

BARR ETTE

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISORS

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Welcome back to the Barrette edition of Newsletter. We hope that you had a good summer. While the recession still looms in the background, there are signs that the economy is gradually recovering. The aim of this newsletter is to continue to provide you with some useful tax planning tips to help you through these uncertain times.

Personal tax

Converting income into capital gains

We mentioned in our last newsletter that it would be important to extract monies as capital rather than income from 6 April 2010 onwards for those with taxable income above £100,000. This is because of the rise in income tax rate for those with taxable income above £150,000, and also the gradual withdrawal of personal allowances for those with taxable income above £100,000.

Higher rate taxpayers could consider investing in units trusts that produce low income and high capital growth. As the value of the units grows, they could be sold and the gains would be subject to capital gains tax (CGT) of 18% (before annual exemption of £10,100 is taken into account) rather than income tax of 50%.

Alternatively, an investment company could be set up to hold the investments. Any interest etc. that the company receives is charged to Corporation Tax at the main rate of 28%. The company could then be liquidated and the money extracted

would be chargeable at 18% CGT.

For those who are more confident about the property market, investments could be made in properties and the tax savings over time to other forms of investment income such as interest could be substantial.

If you need further information on the above tax planning opportunities, please contact us immediately.

Pensions – “trivial funds”

One of the benefits of pension contributions is the tax relief that it attracts. If you have a pension already or are about to set one up, there will eventually be the time when 25% of the fund can be taken as tax-free cash payment, with the balance used to provide a pension for the remainder of the your life.

However, there is an exception to the rule above. The pension schemes legislation includes special rules on pension funds worth less than £18,000. These pension funds are officially referred to as “trivial funds”. For these funds, the rules basically allow the whole amount to be withdrawn in full. While 25% of its value remains tax-free, the balance remains taxable. However, some tax planning opportunities are available if there is more than one pension fund within the £18,000 limit. If the funds are cashed in over two tax years, the amount of tax payable could be reduced significantly.

If you need further general advice on pensions and the tax reliefs available, please contact us immediately.

Corporate and business tax

Making use of Capital Allowances in 2009-10

Our last newsletter highlighted the new temporary rate of first year allowances (FYA) at 40% being made available for one year on qualifying expenditure for companies from 1 April 2009 and for unincorporated businesses from 6 April 2009. This is given in addition to the Annual Investment Allowance (AIA) on qualifying expenditure to £50,000.

Given this special concession during these difficult economic times, it might be worthwhile for you to review your business capital expenditure plans, to see if you could take advantage of the FYA. Even if the claims create a net tax loss in 2009-10, the loss may be used to recover some of the taxes paid in the previous three years.

If you wish to discuss whether your planned capital investment qualifies for FYA or AIA, we will be happy to advice further.

Redundancy payments

Redundancies are prevalent in many businesses during these recessionary times. The process of making someone redundant can be extremely stressful for both the employer and employee. In order to ease the financial and emotion stress on everyone caused by redundancies, it is important that employers understand the tax rules surrounding redundancy payments and the alternatives available to these payments.

For tax purposes, the general principle is that payments made in respect of genuine redundancy or on termination of employment are tax-free up to an overriding limit of

£30,000. This means that only payments in excess of the £30,000 limit are taxable. In addition, these payments do not attract National Insurance Contributions at all. These rules apply to both statutory and non-statutory redundancy payments, as well as payment in lieu of notice.

Termination payments can also be structured so that tax-free contributions are made by an employer into a registered pension scheme. The benefit of this approach is that it is possible to make termination payment in excess of £30,000 free of tax entirely. Other tax-free payments that may be included in the redundancy package includes outplacement counselling and retraining costs paid by the employer. Keeping hold of key employees would save costs in the long-run for the company and so alternatives such as freezing overtime pay and recruitment, allowing staff to work from home or work on a part-time basis, redeploying staff, etc. should be carefully considered.

If you need to discuss any of the above further, please contact us immediately.

VAT

We have looked at some VAT planning opportunities to survive the recession in our Spring 2009 Newsletter. Given below are some more tips that could help you save some tax:

Flat rate scheme

Small businesses with annual taxable sales of less than £150,000 should consider if they should join the flat rate scheme, as it may save them considerable amount of tax as well as making it easier for them to maintain accounting records and complete quarterly VAT returns.

Company cars

When buying a company car with less than 50% business use, your business could consider leasing it instead. Generally, VAT recovery on cars is blocked, but you may claim 50% of the VAT charged by your leasing company.

If you wish to discuss the above VAT planning opportunities in more details, we will be happy to advice further.

Other news

Becoming Self-Employed

From 6 April 2009, not registering for Class 2 (self-employed) contributions on time could cost up to 100% of any late or unpaid NI contributions. If you intend to become self-employed, inform the HMRC within three months of starting self-employment, so that they cannot charge you a penalty even if you do not actually start to pay NI until later.

National Minimum wage (NMW)

From 1 October 2009, the NMW rate is set to rise to £5.80 an hour for workers over 22 years old, £4.83 an hour for workers aged of 18 to 21 inclusive, and £3.57 an hour for young worker.

Individual saving Account (ISA)

The increase in ISA limit for those aged 50 or over from £7,200 to £10,200, while the cash allowance climbs from £3,600 to £5,100, will have effect on or after 6 October 2009. The new allowances, which were announced in the Budget, will eventually apply to all savers. Thus, those who qualify should make the most out of this change in ISA limit.

Beware that not all banks and building societies are likely to treat the new allowances in the same way. Some will allow savers to top up cash accounts at the same interest rates that applied to the initial sum when the account was opened. Others will insist that savers who wish to add more to their ISA funds must open a new bond at a different rate of interest and with a different maturity date.

If you need further advice on the above, please do get in touch.

If you wish to look at our earlier newsletters, please visit our website at www.barretteaccounts.com/news.html

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