

Talking Tax

The Hazlewoods Tax Newsletter

Welcome to Talking Tax, the newsletter from the Hazlewoods tax team.

In this edition we look at various imminent tax changes. We offer advice to smooth the transition and suggest ways to reduce the negative impact of tax rate increases on you and your business.

First of all we are delighted to announce the appointment of Ruth Dooley as a new Hazlewoods tax partner. You can find out more about Ruth inside.

Following last year's Pre-Budget Report the standard rate of VAT is due to revert back to

17.5% on 1 January 2010. In anticipation of the change you will find inside a summary of the practical implications and the actions you may need to take.

We also look at the introduction of the 50% income tax rate and the withdrawal of higher rate tax relief on pension contributions. We explain the changes and suggest ways to reduce their impact.

If you would like further guidance on any of the issues covered in this newsletter please contact your usual Hazlewoods tax contact or e-mail tax@hazlewoods.co.uk

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Are you ready for the **Super tax**?

For many of us, most of the focus during 2009 has centred around cash flow management with tax mitigation taking a back seat. However, now that we are hearing positive noises regarding the economy, serious consideration should be given to one of the 2009 Budget announcements.

The Chancellor proposed that from 6 April 2010 a new "super tax" rate of 50% will be introduced. Potentially this will see a rate of 51.5% (including 1.5% national insurance) on income over £150,000 together with an even higher effective rate of 61.5% on incomes between £100,000 and £113,000.

It is possible to mitigate the exposure to the new 50% rate by careful organisation of your affairs. However, this action needs to be considered during the current tax year. There are a number of different tax planning techniques that can be used, and we have been putting a major amount of effort and resource into what has become a key issue. The strength

of feeling amongst taxpayers against paying 50% or 60% tax is absolutely huge. Planning opportunities range from those that look at the timing of expenses and remuneration of the business owners, to more complicated changes to the structure. You do not need to be in business to mitigate the effects. The list below is by no means extensive but is an example of the ideas that can be considered:

- Planning the timing of dividend payments
- Changing the year end of a business
- Bringing spouses into the ownership of a business
- Capital allowance planning including not making claims in certain circumstances

Continued overleaf



- Maximising the tax relief of pension contributions
- Reviewing business expenses to avoid incurring expenditure that is not tax deductible
- Reviewing the business structure to

determine if there is any benefit in using limited companies and / or LLPs

- Using tax planning schemes that have been developed in association with Queen's Counsel

Whilst some of the above ideas may work in your circumstances others will not. It is

therefore very important that careful consideration is given to your tax affairs before implementing a technique.

If you are a Hazlewoods' client the implications of the new super tax will be discussed with you during the coming months, if it has not been already.

Cross Border VAT Changes - 1 January 2010



Your business will be affected by these changes if you:

- supply services to or receive services from overseas businesses
- supply goods to other EU member states
- incur VAT in other EU member states

Full details can be found at:
www.hmrc.gov.uk/vat/cross-border-changes-2010.htm

In brief, the main features of the 2010 changes are:

■ Amendments to the "place of supply" rules for intra-EC cross-border services

Currently the default position is that the place of supply is where the supplier is established, although there are many exceptions to this

rule. From 1 January, the basic rule for business-to-business (B2B) supplies will be that the place of supply is where the customer is established, with the customer accounting under the reverse charge mechanism in the majority of instances. Again there will be a number of exceptions to the new general rule.

The place of supply of business-to-consumer (B2C) services will continue to follow the current rules.

■ Amendments to the "time of supply" rules for all supplies subject to the reverse charge in the UK

In the majority of cases, such services are currently treated as supplied when they are paid for. Under the new rules, the tax point will be the completion of the service, with an

earlier tax point to the extent that the service is paid for beforehand. For continuous services, there will be a tax point at the end of each billing or payment period, with a deemed tax point on 31 December each year if there is no such period.

■ EC Sales Lists (ESL)

From 1 January, businesses will be required to submit quarterly ESL's to provide information on intra-EC supplies of services to which the reverse charge applies in the customer's member state. Monthly submissions can be made if desired.

Also, ESL's for intra-EC supplies of goods will be required on a monthly basis where the value of such supplies has exceeded £70,000 in the current or any of the previous four quarters.

