

## PROFESSIONAL FEE PROTECTION SCHEME

As you are no doubt aware, we offer a tax investigation service for our clients through Professional Fee Protection Ltd, one of the largest insurers in this line of business who are authorised and regulated by the Financial Services Authority. PFP pioneered fee protection in the UK and have developed an outstanding reputation for providing the most comprehensive cover in the market place which is designed specifically for the needs of our clients. Their Premier Plus Scheme provides cover for all professional fees incurred in dealing with:

- Income Tax Self Assessment Full Enquiries
- Income Tax Self Assessment Aspect Enquiries
- Corporation Tax Self Assessment Full Enquiries
- Corporation Tax Self Assessment Aspect Enquiries
- Compliance Visit Cover – up to £1,000 per claim
- PAYE and NIC and IR35 Disputes
- Judicial Review – up to £5,000 per claim
- VAT Disputes
- Pre Dispute Cover – up to £1,000 per claim
- Specialist Investigations (Code of Practice) – up to £5,000 per claim
- Schedule 36 Para 12(2) Business Inspection Notices (Interventions)

There are no excesses and cover is for all professional fees up to £100,000 in any one claim unless stated otherwise.

In addition, the service includes the use of an unlimited 24 hour legal helpline service at no extra cost. You can call regarding any commercial problem, including legal contract matters, landlord and tenant or property queries and employment and health and safety matters plus much more.

The service runs from 1st July 2010 to 30th June 2011 and the annual cost, inclusive of VAT @ 17.5% is as follows:

**Limited Companies - £141**

**Partnerships - £129.25**

**Trusts - £105.75**

**Sole Traders - £105.75**

**Private Individuals - £58.75**

For clients joining the scheme now, the annual cost will be on a pro rata basis. Act now to beat the VAT increase to 20%!

Tax enquiries are on the increase and the tax authorities are becoming increasingly aggressive in their methods. Unfortunately it seems likely that these trends will continue into the foreseeable future and in view

## EMAILS

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

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of the new penalty regime which commenced in April, HM Revenue & Customs are targeting more of their resources to investigations.

We strongly recommend that you subscribe to this service if you have not already done so, as without it you will be responsible for all of our professional fees incurred in defending you against HM Revenue & Customs enquiries.

## PARKING AT ALBERT PLACE

Clients may have noticed the appearance and subsequent disappearance of parking warning signs at the entrance to our car park. These were placed there, in conjunction with a neighbouring landlord, with the specific intention of deterring “fly parkers” who were abusing the free parking available at our offices. Unfortunately local politics resulted in the temporarily enforced removal of the signs. The results from having the signs in the car park were quite noticeable in that fewer “strange” cars were seen parking at our offices thus leaving more space for clients. We do intend replacing the signs with a slightly different wording to satisfy local planning rules but clients should be assured that any restriction indicated by the signs does not apply to them and they may continue to enjoy parking outside our offices free of charge when calling on business.



**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.

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# ACCOUNTABILITY

THE NEWSLETTER OF FINLAYSONS CHARTERED ACCOUNTANTS  
WINTER 2010/11



## CHRISTMAS CLOSING

Both offices will be closed all day on 27th and 28th December and 3rd and 4th January 2011.

May we take this opportunity to wish everyone a very happy Christmas and a prosperous 2011.



## WE WON'T KNOW IF YOU DON'T TELL US!

The first and most important message we have for all clients is that it is vitally important for you to send us a copy of any letter or form you receive from HMRC – unless it is something you routinely deal with yourself. This is because, as part of their economy drive, HMRC are no longer sending copies of important documents to accountants and other tax advisers. It also follows, of course, that if you telephone us as soon as you receive a letter or form, we won't have seen it and it may be difficult for us to be very helpful. It really would be better for you to send us a photocopy of whatever HMRC has sent you, and we will then contact you as soon as possible.

## TAX AND OTHER CHANGES

This year, there was no Pre-Budget Statement – the new Government appears to have abandoned Mr Brown's policy of two Budgets a year – but there was an announcement about tax relief for pension contributions, which we explain on the second page of this newsletter. Proposals for simplifying small business taxation and for the future of the 'IR35 legislation' have been promised for the Spring 2011 Budget. However it is unlikely that any major changes will come into force before April 2012.

