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# NEWSLETTER JULY 2008

## FEE PROTECTION INSURANCE

Fee Protection Insurance is available to the firm's clients via Abbey Tax Protection.

The insurance arrangements cover the professional fees which arise in connection with income tax self assessment full enquiries, corporation tax self assessment full enquiries, corporation tax accounts investigations, employer compliance disputes and H M Revenue & Customs VAT disputes.

Cover is available at the following rates:

| Client Status | Fee per Annum |
|---|---|
| Personal taxation clients | £31.50 |
| Company directors | £31.50 |
| Partners – in partnership | £31.50 |
| Trusts | £31.50 |
| Sole traders | £99.75 |
| Partnerships - as distinct from the partners | £105.00 |
| Companies – as distinct from the directors | £116.50 |

The fees are payable for scheme years commencing 1st September.

Clients may join the scheme at any time during a scheme year in which event a reduced premium will apply for that scheme year.

Clients at 1st July 2008 have received full details of the scheme. New clients from 1st July 2008 receive details of the scheme prior to the annual renewal on 1st September. Further information regarding the scheme is available to all clients upon request.

## RECESSION – WHAT'S IN A NAME?

Many of our readers will be aware of the widespread definition of a recession, ie when a country's real growth is negative for two or more successive quarters of a year. Whether in the United Kingdom we will fall within this definition remains to be seen. What is surely beyond doubt is that the economy in this country is suffering and suffering badly.

This is born out by the latest economic figures announced in mid-July which showed an increase in the all items Retails Prices Index (RPI) from 4.3% in May to 4.6% in June and the Consumer Prices Index (CPI), the Government's preferred measure of inflation, from 3.3% in May to 3.8% in June (its highest level since 1992).

What makes matters worse are some interesting and indeed alarming figures which some do not appreciate when looking at the above statistics.

First, over the past three months when compared to the same period last year, the cost of living increase is higher than the increase in wages.

Secondly, the increase in the CPI as a whole disguises some anomalies in relation to individual items which are included in the overall figure. For example, the price of what some would regard as essentials has risen drastically over the past year: eggs +37.1%, butter +31.5%, milk +19.4% and bread +16.8%. On the other hand, certain items which many regard as non-essential have fallen, thus diluting the overall increase, eg CDs and DVDs -17.4%, cars -5.4% and electrical appliances -5.4%.

Some would argue that the main reason why the economy is in such a parlous state is the knock-on effect of the collapse of the sub-prime housing market in the United States which, in turn, has led to a reduction in funding available from banks and a downturn in the UK housing market. Others argue that this was the trigger but not the underlying reason.

Whatever the reasons, a number of commentators are arguing that worse is yet to come, with forecasts of the CPI reaching 5% by the end of the year and the present situation existing (or indeed worsening) over the next two to three years.

All this is linked to a possible reduction in bank interest rates in order to reduce inflation, together with billions of pounds being wiped off the share prices of some of our best known companies.

Like most things in life, what is good news for some is bad news for others. If you are a first time buyer with available funds, then the fall in house prices can only be good news, whilst if you are wanting to sell your house then you may well be considering reducing your asking price if you have not done so already.

## CHANGES TO THE PERSONAL ALLOWANCE AND BASIC RATE TAX BAND – SOME PRACTICAL ADVICE

The majority of our readers will be aware that the Chancellor of the Exchequer has announced that the basic Personal Allowance for the 2008-09 tax year will increase by £600 from £5,435 to £6,035. At the same time the basic rate tax band (the amount of taxable income you can earn before paying higher rate tax) will reduce from £36,000 to £34,800.

This article provides guidance as to when the changes are to take effect and, if the changes will affect you, just how this will happen.

**Key date**
For those employees or recipients of personal or company pensions under the age of 65 (or if they are over 65 will only qualify for the Personal Allowance) the changes will be reflected in your wage or pension payments from your first pay day after 7 September this year. However, the allowances will be backdated to the beginning of the tax year, ie 6 April 2008.

**The actual savings**
For those individuals who pay tax at 20%, the annual saving brought about by the changes is approximately £120 for this tax year. In the first month that the changes take effect you will notice a substantial reduction in the tax you pay ranging from £60 to £70 depending on the date of your September pay date and the amount of tax you have paid already during this tax year. In some cases you may receive a tax repayment. The amount of the reduction in tax will depend on your own individual circumstances.

After September you will pay up to £10 a month less tax if you are paid monthly and up to £2.30 less tax a week if you are paid weekly. Once again, the actual amount will depend on your individual circumstances.

Those individuals who pay tax at 40% (the higher rate) will not benefit from the changes, This is because, whilst the Personal Allowance has been increased by £600 a year, the threshold at which higher rate tax starts has been reduced by the same amount - resulting in no change.

For those individuals who pay their tax through self-assessment, the changes will be taken into account in your Self Assessment tax calculation and will appear in your tax bill for 2008-09.

**What you have to do**
*Employees*
If you are an employee you need do nothing as your employer will adjust your tax code based on information sent to him by the taxation authorities.

