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Does trading as a company still save tax?

The Chancellor is gradually cranking up the rate of tax on small companies over the next three years. This has important implications for deciding whether to trade as a company or an unincorporated business – sole trader or partnership.

Recently, even the smallest of businesses could have benefited from trading as a limited company, but now the tide has started to turn.

Companies with profits of up to £300,000 a year will see the tax rate on their profits rise by 1% to 20% for the year to 31 March 2008, and then another 1% in each of the following two years. The mainstream rate – currently paid by companies earning over £1.5 million a year – will fall by 2% for the year to 31 March 2009, but that is little consolation for smaller companies.

Trading as a limited company and drawing profits mainly as dividends can still save you money because you will

avoid national insurance contributions. However, at lower profit levels, the benefit may not be worth the cost and inconvenience of setting up and running a company. For example, on profits of £20,000, the saving is now only around £1,300. Future tax changes will erode this advantage even further.

At higher profit levels, incorporation remains generally worthwhile. For example, if your profits are £50,000, trading as a limited company could still save you nearly £4,000 – and more if you leave some of the profits in the company.

Tax is not the only factor in deciding whether to trade through a company. For example, limited liability can be very desirable, although this is also available through a limited liability partnership (LLP).

We would be happy to evaluate and discuss the costs and benefits to you of incorporating or self-employment.



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How the smoking ban will affect your business



The smoking ban, which comes into effect in England from 1 July 2007 – following the rest of the UK – will affect most enclosed workplaces, including vehicles, used by more than one person or to which the public have access.

Businesses will have to put up no smoking signs at every entrance to smoke-free premises, including staff-only entrances and fire exits.

The signs must have the specified wording, be A5 in size and include the international no smoking symbol. Smoke-free vehicles must display a sign in every compartment to which employees or the public have access. Anyone in charge of a workplace must also ensure smoking does not take place by taking whatever reasonable measures are needed. Penalties of up to £2,500 can be imposed on employers who turn a blind eye to smoking. Failure to display a no smoking sign will attract a fixed penalty of £200, and more if the case goes to court.

Employers are allowed to provide smoking shelters, but these are not compulsory. They will need planning permission, which may take some time to obtain in the run-up to

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'Amnesty' for offshore tax dodgers



Anyone who has failed to declare tax liabilities of any type can do so now and suffer a penalty of only 10% of the underpaid tax, but it is essential to act quickly. HM Revenue & Customs (HMRC) has announced a new disclosure facility, dubbed an 'amnesty' in much of the press. Individuals must have come forward by 22 June 2007 and provide full details by 26 November 2007. There is no penalty at all if the income to declare is less than £2,500. Normally, penalties are charged of around 30% of the tax, and up to 60% in the worst cases where HMRC discovers a person has not declared income, although a 100% penalty is possible.

The 'amnesty' is mainly directed at people who have not paid tax on offshore income and HMRC has put a special procedure in place for those in this position to notify and declare that income and any other

liabilities. What has received much less publicity is that taxpayers who do not have undeclared offshore income can disclose other tax liabilities by approaching any tax office. If they have notified by 22 June 2007, they can expect similar terms.

The low penalty is not the only attraction. HMRC has said that most disclosures will be accepted without question and it will allow reasonable estimates where it is impossible to obtain records, such as bank statements. Normally, where HMRC makes a discovery of undeclared offshore income, taxpayers are subjected to a lengthy enquiry into all their tax affairs.

Such enquiries are time-consuming and tend to cost considerable amounts in professional fees. They may also result in taxpayers having to accept higher tax liabilities than necessary because they cannot prove they have declared all their other income, especially if they are self-employed or company directors. HMRC usually works on the principle that if a person has failed to declare one type of income, such as offshore interest, they have probably done the same in other areas.

We hope our clients have long known that placing investments offshore does not avoid UK tax on the income they generate, and have given us full details of all their income, wherever it arises, to record on tax returns. If not, or if you have a friend or relative who needs help in disclosing income under the new disclosure facility, please tell us without delay.

Business rates blow to landlords

If you own an empty business property, from 1 April 2008 you will start to pay full business rates after just three months of the vacancy unless the property is classed as industrial premises or warehousing, in which case the rates-free period will be six months. After this initial three or six-month period, full business rates will apply. Empty properties held by charities will remain exempt from rates.

The Royal Institution of Chartered Surveyors believes that the removal of the relief will cost the commercial property sector more than £1 billion a year. At present, offices and retail premises are eligible for 100% relief for the first three months followed by 50% relief thereafter. Empty industrial premises are given 100% relief indefinitely.

The changes are aimed at increasing the supply of commercial property for rent and to boost the number of brownfield sites for development. The problem, as every property owner knows, is that finding the right tenant can often take much longer than three or six months. As well as having to pay higher rates while the property is empty, owners might then have to accept a lower rent to get the property occupied.

