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# Alan Secker & Co

Registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales

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NEWSLETTER - 16 MARCH 2005

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## What kind of a Year has it been?

The last 12 months have proven to be very good. There has been significant client growth and our plans to improve our procedures and systems well advanced.

Recently the ICAEW, our professional body has adopted a quality assurance programme in respect of all our activities, not just audit and investment work.

This involves such issues as; do we have the proper technical resources such

as training, reference books and access to specialists? Are we demonstrably observing the money laundering regulations? Are we collecting ID from all new clients? Is the data on our computer systems secure? Have we a programme for ensuring its adequacy? A colleague once remarked that is impossible to make a system foolproof because fools are so ingenious. We can only try.

Fortunately, we had been working on these matters for some time. We have invested in pursuing government incentives such as on-line filing wherever we could see a benefit to clients. The key point is that even if we are involved in more and more compliance activity, we will try wherever possible to find improved ways of dealing with it and minimise the impact upon our charges.

As usual, when producing this newsletter, we are introducing items to which clients have alerted us or that we believe will interest them.

## Getting more from us

If asked to describe what we do for them, most clients would suggest preparing their Accounts and their Tax Returns, help them complete ever more complex government forms and helping them to avoid slipping on banana skin-like legislation.

Yet what we can offer is considerable experience of business planning, organisation, management, marketing and ultimately targeted growth.



Albury Drive, Pinner 4 March 2005

At some point you will have read advertisements by firms offering a 'free health check'. What does that mean? Checking your bank balances, your debtors, stock and creditors and then announcing 'You have a cash flow problem'?

That is not what it should be. It should be an opportunity for the process of examining the whole raison d'être of the business. Why does it exist, where is it going? What is the

plan? What are the skills and strengths of its personnel? Are they doing the right things?

Often we come across small firms where the key persons perform the technical tasks, the administration and then have so little time to deal with the bookkeeping that they never get to examine up to date reports upon which to make urgent decisions, until that is, they are out of date and it is too late.

Try to do both and often, neither gets done well. Sometimes it can pay to have a skilled outsider with

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# BUDGET 2005

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a wide experience of different businesses come in and examine your business inside and out. To look at your machinery, analyse its productivity. Look at the alternatives and.... I could go on. Think about it. As business advisors, we can make a difference.

## Tax Planning

The tax year has almost ended. What can you do to maximise any opportunities to minimise your tax bill? The simplest thing is to consider whether it might be an advantage to bring forward any capital expenditure and claim capital allowances against this year's profits or instead to defer a proposed purchase because it may be thought next years profits may take you into a higher tax bracket. As far as rates are concerned, the 50% first year allowance will cease on 31 March (companies) or 5 April (individuals and partnerships) and the indications are that it will not be replaced. However, the 40% FYA for 'Plant and Machinery' subject to the Budget will continue to be available.

A number of clients have now taken advantage of the new benefit that starts from 6 April 2005 by making tax effective arrangements for members of their staff. They will be providing childcare vouchers worth up to £50 per week towards the cost of qualifying childcare. These costs are both allowable as a deduction from the business as well as being both Tax and National Insurance free for the employee. Check the Inland Revenue's web site for the conditions and details: <http://www.inlandrevenue.gov.uk/childcare/> and for an example of how a childcare organisation offers the facility, try: <http://www.busybees.com/facilities-list.htm> and click on 'Vouchers'.

## Tighter and Tighter

From 2006, every business that wishes to engage the services of a 'subcontractor' will have to telephone the Inland Revenue and register the details. A subcontractor can include anyone who supplies services to your business; e.g. electricians, bookkeepers, etc. The Inland Revenue will then advise whether the subcontractor should be treated as self-employed or employed. Remember if you treat someone as self-employed who should have been classed as employed, the result can prove very expensive.

Could you challenge the Inland Revenue in the event of an unfavourable decision?

You could if you knew your facts. Every so often we republish the points that form the basis of determining whether a person is to be treated as employed or self-employed.

