COMPANY CARS – TIME TO THINK AGAIN?

At one time the government's intention was to tax company cars out of existence. These days it is a little more enlightened, even offering extra tax relief in some cases. This begs the question; which cars are best for tax breaks?

In April 2009 the rate at which your company could claim capital allowances (CAs) changed from being based on price to being linked to CO2 emissions, (CAs are the tax deduction that the Taxman gives you instead of depreciation). For cars with CO2 emissions over 160g/km, you can claim CAs equal to just 10% of the cost of the car each year on reducing balance. But for those producing less CO2, you will get CAs at the rate of 20%. Even if you sell the car after a few years, the tax relief just trickles along at these same rates.

Go for low

The obvious choice is to go for cars which have emissions below 160g/km. After five years you will have received tax relief on 61% of the cost, compared to just 34% for cars with higher CO2 emissions. And this differential is about to increase because of the changes announced in the recent budget. This means that the rate at which you will be able to claim CAs will be even lower from 2012. This was the final straw, and so we decided to take a closer look at the tax breaks for company cars.

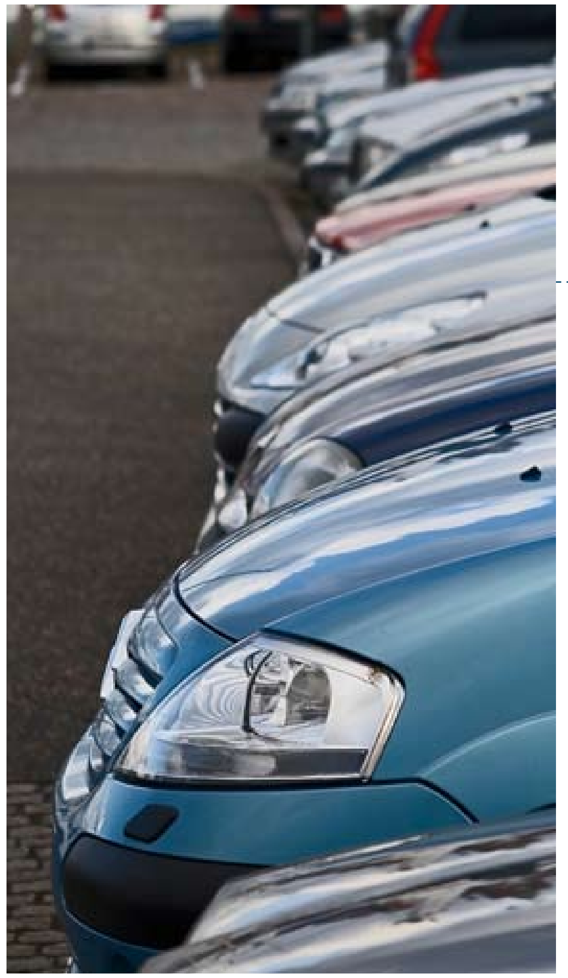
Go for ultra low

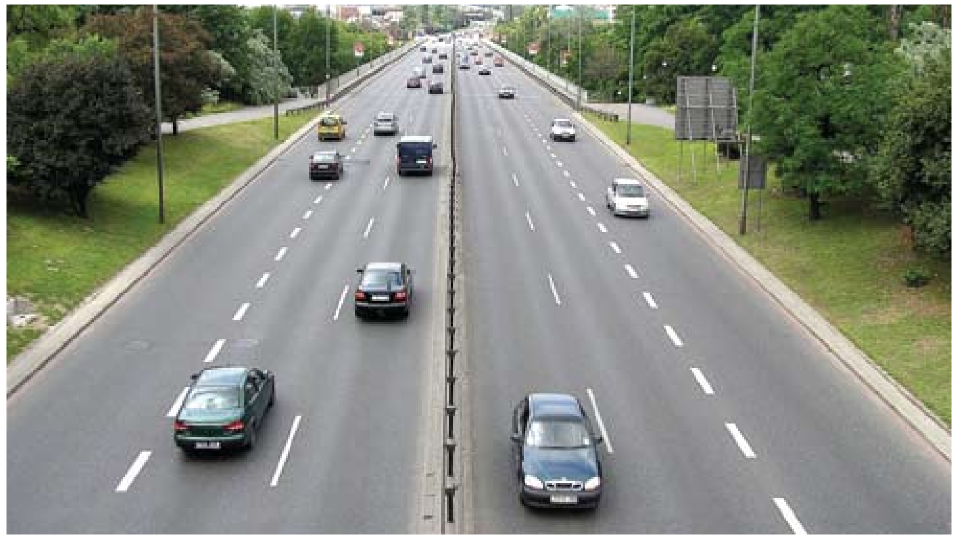
There is a new very low emissions limit of 110g/km. Where your company buys a car which has emissions at this level or lower, you can claim 100% of the cost against tax for the year of purchase.

