

You want it when?

It has now been confirmed that income tax returns will be required earlier next year – if they are sent in paper form. The new deadline for 2007/08 forms is 31 October 2008, three months in advance of the current 31 January date. The due date for returns filed online is still 31 January, and also for paying the tax.

As a small carrot to go with this stick, HMRC will change the rules on when they can open an enquiry into a return. At the moment, this is 12 months from the last filing date, whether you put the return in early or not. So if you are very quick, you get no advantage – the taxman can look at your return for more time before deciding whether to ask you questions. Next year, the taxman's clock will start running the day they get the return. You will still have 12 months from the 31 January filing date to make amendments to a return, but if you do make an amendment it gives the Inspector longer to ask questions.

One thing doesn't change: if we are responsible for filing your tax return, we need time to do a proper job before we send it in – "two days before the Revenue deadline" is not enough, particularly if all our clients choose to send their information to us at the same moment. We will let you know in good time what we need and when we need it, and we trust that you will help us to help you.

Expense Claims

When employees put in their expense claims, the first person to scrutinise them is the boss. It's a business decision to pay or not to pay, to believe or not to believe. Your best sales agent might be a little imaginative, but who cares, so long as more money is coming in than going out?

Of course, it doesn't stop at the boss. The taxman is also interested. If you pay something as "expenses" when it can't be justified, there should be tax and NIC. So you have to be hard-hearted – and reward the staff with something that everyone acknowledges is salary or bonus, not expenses.

Making sure everything is backed up with documents has another benefit. If employees back up petrol or mileage claims with VAT invoices, and get hotels to put the business' name on their bills, the employer can claim back the VAT on these types of expense. If you pay 40p a mile to an employee who drives a mid-range car, 13p of that is treated as for petrol – so on a mileage allowance of £100, you can claim back £4.84.

If you would like to discuss how to maximise the VAT recovery on employee expenses, we will be happy to talk to you.

Looking for Inspiration?

If you're not already receiving our newsletter, sign up now and you'll get updates on business and accounting news, inspiration, advice and a fresh perspective on how to realise the full potential of your business.

Simply email your name, company name and email address to newsletter@parispartnership.com or visit www.parispartnership.com for more free resources from The Paris Partnership.

Do you like what we do?

Email us your comments, feedback and suggestions at: newsletter@parispartnership.com and, if you like how we do things, feel free to recommend us to your friends and colleagues.

In the Dog House

An Inspector of Taxes was questioning the accounts of a publican. He protested, "You can't claim the upkeep of a dog as a business expense." The publican said that the dog was upstairs with the previous evening's takings. If the Inspector would like to go upstairs and come back with the cash, the publican would agree that the dog wasn't a business expense.

The taxman knew when he was beaten...



Bookkeeping getting you down?

Are you finding that keeping the books is taking up too much of your time, and holding you back from getting on with the aspects of your business that you really enjoy?

Are you drowning in paperwork, trying to lay your hands on invoices and receipts in order to prepare your VAT return?

Then call Mandy at our office on 020 8951 5522 for details of our outsourced bookkeeping service at competitive rates letting you get back to your business.



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The articles contained in this newsletter are of a general nature and should not be acted upon without specific advice relevant to your circumstances.

Seasonal news

AUTUMN 2007

Avoid the Big Freeze

The advent of technology such as mobile phones, email and Blackberries means that we are working longer hours than ever. The working day doesn't begin and end at our desk, or even in our office. In fact, Britons work the longest hours in Europe – an average of 44 hours a week, compared to 40 for our neighbours over the Irish Sea, and 38 in Belgium! Weekends, bank holidays and even vacations can be interrupted by business issues demanding our attention.

Of course when it's your own business, you are happy to go that extra mile – but similarly, you want to be able to reap the rewards of your efforts. So you don't want any nasty surprises down the line, such as an unforeseen tax liability or a missed filing deadline.

At the Paris Partnership, we pride ourselves on keeping up to date with all changes and developments in accounting and tax legislation, so that we have ample time to work with you and find the solutions that will best suit you, your business and your goals.

Come and talk to us if there is any area we might be able to help you improve things. Meanwhile, happy holidays!

The Paris Partnership



Also in this issue...

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Keeping up with the Joneses

Mr and Mrs Jones set up a company, Arctic Systems Ltd, to sell Mr Jones's services as a computer consultant. Mrs Jones worked as the company secretary, but the fee-earning was all done by her husband. Because he took a relatively small salary, the company made profits which could be paid out to both of them as dividends. That's quite a common arrangement – paying dividends saves National Insurance contributions, and splitting the income between husband and wife saves income tax. Since independent taxation of husband and wife was introduced in 1990, most tax professionals thought this was well within what the law allowed.

Then the Revenue went after the Joneses under the "settlements" rules. The idea was that Mr Jones had made a generous gift to his wife – he wouldn't have allowed anyone else to have the shares in his company on the same terms – and as a result the dividends could be taxed on him rather than her. Although the tax involved was only £6,000, and the Revenue refused to accept that it was an important "test case", the House of Lords had to determine the issue.

The result: a resounding win for the taxpayers. Although the arrangement was a "settlement", this sort of gift of ordinary shares in a company was protected by the law. That was a great relief for the Joneses, and for many others who have a similar business set-up.

Unfortunately, the Revenue have announced that they do not think the result is "fair". We can expect something on the subject in the Pre-Budget Report this year – we can only hope that the Revenue don't create a legal sledgehammer that will make life harder for small businesses. We'll keep you abreast of developments and if you want to discuss how to structure your business, we'll be happy to help.



