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NEWSLETTER MAY 2008

CHANGES TO PERSONAL ALLOWANCE AND TAX RATE

Readers will be aware that the Chancellor of the Exchequer has recently announced an increase in the personal tax allowance of £600 and a reduction in the higher rate tax threshold of £1,200. These changes to the personal allowance and higher rate threshold, which were originally announced in the spring Budget, have been necessitated due to pressure being put on the Government following the withdrawal of the 10 pence starting rate for tax from 6 April this year. The Chancellor has stated that the above measures are to be taken to help those who lost out as a result of the withdrawal of the starting rate. It is estimated that the average loss per household as a result of the withdrawal of the starting rate is £120 and the above changes will compensate for this loss in the majority of cases.

The changes are to be backdated to the start of the current tax year, ie 6 April 2008

The personal tax allowance will therefore increase from £5,435 to £6,035. The threshold at which an individual starts to pay tax at the higher rate will be reduced from £36,000 to £34,800.

Those responsible for preparing payrolls for employees should note that there is no need to make any adjustments to employees' code numbers at present and you should continue to use the allowances and guidance published in May of this year. The emergency code for any employees joining a business and who do not have a code number will remain at 543L until further notice.

HM Revenue & Customs (HMRC) has announced that it will shortly be informing employers as to when and how the necessary changes are to be made.

THE CHILD TRUST FUND – MAKE SURE THAT YOU ARE NOT MISSING OUT

The Government is concerned that not everyone who is eligible for the Child Trust Fund is aware as to how the Fund operates. This article summarises the Fund and its purpose.

The Child Trust Fund (CTF) is a savings and investment account for children which was introduced by the Government some years ago. Children born on or after 1 September 2002 receive a £250 voucher to start their account. The account belongs to the child and can't be touched until the child turns 18. The main purpose of the Fund is that all children will have some money behind them to start their adult life.

Key features of the CTF

The key features of the CTF are set out on the Child Trust Fund website at www.childtrustfund.co.uk and are as follows:

- The CTF is a long-term savings and investment account where your child (and no-one else) can withdraw the money when they reach the age of 18.
- Neither you nor your child will pay tax on income and gains in the account.
- Eligible children born on or after 6 April 2005 receive a £250 voucher shortly after Child Benefit has been claimed and starts being paid. If your child was born on or after 1 September 2002 and you have claimed Child Benefit for that child, you should have already received your child's voucher. If not you should call the CTF Helpline on 0845 302 1470.
- Children in families receiving Child Tax Credit (CTC), with a household income not greater than the CTC threshold of £15,575 for 2008/09 will receive an extra payment.
- Up to a maximum of £1,200 each year can be saved in the account by parents, family or friends.
- Money invested in the CTF cannot be taken out of the Fund once it has been put in. However, once your child is 18 they will be able to decide how to use the money.
- Your children are able to start to make decisions about how the money is managed when they are 16.
- The Government makes a further contribution when your child is 7 - all eligible children will receive a further payment of £250 into their CTF account at age 7, with children in lower income families receiving an additional £250. These payments will be paid around your child's 7th birthday direct into their account. The additional payments made by the Government do not count towards the annual £1,200 limit (see above).
- There are a number of different types of CTF account and you are able you choose the type of account you want for your child.
- You are able to move your child's account to a different provider or change the type of account.
- The CTF does not affect any benefits or Tax Credits you receive.

Eligibility for the Fund

In order to be eligible for the CTF, you must satisfy the following criteria:

- Your child must have been born on or after 1 September 2002. Children born between 1 September 2002 and 5 April 2005 had to be living in the UK on or after 6 April 2005 to be entitled to the CTF.
- Your child must live in the United Kingdom.
- You must receive Child Benefit for your child.
- Your child must not be subject to immigration control.

HOME RESPONSIBILITIES PROTECTION – HAVE YOU BEEN SHORT-CHANGED?

The Government has recently admitted that as many as half a million mothers who took time off work to look after their children may have been short-changed on their State Pension due to these individuals missing out on the Home Responsibilities Protection scheme (HRP).