The same form (VAT 101) will be used for both types of declaration, with services being highlighted by the use of indicator code "3". The timeframe for submission of ESL's will be 14 days from the end of the reporting period (21 days if submitted electronically).

■ Refunds of VAT from other member states

All refund claims submitted on or after 1 January 2010 will be entered through an electronic portal hosted by HMRC. Businesses will register on the portal via the Government Gateway. HMRC will be responsible for forwarding the claim to the relevant member state, which must then process the claim within 4 months (8 months if further information is required) and make payment within 10 working days of approval. Business will have 9 months (compared with 6 months currently) from the end of the calendar year to submit a claim.

Pre-Budget Report news feed

The Chancellor Alistair Darling will deliver the Pre-Budget Report this autumn. Although the date has not yet been announced it is expected to be an event not to be missed.

The Chancellor will have the difficult task of balancing the continuing need to support businesses and consumers and the huge pressures on public finances. Not to mention the view of electors prior to the general election next year.

We will provide an instant newsfeed on our website (www.Hazlewoods.co.uk) to highlight the key points and how they affect the economy, businesses and your personal finances.

Pensions and the 2009 Budget

On 22 April 2009 the Chancellor Alistair Darling announced some significant negative changes to the tax relief rules for pension contributions made by high earners.

The main rule changes do not come in effect until 6 April 2011. However transitional rules were introduced with immediate effect and will last until 5 April 2011, when the new rules will be fully implemented. The transitional (or anti-forestalling) rules prevent those potentially affected from trying to pre-empt the change by increasing their pension contributions prior to the new rules being implemented.

Most people will be unaffected by the changes

It is important to remember that if you have relevant income (see below for definition) of less than £150,000 you will be unaffected by these changes and will be able to continue to claim full tax relief on pension contributions.

Therefore, putting money into pensions will still be a tax efficient option for the majority of people.

For example if you are a basic rate taxpayer and you invest £10,000, the Government will add on the basic rate tax relief of £2,500 making a total investment of £12,500. If you are a higher rate taxpayer (but your total income is below £150,000) you are also able to claim back the higher rate tax relief of up to £2,500 via your tax return.

For further examples see chart.

'Relevant income' for these purposes is determined by following an HMRC six page calculation (!), but is generally:

- Total income within the charge to income tax
- Plus pension contributions made under net pay arrangements
- Less trade and property losses
- Less relievable pension contributions (excluding employer contributions) up to £20,000 gross
- Plus any salary sacrifice in exchange for employer pension contributions, entered into after 22 April 2009
- Less Gift Aid donations

Watch out

- Even if your relevant income for a tax year is below £150,000 if it reached this level for either of the two preceding years you could still be caught by the new rules.
- If you artificially reduce your relevant income below £150,000 it is possible that HM Revenue & Customs (HMRC) will apply these rules as if your income is £150,000.

Transitional rules applying from 22 April 2009 to 5 April 2011

Between 22 April 2009 and 5 April 2011 if your total income is £150,000 or more then you may have to pay a personal tax charge on contributions over the special annual allowance. This includes contributions paid by your employer and deemed contributions to Final Salary schemes.

For the 2009/2010 tax year this charge is 20% i.e. effectively restricting the tax relief on the additional pension contributions to basic rate.

The charge does not apply to any normal, regular ongoing pension savings that were in place before 22 April 2009, whatever their value. Normal, regular and ongoing means:

- For money purchase schemes - continuation of those contributions paid under agreements made prior to 22 April 2009 either quarterly or more frequently and at a rate that does not increase.
- For defined benefit schemes - includes any increases in pension benefits which arise under the existing pension scheme rules as at 22 April 2009.

Special annual allowance

The special annual allowance is, or is based on, one of the following amounts

- £20,000, or
- greater than £20,000 but less than £30,000, or
- £30,000.

The amount of an individual's special annual allowance will depend on many factors, e.g. whether payments have been made to other money purchase pension schemes in the last three years and whether any of these payments were 'infrequent' (i.e. less than quarterly).

Rules applying from 6 April 2011

Very little has been released about the proposed rules from 6 April 2011, but HMRC have said that they will consult widely before implementation.

The basics are that tax relief on pension contributions will be restricted for people with taxable incomes of £150,000 or more:

Income < £150,000, up to 40% tax relief will continue to apply;

Incomes > £150,000 tax relief will taper downwards; and

Income > £180,000 tax relief will be restricted to 20%.