We know what you are saying, neither you nor your employees want to be tooling around the countryside in a Smart car just to get a tax break. Well how about an Audi A3, a BMW 320d or a Honda Civic to name just a few of the more upmarket cars that fall in the sub-111g/km bracket. There are several websites where you can check out what is on offer.

More savings

It is not just CAs where tax can be saved. The benefit-in-kind for those driving the car decreases in line with the CO2 emissions. And for the same reason so will the NI your company has to pay. Even if you do not fancy one of the very low CO2 emission cars for yourself, it is now time to rethink what you offer your staff; it could save your company thousands.





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EMAILS

If anyone would prefer to receive our newsletter by email then please let us know so that we can update our records.

FINLAYSONS
CHARTERED ACCOUNTANTS

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.

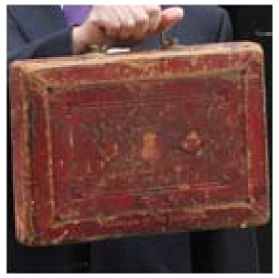
Design and Print by Farquhar and Son Ltd., Perth Tel: 01738 624173

ACCOUNTABILITY

THE NEWSLETTER OF FINLAYSONS CHARTERED ACCOUNTANTS
SUMMER 2010

FINLAYSONS
CHARTERED ACCOUNTANTS

ANOTHER BUDGET



Whereas there was relatively little of importance in the Spring Budget, at least for individual taxpayers and the small business sector, many significant announcements were made by the new Chancellor in his first Budget Statement and in the accompanying documentation issued by HM Treasury and HM Revenue & Customs.

Income Tax Personal Allowance

The income tax personal allowance (for those aged under 65) will remain £6,475 for this year, but will be increased to £7,475 for 2011/12. For most people, this will create a tax saving of £200. However, it will be clawed back from higher-rate taxpayers, by reducing the income point at which higher rate tax becomes payable. The higher rate threshold for 2011/12 has not yet been set because it depends, in part, on inflation for the year to September 2010.

National Insurance Contributions

As announced by the previous Labour Government, the contribution rates payable by employees, employers and self-employed people will all increase by one percentage point for 2011/12 – thus the main rates will be 12% for employees, 13.8% for employers and 9% for self-employed people.

To compensate employers, the salary point at which they begin to pay employer's National Insurance contributions will rise by £21 a week (in addition to the inflation-linked annual uprating, which is yet to be announced). Very broadly speaking, this means that employer's National Insurance contributions will fall where the employee earns less than £400 a week and increase where he or she earns more.

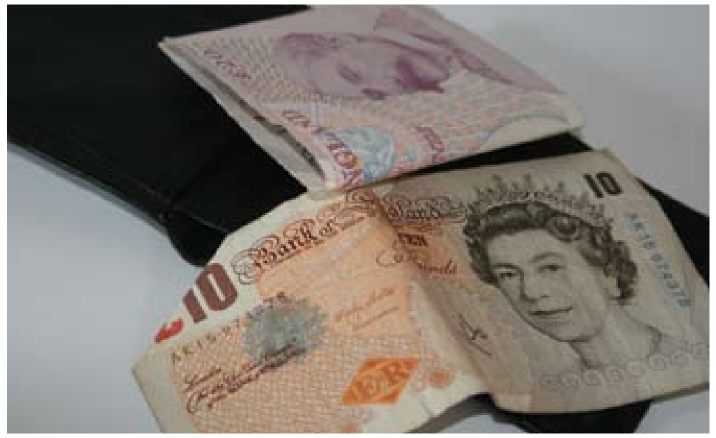
Employees will continue to pay contributions from the existing Earnings Threshold (currently £110 a week), plus an indexation allowance, so for 2011/12 there will be a lower starting point for employees' than for employer's contributions.

Individual Savings Accounts

ISAs will continue to be available and the new Government has confirmed that it intends to index-link the subscription limit annually.

Requirement to buy pension annuity abolished

The requirement to use most of a pension fund to buy an annuity will be abolished for those whose 75th birthday falls on or after 22 June 2010. However, the details of what requirements, as to income drawdown, *etc*, will replace it have not yet been finalised. As an interim measure, those reaching 75 will be allowed to take an immediate tax free lump sum, make income withdrawals, and defer a final decision for up to two years.



