

# NEWSLETTER NOVEMBER 2010

## HM REVENUE & CUSTOMS CHANGES

In an endeavour to save £1.2m HM Revenue & Customs has announced it will no longer provide to accountants:

- Copies of PAYE coding notices (form P2)
- PAYE tax calculations (form P800)
- Notification of Unique Taxpayer Reference and the requirement to submit self assessment tax returns (letter SA250)
- Notification there is no longer a requirement to submit self assessment tax returns (form 251)

It would be appreciated if clients would forward to us any of these documents they receive in the future.

## A POSITIVE RESPONSE TO NEW PENSION CONTRIBUTIONS RULES

Just as the pensions industry was getting to grips with the contribution rules announced last year, along comes another set of legislation to replace the latest tranche. Some of these regulation changes take effect from April 2011 and, on the whole, have been greeted quite positively. They are certainly easier to understand than the previous set.

From next April, the rules will allow gross pension contributions of up to £50,000 a year, with the associated tax relief. This tax relief could be worth as much as 50% to some individuals. The previous rules could be incredibly difficult to calculate in some circumstances, and so the relative simplicity of next year is very welcome.

Giving tax relief for individual and employer pension contributions has been tax efficient for many years, but is ultimately a costly business for the Exchequer. Nonetheless if the Government wants individuals to be more self-sufficient in retirement, then these tax breaks are a good way to encourage people to put money into pension schemes. Last year, the Labour Government passed complicated legislation which could create an income tax charge for higher earners in respect of pension contributions as a way of clawing back some of this tax relief.

However the Coalition Government, along with most of the pensions industry, wanted to achieve an alternative approach which was simpler and would still achieve the same fiscal objective of capping the cost of tax relief on pension contributions. The new annual limit on contributions is one of the methods to be used. Another change to be introduced is one which will allow individuals to carry forward unused annual allowances, up to a maximum of the three previous years. In a more restrictive move there is to be a decrease in the lifetime allowance of a pension fund from £1.8M to £1.5M to take effect from April 2012.

It is important to remember that until April 2011 we are still under the existing pension contribution legislation and, for some, the rules of this may be more beneficial than the new ones to arrive in April.

Everyone's situation is different and unique to them, so careful planning is essential and an appreciation of the rules crucial.

## BUY NOW TO AVOID THE VAT INCREASE

As our readers will be aware, the VAT rate is set to increase from 17.5% to 20% on 4th January next year. Of course, there is nothing we can do to prevent this increase, but it might be possible in some situations to avoid paying the additional 2.5% VAT by taking action before the end of the year. And, as will be seen from some of the examples given below, the savings can be considerable.

Before we look at some examples of when savings could be made, it should be remembered that there are strict rules relating to the time of supply for VAT purposes (sometimes referred to as the point of sale) which determines the rate of VAT. These rules involve the date of the provision of goods or services, the date of the tax invoice or the date of payment and rules relating to apportionment in the case of continuous services. Please consult us about these rules before taking any action.

Set out below are a number of examples of savings that could be made if the circumstances prevail and provided you take action before the end of the year.

### **Capital expenditure**

Let's suppose you are thinking of buying a car, television set or fridge in the near future. Bring your estimated date of purchase forward if you can and you could save a material sum. For example, by purchasing a new car which costs £15,000 you will save £375.

And what about those new kitchen appliances you promised yourself? Once again you could save hundreds of pounds by buying now instead of waiting until next year.

### **Home improvements**

Thinking of converting that loft into a spare bedroom? Many home improvements bear VAT and considerable savings could be made by starting the work now and apportioning the total cost and paying part before 4th January if the work spans the year end. But be careful! Make sure that you are dealing with a reputable business and be sure to obtain written evidence of any payment made. In addition, even if the builder is reputable it may be worthwhile taking out some form of credit reference as whilst the building firm may be honest they may not be financially sound and if they themselves fail then you could lose your money.

### **Future events and occasions**

Your going to celebrate an anniversary next summer by going on that luxury cruise. Think about paying now if you have got the cash. And the same goes for next year's concerts or theatre tickets.

And another happy event is taking place early next year – your daughter's wedding. Many parents will be aware of the ever-spiralling costs of a wedding, from the dress to the reception, with the average cost of a wedding in the UK being a whopping £18,500!. Try to pay for as much as you can now rather than waiting.

