

Newsletter

Changes to the personal income tax allowance

With the start of the 2010/11 tax year, individuals lost the automatic right to receive the basic personal allowance. Instead, the allowance will be gradually reduced for those with adjusted net income (ANI) above the income limit of £100,000 until it is completely eroded.

Please note that the new Government is set to introduce further changes to the personal income tax allowance – see page two for further details.

To calculate ANI, first an individual's net income is adjusted to take into account specified deductions (such as trading losses and payments made gross to pension schemes). This net figure is then reduced by the grossed-up amount of Gift Aid contributions and pension contributions which have received tax relief at source. Finally, any relief for payments to trade unions or police organisations that had been deducted in calculating net income is added back in.

Reducing the personal allowance

The reduction in the personal allowance is made at the rate of £1 for every £2 by which ANI exceeds £100,000. With a basic personal allowance of £6,475 for 2010/11, this means that anyone with ANI of more than £112,950 will not be entitled to any of the basic allowance.

The withdrawal of the allowance means that some individuals earning between £100,001 and £112,950 will effectively be paying a very high marginal rate of 60% tax on the earnings between those sums.

Where HM Revenue & Customs (HMRC) expects a person's ANI in 2010/11 to be more than £100,000, it will adjust the tax code accordingly. An individual's actual personal allowance for the year will be established once the 2010/11 self-assessment Tax Return has been submitted.

To preserve entitlement to the full basic personal allowance, ANI must be below £100,000 in the tax

year in question. There are various steps that can be taken to reduce ANI including:

Pension contributions

As long as income does not exceed £130,000, pension contributions can be made without limit and without being subject to the special annual allowance charge, which applies to certain contributions in excess of this amount, made prior to 6 April 2011.

This opportunity is particularly beneficial as the contributions attract higher rate relief. Where income exceeds £130,000, complex rules apply but broadly contributions can typically be made to the higher of normal regular contributions or £20,000, before the special annual allowance charge bites.

Gifts to charity

ANI can also be reduced by increasing payments made to charity under the Gift Aid scheme. Arguably, a taxpayer may prefer income to go to a charity rather than HMRC.

Restricting income

In a family company situation, where one family member or spouse is paid considerably more than the other, it may be possible to change the split to preserve personal allowances. Care must be taken to ensure that you comply with the necessary legalities.

If you run your business through your own company, you might opt to keep your income below £100,000 by reducing salary and dividends and keeping surplus cash in the company. This may allow personal income to be spread into a less profitable year, or, if you are nearing your exit, enable income to be taken as capital on sale or liquidation.



Please contact us for advice that is tailored to your specific needs.



Summer
2010

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The Second Budget and your business

The 2010 pre-election Budget announced some significant measures affecting business and personal taxation. The ensuing General Election has since resulted in proposals by the new coalition Government to introduce a number of further changes.

2010 pre-election Budget

Some of the key measures announced in the 2010 Budget by the previous Chancellor, Alistair Darling, included:

- A temporary increase in small business rate relief from October 2010
- A doubling of the Annual Investment Allowance and Entrepreneurs' Relief
- A new 50% top rate of income tax for individuals with annual incomes in excess of £150,000
- The scaling back of the basic income tax personal allowance for higher earners
- Temporary relief from stamp duty land tax for first time buyers for properties costing less than £250,000
- An increase in the ISA limit to £10,200 for all adult savers
- A freezing of the inheritance tax (IHT) threshold at £325,000 until 2014/15.

The 2010 Budget also confirmed plans to introduce a new 'broadband tax', plans to withdraw the special tax treatment of furnished holiday lettings, and the introduction of a 10% rise in duty on cider. However, these three controversial measures were scrapped in the lead-up to the General Election.

The Election and the Second Budget

As part of the coalition agreement between the Conservatives and the Liberal Democrats, a number of proposed measures affecting business and personal taxation have been outlined. These include:

The deficit reduction

The new Government plans to introduce £6 billion of cuts to non-front line services for the financial year 2010/11, as part of a bid to reduce the structural deficit.

National insurance contributions (NICs)

The new Government plans to scrap part of the previously announced increase in NICs.

Income tax and personal allowances

The coalition will seek to increase the income tax threshold for lower and middle income earners, and in the first Budget is set to announce a substantial increase in the personal allowance from April 2011. This will be funded with the money that would have been used to pay for the increase in employee national insurance thresholds proposed by the Conservatives, together with revenues raised from taxing non-business capital gains at rates similar to those applied to income. In the long-term, the Government aims to increase the personal allowance to £10,000.

Pensions and the retirement age

The Government plans to restore the earnings link from April 2011, with pensions being raised by the higher of earnings, prices, or 2.5%. It will also seek to establish an independent commission to review the long-term affordability of public sector pensions. The default retirement age is set to be phased out.

