/11 tax credits.

Deadline for amending 2008/09 Tax Return.

Last day to file the 2010 Tax Return online.

February

1 £100 penalty if 2010 Tax Return not yet filed. Additional penalties may apply for further delay. Interest starts to accrue on 2009/10 tax not yet paid.

2 Quarterly submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2010/11.

28 Last day to pay any balance of 2009/10 tax and Class 4 NICs to avoid an automatic 5% surcharge.