In the seminal case of Hall -v- Lorrimer [1994], the judge provided a summary of factors to be considered in order to determine whether a person is employed or self-employed. Those listed below are neither of equal importance nor listed in order of significance. The position must be judged upon the overall picture that these factors produce:

1. The express or implied rights and duties of the parties, **(Does the evidence support the arrangement as being of contractor and contractee or of employer and employee).**
2. The degree of control exercised over the person doing the work, **(And how and when it is performed).**
3. Whether the person provides his own equipment and the nature of the equipment involved in the work.
4. Whether the person hires any staff to help him.
5. The degree of financial risk undertaken, for example if delays ensue.
6. The degree of responsibility for investment and management.
7. How far the person providing the services has an opportunity to profit from sound management in the performance of his task.
8. The understanding or intentions of the parties.
9. Whether the person has set up a businesslike organisation.
10. The degree of continuity in the relationship between the person performing the services and the person for whom he performs them, (This is usually described as 'mutuality of obligations'. That means where the contractor is obliged to continued to provide work for the contractee. This implies employment. Since the Trust House Forte case (O'Kelly and others v. Trust House Forte [1983]). See <http://www.inlandrevenue.gov.uk/manuals/esmmanual/esm7100.htm>
11. How many engagements are performed and whether these are for one person or a number of different people.

In addition we would add:

12. Who would be responsible in the case of accidents caused by the individual or by persons employed by

them? If an insurance claim were to be made as a result of such an accident, against whose policy would the claim be made?

13. Is holiday pay paid?
14. What is the basis upon which "pay" is calculated?
15. Was there a related pre-existing employer/employee relationship?
16. Is the person a key member of a team, the remainder of whom are the contractor's employees?
17. Is the person described to third parties as a member of the contractor's company, with a title such as 'Director of Engineering'?
18. Does the person hand out business cards bearing the contractor's details and the person's name?
19. Under the contract, Can the contractee provide a substitute to complete the contract if they are not available? If so, who will choose the substitute and who will pay them?
20. Has the contractee supplied details of his tax office and reference?

## Stress Saver

The efforts that some people go to in order to get your attention can become both intrusive and costly. Unwanted telephone calls waste your time, unwanted faxes waste your paper and unwanted junk mail fills your waste bin. Help however is at hand and it works. We've tried it. The authorities enable you to register with one of several preference services. Here are the details of three of them:

<b>Fax Preference Service</b>
Register at: <a href="http://www.fpsonline.org.uk">www.fpsonline.org.uk</a> 0845 070 0702
<b>Telephone Preference Service</b>
Register at: <a href="http://www.tpsonline.org.uk">www.tpsonline.org.uk</a> 0845 070 0707
<b>Mail Preference Service</b>
Register at: <a href="http://www.mpsonline.org.uk">www.mpsonline.org.uk</a> 0845 703 4599

## Online Filing

Once the government saw how well Self-Assessment successfully reduced the costs of collecting tax; they inevitably leapt at every opportunity to extend the process, wherever the exploitation of modern technology pointed.

First there was the Electronic Filing Service (ELS) used by this firm for several years. This is to give way to Filing by Internet (FBI). Although this provides an immediate response compared to the 24 hours for ELS, we did not rush to embrace it. Initially it did not support several

significant supplements; next it was 'leaky'. (On the day we started to examine it, a huge swathe of private data was inadvertently released to the Internet). We believe that these shortcomings have been overcome.

## Next came VAT

One can file one's Returns online. It does not matter whether the Returns are monthly, quarterly or annually. However although those registered become entitled to a further seven days for payment, payment has to be made on-line by direct debit.

## Employers' Annual Return- P35

Third came the prospect of filing the Employers' Annual Return, the P35. The government offered a carrot and a stick. The carrot is cash totalling £825, payable in instalments to the employers, who **(or their agents) file on-line and have a liability.**

The arrangements for filing the PAYE Returns on-line for all clients who completed the form FBI 2 that we sent out several weeks ago to those that we believed to be affected, are now well advanced for the filing of the 2004/05 Returns. If you believe that you may benefit and haven't been contacted by us, please call us without delay.

## Company Annual Returns

Then, with unfortunate timing, Companies House increased the Annual Return filing fee from £15 to £30 from 1 February 2005. There appeared to be some relief from the increase. If filing is undertaken online, it remains at £15.