Given that next year's general election will take place before this proposed legislation is implemented there is of course a chance (although slim) that it will not be enacted.

Action

By careful remuneration planning and even a possible change in business structure there are ways to mitigate the effects of the new rules. If you are a Hazlewoods client we will look at the implications for you in the coming months, if not done already. If you are not a Hazlewoods client we would be happy to review your position in the light of the changes.

Pension contribution paid (80%)	Basic rate tax relief added on (20%)	Total invested (100%)	Higher rate taxpayers can claim back	Effective cost of pension contribution
£	£	£	£	£
1,000	250	1,250	250	750
5,000	1,250	6,250	1,250	3,750
10,000	2,500	12,500	2,500	7,500
20,000	5,000	25,000	5,000	15,000

Don't let recent press coverage stop you claiming **Research & Development relief**

If your company undertakes any Research and Development (R&D) make sure you maximise your claims for relief. In this article we highlight some often overlooked areas and practical examples of how we have helped clients increase their claims.

The basics

R&D tax relief is available to companies of all sizes. The corporation tax relief could reduce your company's tax bill by more than your actual expenditure on allowable R&D costs. Alternatively, if your company is a small or medium-sized enterprise (SME), you may be able to receive a tax credit instead.

For a brief description of R&D and details of the extension to the relief for SMEs from 2008 see the article in our October 2007 edition of Talking Tax. A copy can be found on the tax section of our website (www.Hazlewoods.co.uk).

Recent press coverage

Recent comments in the press suggest that HM Revenue and Customs (HMRC) are "clamping down" on R&D tax relief claims. In our experience and discussions with R&D specialist units these comments are overstated. Having said that HMRC do have particular concerns about:

- "Production", where R&D prototypes are sold on to customers, and
- Intellectual property, particularly where a company may not have sole rights to it.

The press commentary should not dissuade companies from making R&D claims; we continue to save large amounts of money for our clients by doing so.

Overlooked opportunities

Most companies are aware of R&D tax relief and may have submitted claims, however companies should review their R&D claims to ensure they are claiming their full entitlement, for example:

Internal process improvements

Process improvements may qualify for R&D relief in addition to product development work.

Our client, Lister Shearing Equipment Limited, designs and manufactures a range of animal shearing and clipping equipment. During discussions with the company we identified an internal project to improve a complex

manufacturing process. The company invested considerable development effort in this regard and we have helped them prepare a successful claim for additional R&D tax relief for this work.

Funded R&D

With limited cash reserves, companies are increasingly looking for grant funding for their development work. Even though a grant is received, R&D tax relief may still be available and advice should be taken.

Subcontracted R&D

If a company is undertaking R&D work as a subcontractor for a large company, such as the provision of technical and engineering services, it may still qualify for R&D relief even though its work is paid for.

Capitalised R&D

It is a common misconception that capitalised development costs are ineligible for R&D relief.

We recently made a claim for our client, Skot Transformers Limited, which designs and manufactures power units for wind turbines. Although it capitalises the costs of its R&D work we successfully claimed these as deductible revenue costs for tax purposes, as well as claiming enhanced relief.

Capital expenditure on assets for R&D activities

If a company incurs expenditure on equipment for R&D it may be able to accelerate its tax relief. Even better, expenditure on buildings for R&D qualifies for a full tax deduction (buildings normally attract minimal tax relief, if any).

We prepared a claim for a company that designs and manufactures specialist dental equipment. The company designed bespoke machinery to improve production processes and we successfully claimed 100% R&D allowances for the costs incurred. This company is also investing in new factory premises and we will be claiming R&D relief for R&D areas of the building.

Identifying qualifying expenditure

We assisted Permali Gloucester Limited, a defence company, to increase their claim. We secured HMRC's agreement to claim the