The government is also looking at other aspects of business rates. In particular, business rates may also be extended to land that is derelict or is vacant having previously been developed.

Company car fuel scales overhaul

The basis of the VAT car fuel scale charge has changed. For VAT return periods starting on or after 1 May 2007, businesses must use new scales based on a car's carbon dioxide (CO₂) emissions. Previously, the charge was based on engine size.

Businesses have to account for VAT on the scale charge if they reclaim input tax on fuel used for private motoring by employees or a proprietor. For a three-month return period, the output VAT payable will now range from £27.11 for a car with CO₂ emissions not exceeding 140 grams per kilometre, to £63.45 for emissions of 240 g/km or more.

To avoid employees being liable to income tax on the benefit, many businesses now do not provide fuel for private motoring in company cars. Instead they just reimburse the employee's fuel costs for business journeys. HM Revenue & Customs accepts there is no liability to tax or national insurance where employers pay for business mileage at no more than the advisory rates that it publishes. These are still based on a car's engine size rather than its CO₂ emissions because they are intended to reflect the actual cost of motoring.

The scale was last revised – downwards – from 1 February 2007, although petrol

prices have gone back up since then and a further change may be on the cards.

Advisory Fuel Rates from 1 February 2007			
Engine size	Petrol	Diesel	LPG
1400cc or less	9p	9p	6p
1401cc to 2000cc	11p	9p	7p
Over 2000cc	16p	12p	10p

Capital allowances get Budget boost

Major changes to capital allowances for expenditure on plant and machinery (P&M), buildings and research and development (R&D) have been announced in the Budget, and will take effect in 2008.

The 100% allowance for the first £50,000 of expenditure on P&M

An important change will be the new annual 100% investment allowance for the first £50,000 of expenditure on P&M which will replace first-year capital allowances. The details and scope are subject to consultation, but according to the Budget report, companies, sole traders and partnerships of any size will be able to claim the new allowance for expenditure on most P&M apart from cars.

If you are planning to buy P&M, you may want to wait until April 2008, provided the delay will not harm your business. The allowance will only accelerate tax relief that you would have received anyway. There is no point delaying purchases to reduce your tax next year if your profits suffer because your business lacks the equipment it needs.

For small businesses, a temporary 50% rate of first-year allowance for P&M

expenditure has been extended for another year.

Writing-down allowances

Another big change will be the reduction of the long-standing 25% rate of writing-down allowance to 20%. So if your expenditure on equipment does not qualify for a first-year allowance, it will take ten years, instead of the present eight years, before you get tax relief on nine-tenths of the cost. For businesses that do not spend more than £50,000 a year on equipment, the 20% rate will, in practice, affect only continuing allowances on purchases made before April 2008, and of course cars.

Industrial and agricultural buildings

The other surprise change was that industrial and agricultural buildings allowances will be phased out. The only immediate effect is that allowances will no longer be clawed back if you sell a building on which you have claimed allowances, except for buildings in enterprise zones and contracts entered into before 21 March 2007. If you buy a used industrial building, you will be able to claim the same allowances that the seller would have got if the building had not been sold.



The present 4% allowance will fall to 3% from April 2008, and by a further 1% a year until abolition in April 2011.

R&D tax credit

The R&D tax credit provides enhanced tax relief for revenue expenditure on research and development. From April 2008 the rate of relief for large companies will increase from 125% to 130%. For small and medium-sized enterprises the tax credit will go up from 150% to a generous 175%, though this is subject to approval by the European Commission.

Tax is never the only issue. We can advise you on the impact of capital purchases on your cash flow and profits and look at the options for financing investment to grow your business.

LAW

Thinking ahead about powers of attorney



If you become too ill or muddled to manage your affairs, it is important to have someone who can step in and carry out this vital function. You can make the process much easier if you set up an enduring power of attorney (EPA). This process, however, is about to be replaced. An EPA can help avoid very considerable distress,

worry, inconvenience and expense where a person can no longer make important financial decisions for themselves.

Enduring powers of attorney will be replaced by lasting powers of attorney from 1 October 2007, and there will be some considerable differences under the new system. An enduring power of attorney allows you to appoint someone of your own choice – called an attorney – to manage your finances. Although the power can be used immediately if you want, the main benefit is that it allows a smooth takeover if you lose mental capacity.

The new lasting power of attorney (LPA) will allow you to appoint an attorney to make decisions about your health and welfare as well as your finances. You will be able to appoint different attorneys for these different purposes, and will be able to limit the powers of each attorney to specific situations.

There are other differences between the old EPAs and the new LPAs. An LPA can only be used after a person has lost mental capacity rather than immediately. A certificate of capacity will be needed for the LPA stating that the person was mentally capable at the time he or she signed the LPA, which may sometimes be difficult to judge.