*Employers*
The Revenue advises employers as follows regarding the changes to take place in September:

"You should take the following steps to ensure you are prepared for your first payday on or after 7 September:

1. Make sure that for every employee you have a P11 Deductions Working Sheet or equivalent record (see page 4 of Employer Helpbook E13)

2. Before 7 September apply any tax code changes dated 23 August or earlier

3. If you use the CD-ROM P11 Calculator, load the latest version when we send it to you in August (for instructions, see the article ‘Employer CD-ROM 2008 Revised (August) Edition’ in Employer Bulletin 30 which we’ll send you at the same time)

4. Prepare to apply new tax codes dated 24 August in line with the instructions in the sections above. Do not operate these codes before 7 September

5. Calculate whether you will need advance funding to make tax refunds to any of your employees"

**Tax refunds**

As mentioned above, some employees will be due a tax refund when their tax code changes in September. The Revenue has advised as follows in relation to such refunds:

"Most employees will receive the benefit of the increased Personal Allowance by paying less tax from September. But you may have employees who will be entitled to a refund of tax paid earlier in the year.

Making this kind of refund does not cost you anything. The usual process is for you to deduct the amount you need to refund from your next payment to us of PAYE tax, NICs, CIS or student loan deductions.

If you do not have sufficient deductions to cover the amount you're refunding, you can apply to us for advance funding to make up the difference. We will send this to you as a cheque. Use the link below for more information.

Remember that if you have no PAYE payments to make to us in any tax month or quarter, you must tell us. This lets us know that we don't need to issue a payment reminder."

**Students with tax-free pay**

A number of students take summer jobs and it is important that any tax-free pay is treated correctly.

If you are a student and are working solely in the holidays having already signed a form P38(S) for 2008-09 to get paid tax-free, you must contact your employer and complete another P38(S) or equivalent record if your total earnings for the year go above £5,435 but will stay below £6,035

If your earnings go above £6,035 you will have to pay tax through your employer's PAYE (Pay As You Earn) system. If this is the case, you will get the benefit of the new Personal Allowance through your tax code.

## STUDENT HOLIDAY JOBS

With the summer holidays upon us, many students will be taking on holiday jobs. It is important that both the student and the employer are aware as to the taxation regulations regarding students. Set out below is advice given by H M Revenue & Customs in relation to students, after having made adjustments to incorporate the new Personal Allowance recently announced by the Chancellor.

"If you have a part-time job at weekends or in the evenings, you will still have to pay tax and National Insurance contributions on whatever you earn – if it works out at over £6,035 a year for tax or more than £105 a week for National Insurance. That means that if you're earning less than £105 a week, you won't have to pay any tax or National Insurance contributions.

If you work in the holidays – and remember that's Christmas and Easter as well as summer - you'll have to pay tax if you earn more than £6,035 over the tax year and National Insurance every time you earn £105.01 or more a week.

It's unlikely that you will earn that much. However, there is a possibility that your boss might automatically take the tax off your wages each week anyway, and you don't want that! Of course you can claim it back afterwards, but then you'd have to wait to get your hard-earned cash back. To avoid that happening, make sure you get one of these from your employer – a form P38(S).

If you fill it in and give it back to your employer, you'll get paid everything you're supposed to. This form is specially for holiday jobs only - if you're doing a part-time job during term and then do a holiday job as well, you can't use a form P38(S).

If you can't use form P38(S) because you work in term time as well as the holidays, and you think you might have paid too much tax you'll want to investigate getting your money back. You can check whether you might have paid too much by using the student tax checker. The tax checker also tells you how to go about getting a repayment."

The student holiday checker referred to above is a useful on-line tool to establish whether or not the student has paid too much tax. By answering a number of questions the checker will compute how much tax should have been paid on earnings. The website address of the checker is http://www.hmrc.gov.uk/calcs/stc.htm.

## YET ANOTHER TAX SCAM

H M Revenue & Customs (HMRC) on its website is constantly reminding us of scams that are being perpetrated against members of the public. The most recent scam relates to a phishing activity involving tax rebates.

Readers will recall that the term "phishing" is defined as "the criminally fraudulent process of attempting to acquire sensitive information such as usernames, passwords and credit card details, by masquerading as a trustworthy entity in an electronic communication."

The latest scam involves the sending of an email to an individual offering a tax rebate. The email purports to come from HMRC but, of course, does not. HMRC inform us that they "would not inform customers of a tax rebate via email, or invite them to complete an online form to receive a rebate of tax".

## FINANCIAL INFORMATION FOR YOUNG ADULTS

Readers may be interested to note that the Financial Services Authority (FSA) has launched a new website "What about money" (www.whataboutmoney/info). This website provides impartial financial information for young adults and contains a wealth of information to assist those individuals in relation to money matters.

Included on the website are subjects such as sources of benefits, ways to borrow money and managing borrowings, starting a business, running a home, buying a home and many more topics.

## EQUITABLE LIFE – THE OMBUDSMAN REPORTS

Those readers who lost savings in the Equitable Life disaster may be in for some good news following the report published by Ann Abraham, the Parliamentary Ombudsman. Ms Abraham's damning report has taken some four years to prepare but her conclusions should give some welcome relief to policyholders.

The report concludes that the former Department of Trade and Industry, the Government Actuary's Department and the Financial Services Authority were complacent and guilty of serial maladministration that contributed to the losses suffered by Equitable Life customers. These losses are estimated to be in excess of £4 billion.

But more importantly for customers, the report calls for a compensation scheme to be established within six months and, in addition, that those bodies, including the Government, make a public apology.

The Ombudsman did not state how many people might be eligible for compensation, or how much they should each receive. However, she stated that "The aim of such a scheme should be to put those people who have suffered a relative loss back into the position that they would have been in had maladministration not occurred."

A Treasury spokesman stated:
"The government recognises that the Ombudsman's report raises issues of concern for the parties involved.

The length and complexity of the report mean it would be inappropriate to comment before giving it our full and careful consideration.

We expect to provide a full response to the House in the autumn."

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