## **EMPLOYING DOMESTIC STAFF**

You don't have to be super rich to employ domestic staff and there are many of us who pay for the services of a gardener, cleaner or a nanny and who therefore may be treated as an employer in the eyes of the taxation authorities. If this is the case you must register as an employer and you may have to deduct PAYE, National Insurance contributions (NICs) and even make student loan deductions. In addition, you may also have to pay employers' NICs.

Of course, there are many individuals who are ignorant of the law or who simply turn a blind eye to the law and assume that the taxation authorities will never catch on. But for those who wish to work within the law it can seem a daunting task to register, say, a nanny in a PAYE scheme and to administer the scheme.

Well, help may be at hand. Depending on the amount you pay to an individual you may be able to make use of the simplified PAYE deduction scheme. This scheme is a way of deducting tax and NICs from your employees with less form filling than the full PAYE scheme. The simplified scheme also uses simpler tax tables than the full PAYE scheme which is operated by most employers.

You are able to use the scheme for any domestic employee who has taxable earnings which don't exceed £160 per week or £700 per month in the current tax year, ie 2010-11. If the employee's taxable earnings are more than this figure you must operate the full PAYE scheme.

However, if your employee doesn't have any other employment and you pay them less than £97 a week or £421 a month (for the tax year 2010-11) you don't have to operate a PAYE scheme at all. In addition, if your employee doesn't have any other employment and you pay them £97 or more a week or £421 a month but less than £110 a week or £476 a month, once again you need not operate a PAYE scheme but you must keep a record of the employee's personal details, including their National Insurance number and the amount you pay them.

But if your employee has more than one job, you must operate a PAYE scheme although you can use the simplified PAYE deduction scheme if their earnings are below the thresholds set out above.

Remember also that if the person carrying out work for you is self employed you will not operate a PAYE scheme. Be careful though, as the rules relating to the determination of self employment are complex and the taxation authorities are strict in their interpretation of these rules. If you are in any doubt you should consult us.

Registering for the simplified PAYE deduction scheme is comparatively simple and you can download an employer registration pack online at [www.hmrc.gov.uk](http://www.hmrc.gov.uk) or order a pack over the telephone.

There are far fewer forms to complete when operating the scheme and you only have to make payments of PAYE and NIC to HM Revenue & Customs once every quarter.

## CHILD BENEFIT CUTS

Readers will no doubt recall that in a keynote speech at this year's Conservative party conference the Chancellor of the Exchequer, George Osborne, announced proposed changes to be made to child benefit payments. These changes were confirmed in the government's Spending Review presented to Parliament by the Chancellor in October this year. The reduction in child benefit is part of the cuts to welfare payments which the government has stated must be made to assist in reducing the budget deficit.

The purpose of this article is to summarise the background relating to child benefit, to look in general terms at the government's proposals and to offer some practical guidance as to how child benefit may, in some circumstances, be retained. Whilst the proposals relating to child benefit are not due to take effect until 2013, parents should be thinking now as to any measures that they should be taking in the near future to help retain this benefit.

Child benefit has, since its inception, been a universal tax-free benefit, ie it is available to all, irrespective of income. Indeed, many argue that this benefit should continue to be available to everyone who has children of a certain age. At present the amount paid is £20.30 a week for the eldest child and £13.40 a week for each additional child.

The Chancellor stated that from 2013 if either parent in a household is a higher rate taxpayer earning in excess of around £44,000 a year they will cease to receive child benefit.

Whilst some would argue that it is only fair that higher earners should not be entitled to certain benefits, there has been much criticism of these changes especially because, if each parent earns just under £44,000 they will not lose the child benefit, whereas if one parent earns in excess of £44,000 and the other earns less than £44,000 child benefit will be lost.

It is estimated that the loss of child benefit will cost a family with two children about £1,700 a year and with three children some £2,500 a year. However, the proposed rules will save Britain £2.5 billion a year.

Critics of the proposed changes argue that in order to supplement the loss in child benefit many mothers will be forced to return to work instead of staying at home and caring for their children. In addition, although the mother will receive additional income, much of this may have to be spent on paying for childcare whilst the mother is at work.

The government has stated that some 1.2 million families will be affected by the new rules, but this figure is being disputed by many experts. They point out that by the time the reduction in child benefit starts, the changes to the personal tax thresholds which were announced earlier this year will have been introduced and the threshold for higher rate tax will be much lower than the present £44,000.

## BEREAVEMENT AND TAX

A bereavement, either within or outside the family, is often a stressful and unhappy time and a time when the last things on our minds are taxation issues. However, once the initial period of bereavement is over it is important that those who have been left money, assets or property by the deceased consider any potential taxation issues, especially the payment of tax.