At first we embraced the prospect enthusiastically until we pondered over on-line payment. We cannot pay on-line on behalf of our clients unless our clients first pay us and the bank has cleared the sums. The cost of administration involved far outweighs the benefit. This will have to wait until a practical solution presents itself.

## Childcare Help

A number of clients have now taken advantage of the new benefit that starts from 6 April 2005 by making tax effective arrangements for members of their staff. They will be providing childcare vouchers worth up to £50 per week towards the cost of qualifying childcare. These costs are both allowable as a deduction from the business as well as being both Tax and National Insurance free for the employee. Check the Inland Revenue's web site for the conditions and details: <http://www.inlandrevenue.gov.uk/childcare/> and for an example of how a childcare organisation offers the

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facility, try: <http://www.busybees.com/facilities-list.htm> and click on 'Vouchers'.

## **Form 42**

Last summer, panic set in when a member of another firm of accountants was horrified to discover that buried in the Finance Act 2003 was a requirement to make a Return giving details of acquisitions of shares in limited companies by directors and employees during the year ended 5 April 2004, because the deadline of 6 July was only days away.

The 16 page form upon which the details had to be entered can be downloaded from:

[http://www.inlandrevenue.gov.uk/shareschemes/42\\_-\\_2004-q8-31.pdf](http://www.inlandrevenue.gov.uk/shareschemes/42_-_2004-q8-31.pdf)

We too were concerned but our governing body The Institute of Chartered Accountants in England and Wales swiftly contacted the Inland Revenue and a simplified form was soon made available for small companies. Fortunately we were able to complete and lodge the forms in time and did not need the extended deadline, eventually to 30 November. That will not happen this year.

## **I don't want to join**

It seems to be a standing joke. Whenever the question of registering with the Inland Revenue is raised, this is sometimes what we hear. So one would have thought that receiving a letter from the Inland Revenue, advising that they have formed the opinion that you will not need to make Tax Returns in future might signal that Christmas has come again. Think about this, of the clients that have been sent such letters, most were clients likely to receive Tax Repayments.

## **What is tax deductible?**

This usually gets asked by those inexperienced in business. The simple answer is anything that is expended for the purposes of the trade (unless prohibited by law) will be deductible from taxable profits. Here are just a couple of examples:

## **Accountancy Fees**

Normally Accountancy fees and disbursements would be allowable but there are exceptions. The costs of fighting an Inland Revenue enquiry after which significant additional tax was payable would definitely NOT be allowable. The costs of preparing personal Tax Returns, although also technically disallowable are usually ignored if incidental to the costs of preparing Accounts and providing general advice.

## **Legal Fees**

Here the distinction is usually between what they were for. Fees incurred in the acquisition of a freehold property purchase are not allowable against income but will be allowable against the proceeds of an eventual disposal. Similarly, the legal costs of acquiring a lease will not be allowable, also being considered a capital expense whereas the costs of dealing with a lease renewal are deemed to be as revenue expense and allowable against income.

## **Gifts to Customers**

Provided they are less than £50, are not food, drink or tobacco and mention the business making the gift in some way, will be deductible.

## **Self Invested Pension Plans**

Until 6 April 2006, the acquisition of a domestic property by a SIPP was prohibited but that will change. A SIPP can only borrow 50% of its own fund at the time of the acquisition but this could be a good tax saving opportunity for a young person with a high enough income contemplating the purchase of residential property.

## **To Incorporate or Not?**

The principle reason for incorporation is to engage in business while protecting ones personal assets from a business failure. For many years, devious employers have insisted on getting would-be employees to form their own companies. In that way the 'employers' would not be employers under the law and thus not suffer their legal obligations as such.

The government only saw that they would lose tax and National Insurance so, rather than hitting the 'employers' they struck at the contractees by introducing the rules proposed in the infamous Inland Revenue press release IR35.

Subsequently, having made the mistake of introducing a zero rate band, which produced a frenzy of company forming, they did not reverse the results of poor judgement but added to the bureaucracy by adding a cumbersome addition to corporation tax regime. Profits from which dividends are paid to non-corporations could now bear not less than 19% corporation tax.

So is it still worth it? Well the company may pay 19% but the corresponding dividend is imputed to have borne 1/9 in income tax. If you earn below the higher rate band, you've nothing more to pay and no National Insurance.

