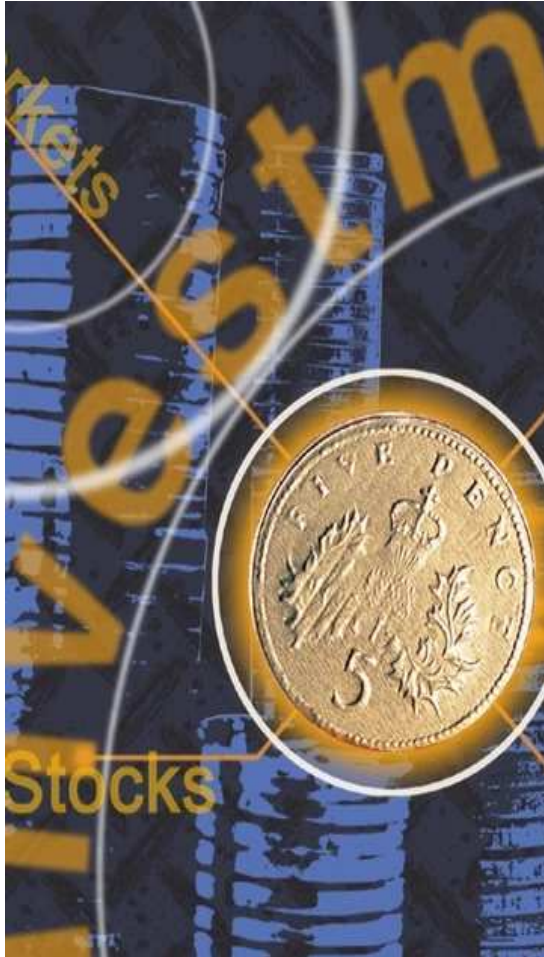


BARR ETTE

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISORS

SPRING NEWSLETTER

February 2009



Happy New Year! The emphasis of this issue of newsletter, and the likely emphasis in the rest of 2009, is to support you through the current difficult economic conditions. Whatever situation you and your business face, being informed is always of use. In this issue, we outline some tax planning ideas that help to save your tax bills, suggest ways of better managing your cash flow, and bring you the most up-to-date news on other matters that would help you financially.

Personal taxation

Maximise the use of allowances and exemptions

With the recession looming, there is never a better time to take action to use up any allowances and exemptions available before the end of the tax year. This may involve married couples (or civil partners) to transfer assets at no gain/no loss between each other or income being spread between family members to reduce the overall tax bill.

For instance, family assets could be reorganised so that income is shifted between spouses resulting in the non-working spouse's tax-free allowances being fully utilised. While the HMRC may object to the non-commercial sharing of profits of family businesses, they will not object spouses gifting investments or property to share the income from those assets.

If you need further advice on how best to reorganise your family assets, please contact us immediately.

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Maximise tax-free savings

Those who can still save can make good use of tax-advantaged savings. For example, an ISA permits a maximum contribution of £7,200 in the current tax year and any income or gains arising from it are tax free. National Savings Certificates are another option. They allow taxpayers to invest up to £15,000 in each issue without affecting any other tax-free investments taxpayers may have. The interest rates are also fixed for the length of the chosen term, thus giving a stream of fixed income each year.

If you need further advice on the above or any other tax-free saving opportunities, please contact us immediately.

Maximise reliefs on rental income

Buy-to-let property owners can claim relief on mortgage interest. This means that the interest element of the mortgage repayments can be used to offset against rental income. It may be worthwhile considering topping up the mortgage on an investment property, thus obtaining extra tax relief against the rental income and freeing up funds to meet other financial commitments.

In these tough times, you may also consider using your own home to raise extra income. If you rent out furnished accommodation in your only and main residence, there is a £4,250 “rent-a-room” relief per annum which can be left out of account when calculating your total taxable income.

If you need further advice on whether it is worthwhile to top up your mortgage or whether you are eligible for the “rent-a-room” relief, please contact us immediately.

“Protective” claims for tax credits

In these times of uncertainty, some well-paid employees or individuals trading at a high profit may worry

about what will happen if they are made redundant, lose business, experience a fall of income, etc. It is in these circumstances that making a “protective” claim for tax credits can pay dividends in the long run.

Basically, the timing of the tax credit claim is crucial. If a person only makes a claim when their income started falling, their entitlement to tax credit can be backdated by only three months. If a high income person makes the claim at the beginning of the tax year, the claimant will secure a nil award. If the claimant’s income starts falling during the tax year, the award can be revised for the whole tax year.

If you need further information on whether you are eligible for tax credit claims or how to make a “protective” tax credit claim, please contact us immediately.

Corporate/Business taxation

Tax-favoured capital allowances

A range of planning is available in relation to maximising capital allowances. There are enhanced capital allowances on energy saving and water saving equipment, 100% allowances on equipment used for R&D, and all can make use of the new £50,000 Annual Investment Allowance (AIA).

For those who are self-employed, the AIA provides a 100% tax deduction for the cost of equipment incurred on or after 6 April 2008. This will reduce the business profit for tax credit purposes and could increase the individual’s tax credit claim.

If you are interested in finding out more the tax planning opportunities available in relation to capital allowances, please contact us immediately.

Benefits in kind and payment structures

Employees can take action to reduce their tax bills by reviewing their current benefits in kind and consider if they are still of value. For example, if they were given a company car they could reduce their tax bill by taking on a company car with a lower level of carbon dioxide emission that would give less of a tax charge. As the benefit in kind charge is reduced, the employer's NIC liability will be lower too.