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Capital Gains Tax

Drastic changes were predicted, including taxing capital gains at income tax rates and decimating the annual exemption. In the event, the annual exemption remains £10,100 for 2010/11 and the Government has promised to index-link it annually in future.

Otherwise, gains made on or after 23 June 2010 (the day after Budget Day) will be taxed as if they were the top slice of income, but at a basic rate of 18% and a higher rate of 28%. For example, suppose for 2010/11 an individual's total income is £15,000 below the higher rate threshold. In September 2010 he sells a buy-to-let property and makes a gain of £40,000. If there are no other disposals in the year, £10,100 will be covered by his annual exemption, £15,000 will be taxed at the 18% 'basic rate' and the remaining £14,900 at 28%. Accordingly, his total tax bill will be £6,872 and the Budget will have cost him £1,490 (10% of £14,900).

Entrepreneurs' Relief will continue to be available and, for disposals on or after 23 June 2010 the lifetime allowance has been increased from £2 million to £5 million. As before, Entrepreneur's Relief will reduce the rate of tax charged to 10%.

Shuffling losses and exemptions

To accommodate the different rates Mr Osbourne granted taxpayers one tax-break. You will be able to choose whether to set your annual CGT exemption against gains that you made before or after Budget day. The same rule applies for losses.

The choice is not difficult; if you have gains arising after June 22 which will be taxed at 28%, then set your exemption and losses there first. Then use any left over against the pre June 23 gains.

Using resources

We would not usually be so blunt as to refer to your spouse as a "resource", but when it comes to CGT they can be a very useful one. HM Revenue & Customs allows you to transfer assets to your spouse without any effect for CGT purposes. Effectively, they take over the same cost of the asset as you; it is slightly more fiddly than that but that is the net result. It means that if they sell the asset instead of you, they will end up with the same capital gain as you but not necessarily the same tax bill.

If your spouse has an unused annual CGT exemption while you do not; or will be liable at 18% CGT while you will pay at 28%, then transfer the assets to him or her to sell.

Up to 50% tax relief

What if you, or your spouse's, income takes you into the higher tax bracket, is there a way to save CGT?

Paying a personal pension premium will reduce your taxable income pound for pound and so can take you, or your spouse, out of the higher rate tax bracket. That means not only will you get tax relief of 40% on some of your pension premium, you will also be saving CGT at 10%.

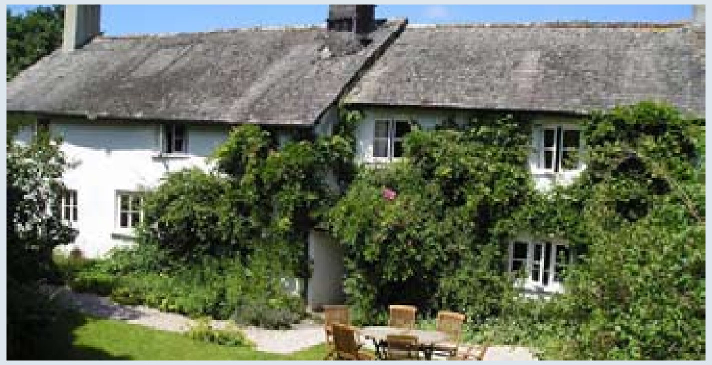
Furnished Holiday Lettings

There will be no change to the existing tax rules for Furnished Holiday Lettings this year. However, two changes are being considered for implementation from April 2011.

First, one of the current rules is that, to qualify as holiday accommodation, the property must be available for letting to the general public for at least 140 days a year and actually let for at least 70 days. The potential change is that the specified number of days may be increased. The rationale is that European Community law requires the same tax rules to apply whether the property is situated in the UK or elsewhere in the EC. However, the Government would rather not apply the generally beneficial Furnished Holiday Lettings rules to properties abroad. The holiday letting season is generally longer in the UK than elsewhere in Europe, so increasing the specified number of days – it is said – would have the effect of excluding many overseas properties while not affecting most UK properties. However, increasing the number of days the property must be let to the general public could affect those with hard-to-let properties, or properties which are used by 'family and friends' for more than a few weeks a year.

Second, Furnished Holiday Letting losses (including losses created by interest payments) may currently be set against other income (such as income from employment, or an unrelated business). It is likely that, from 2011/12, losses will have to be carried forward, to be used against future Furnished Holiday Letting profits, although set-off against other income from property may still be allowed.