These advantages could well be offset if your business demands that you use your motorcar. The levels of car and fuel benefits are now horrendous. There is however an alternative, the Limited Liability Partnership. This bestows all the advantages of limited liability while still retaining the same tax regime for the individual.

Just as with companies there are advantages and disadvantages. The Companies House charges have recently been reduced to bring them into line with those for companies.

To become an LLP one first has to have a partnership. Sole traders are out. At present, a partnership has to exist prior to incorporation. The Income Tax is calculated on profits, adjusted for disallowable items and capital allowances but National Insurance is very different being a mixture of Class II and Class IV (see the tables elsewhere in this newsletter).

However, allowable motor running costs and the capital allowances on motorcars is based upon those items multiplied by the annual business mileage over total annual mileage. For those with large business mileages, this could be significant.

### **The Child Trust Fund**

This comes into effect for each child born on or after 1 September 2002. This month (March 2005) vouchers for £250 will be sent to the parent claiming child benefit in respect of that child. Vouchers for children from families earning less than £13,000 per annum will get vouchers for £500. Every year, family and friends of the child will be able to contribute a maximum of £1,200 to the fund although they will get no tax relief for those contributions. The government plans to make a further contribution when the child reaches the age of seven. When the child reaches 18, he is entitled to the fund, free of tax. Check out <http://www.childtrustfund.gov.uk/>

### **Balance Sheets**

We believe that where a business being operated is a taxpayer's principle form of income, it is essential that a Balance Sheet be prepared. The Revenue Account may show the figure for profit but it does not show what the taxpayer lives on. The figure for drawings, a Balance Sheet item, will. The Balance Sheet 'proves' the Revenue Account. We are sometimes asked 'is it necessary'. The Special Commissioners provided an answer during the case of *Parto v B ratherton (SpC 414)*. They quoted from another case *Accountant v*

(Inspector of Taxes [2000] where it was said that Under s19A (2)(b) Taxes Management Act 1970, the Revenue were entitled to ask for particulars 'which may not necessarily be contained in existing documents'. In other words, if they do not exist, the Inland Revenue could demand that they be generated.



Corner of Moss Lane & Paines Lane– 4 March 2005

### **Her Majesty's Revenue and Customs (HMRC)**

This is the title of the merged HM Customs & Excise and the Inland Revenue.

### **This Document**

This newsletter written for the general interest of our clients, attempts to combine a résumé of the more significant points of the Chancellor's Budget, together with other matters of interest and useful tabulations. We hope that you will find it a useful reference during the forthcoming year. However, please remember that legislation and legal decisions are constantly changing. We recommend that no decisions should be taken based on this newsletter unless further specific advice is taken.

**Alan Secker and Jack Pievsky**

# BUDGET 2005

## Income Tax Rates

	2005/06	2004/05
	£	£
<b>Starting Rate band to</b>	<b>2,090</b>	<b>£2,020</b>
Tax Rate	10%	10%
	<b>£</b>	<b>£</b>
<b>Basic Rate Band - next</b>	<b>30,310</b>	<b>29,380</b>
Non-saving rate	22%	22%
Savings rate	20%	20%
UK dividend rate	10%	10%
	<b>£</b>	<b>£</b>
<b>Higher Rate – income above</b>	<b>32,400</b>	<b>31,400</b>
Tax rate – excluding UK dividends	40%	40%
UK dividend rate	32.5%	32.5%
	<b>£</b>	<b>£</b>
<b>Trusts and Estates</b>		
Basic Rate on first £500 of income		
Tax rate excluding UK dividends	40%	40%
UK dividend rate	32.5%	32.5%

## Personal Allowances

		£	£
<b>Deducted from income before computing tax</b>			
Age under 65		4,895	4,745
Age 65 to 74	(65 before 6/4/2000) *	7,090	6,830
75 and over	(65 before 6/4/2000) *	7,220	6,950
<b>Allowances that reduce tax</b>			
Married Couple's Allowance	Elder spouse' age under 75 *	590.50	572.50
	75 and over *	597.50	579.50
	Minimum	228.00	221.00
One spouse must have been born before 6 April 1935			
The Age Allowance is reduced by £1 for every £2 by which the income exceeds the income limit:		19,500	18,900
<b>Blind Persons Allowance</b>		1,610	1,560

## Mortgage Interest Relief

Withdrawn from 6/4/2000 for persons aged under 65 at that date. Otherwise 10% on first £30,000 of advance.