Loan guarantees for SMEs

The Government will seek ways of ensuring the flow of credit to small and medium-sized businesses, including considering a major loan guarantee scheme, and imposing net lending targets for banks.

Other plans include replacing Air Passenger Duty with a per-flight duty, introducing transferable tax allowances for married couples, reducing the Child Trust Fund and reducing tax credits for higher earners. Plans to increase the IHT threshold look set to be put on hold.

The incoming Chancellor George Osborne has committed to delivering an emergency Budget on 22 June.

Succession planning – your questions answered

Less than half of private family businesses are thought to have a succession plan in place, yet preparing for the owner's eventual exit demands careful consideration. Furthermore, early planning and informed decisions could help to secure the future success of the company – and its owner.

Here is a selection of the questions that we are commonly asked on this topic. For advice tailored to your individual circumstances, please contact us.

Q) I'm not ready to exit the business, so why do I need a succession plan?

A) Early planning is paramount when preparing for your eventual withdrawal from a business. Sufficient forethought will help to ensure that a current owner has enough time to identify and groom a competent successor, and that the transitional period is as smooth as possible – last minute or rushed decisions could jeopardise the future of the business. Knowing exactly how, when and to whom ownership will be transferred could also help to avoid or reduce any tax on the change of ownership.

Q) Which options are available to me?

A) This really depends on the type of business and your individual circumstances. You may decide that you want to transfer ownership to a family member or bring them into the management team. However, if this is not a suitable option, you might consider coaching a non-family team member who understands the business and has the skills required to take the company forward. Alternatively, you may want to dispose of the business through a sale, management buy-out, management buy-in or voluntary liquidation. To discuss which option may suit you and your business, please contact us.

Q) What should I look for in a potential successor?

A) When selecting a potential successor (if applicable) you will need to remain objective and consider the needs of the business. Does the candidate have the skills, experience, commitment and leadership ability to take the business forward? Once you have made your decision you will also need to consider what form the mentoring and training will take. Taking a step back and allowing your successor to make some important decisions ahead of time will enable you to test their readiness.

Q) What should I do next?

A) Once you have decided on the course of action for your withdrawal from the business you should formalise the plan. This can be a useful way of exposing weaknesses, which can then be addressed. You should also draw up a timetable of necessary actions, as a succession plan may take several years to implement. Remember, your plans for succession need to be communicated effectively to other members of staff as well as customers and suppliers.

Relinquishing ownership of your business requires careful planning and it is important to seek expert advice throughout. We can help you plan for this eventuality, whilst minimising your tax liability and maximising your personal wealth. Please contact us for more information.

Time to get equal: encouraging diversity in the workplace

The issue of diversity in the workplace is increasingly featuring in the headlines. With the main provisions of the Equality Act set to come into force later this year, followed by further equality legislation in 2011, there is increasing pressure on business owners to address the issue of diversity.

The legal position

The Equality Bill was published in April 2009, with the aim of strengthening and streamlining existing equality law by means of a single Act. The Equality Act received Royal Assent in April 2010 and some of the key measures affecting employers are outlined below.

Single equality duty for employers – The Act extends existing anti-discrimination legislation, to apply to the ‘protected characteristics’ of race; gender; disability; sexual orientation; age; religion or belief; pregnancy and maternity; and gender reassignment.

Positive action in recruitment and promotion – New measures are set to allow employers to select an individual from an under-represented group, when choosing between equally suitable candidates. However, positive discrimination (based on under-representation alone, regardless of merit) will remain unlawful.

Gender pay reports – The Government will from 2013 have the power to request gender pay reports from employers with 250 or more employees, if sufficient progress on reporting has not been made in the meantime.

Employment tribunals – Employment tribunals may make recommendations in discrimination cases that benefit the whole workforce, rather than only the individual concerned. This widens the scope of tribunals, as in many cases the claimant has already left the organisation.

Other measures – The practice of banning employees from discussing their pay will be outlawed, as will questioning job candidates about any medical conditions, where these have no bearing on the individual’s ability to perform the job. Firms bidding for Government contracts will also be required to publish details of their diversity policies.

Benefits for your business

Aside from the legal obligations, the business benefits of taking a positive approach to diversity can be significant. Offering the same rights and equal opportunities to all employees, regardless of their particular background, issues or social group, will help you to attract a broad base of candidates with a range of skills, experience and expertise. This can be of particular value to smaller businesses.

For some ideas on how to achieve a culture of diversity in your workplace, consider the suggestions on the right.