If you are thinking of making an EPA or LPA, you should obtain clear legal advice. Above all, you should think very carefully about who would be the best person – or people – to manage your affairs as an attorney. Existing EPAs will remain valid after October. If you have one, you may wish to review its terms to see if it should be changed to an LPA. If you do not have an EPA you may want to consider setting one up before the new rules are introduced, since many lawyers believe that the old regime has certain advantages, particularly regarding cost.

Tax Calendar 2007

June

- 14** Instalment of corporation tax due for large companies with year ending 15, 12, 9 and 6 months before 31 May 2007.
- 19** Due date for payment of PAYE/NIC for period ending on 5 June (22nd if paying electronically).
- 29** Corporation tax due for companies with year ending 30 September 2006 that pay the tax annually.
- 30** Submit CT600 for companies with year ending 30 June 2006. Last day to amend CT600 for year ending 30 June 2005. File accounts at Companies House for private companies with year ending 31 August 2006 and for public companies with year ending 30 November 2006.

July

- 5** Last day to reach PAYE settlement agreement (PSA) for 2006/07. Close companies to elect for all beneficial loans to a director to be treated as a single loan.
- 6** Last day to file 2006/07 P11D/P9D forms and issue them to employees (penalties apply from 19 July 2007). Last day to report awards of shares or share options to employees.
- 13** Instalment of corporation tax due for large companies with year ending 15, 12, 9 and 6 months before 30 June 2007.
- 19** Final date to pay 2006/07 class 1A NIC and due date for payment of PAYE/NIC for period ending 5 July (20th if paying electronically).
- 30** File accounts at Companies House for private companies with year ending 30 September 2006.
- 31** Due date for second payment on account of 2006/07 income tax. Last day to pay 2005/06 tax to avoid second automatic surcharge and to file 2005/06 tax return to avoid second automatic penalty up to £100. Submit CT600 for companies with year ending 31 July 2006. Last day to amend CT600 for year ending 31 July 2005. File accounts at Companies House for public companies with year ending 31 December 2006.

August

- 1** Corporation tax due for companies with year ending 31 October 2006 that pay the tax annually.
- 2** Submit form P46(car) for quarter to 5 July 2007.
- 14** Instalment of corporation tax due for large companies with year ending 15, 12, 9 and 6 months before 31 July 2007.
- 17** Due date for payment of PAYE/NIC for period ending 5 August (22nd if paying electronically).

Making the most of mobile technology

Not being in contact with your office for even an hour can affect your bottom line, so being able to access voice and data services using the latest mobile technology can give you a real competitive advantage.

The challenge is to develop a mobile communications strategy that meets both your business and budgetary needs while making the most productive use of employee time.

Mobile technology can change the way you do business and therefore save you time and money. Devices include portable office components that range from laptops, palmtops and personal digital assistants (PDAs) to mobile phones. These devices can use a number of communication technologies either wirelessly or by using dial-up services or connecting by cable.

You can use this type of technology to perform any number of normal office-based activities while out of the office. These include accessing the internet, preparing and giving customer presentations and linking directly into the office network to access customer databases and accounting systems and to check stock availability. You should also not ignore more straightforward services that enable you to re-direct your phone to a handset that will answer.

Before you commit any money to a new or upgraded piece of mobile technology you should assess the real needs of your business both today and in the future and find out as much as you can about the technology that is available.



Being able to access data and voice services while away from the office is critical for many growing businesses, but exact needs will always be shaped by the type of business you are in. Security also needs to be considered so that mobile devices do not expose valuable data to unauthorised people.

Choosing a provider is an important decision, not least because you will need to keep ahead of the curve in terms of new technological developments and tariff charges. Money can be saved by comparing tariffs before you buy and by continuing to carry out regular checks on the competitiveness of other providers after you have done so. Inertia can cost hundreds, if not thousands, of pounds.

There has been a lot of media focus on the money saving potential of VoIP (Voice over Internet Protocol) and this technology has now been developed to the point that makes it a real business option both from a cost saving perspective and because of the flexibility it provides. But before adopting any new technology you should compare providers and look at the downsides and risks, including the security aspects.

How the smoking ban will affect your business

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the ban, and must comply with strict rules to avoid being classified themselves as smoke-free premises. Exceptions to the ban are mainly for premises that are partly residential, including hotels which may allow smoking in specific rooms, subject to strict conditions.

The ban does not, of course, mean that employees will stop smoking. Smokers who cannot go without a cigarette will need to

take a break to smoke, as they do now in places that are already smoke-free. This can cause resentment among non-smokers. Having a clear company policy on smoking, developed in consultation with employees, should help avoid such friction and ensure smokers stick to rules regarding the timing of breaks. Figures from Action on Smoking and Health (ASH) indicate that the average smoker spends 115 hours a year on unmettable cigarette breaks during work.