## Rent A Room Scheme

	£	£
Annual Exemption (unchanged)	4,250	4,250

## Pension Schemes Earnings Cap

	£	£
Limit	105,600	102,000

## Inheritance Tax

	2005/06	2004/05
	£	£
Threshold before tax starts	275,000	263,000
Thereafter	40%	40%

## Corporation Tax

Financial Year commencing	Rate %	1/4/2006	1/4/2005
		£	£
First	0	10,000	10,000
Next	23.75	40,000	40,000
Next	19	250,000	250,000
Next	32.75	1,200,000	1,200,000
Next	30	1,500,000	1,500,000
From 1/4/04, Profits distributed to individuals are taxed at not less than 19 %			
Small Companies Marginal Relief Fraction			
From £10,000 to £50,000		19/400	19/400
From £300,000 to £1,500,000		11/400	11/400
Neither the 0% nor the 19% apply to close Investment holding companies.			

## Capital Gains Tax

	2005/06	2004/05
	£	£
<b>Annual Exemption</b>		
Individual	8,500	8,200
Most Trusts	4,250	4,100
<b>The Rate applicable</b>		
is determined by the taxpayer's total taxable income inclusive of Capital Gains. The rates are:		
Lower Rate Band	10%	10%
Basic Rate Band	20%	20%
Higher Rate	40%	40%

## National Minimum Wage

	Main Rate (Age 22 or over £ / Hour	Developm ent (Age 18-21) rate £ / Hour
From 1/10/2003	4.50	3.80
From 1/10/2004	4.85	4.10
From 1/10/2005	5.05	4.25
The development rate can also apply to workers aged 22 and above during their first six months in a new job with a new employer and who are receiving accredited training.		
<b>Accommodation offset</b>		
Employers who provide accommodation as part of the job are allowed to offset a maximum of £3.75 a day (£26.25 a week) against the NMW calculation.		
The Low Pay Commission has recommended a further rise to £5.35 from October 2006, subject to a review in early 2006		

## Motor Car Fuel Benefit

The taxable benefit remains at £14,400 but the appropriate percentages to be applied are by reference to the CO<sub>2</sub> emissions applicable to the motor vehicle concerned. See our website [www.asandco.co.uk](http://www.asandco.co.uk) for details. Although the base figure has remained constant, the percentages to apply relate to the emission level. The government has lowered these each year, effectively making motoring more expensive. They have stated the emission levels that will qualify for the minimum petrol percentage charge for the next two years:

	CO <sub>2</sub> Emissions in gm/k
2005/06	140
2006/07	140

## Motor Car Scale Charge

Car Scale Benefits for 2005/6 and 2006/7 are based on the manufacturer's list price when new. 15% is applied to the appropriate price of cars with up to 140 CO<sub>2</sub> emissions, increasing by 1% for each further 5 CO<sub>2</sub> emissions up to a maximum of 35% on cars with emissions of 240 and over.

From 6 April 2006, cars running on diesel attract a supplement of up to 3% on CO<sub>2</sub> emissions between 225 and 235. The 3% scale loading will apply to all diesel cars registered on or after 1 January 2006. Diesel cars that meet the Euro IV emission standards and were registered before 1 January 2006 will be exempt from the 3% loading. The full table of percentages \* emissions \* year found on our website:

<http://www.asandco.co.uk> will be updated shortly.

## Vans

Vans provided for employees use by employers will continue to attract a taxable benefit of £500 and £350 for under/over 4 -year-old vans. This will continue until 5/4/2007 where the employees have unrestricted private use.

From 5/4/2005, no charge will apply to employees who have to take their vans home and there is insignificant private use.

From 6/4/2007 the scale charge for the use of an employer's van with unrestricted private use will become £3,000. If in addition the employer pays for 'private fuel', there will be an additional fuel charge of £500.

## Fuel Rates for company Cars

Tax Free levels for reimbursements of fuel provided by employees when using **company** cars also remain unchanged.