Employers may also be tempted to reduce their head count in this difficult environment. However, they may find that rethinking their payment structures is cheaper than redundancy payments. For some employees, it is not just about salary. They may respond just as enthusiastically to flexible working hours, additional holidays, well-targeted benefits, share ownership schemes and salary sacrifice arrangements.

If you need more advice on your current business remuneration structure and ways of restructuring it, please contact us.

Share schemes

Employers who are looking into alternative ways of remunerating employees may also consider the use of share schemes such as the Enterprise Management Incentives (EMI). For employees, share incentive plans allow them to buy shares in their employer company and get tax relief. Shares can also be sold after five years tax-free.

If you need further information and advice on the different types of share schemes available, please contact us.

Claim income tax repayments quickly

If cash flow is top of your priority, then

ensure that any tax owed to you is repaid quickly. This means filing your tax return as early as possible to get your money back.

For those who are self-employed, trading losses can be used to offset against future profits or other income and gains in the same or previous year; and income of the previous three years if the business is in the first four years of trading. You may also be due a tax refund if you have made pension contributions or gift aid payments on which higher-rate tax relief is available. All these claims are normally made on your tax return. The sooner your tax return is filed, the quicker is the repayment made to you.

If you need any help with completing your tax return, please contact us.

VAT

Improving VAT cash flow

When money is tight, there are several tactics that you can employ to defer the payment of VAT and improve the cash flow of your business.

By joining the Cash Accounting Scheme, you can defer the date VAT becomes due until you receive payment of your invoice. But the downside is that you can only reclaim VAT on purchases when you have paid for them. Your business only qualifies for the scheme if the turnover is below £1.35m per annum.

Other ways of deferring the payment of VAT include delaying the issue of invoices by just one day, making a manual accrual for input tax on invoices dated within the VAT period but are not yet posted to your accounting system, and changing your VAT accounting periods. In addition, you are entitled to recover any VAT paid on a sales invoice that is more than six months overdue.

If you need further advice on any of the tactics above, please contact us.

Finance

Access to funding

Last month, the UK business secretary Lord Mandelson announced a £1bn Enterprise Finance Guarantee – a 75% guarantee for bank loans and overdrafts of up to £1m to SMEs.

The scheme is designed to support bank lending of three months to 10-year maturity to businesses with a turnover of up to £25m that are finding it difficult to access the finance they need. The 75% guarantee applies to loans of between £1,000 and £1m and will be available until 31 March 2010. Banks currently offering the guarantee include: Barclays, Clydesdale/Yorkshire Bank, HBOS, Lloyds TSB, RBS NatWest and Northern Rock. Banks are more likely to lend to profitable and viable businesses requiring finance on working capital.

For more details, please visit www.businesslink.gov.uk/realhelp/finance

Managing cash flow

The credit crunch means that credit is squeezed more tightly than ever before and so it is paramount that businesses manage their cash flow carefully. We have already outlined above several tax planning ideas to help you better manage your cash flow. In addition to these, we list down below other ways to maximise your business cash flow:

- Get close to your bank – you need to treat your banker as a business partner and keep them informed about what the business is doing, so that they are more likely to lend to you if the need arises.

- Using former employees to cut payroll costs – this essentially involves altering someone's employment status such as hiring a former employee and treating that person as a freelance contractor. National Insurance Contributions can be saved providing all the necessary legalities are properly considered and conformed.
- Filing of tax returns – online filing and payment of VAT and PAYE can extend the deadline for payment by a few days.
- Investment strategies – Investing in new assets in a downturn can severely bleed the business of cash when it is most needed. Therefore, careful consideration should be given to all investment plans, their values to the business and the timing of the proposed investments.
- Personal loans – if an individual lends money to the business out of personal funds, then rather than putting it in as an unsecured loan, they might consider cash backing the bank's additional advance or taking a security under a second charge after the bank. These improve the prospects of individuals recovering their funds should the business cease trading.

If you need us to review your business cash flow or prepare a cash flow forecast, please contact us.

Other news

Business Payment Support Service

From 24 November 2008, the HMRC have introduced a new business support service designed to help businesses that may have problems paying tax, National Insurance, VAT or other payments owed to the HMRC under the current economic

conditions.

A Business Payment Support Line is available to allow the business to discuss with the HMRC temporary options tailored to the business needs, so that payments can be made over a longer period of time. There will be no additional late payment surcharges on the payments due but interest will continue to be payable where applicable.

For further information, please visit www.hmrc.gov.uk/pbr2008/business-payment.htm.

New "health in pregnancy" grant

Mum-to-be whose due date is on or after 6 April 2009 can apply for a tax-free "health in pregnancy" grant of £190 if they have taken advice on "matters relating to maternal health" from a healthcare professional and are at least 25 weeks pregnant.

For further information, please visit www.hmrc.gov.uk/hipg/what-is-it.htm.

HMRC warn about email fraud

HMRC are warning taxpayers that recently they have been made aware of the following scams: 'Online Update' email sent from Onlineservices@HMRevenueCustoms.org

For further information, please visit <http://www.hmrc.gov.uk/security/fraud-attempts.htm>.

Government help for businesses

BERR is completely focused on getting UK business through the global economic downturn and emerging stronger on the other side. The BERR website provides a link to a one stop shop for businesses looking for support. This can be accessed using the second link below.

<http://www.berr.gov.uk/aboutus/corporate/performance/actionforbusiness/index.html>

New HMRC penalties

The new penalties apply initially to Income Tax (including Self Assessment), VAT, employers paying PAYE, National Insurance contributions, Corporation Tax, Capital Gains Tax and the Construction Industry Scheme.

They will apply for these taxes to errors in tax returns or other documents, for periods starting on or after 1 April 2008, that are due to be filed on or after 1 April 2009.

If you have concerns and would like help in above areas 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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