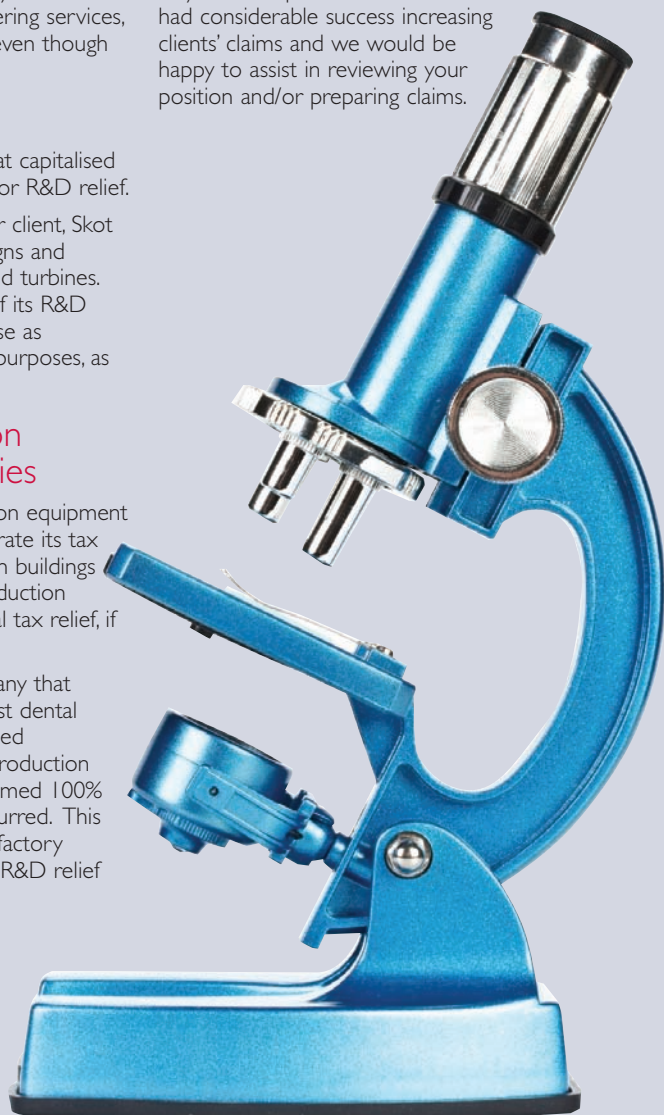
costs of shopfloor employees involved in building and testing prototypes. We also claimed the costs of materials used up in large batch production runs to produce relatively small amounts of material for R&D purposes.

Failed R&D

If a company undertakes unsuccessful R&D activities then a claim for enhanced relief can still be made.

Action

If your company does any R&D you should check that your claims maximise the relief due to you. Our specialist R&D team have had considerable success increasing clients' claims and we would be happy to assist in reviewing your position and/or preparing claims.



Prepare for the VAT rate rise!

Most readers will already know that the rate of VAT will increase back to 17.5% with effect from 1 January 2010. Complications will typically arise where the various "tax points" for a supply span the date of the change.

For a **supply of goods**, there is a "basic" tax point at the time that the goods are delivered to/collected by, or are in some way "made available" to the customer. However this basic tax point will, in normal circumstances, be overridden by an "actual" tax point, which will be:

- the date of payment (where the customer makes payment in advance); or
- the invoice date (where the supplier issues a tax invoice either before, or within 14 days after, the basic tax point).

But where the basic and actual tax points occur on either side of 1 January 2010, the supplier can elect (on a transaction by transaction basis) to determine the VAT liability by reference to the **basic** tax point, if this produces a VAT charge @ 15%, rather than 17.5%, for the customer.

For a **supply of services**, in general the same tax point rules as above apply (with a basic tax point being created on completion of the service). The same election as above is available where the tax points span 1 January 2010. However a further concession exists where

both the basic tax point and actual tax point occur **after** 1 January 2010, but the relevant work began **before** that date. The supplier may choose to adopt the normal rules and simply charge the 17.5% rate on the entire invoice value, or can instead charge output VAT at the 15% rate on that part of the work completed before 1 January 2010, and at the 17.5% rate on the part completed after the rate change. Private customers who are aware of this are sure to request this treatment! However a condition of using this approach is that the apportionment can be justified on the basis of measurable work, so detailed records are essential.

Where the supplier is acting for his client on an ongoing basis under an open-ended contract, it is likely that he will be regarded as providing "**continuous services**". Accountancy services are a good example. There is no "basic" tax point in this situation, only an actual tax point which is most likely to be created by the raising of a tax invoice. The issue here will arise when an invoice is raised after 1 January 2010 to a non-VAT-registered customer for a period which spans the change in VAT rate. The obliging customer will have paid in advance to

create a tax point at the 15% rate, however it is more likely that the customer will request that the apportionment procedure should be applied to the invoice as described in the previous paragraph.