Petrol	Per Mile
1,400 cc or less	10p
1,401 - 2,000 cc	12p
Over 2,000 cc	14p

Diesel	Per Mile
up to 2,000 cc	9p
Over 2,000 cc	12p

## Authorised Mileage Rates

Tax Free payments to employees for the business use of their private cars remain unchanged

Cars All Engine Sizes	Per Mile
First 10,000 miles	40p
Above 10,000 miles	25p

The 40p rate will also apply for NIC purposes.

Motor Cycles	24p
Bicycles	20p

## Capital Allowances

### The 50% First Year Allowance

This allowance of 50% will no longer be available after 31 March 05 for businesses falling under corporation tax and 5 April 2005 for those falling under income tax).

### Business Property Renovation Allowance (BPRA)

People or Companies owning or leasing property that has been vacant for a year or more in designated disadvantaged area of the UK will be able to claim full, immediate tax relief on their expenditure on conversion or renovation in order to bring it back into full use, under a new scheme. The scheme will start once state aid approval has been granted.

## Social Security Contributions

### Employed (Class I)

Employee's NIC Lower Earnings Limit

	2005/06	2004/05
<b>Rates (weekly)</b>	<b>£</b>	<b>£</b>
Lower Earnings Limit	82	79
Earnings Threshold	94	91
Upper Earnings Limit	630	610

	2005/06	2004/05	Employ	Employ
	<b>£</b>	<b>£</b>	<b>EEs</b>	<b>ERs</b>
<b>Weekly</b>			<b>%</b>	<b>%</b>
Up to	94	91	0	0
From above to	630	610.00	11	12.8
On Earnings over	630	610.00	1	12.8

	2005/06	2004/05	Employ	Employ
<b>Married Woman's</b>			<b>EEs</b>	<b>ERs</b>
<b>Reduced Rate</b>	<b>£</b>	<b>£</b>	<b>%</b>	<b>%</b>
<b>Monthly</b>				
Up to	408	385	0	0
From above to	2730	2644	4.85	12.8
On Earnings over	2730	2644	1	12.8

### Self-Employed (Class II)

	2005/06	2004/05
<b>Rates</b>	<b>£</b>	<b>£</b>
Per Week	2.10	2.05
Share Fishermen	2.75	2.70
Volunteer Development Workers		
	4.10	3.95
Small Earnings Exemption p.a.	4,345	4,215

### Voluntary (Class III)

	2005/06	2004/05
<b>Rates</b>	<b>£</b>	<b>£</b>
Per Week	7.35	7.15

### Self-Employed (Class IV)

	2005/06	2004/05
	<b>£</b>	<b>£</b>
<b>Principle Rate</b>	<b>8%</b>	<b>8%</b>
Lower Profits Limit	4,895	4,745
Upper Profits Limit	32,760	31,720
<b>Above Upper Profits Limit</b>	<b>1%</b>	<b>1%</b>
Small Earnings Exemption p.a.	4,345	4,215

## Social Security Benefits

	2005/06	2004/05
<b>Weekly Statutory Maternity Pay</b>	<b>£</b>	<b>£</b>
Where earnings exceed:	82.00	79.00
the first 6 weeks pay = 90% of earnings with no upper limit		
the next 20 weeks are paid at the rate of :		
where this is lower than 90% of weekly earnings.	106.00	102.80

	2005/06	2004/05
<b>Weekly State Pension</b>	<b>£</b>	<b>£</b>
Single Person	82.05	79.60
Married Couples	131.20	127.25

## Tax Credits

<b>Working Tax Credit</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>£</b>	<b>£</b>
Basic Element	1,620	1,570
Couple & lone parent	1,595	1,545
30 hour element	660	640
Disabled worker element	2,165	2,100
Severe disability element	920	890
50+ return to work payment (16 - 29 hours)	1,110	1,075
50+ return to work payment (30+ hours)	1,660	1,610

<b>Childcare Element of WTC</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>£</b>	<b>£</b>
Max. eligible cost for 1 child	175 pw	135 pw
Max. eligible cost for 2 children	300 pw	200 pw
% of eligible childcare costs covered	70	70

<b>Child Tax Credit</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>£</b>	<b>£</b>
Family element	545	545
Family element baby addition	545	545
Child element	1,690	1,625
Disabled child element	2,285	2,215
Severely disabled child element	920	890