A final point to remember is that Furnished Holiday Lettings currently qualify for the capital gains tax Entrepreneurs' Relief and there has been no indication that the Government intends to change this rule.



Inheritance Tax

Perhaps surprisingly, the new Government has confirmed that the Inheritance Tax nil rate band will remain frozen at £325,000, at least until April 2015. This is apparently because the Coalition Agreement states that the nil rate band must be frozen until the income tax personal allowance is increased to £10,000

.Capital Allowances

The Annual Investment Allowance – the 100% write-off for most purchases of machinery and commercial vehicles – has become something of a political football. In April, the annual ceiling on qualifying purchases was doubled, from £50,000 to £100,000. But in the June Budget the new Chancellor announced that from April 2012 it will be reduced to £25,000. However, the Government estimates that the reduced allowance will still cover the annual purchases of 95% of businesses.

One complicating factor is that, where the trader's accounting year is other than the year to 5 April (or 31 March for companies) the allowance was apportioned when it was increased, and it is thought that it will similarly be apportioned when it is reduced. For example, suppose a company makes up its accounts to 30 September annually. On present information, its Annual Investment Allowance ceiling will be:

Year to 30 September 2009		**£ 50,000**
Year to 30 September 2010	6/12 × £50,000	£ 25,000
	6/12 × £100,000	£ 50,000
		£ 75,000
(However, of that £75,000, only £50,000 – expenditure up to the old ceiling – could be incurred before April 2010)		
Year to 30 September 2011		**£ 100,000**
Year to 30 September 2012	6/12 × £100,000	£ 50,000
	6/12 × £25,000	£ 12,500
		£ 62,500
Year to 30 September 2013		**£ 25,000**

There is accordingly a window of opportunity to make major purchases before the Annual Investment Allowance is reduced.

The calculations for an unincorporated business are similar, but complicated by the need to adjust for the odd five days (1 to 5 April each year). Please let us know if you would like us to confirm the maximum allowances for your own accounting periods!

Also from April 2012, the rate of annual writing-down allowances (for expenditure not written off at once by the Annual Investment Allowance) will reduce from 20% to 18%, and from 10% to 8% for 'special rate' items. This will be especially significant for purchasers of motor cars which, generally speaking, do not qualify for the Annual Investment Allowance and which, if their carbon dioxide emissions rating exceeds 160g/km, count as 'special rate' items.

Value Added Tax

The headline Budget news, though far from unexpected, is that the standard rate of VAT will rise to 20%, with effect from Tuesday, 4 January 2011 (Monday, 1 January being the New Year Bank Holiday). Given that most of their customers will be budgeting with static or falling incomes for at least the next two years, it remains to be seen how much of this increase retail businesses will be able to pass on in higher prices.

For traders using the Flat Rate Scheme for Small Businesses, there will be consequential increases in the flat rate percentages which apply under the scheme. If your current flat rate (disregarding the 1% reduction allowed in the first year of VAT registration, if applicable) is 6% or less, it will increase by half a percentage point; if it is between 6.5% and 10% it will increase by a full percentage point; and if it is 10.5% or more, it will increase by one and a half percentage points.

Looking at the expenditure side, traders should consider making purchases before the VAT rise if any of the following apply:

- They are not registered for VAT and so will not be able to reclaim the VAT paid as input tax.
- They make substantial exempt supplies and so are not able to reclaim all the VAT they pay.
- They wish to buy a motor car, the VAT on which is not reclaimable.

A point to watch is that, depending on circumstances, VAT is often payable on the purchase of commercial premises, or on the rent payable under a lease or licence to occupy such premises. Here the additional VAT (if not reclaimable as input tax) may represent a significant additional cost. Generally speaking, a commercial lease will allow the landlord to increase the rent by any additional VAT payable, but it is worth checking the position with your solicitor if you are in any doubt. And, of course, if property in the immediate vicinity is currently difficult to let, the landlord may be willing to negotiate a lower headline rent.

Child Trust Funds

For babies born on or after 1 August 2010, the Government's contribution to his or her Child Trust Fund will fall from £250 to £50. However, it will still be worthwhile to make sure that the CTF account is opened. This is because it acts as a 'Children's ISA' – interest credited to the account is tax free until the child's eighteenth birthday. And parents, grandparents and anyone else may add money to the account, to a total of £1,200 a year. If the parents saved for the child in an ordinary bank or building society account, the interest would be taxable as their income.

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