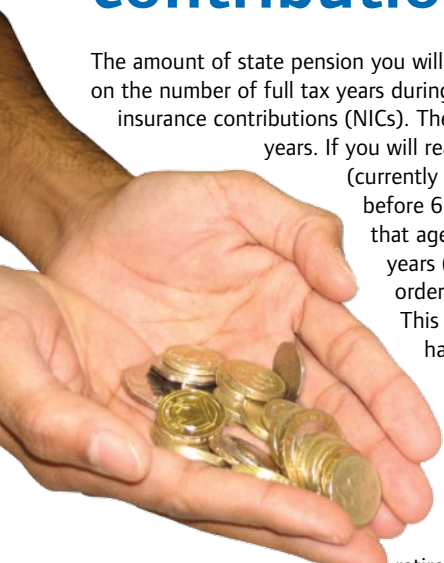


Should you top up your national insurance contributions?



The amount of state pension you will receive upon retirement is based on the number of full tax years during which you have paid national insurance contributions (NICs). These years are called qualifying years. If you will reach state retirement age (currently 65 for men and 60 for women) before 6 April 2010, or are already over that age, you need up to 44 qualifying years (for men) and 39 for women in order to achieve a full state pension. This can be difficult to achieve if you have spent some years in full-time study or caring for children.

In such cases, you may wish to top up your NIC record for some of the missing years to improve the amount of state pension you will receive upon retirement. However, before you make this decision you need to check how many qualifying years you have already accumulated. You can do this by ringing the NI enquiries line on 0845 915 5996. If you are due to reach state retirement age after 5 April 2010 you will only require 30 qualifying years to receive the full state pension, so a top-up may not be necessary.

If your 65th birthday (60th for women) falls between 6 April 2008 and 5 April 2015, you have a unique opportunity to top up your NIC record for any six tax years since 1975 where you are missing contributions. You may do this by paying voluntary Class 3 NICs at £12.05 per week.

The National Insurance office is responsible for notifying taxpayers when they have not paid enough NICs in a tax year to make it a qualifying year. However, for the years 1996/97 to 2001/02 the office failed to do this. Consequently, many people received letters informing them that their NICs for past years had fallen short. Despite this, taxpayers who reached retirement age before 24 October 2004 can still top up their NICs for the years between 1996/97 and 2001/02 by 6 April 2010. Furthermore, contributions may be paid at the rates that applied in those years.

The deadline for paying NICs for missing years is generally six years from the end of the relevant tax year. So if you missed paying contributions in 2003/04 you have until 5 April 2010 to top up that year.

Paying missing NICs for a recent tax year will also allow you to qualify for incapacity benefit or maternity allowance. You may want to provide cover for these allowances even if you already have 30 qualifying years. Please note, if you reach state pension age on or after 6 April 2010 your entitlement to bereavement allowances will still depend on 44 years (men) or 39 years (women) of contributions. If you qualify for Home Responsibilities Protection, this will help to protect your entitlement to the state pension, and could reduce the number of qualifying years required.

We can help you to decide whether to top up your NICs, and to plan for a more comfortable retirement – please contact us for details.

The rise and fall of Furnished Holiday Lettings

Currently, income received from furnished holiday accommodation in the UK may be treated differently for tax purposes from other rental income. Providing they meet certain criteria, landlords can benefit from tax advantages if they make a loss on their earnings from the property or decide to sell the property. However, the 2009 Budget made significant changes to the rules on Furnished Holiday Lettings (FHL).

Since their inception, the Furnished Holiday Lettings rules have applied to furnished holiday accommodation situated in the UK only. The Government accepts that this may not be compliant with European law, and has therefore extended the rules to cover furnished holiday accommodation elsewhere in the European Economic Area (EEA). However, this extension will be short-lived as the FHL rules are to be repealed from 2010/11!

In the meantime there is an opportunity for those who have, or have had, qualifying FHL properties within the EEA (but outside the UK) to claim for at least one of the relevant reliefs or other treatments to apply. These include

treatment of the FHL business as a trade for the following purposes:

- loss relief
- capital allowances
- Landlords Energy Saving Allowance (LESA)
- certain capital gains reliefs (such as taper relief, business asset roll-over relief, entrepreneurs' relief, relief for gifts of business assets)
- relevant earnings when calculating the maximum relief due for an individual's pension contributions.