<b>Tax Credits Income thresholds and withdrawal rates</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>£</b>	<b>£</b>
First income threshold	5,220	5,060
First withdrawal rate (%)	37%	37%
Second income threshold	50,000	50,000
Second withdrawal rate (%)	6.67%	6.67%
First threshold for those entitled to Child Tax Credit	13,910	13,480
Income disregard	2,500	2,500

<b>Child Benefit / Guardian's Allowance £ per week</b>	<b>2005/06</b>	<b>2004/05</b>
	<b>£</b>	<b>£</b>
Eldest/only child	17.00	16.50
Other children	11.40	11.05
Eldest/only child (Lone parent rate)	17.55	17.55
Guardian's Allowance	12.20	11.85

## Value Added Tax

### VAT – Unjust Enrichment

Businesses who have incorrectly charged VAT to their customers and who are able to establish that VAT should not have been charged will be denied the ability to reclaim such VAT if Customs & Excise can establish that this would amount to “ unjust enrichment”. For errors in VAT Returns resulting in overpayments to Customs, businesses have 3 years in which to lodge their claims. In most cases the 3 -year period commences with the end of the VAT period in which the error occurs.

### VAT Avoidance Scheme disclosure rules

Currently and until the Royal Assent is given a loophole exists because businesses only have to disclose when they are involved in schemes that give tax advantages when that advantage is not reflected in their VAT Returns. This masks situations where exempt supplies are involved. This loophole is to be closed.

### Partial Exemption

From 1<sup>st</sup> April 2005 Customs will be able to use an extended “special method override” in situations where the existing special method is not fair and results in a significant loss of Revenue. Customs will only use this power when they decide that the direction of another special method is inappropriate.

### Place of Supply

From 17<sup>th</sup> March 2005 businesses which currently receive their supplies of natural gas or electricity from suppliers outside the UK will be required to account for VAT on the consideration payable to their supplier.

### VAT Relief for certain Charities

From a date to be announced in the future Welfare Charities and state regulated welfare providers will be able to charge a reduced VAT rate of 5% for advice or information relating to the promotion of the welfare of the elderly or disabled, or children. The rate only applies where the goods or services are not otherwise exempt from VAT.

### Energy Saving Materials

The 5% reduced rate of VAT currently available to installers buildings and consumers having such systems installed, of a specific list of energy saving materials is to be extended. From 7<sup>th</sup> April 2005 the list will include air source heat pumps and micro combined heat and power units in all forms of residential accommodation and certain charity.

### Supplies of Goods in Customs Warehouses

Under an option available to the UK in EU law, goods may be traded VAT free. A loophole currently exists because UK VAT Warehousing law has not always resulted in the VAT due once goods have left warehouses corresponding with the amount of VAT that would have been due if the transactions had not been VAT free. Historically some businesses have exploited this loophole, which will be closed upon the Royal Assent to the Finance Bill.

<b>Thresholds</b>	<b>10/4/05</b>	<b>1/4/04</b>
	<b>£</b>	<b>£</b>
Annual Turnover Threshold	60,000	58,000
De-Registration Threshold	58,000	56,000
Standard Rate of VAT	17.5%	17.5%

**1/4ly Fuel Scale Charges** from start of first accounting period beginning after 30 April 2005.

Engine cc	Diesel		Petrol	
	£	£	£	£
1400 or less	225.00	33.51	237.00	35.29
< 2000	225.00	33.51	300.00	44.68
> 2000	283.00	42.14	442.00	65.82

## Excise Duty

Fuel Duty	To 31/8/04 Pence	From 1/9/04 Pence
	Ultra-low sulphur petrol/diesel	47.10/lt
Sulphur-free petrol/diesel	47.10/lt	47.10/lt
Biodiesel liquefied petroleum gas used as road fuel	28.32/lt	27.10/lt
Bioethanol	28.32/lt	27.10/lt
Liquefied petroleum gas used as road fuel	=5.4p/lt	=5.4p/lt
Natural gas used as road fuel	10.8p kg	9 p kg
Rebated gas oil (red diesel)	6.44p/l	5.22p/l