With all this fun waiting in store for the beginning of 2010, may we be the first to wish you all a happy new year, once you have finalised all of your January sales shopping in December!



New tax partner Ruth Dooley

We are delighted to announce the appointment of Ruth Dooley as our new Corporate Tax partner. Ruth joins us from Grant Thornton where she headed up their tax advisory team for many years.

Ruth specialises in corporate taxation and, in particular, transactions, restructurings, expert witness work and many other tax saving ideas. With a hugely successful track record in tax she focuses on creative yet practical solutions for clients which sets her apart from many others and helped her to win the South West Accountant of the Year.

Over the summer months Ruth took a short career break sailing around the Mediterranean and diving in Egypt before working at an orphanage in Malawi.

In her spare time Ruth runs marathons, sits on the Gloucestershire Development Loan Fund panel and is a regular snowboarder and skier. She is a Yachtmaster and PADI advanced diver. Not your typical accountant!



"We are absolutely delighted to welcome Ruth into Hazlewoods. Ruth has a great reputation and I am confident she will be a real asset to the firm and our clients. We are looking forward to working with her".

Jon Cartwright
Managing Partner

Key Tax Dates coming up

Monthly Deadlines

1st	Corporation tax liability due for accounting periods ended nine months previous (apart from companies subject to the quarterly instalment payment regime).
7th	Due date for VAT return and payment for month/quarter ended last day of previous month, where paying electronically.
19th	Payment of PAYE/NIC/CIS deductions and student loan repayments for the month ended on the 5th of this month, where paying by cheque.
19th	Submission deadline for CIS300 return for the month ended on the 5th (nil payments must also be advised to HMRC). Statement of deductions must also be given to each subcontractor.
22nd	Due date for payment of PAYE/NIC/CIS deductions and student loan deductions for the month ended 5th of this month, where paying electronically.
Last day	Submission deadline for corporation tax return, computation and accounts for accounting periods ended exactly a year previous.
Last day	Filing deadline for VAT return and payment due for month/quarter ended at the end of the previous month, where paying by cheque.
Last day	Intrastat declaration return due for month ended at the end of the previous month.
Last day	Annual VAT partial exemption adjustment under the "standard method" of calculation should be made in the first VAT return following the tax year end. But by choice can be brought forward to the last VAT return of the tax year.

November 09

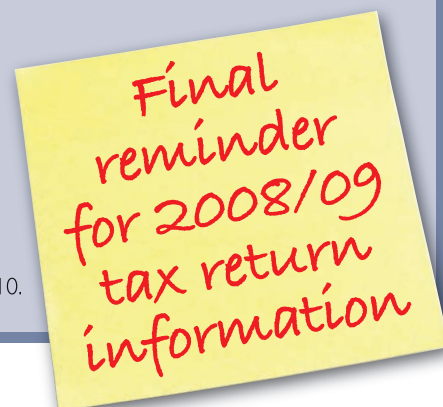
1st	Our HMRC enquiry insurance renewal deadline.
2nd	Submit forms P46 (Car) (the form that lets HMRC know about company car changes) for the quarter ended 5 October 2009.
11th	VAT EC sales list deadline for quarter ended 30 September 2009.
14th	Quarterly instalment payments due in respect of corporation tax liability for large companies with July and October 2009 year ends and January and April 2010 year ends.

December 09

14th	Quarterly instalment payments due in respect of corporation tax liability for large companies with August and November 2009 year ends and February and May 2010 year ends.
30th	Submission deadline for on-line tax returns where underpaid tax is less than £2,000 and is to be collected through a tax code.

January 10

1st	New advisory fuel rates come into force.
1st	VAT standard rate reverts to 17.5%.
14th	Due date for income tax for the CT61 (income tax on loans) quarter to 31 December 2009.
31st	Filing deadline for 2008/09 electronic Self Assessment income tax returns.
31st	Due date for payment of balancing payment of income tax and class 4 NIC and capital gains tax due for 2008/09.
31st	Due date for payment of first Self Assessment payment on account for 2009/10.



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This newsletter has been prepared as a guide to topics of current financial and business interest. We strongly recommend you take professional advice before making decisions on matters discussed here. No responsibility for any loss to any person acting as a result of this material can be accepted by us.

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A list of LLP partners is available from each office.

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