The letting business must be available for commercial letting as holiday accommodation to the public for at least 140 days, and actually let for at least 70 days, during the relevant 12 month period (for individuals this will be the tax year to 5 April). Lettings to the same person for a continuous period of more than 31 days do not count. Such longer term occupation must not total more than 155 days in the relevant 12 month period.

The claim has to be made within the normal time limits. However, until 31 July 2009, HM Revenue and Customs (HMRC) will accept late amendments to:

- personal tax returns for the year ended 5 April 2007; and
- corporation tax returns for accounting periods ending on or after 31 December 2006.

It must be made clear that the claim or request is being made under the extended time limits for EEA FHL as announced at Budget 2009. The normal rules for late claims will apply to all other late claims and amendments.

If you think the new rules may affect you, please contact us and we will be happy to discuss your individual circumstances.



New penalty system for incorrect tax returns

A new single penalty regime now applies for inaccurate tax returns or other documents that are due to be filed on or after 1 April 2009. The legislation applies to income tax, VAT, PAYE, national insurance contributions, corporation tax, capital gains tax and Construction Industry Scheme returns. The legislation was extended on 1 April 2009 to cover returns for other taxes and levies due on or after 1 April 2010.

Under the regime, taxpayers who take 'reasonable care' with their tax affairs but still make an error will not be charged a penalty. However, taxpayers who are deemed not to have exercised reasonable care are subject to a penalty charge, calculated as a percentage of the extra tax due. The exact rate is subject to HMRC's assessment of the behaviour that gave rise to the error. The criteria are classified as follows:

Nature of the error	Penalty charge (% of extra tax due)	
	Min	Max
Careless: an individual failed to take reasonable care to provide accurate documents	0	30
Deliberate: an individual knowingly and intentionally sent an incorrect document but did not attempt to conceal the error	20	70
Deliberate and concealed: an individual knowingly and intentionally sent an incorrect document and took active steps to hide the error	30	100

HMRC is approaching the issue of 'reasonable care' on a case by case basis. Guidelines suggest that the definition will vary according to an individual's circumstances and abilities. Every taxpayer is expected to make and keep sufficient records to enable them to provide a complete and accurate return, and to seek further advice if they are unsure about any aspect of their tax affairs. Taxpayers who discover a mistake after submitting a return or document must inform HMRC promptly about their discovery, and disclosing errors to HMRC early could reduce any penalty due.

We can help with all your tax and financial planning needs. Contact us today for further assistance.

Does the flat rate VAT scheme work for you?



The flat rate VAT scheme is promoted as a means for small businesses to simplify their VAT records, by allowing them to make one simple calculation of VAT due, based on a flat rate applied to what is known as flat rate turnover. However, operating the scheme correctly is not as simple as it might seem.

Entering the scheme

Formerly, a business had to calculate two figures, its taxable turnover and its business income, to determine its eligibility to enter and use the scheme. However, on 1 April 2009 HMRC introduced a measure to simplify this process. Now only one figure, taxable turnover, needs to be calculated. In order to be eligible to join the scheme this needs to be under £150,000. Taxable turnover is based on either invoiced totals or cash receipts, according to how the business calculates its liability under the scheme. It consists of standard, zero and reduced rated supplies, before VAT, and should not be confused with flat rate turnover.

How it works

Once in the scheme you need to apply the relevant flat percentage applicable for your main trade sector to your flat rate turnover in each quarter, and pay the resulting figure as VAT to HMRC.

Your flat rate turnover should include all the sales (including VAT) you make as a VAT registered trader, whether they are standard, zero or reduced rated, or exempt. Therefore even such transactions as the sale of a second hand car, any bank interest received from business bank accounts or rents from residential property, which are VAT-exempt, must be included in your flat rate turnover figure. This means you effectively pay VAT on the gross receipts of sales made on which you have not collected any VAT. You can stay in the scheme until your flat rate turnover, on the anniversary of the date you joined the scheme, exceeds £225,000.

If you trade through a company, total flat rate turnover comprises all of the income received by the company. If you are a sole-trader your flat rate turnover includes your main trade, and any letting income you receive in your sole name, as lettings are regarded as a business for VAT purposes. Lettings undertaken as a partnership, perhaps jointly with your spouse, are not included in your sole-trade business income.

