

JANUARY '11 TAX NEWSLETTER



CHARTERED ACCOUNTANTS

Charwell House

Wilsom Road

Alton

Hampshire

GU34 2PP

www.gardnersteward.co.uk

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember, we are here to help you so please contact us if you need further information on any of the topics covered.

PENSION SCHEME CONTRIBUTIONS – NEW 3 YEAR CARRY FORWARD

Yet more news on the pension scheme tax relief regime from 6 April 2011. It is now apparent that if you do not use all of your new £50,000 annual contribution limit you can carry it forward for a maximum of 3 years. This gives plenty of all-important flexibility, to take into account your particular needs and resources.

Although this new rule does not come in until the start of the next tax year, you can use it to cover the earlier tax years 2008/09, 2009/10 and 2010/11 by carrying forward unused relief in those years to pay up to 3 years' later. We will be pleased to show you how this would work in your specific circumstances, thus ensuring you get tax relief at your top rate on pension contributions.

PENALTIES FOR LATE CIS CONTRACTOR MONTHLY RETURNS

In many cases from October 2011 the new penalties will be less than charged now. That's a refreshing surprise, where in particular for new CIS contractors there will be an upper limit to some of the penalties that are charged. This upper limit will apply when new contractors first send a monthly return, if that return and any other monthly returns that are sent at the same time are late.

Although the new penalties do not start until October 2011, any contractor who has been, or is, charged penalties for late filing of a monthly return before that date may ask HMRC to work out how much the penalties would be under the new rules and, if less than the amount already charged, agree that their penalties should be reduced to the lesser amount. If only they took the same line with all penalties within the tax system!

COMPANY CARS – ADVISORY FUEL RATES

If you have the use of a company car, the chances are that you do not receive any fuel for private use as the separate tax charge is generally well in excess of the real benefit.

You probably therefore pay for all fuel in the company car and then claim reimbursement from your employer of the business use fuel. Published guidelines are issued by HMRC involving advisory fuel rates per business mile. They are reviewed every 6 months, but more frequently at HMRC's consideration if fuel prices fluctuate by 5% from the current rate and that is likely to be sustained.

From 1 December 2010 the rates have been changed to those below, based on petrol at 119p per litre:

engine size	fuel cost per mile		
	petrol	diesel	LPG
to 1,400 cc	13p	12p	9p
1,401 to 2,000 cc	15p	12p	10p
over 2,000 cc	21p	15p	15p

It is frustrating to find that the rate used from 1 December is 119p per litre when in fact just a few days later the price went up to several pence above that level.

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CHANGES TO PAYING CLASS 2 NATIONAL INSURANCE CONTRIBUTIONS

If you are self-employed you will find that from April 2011, payment of your Class 2 National Insurance contributions (NICs) will be due on 31 January and 31 July. This of course is the same as for your income tax bill, and indeed for Class 4 NICs.

If you make payment by internet/telephone banking, CHAPS, Bank Giro, Post Office or post you will receive just two payment requests from HMRC in the year - instead of the current four bills.

If you pay Class 2 NICs via Direct Debit, then to meet the new dates the collection of monthly Direct Debit payments will be delayed by HMRC to bring the payment dates into line. This means that:

- ◆ for the first year only, monthly Direct Debits will stop for a short period and then start again
- ◆ Class 2 contributions due for April 2011 will be requested from your bank in August 2011
- ◆ payments thereafter will be monthly unless you choose to pay 6 monthly from April 2011

A new option to pay by 6 monthly Direct Debit, collected in January and July each year, will be available from April 2011 for those who do not wish to spread their payments.

WOULD YOU LIKE TAX RELIEF ON YOUR MORTGAGE INTEREST?

Of course you would, and it is possible to effectively achieve this within a family if the circumstances fit.

It can work as below:

- ◆ You have, say, a £100,000 mortgage.
- ◆ You sell shares in your family company worth £100,000 to your wife (works the other way around of course, and also between civil partners)
- ◆ Your wife borrows to pay for the shares under a commercial loan.
- ◆ You use the funds to clear your mortgage.
- ◆ Tax relief is then claimable by your wife on the commercial loan as it is used to purchase an interest in a close company provided your wife either (a) owns more than 5% of the issued ordinary share capital, or (b) owns some of the share capital and works for the greater part of her time in the management or conduct of the company.
- ◆ No capital gains tax is due on the share sale as the sale is between spouses.
- ◆ Stamp duty is payable of 0.5% on £100,000 = £500.

Please talk to us to see if this could work for you.