One proposal that has been finalised is to increase the State Pension Age. At present, men become entitled to a National Insurance Retirement Pension at age 65. For women, the qualifying age was traditionally 60, but since April this year has been rising by one month for every two months (odd days always rounded up) that their birth date fell after 5 April 1950. Mathematically, this means that State Pension age for women would rise to 65 by April 2020.

However, the Government has now decided that, by April 2020, the State Pension age for both men and women should rise to 66. This will be done, for women, by accelerating the rate at which Pension Age increases from April 2016, so that it reaches 65 by November 2018 and 66 by April 2020. For men, the one-year increase will be phased-in between December 2018 and April 2020. These changes will affect women born on or after 6 April 1953 and men born on or after 6 December 1953.

Nor is that the end of the bad news, as the Government is now developing plans to raise the State Pension age, for both men and women, to 68.



## IN THIS ISSUE

**CHRISTMAS CLOSING**

**WE WON'T KNOW IF YOU DON'T TELL US!**

**TAX AND OTHER CHANGES**

**PENSION CONTRIBUTIONS**

**FOR PARENTS AND GRANDPARENTS**

- National Insurance credits for family carers

- Savings plans for children and grandchildren

**CLASS 2 NATIONAL INSURANCE CONTRIBUTIONS**

**PROFESSIONAL FEE PROTECTION SCHEME**

**PARKING AT ALBERT PLACE**







## PENSION CONTRIBUTIONS

Before the General Election, the former Labour Government had made plans to withdraw higher rate tax relief from pension contributions made by people earning more than £150,000 a year. The new Government has abandoned those plans and decided instead to cap tax-allowable pension contributions at £50,000 a year.

At first sight, one might think that £50,000 is a lot of money and so very few people indeed are likely to be affected by the new cap. However, the 'cap' will apply to the total of contributions paid by the individual himself and by the employer on his behalf, so that an employer's contribution in excess of the 'cap' will create a benefit-in-kind charge on the employee. This will, for example, affect a private company's ability to make large contributions towards the end of a shareholder-director's working life, and so make it more important to think about pension provision long before retirement.

There is also a trap for members of 'final salary' pension schemes. Here, the £50,000 cap will be applied to a 'notional contribution' equal to 16 times the amount by which the prospective pension has increased. For example, Albert is entitled to a pension, equal to one-sixtieth of his final salary for every year he has worked. After working for the company for 30 years, he is promoted and his annual salary rises from £40,000 to £50,000. His notional pension contribution for that year will be:

<b>Prospective pension at end of year</b>	$31/60 \times £50,000$	<b>£25,833</b>
<b>– at beginning of year</b>	$30/60 \times £40,000$	<b>£20,000</b>
<b>Increase in prospective pension</b>		<b>£5,833</b>
<b>Notional pension contribution</b>	$16 \times £5,833$	<b>£93,328</b>
<b>Annual allowance</b>		<b>£50,000</b>
<b>Tax payable on</b>		<b>£43,328</b>
	<b>Tax at 40%</b>	<b>£17,331</b>

In practice, Albert may be helped by the fact that if his notional pension contribution in any of the three immediately preceding years was less than £50,000, the balance may be carried forward. Also, the Government is developing proposals to allow all but the first slice of the tax – a figure

of between £2,000 and £6,000 has been mooted – to be paid by way of a deduction from the pension fund, rather than as a cash payment.

Finally, one abstruse technical point may be very important in practice. It has been widely reported that the £50,000 cap takes effect for the tax year 2011/12, so that individuals have until 5 April 2011 to make additional pension contributions. In fact, the cap applies for the pension scheme's accounting year which ends in 2011/12 – and that year will, in many cases, already have begun.

More generally, the rules governing the tax treatment of pension contributions are complex in the extreme, and so we would advise taking expert professional advice before making significant decisions

## FOR PARENTS AND GRANDPARENTS

In October, the Chancellor of the Exchequer announced that, from January 2013, Child Benefit will no longer be paid to 'families with a higher-rate taxpayer'. At present, higher rate tax becomes payable when income exceeds £43,875, but this figure will be lower by 2013. That is because the Government intends to increase the income tax personal allowance each year, but to claw back the tax saving from higher earners by reducing the point at which higher rate tax becomes payable.