The HRP scheme

HM Revenue & Customs summarises the HRP scheme as follows:

"If you're at home looking after children, or you're a working parent who doesn't earn enough to pay National Insurance contributions (NICs), there's a scheme to protect your State Pension. Home Responsibilities Protection (HRP) can protect your State Pension entitlement if you get Child Benefit."

How HRP works

Set out below is an extract from the HMRC website explaining the HRP scheme:

"HRP isn't a benefit, it's a way of safeguarding how much State Pension you'll get.

Your State Pension is based on the number of 'qualifying years' you build up during your working life. A qualifying year is one when you earn enough to pay NICs. So if you're not working or not earning enough to pay NICs your pension could suffer.

HRP stops you losing out if you're caring for children. It does this by reducing the number of qualifying years you need to get a State Pension."

The problem

Women who have gaps in their National Insurance contributions between April 1996 and April 2002 are entitled to purchase the missing years' contributions at a special rate. The Government state that more than 70,000 women who fall into this category should have been contacted to explain that they could purchase the missing contributions, but due to administrative errors no such contact was made. This error arose because until May 2000 when a woman claimed Child Benefit she was not required to include her National Insurance number on the benefit claim form. Because of this omission the individual's National Insurance records did not show that she had received Child Benefit and was therefore eligible to claim HRP.

The Government is writing to these individuals offering them the opportunity to buy back their missing years at a special discounted rate.

The solution

To see if you are entitled to a payout (which may be as much as £1,400), you should access either the Directgov website at www.direct.gov.uk or the Pensions Service website at www.pensionerservice.gov.uk. These websites will provide you with the necessary information to enable you to establish whether you can make a claim. You can also contact the Pensions Service by telephone on 0845 606 0265.

The eligibility rules for HRP relate to women who have stopped work since May 1978 in order to bring up children and who have claimed child benefit. In addition, those women who spend at least 35 hours a week in order to care for the long-term sick or the disabled can claim HRP.

Those women who married before 1977 and who elected to pay the reduced rate of National Insurance will also qualify for HRP but only when they have been off work for two years.

Amount of payment or repayment

As stated above, in some cases you may be able to claim as much as £1,400 in backdated State Pension. If the amount you are owed is greater than the amount you must pay at the special rate, the Government will pay you the difference.

ROUTINE VAT INSPECTIONS – BE PREPARED

If your business is registered for VAT you may be charging VAT on your sales and, in turn, may be claiming VAT of some or all of your expenditure. It should therefore come as no surprise for you to learn that from time to time you may expect to receive an inspection visit from HM Revenue & Customs (HMRC) to check that the VAT returns you submit and the calculations that form the basis of these returns are correct. These visits are routine visits and the fact that you receive such a visit in no way implies that HMRC are concerned that you have done anything wrong.

How often your business receives a routine visit will depend on a number of factors including the size and complexity of your business and whether you have made correct and timely returns in the past. The duration of the visit will depend to a large degree on the size and complexity of your business and for the smallest and simplest of businesses may consist of a letter or a phone call rather than a personal visit from an inspector.

It is rare that you will receive a visit without receiving notification in advance. This notice will tell you the proposed date and time of the visit, the name of the inspector and the estimated duration of the visit. If the proposed date is not convenient you should contact the HMRC office concerned and explain why the proposed date is not acceptable. In the majority of instances an alternative mutually convenient date can be arranged.

During the course of the visit the inspector will:

- Discuss your business with you. He or she will want to know what you do, who owns the business, where you trade geographically and a number of other topics.
- Inspect your records. The inspector has a right to look at all your records.
- Inspect your premises and any goods that you may hold on your premises.

In order to ensure that the visit goes as smoothly as possible you should ensure that all your records are easily accessible, including any records held on computer. You should also ensure that a person in your business with the necessary experience and seniority is available to answer the inspector's questions and provide the information requested.

At the end of the visit the inspector will:

- Point out any errors that have been discovered, explain how these have occurred and make suggestions as to how to prevent future occurrences.
- Provide you with help and support, including information about any special VAT schemes that may assist your business.
- Advise you as to any overpayments or underpayments that have been discovered and how you should make good any underpayments of VAT or recover any overpayments made.
- Explain your rights of review or appeal.

You are entitled to request a written summary of the visit and this summary will explain the errors discovered and quantify these errors.

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