Building a culture of diversity

Recruitment and selection

- Advertise positions in a range of different media
- Supply application forms in a variety of formats (eg large print)
- Avoid potentially discriminatory wording (eg energetic/mature worker)
- Actively welcome applications from minority groups
- Offer special arrangements for applicants with disabilities
- Only request personal details that are essential, such as contact information
- Avoid questions that you would not ask of any candidate (eg asking a woman about childcare arrangements)

KEY TIP: *Recruitment and selection processes should be objective and consistent, and decisions based on the candidate’s skills and experience as relevant to the position.*

Employment and progression

- Give all employees access to training
- Make sure that pay and bonus schemes are transparent and justifiable
- Provide a working environment that is safe, comfortable and accessible for all
- Make reasonable adjustments to your premises and facilities as necessary
- Consider offering flexible working options (eg home working, or compressed hours)
- Offer staff training in equality and diversity issues
- Have a written procedure to deal with complaints of bullying or harassment
- Base any redundancy decisions on the specific needs of the business

KEY TIP: *Staff development and remuneration policies should be fair and equal, with benefits and opportunities available to all staff.*

This article is intended for general guidance only. If you are unsure of your legal obligations, you should seek professional advice.





Business Round-Up

Changes to the National Minimum Wage

The Government has confirmed a number of changes to the National Minimum Wage (NMW), which will take effect in October 2010.

NMW rates to rise

On 1 October the main adult rate of the NMW, which currently applies to those aged 22 and over, will rise by 2.2%, taking it from £5.80 to £5.93 an hour. In addition, as previously announced, the main adult rate will be extended to include 21 year old workers. The other NMW rates are also set to increase, as set out in the table below.

New rate for apprentices

Apprentices will become entitled to a minimum wage rate for the first time in October, following the Government's acceptance of recommendations from the Low Pay Commission. The new wage will apply to apprentices who are under the age of 19, or those aged 19 and over who are in the first year of their apprenticeship.

National Minimum Wage rates

	22 and over*	18-21*	16 and 17	Apprentices
From 1 October 2009	£5.80	£4.83	£3.57	n/a
From 1 October 2010	£5.93	£4.92	£3.64	£2.50

*Main rate applies to those aged 21 and over from 1 October 2010.

NMW enforcement team

Earlier this year, HMRC created a new enforcement team, with the principal aim of cracking down on employers who are failing to pay their employees at the correct NMW rates. The Dynamic Response Team is concentrating on the most complex and high profile cases, particularly those where employers are using migrant workers and paying them below the minimum wage.

VAT payments made by cheque

From 1 April 2010 all cheque payments made by post are treated as being received by HMRC on the date when cleared funds reach HMRC's bank account – not the date that the Revenue actually receives the cheque.

This means that you must allow enough time for the payment to reach HMRC and clear into HMRC's bank account no later than the due date shown on your VAT Return. Previously the VAT was treated as being paid on the working day the cheque reached the VAT Office.

HMRC is advising that firms allow at least three working days for the cheque payment to reach them and a further three days for the payment to clear HMRC's bank account. Bank working days are Monday to Friday and exclude bank holidays.

If the cheque payment does not clear by the due date shown on your VAT return you may be liable to a surcharge for late payment. Businesses making payments by bank giro will not be affected by the change.

Web Watch

Essential sites for business owners

www.retirementreform.org.uk

Website of the new Centre for Retirement Reform.

www.bl.uk/bipc

Website of the British Library Business & IP Centre, providing a range of information and advice for entrepreneurs, inventors and small businesses.

www.energysavingtrust.org.uk

Offering a wealth of energy-saving tips and strategies.

www.childcarevouchers.net

Information on the childcare voucher scheme, including a handy savings calculator.

Reminders for your Summer Diary

June

30 End of CT61 quarterly period.

Last day for UK businesses to reclaim EC VAT chargeable in 2009.

Annual adjustment for VAT partial exemption calculations (March VAT year end).

July

6 Deadline for submission of Form 42 (transactions in shares and securities).

Deadline for submission of EMI40 (EMI Annual Return).

File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds. Issue copies of P11Ds or P9Ds to employees.

14 Due date for income tax for the CT61 period to 30 June 2010.

19/22 Quarter 1 2010/11 PAYE remittance due.

Final date for payment of 2009/10 Class 1A NICs.

31 Second self assessment payment on account for 2009/10.

Annual adjustment for VAT partial exemption calculations (April VAT year end).

Liability to 2nd £100 penalty arises for 2009 Tax Return still not filed.

5% surcharge on any tax unpaid for 2008/09.

Deadline for tax credit Annual Declaration (if estimated, final figures required by 31 January 2011).

August

2 Quarterly submission date of P46 (Car) for quarter to 5 July.

31 Annual adjustment for VAT partial exemption calculations (May VAT year end).