The 'higher-rate taxpayer' test means that a couple who are both working could each earn (say) £35,000 and keep their Child Benefit, while a couple where one earns £45,000 and the other is a full-time parent would lose it.

There has been no mention of any kind of marginal relief for those whose income marginally exceeds the higher rate threshold – at present, it seems that if £1 of income is chargeable at the higher rate, all entitlement to Child Benefit will be lost, which for a large family could amount to thousands of pounds a year.

The good news is that the Chancellor confirmed that there will be no other changes to Child Benefit – there had been speculation that it would be withdrawn from 17- and 18-year-olds.



## National Insurance credits for family carers

On a brighter note, the Government has also proposed that, from 6 April 2011, grandparents and other relatives who look after children under 12 years old while their parents are working should be entitled to National Insurance credits, to protect their entitlement to a State Retirement Pension and other benefits. Final details of exactly who will qualify are still awaited.



## Savings plans for children and grandchildren

One of the Coalition Government's first announcements was that it will not be issuing Child Trust Fund vouchers for children born on or after 1 January 2011.

Even though the voucher for a child born between August and December 2010 is only £50, it is well worth opening the Child Trust Fund account 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.

The Government has also said that it will be introducing a new 'Junior ISA' for babies born on or after 1 January 2011. No Government contribution will be made to a 'Junior ISA', but savings will be tax-free, as in a regular ISA. All money invested in such an account will become the child's own property but will not be available for withdrawal until his or her eighteenth birthday. However, the 'Junior ISA' will not be launched until Autumn 2011 and there is as yet no indication of the maximum permissible investment.

One possibility for people wishing to make gifts to a child before then is the Children's Bonus Bond offered by National Savings. This offers an annual interest rate of 2.5% (providing the bond is held for five years), completely tax free – even if the gift is from the child's own parents. The minimum investment is £25 and the maximum (per child) £3,000.

## CLASS 2 NATIONAL INSURANCE CONTRIBUTIONS

Self-employed people need to be aware of two forthcoming changes to the arrangements for administering and collecting Class 2 National Insurance contributions (the weekly contribution, currently £2.40).

Paying Class 2 contributions Until now HMRC has issued quarterly bills for Class 2 contributions (in January, April, July and October), or alternatively payment could be made by monthly direct debit. However, from April 2011, the arrangements will be:

For people not paying by direct debit, bills will be issued half-yearly rather than quarterly. The final quarterly bill, issued in April 2011, will cover contributions for the last three months of the 2010/11 tax year. The first half-yearly bill, issued in October 2011, will cover the first 26 weeks of 2011/12 and be payable by 31 January 2012. The second, issued in April 2012, will cover the final 26 weeks of 2011/12 and be payable by 31 July 2012 – and so on in future years. This timetable has been designed firstly, to align Class 2 payment dates with those for self-assessed income tax and secondly, to maintain the existing practice of always billing Class 2 contributions in arrears.

Existing arrangements for people paying by monthly direct debit will not be disturbed, except that, after the final payment for 2010/11 is taken on 15 April 2011, there will be a three month 'payment holiday' until the first payment for 2011/12 is taken in August 2011. Thereafter contributions will be taken monthly (with the last direct debit for 2011/12 not being taken until July 2012). This timetable ensures that the last payment for (say) 2011/12 is made in July 2012, whether the individual chooses to pay by half-yearly bill or monthly direct debit.

There will also be a new option to pay contributions half-yearly (on 31 January and 31 July, as above), but by direct debit.

Part-time earnings and 'hobby businesses' The second change affects those with very small earnings from self-employment (typically from a part-time business or 'paying hobby'). For many years there was a concession under which Class 2 contributions were not charged if the taxable profit did not exceed £1,300 a year. However, for 2010/11 and future years, Class 2 contributions are chargeable unless the individual formally applies for 'Small Earnings Exception', which is available where earnings are less than £5,075 a year. Applications (which may currently have retrospective effect to the beginning of 2010/11, and possibly for longer) are made on HMRC Form CF10 Self-employed people with small earnings.