Traps to avoid

The flat rate scheme poses a potential trap for buy-to-let landlords who have joined it because of a separate trade undertaken within the same legal entity (sole-trader, company or partnership). In this case the proceeds from selling a let property must be included as flat rate turnover, and the flat rate should be applied to the total. You can withdraw from the flat rate scheme before you sell a high value item such as property, but you must then remain out of the scheme for at least 12 months, although HMRC may allow a one day re-admission if the sale is genuinely a one-off.

Once you are in the flat rate scheme you need to review your mix of sales at least once a year on the anniversary of joining the scheme, and adjust the flat rate to that applying to the majority of your sales. For example, if the owner of a pub sells food, and food makes up more than 50% of their income, the flat rate applicable to catering and restaurants (10.5%) must be used rather than the 5.5% that applies to pubs.

Remember, the flat rates for most business sectors changed on 1 December 2008, when the standard rate of VAT was reduced to 15%, so please check that you are using the correct rate for your sector.

If you would like further advice in this area, please contact us.



Business Round-Up

New dispute resolution code is launched

In April 2009 the statutory dispute resolution procedures were repealed and replaced by a new Acas Code of Practice. The code explains what is considered fair and 'reasonable' behaviour when tackling problems at work. It also encourages employers to resolve disputes at an early stage to prevent the need for a potentially costly and protracted employment tribunal.

Where early resolution cannot be reached, a tribunal will now consider whether a failure to follow the code was unreasonable when making its ruling. It will take into account various factors such as the size of the business, and will have discretion to adjust awards upwards or downwards by up to 25% in relation to either party.

In addition to the revised code, Acas has published a non-statutory dispute resolution guide, which provides more information on handling discipline and grievance situations in the workplace.

Following a funding injection from the Government, Acas has also extended the resources available to employers. A new Acas early conciliation service is now available to employers free of charge, while an enhanced helpline (08457 47 47 47) provides further assistance.

If you are unsure of your legal responsibilities, you should seek professional advice.

Court rules sick employees can accrue holiday

Earlier this year, the European Court of Justice (ECJ) made a crucial judgement on the accrual of holiday for employees on long-term sick

leave. The Court ruled in favour of five employees at HMRC, who argued that stipulations in the Working Time Directive entitled them to accrue holiday while they were unable to work due to illness.

When delivering its verdict, the Court made the following findings:

- A worker does not have to perform any work to accrue annual leave. Therefore a worker's annual leave will continue to accrue during a long-term period of sickness absence even if this means they are on sick leave for the full holiday year.
- EU Governments do not have to permit workers to take holiday whilst they are on sick leave, but if they do not allow this, workers must be allowed to take any accrued holiday after they have returned to work, even if this would be after the end of the particular leave year in which it was accrued.
- If a worker's employment contract is terminated during a period of sick leave, he or she is entitled to payment in lieu of any annual leave accrued up to the date of dismissal. This payment should be calculated according to their normal rate of pay.

Some leading business groups have criticised the ruling, warning that it could have costly implications for small businesses at a time when many are struggling to weather the economic downturn.

The House of Lords is expected to publish its final judgement on the case this Summer.

This remains a complex area of employment legislation and professional advice should be sought before any action is taken.

Web Watch

Essential sites for business owners

www.vcicarfueldata.org.uk

The official UK source for Car Fuel Consumption and Exhaust Emissions Figures.

www.businesslink.gov.uk/realhelp/finance

Information on the Government's support package to help firms during the recession.

www.digitaluk.co.uk

Impartial information to help individuals and businesses prepare for the switch to digital TV.

www.workingforhealth.gov.uk

Offers resources and advice for employers seeking to improve health and well-being in the workplace.

Reminders for your Summer Diary

June 2009

30 End of CT61 quarterly period.

Last day for UK businesses to reclaim EC VAT chargeable in 2008.

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

July 2009

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 2009.

19/22 Quarter 1 2009/10 PAYE remittance due.

Final date for payment of 2008/09 Class 1A NICs.

31 Second self assessment payment on account for 2008/09.

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

Liability to 2nd £100 penalty arises for 2008 Tax Return still not filed.

5% surcharge on any tax unpaid for 2007/08.

Deadline for tax credit Annual Declaration (if estimated, final figures required by 31 January 2010).

August 2009

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

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