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Plant Buying

This year's Budget announced that the rules for capital allowances – tax relief for plant and equipment – would change significantly for small and medium-sized businesses from 1 April 2008. At the moment, a small business gets a 50% deduction for expenditure on most equipment in year 1, then 25% tax depreciation on what's left in later years. Cars only get the depreciation, not the first year allowance, and the maximum is £3,000 a year.

The new rules aren't final yet, but two main changes seem very likely. First year allowances will go, replaced by an "investment allowance". That's effectively a 100% deduction for expenditure of up to £50,000 on plant in a year. Anything over that will get depreciation, but the rate of writing down will drop to 20%. Expenditure on cars still won't qualify for the investment allowance.

So... if you plan to buy some plant around the end of March, the sums could be quite complicated – particularly if 31 March is also your year-end. There won't be a hard and fast rule for whether it's better to buy before or after the rule change – it will depend on the numbers. We will be happy to crunch them for you!



Late Payers?

If you are outside the "cash accounting" scheme for VAT, you prepare your VAT returns according to the dates on invoices – you can claim back the VAT on your expenses before you pay for them, and you owe the VAT on your sales to HMRC for the period in which you make the supply, not when your customer pays. That causes difficulties where customers are slow paying, and adds insult to injury where customers don't pay at all. You may have already paid 17.5% to the government, and you never collect any of the 117.5% from your debtor.

You can claim the 17.5% back if a customer doesn't pay for 6 months. This is an area that the VAT-man will routinely ask questions about on an inspection visit – because people often get it wrong. You can't make an adjustment earlier than the 6 month limit, even if you are sure the customer won't pay – and you can't get around that by issuing a credit note. If you claim some VAT back and the customer later pays, you have to adjust the VAT again.

The trickiest catch, though, is where you are the slow paying customer. There could be a dispute about an invoice, so you haven't paid it, but you could have claimed the VAT in the normal way. If you haven't paid within 6 months, you are supposed to "unclaim" the VAT on the expense. The rules used to require the supplier to write to tell you to do this, but now you are supposed to notice that the bill is that old and make the adjustment yourself.

Watch out for the VAT adjustments required for bad and doubtful debts. If you are in doubt about how they work, we will be happy to advise you.

Why we love working with The Paris Partnership

By Simon Denyer of Inform Media Services

"Three years ago, we started our company Inform from scratch. Since then it has rapidly grown into a leading company in our sector, providing cutting-edge digital services and products to the media, sports and entertainment industries. In September we merged with another major company, creating an organisation employing over 150 people. This growth is a result of the clear objective which we established at the start and have maintained – we have outsourced all back-office business functions in order to keep all our directors and staff 100% focused on clients and new business.

We could not have done this without The Paris Partnership: they helped to form our companies and create the structure; they then managed all the book-keeping, accounting and tax planning functions. They have been an excellent partner for our company. They were also invaluable in advising and preparing us for our recent merger with Premium TV to create the world's leading digital media sports and entertainment provider.

We are confident that The Paris Partnership understand where we're going and that they will continue to support our aspirations. They have been with us every step of the way."

Contact: info@parispartnership.com or phone 020 8951 5522 to find out how The Paris Partnership can help you.

Knock Knock

VAT-registered traders used to expect an inspection by Customs every few years. These days, with staff cutbacks, if you are a good trader who files returns and payments on time, you could go for years without being visited. But there are reports that HMRC are now increasing "surprise visits" on the types of business they regard as high risk. These are generally where there is a lot of cash involved, so there is a greater potential – or temptation – for people not to declare all their takings.

What do you do if someone from HMRC turns up unannounced and wants to inspect your premises and your records? The first thing, of course, is to check that they are who they say they are – any properly authorised person should not object to you ringing their office. The next thing is to know what they can do and what they can't. A Customs officer has the right to enter and inspect any premises where a business is carried on, but they can't carry out a search without a search warrant – that means they can't open a drawer or a cupboard.

They can ask for information and explanations, which you have to provide – but you only have to provide them in a reasonable time. "Right now" is not always reasonable, particularly if they call during business hours and you have customers to deal with. Giving answers off the top of your head – to try to be helpful – is often dangerous, as you can give the wrong impression which it will then be hard to shift. It's much better to get a list of their queries, say you'll have to check, and take advice before answering.

If they want to take the records away, that has to be reasonable as well. HMRC officers don't always seem to realise that a business needs its records in order to run – they think we prepare the books just for them! So if they want something that you need, they are required to make copies without charging you.

An unannounced visit from HMRC could be a nasty surprise – but don't panic; be firm and know your rights. As soon as you can, ask for advice – we'll be happy to help.

Dates for your Diary



- 31.01.08** 2007 Tax Return to be filed or £100 fine.
Balancing payment of income tax and capital gains tax 2006/2007.
First payment on account 2007/2008.
- 28.02.08** (Yes, even though it's a leap year!)
5% surcharge on any 2006/2007 tax remaining unpaid.

Computers@Home

Up to 5 April 2006, employers could provide their workers with a computer to use at home without incurring any tax charges even if the computer was just used for games. Since then, providing a computer for the first time will trigger an income tax charge if the private use is "significant".

What about the VAT? HMRC have recently announced that a business can claim the VAT back on buying a computer if it is necessary for an employee to have one to carry out the duties of the job. They believe that private use will not be significant where it's a vital business tool.

If it's not essential for the job, the business will only be able to claim back a proportion of the VAT. HMRC say they are willing to accept a reasonable estimate of the split between business and private use – they won't expect a detailed breakdown of all your e-mails.



Late Returns

An accountant wrote to the taxman to say that his client had died. HMRC sent back a standard letter addressed to him saying that they would no longer require tax returns unless his circumstances changed...