Often this task is undertaken by the deceased's personal representatives or executors, but it is still important that those who have received money or other assets are aware of the basic rules. Set out below is a summary based on information given by HM Revenue & Customs (HMRC).

### **Inheritance Tax**

When a person dies and leaves money, assets or property, the recipient will usually not have to pay any Inheritance Tax. This is because Inheritance Tax is generally paid out of the deceased's estate, before the recipient receives his or her inheritance.

There are two situations when the recipient of assets may have to pay Inheritance Tax.

- if a legacy has been made by the deceased which states that the recipient must pay any Inheritance Tax relating to the legacy; or
- if the deceased's estate is unable to pay any Inheritance Tax due.

However, whilst Inheritance Tax will not usually have to be paid, there may be other taxes relating to an inheritance which will have to be paid, depending on the circumstances and the type of inheritance. These are as follows.

### **Income Tax**

You may have to pay Income Tax if you receive income from your inheritance. For example, you could inherit money which is deposited in a bank or building society and which generates interest. Another example could be the receipt of dividends from any

shares that you have inherited. Finally, you could have inherited property which has been rented out. You will therefore have to pay Income Tax on any rental income your receive (although you may be able to offset any costs of maintaining the property).

### **Capital Gains Tax**

If, in the future, you dispose of any assets that you have inherited, you may have to pay Capital Gains Tax on the proceeds of the disposal if those assets have increased in value since the date of the deceased's death.

An important exception relating to Capital Gains Tax payable on the disposal of an inherited asset concerns certain types of property. If the recipient of a property lives in the property as his or her main home from the time they inherited the property until the date of disposal then any gain will usually be free of Capital Gains Tax.

One final point concerns trusts. In many instances a deceased person may have created a trust which will hold any assets on behalf of the beneficiaries to the trust. If this is the case then the trustees will be responsible for ensuring that the trust pays any taxes that are due and the beneficiaries will only have to pay Income Tax on any income received from the trust.

## **GETTING READY FOR WINTER**

We've already had one cold snap and to be sure there will be others before winter is out. It is important that vulnerable individuals are able to keep warm through these cold months and this article summarises some of the more important benefits and grants that are available to individuals who are over 60 or on low incomes. This information is taken from the UK Government official website at [www.direct.gov.uk](http://www.direct.gov.uk).

### **Cold Weather Payments.**

Cold Weather Payments can help people who are in receipt of certain benefits with their additional heating costs during winter.

A network of weather stations covering the whole of Great Britain will gather temperature information. Payments will be made when the local temperature is recorded as, or forecast to be, zero degrees Celsius or below over seven consecutive days.

The amount of the payment is £25 for each seven day period of very cold weather between 1 November and 31 March.

Cold Weather Payments will not affect other benefits you may be getting.

### **Winter Fuel Payments**

This is a yearly tax free payment to help people pay for their heating in the winter. Getting the Winter Fuel Payment will not affect any other benefits you may get. This is different to Cold Weather Payments which you may get for each week of very cold weather in your area.

You may get a Winter Fuel Payment for winter 2010/11 if:

- you have reached the qualifying age (born on or before 5 July 1950)
- you normally live in Great Britain or Northern Ireland on any day in the week of 20–26 September 2010

However, you won't qualify for a Winter Fuel Payment if, during the week of 20–26 September 2010:

- you were in hospital for more than 52 weeks previously, getting free treatment as an inpatient
- you were in custody serving a court sentence
- you were subject to immigration control and did not qualify for help from the Department for Work and Pensions
- you lived in a care home or an independent hospital (and had done so for the previous 12 weeks or more) and you were on Pension Credit, income-based Jobseeker's Allowance or income-related Employment and Support Allowance

### **Energy Grants**

In addition to the above benefits, certain individuals may be able to claim for an Energy Grant. An Energy Grant can help you pay for a new boiler or loft insulation. To see what grants and other offers are available go to the Energy Saving Trust website at [www.energysavingtrust.org.uk](http://www.energysavingtrust.org.uk).

i

---

<sup>i</sup> *The articles in this newsletter are of necessity summaries of the topics covered. The publisher has taken all due care in the preparation of this publication. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or the publishers. The publisher accepts no responsibility for the content of any material provided by third parties or for the content of any hypertext site referred to in this publication. The Publisher accepts no responsibility for the content of any website of other document referred to in this publication.*