Alcohol Duty From 20 March 2005	Effect of tax on typical item	
	Pence inc.	Unit
Beer	1	Pint of beer
Wine	1	glass
Wine	4	75cl bot
Sparkling wine	No change	75cl bot
Spirits	No change	70cl bot
Spirits-based RTDs	No change	275ml bot
Cider	No change	litre
Sparkling Cider	No change	70cl bot

Tobacco Duty	From 16/03/05	
	Pence inc.	Unit
Cigarettes	7p	pk of 20
Cigars	3p	pk of 5
Hand-rolling tobacco	8p	25g
Pipe tobacco	5p	25g

## ISA's

The current limits of £7000 pa for maxi and £3000 for cash ISA's will continue until 2009/10. Previously it was envisaged that these limits would remain until 5th April 2006, and £5000 and £1000 respectively for 2006/7 onwards.

## Tax Avoidance

### Financing Arrangements designed to comply with Shari'a Law

Where alternative finance arrangements are put in place to enable persons that wish to invest to be able to do so in a way that does not involve receipt or payment of interest, the government intends to ensure that those involved are taxed no more favourably than equivalent arrangements that give rise to interest.

## Countering Film Tax avoidance

Methods by which persons avoid Tax by involvement in limited Partnerships, Limited Liability Partnerships or any other partnerships where the partner spends only an insignificant amount of time working in the trade are to be thwarted by legislation.

### Avoidance – Stamp Duty Land Tax

Powers are being taken to oblige accountants and lawyers who devise and market tax schemes and arrangements, and those who use them, in respect of non-residential property transactions with a market value of over £5 million to provide details to the Inland Revenue where their use may procure an SDLT advantage.

### Avoidance – Double Taxation

Where double taxation relief (DTR) is claimed as part of a scheme, the main purpose of which is to gain excessive DTR, steps are to be taken to ensure that the level of DTR given is limited so as to cancel the effect of the arrangement. The operative date is 16<sup>th</sup> March 2005 for companies and 6<sup>th</sup> April for individuals.

### Avoidance – Gift Aid

Measures will be taken to stop charities reclassifying admission fees as donations or reducing admission fees where they receive a donation. This will come into force on 6 April 2006.

## General Tax Issues

### Low Budget Film Tax Relief

Low Budget Film Tax Relief, introduced by S.48 FA (No2) Act 1997 and extended by successive Acts is to be extended beyond 1 July 2005. It will enable those making films with a total expenditure of up to £15 million to deduct expenditure on producing or buying the films to deduct the expenditure from profits, rather than to treat it as capital, eligible for capital allowances. To qualify, the 1st day of principal photography must be before 1 April 2006 and the film must be completed by 1 January 2007.

### Tax and Civil Partners ( same-sex couples )

With effect from 5th December 2005 civil partners formed as a result of the Civil Partnership Act 2004 will be treated the same as married couples for tax purposes. This includes Income Tax, Capital Gains Tax, Inheritance Tax and various other areas of UK taxation.

### Computer and Bicycle Exemptions

Currently employees who buy computers or bicycles previously loaned to them by their employers faced a tax charge on the excess of the annual benefit over £500. From 6th April 2005 the rules will change so that no benefit in kind arises where the consideration is not greater than market value at the date of the sale.

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### **Tax Free Pay to Employee Students**

From 1st September 2005 (the start of the academic year) payments of up to £15,000 pa may be paid tax and NIC free to employees attending a full time educational course at a recognised educational establishment. The previous limit was £7000 and was not NIC free. The payments can cover the costs of lodging, subsistence and travel, but not course fees.

### **Simplification of Taxation of Pensions**

From 6th April a raft of changes in the way that taxation applies to pensions and the pensions industry will be introduced, the main purpose of which will be to unify the existing taxation treatment of various aspects of the way in which pensions and the numerous aspects of them are implemented. Subjects affected include purchased annuities, the pension cap, income based contribution limits, tax relief on premiums, increased tax free lump sums where escalation and dependents pensions are declined.

### **Stamp Duty Land Tax**

The current 0% band of up to £60,000 for transactions in residential property is increased to £120,000 for any land transaction dated after 16th March 2005. There is no change to the charge on residential transactions where the consideration exceeds £120,000, nor is there any change to the higher threshold of £150,000 for residential transactions in designated disadvantaged areas.

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