

## Update 1 – 26 February 2001

In this edition:

- Office move & staffing
- Self Assessment 1999/00
- Inland Revenue Investigations
- Tax and company cars
- IR35 latest
- Communicating with us by e-mail
- Payroll services
- 2000/01 year end tax planning
- CGT Taper Relief – when to sell assets
- Class 1A National Insurance

Welcome to Garbetts Update number 1. This is intended to be a regular update on current accounting, taxation and business issues for our clients, also covering news from Garbetts. We hope to issue this update once every 4-6 weeks, although the next edition will be sooner to tie in with the budget on 7 March.

Where possible we are sending this update to our clients by e-mail. If you have received a paper copy and would be happy to receive future copies by e-mail, please let us know your e-mail address by sending a message to [office@garbetts.com](mailto:office@garbetts.com). An archive of update documents will also be on our www site.

This update is being sent to all our clients – not all of it will be relevant to every client. As usual we will remind you separately about important matters requiring your individual action.

### Office move and staffing

Following our office move in December we are now comfortably settled at Brading. Those of you who have visited the premises will know that we have refurbished most of the premises, although the warehouse area which forms 7<sup>th</sup> of the floor area still needs to be tackled – this is on the agenda for summer 2001.

As part of the move we installed a new IT network. This comprises a Windows 2000 pro server with 12 local terminals and 4 remote terminals for staff working at home. Over the coming months we will be enhancing our IT systems to allow direct e-mail to selected staff and also provide more services via our www site.

Our current staff are:

Paul Garbett	- principal	Susan Albest	- accounts technician
Michele Johnson	- accounts technician	Mark Paxton	- accounts technician
Julie Barrett	- tax technician	June Garbett	- bureau accounting and bureau payroll
Madeleine Macklen	- PA to principal	Valerie Sands	- secretarial assistant
Rosemary Wersby	- accounts trainee		

Susan & Michele work from home and look after our clients in the Fareham and South Hampshire areas – if you need a local visit, or wish to arrange collection/return of books, Susan and Michele can be contacted via our main number.

### Communicating with us by E-mail

An increasing amount of our client communication is by e-mail. If you have an e-mail address which is checked regularly and are happy for us to communicate by e-mail, then please let us know with a message to [office@garbetts.com](mailto:office@garbetts.com).

As we communicate more with clients by e-mail it is apparent that care needs to be taken with e-mail addresses. If you change your e-mail address it is important to let us know. Also, tell us if you e-mail from an address that you do not want us to reply to. Finally, please quote your client number in emails where possible as this helps us to properly store communications.

### Self Assessment 1999/00

31 January 2001 saw the end of the filing season for 1999/00 Self Assessment returns. Between April 2000 and January 2001 we reviewed the tax affairs of 592 individuals and partnerships, preparing returns for most of them. There were ultimately 4 clients where, for lack of any response from the client, the return was not submitted by 31 January 2001 thus incurring penalties – a non compliance rate of 0.7% is something for us to be proud of!

## Update 1 – 26 February 2001

During the same time period we also reviewed the tax affairs of 224 companies and prepared Corporate Self Assessment returns for them.

We are continually hampered by clients submitting Self Assessment information to us late. The information we require from you is (i) your business accounts and (ii) a data request form.

Data request form – these are issued in April each year with a return date of 31 May. A relatively low percentage of our clients return these on time, and after two reminders we end up with a coverage of around 75% by the autumn. In most cases it is possible to piece together your return without the data request form being completed, however it significantly increases the risk of errors on your return and slows us down.

Common problems with the data request form, apart from clients simply failing to respond, are:

- People completing it with responses like “you have this information”, “as last year”, “see my accounts”. This is frustrating as the data request form is written specifically to help us collect information speedily and efficiently, and its content is whittled down to the minimum we need.
- Smart Alec responses – a number of clients, when asked on the 1999-00 data form for details of mortgage interest paid without tax relief, responded “tax relief not available on mortgages anymore”. Funnily enough, we knew that! But tax relief was still available during 1999-00, the year for which returns were being prepared.
- Pension confusions – many employed tax payers, particularly company directors, included employer funded pension payments on their form despite being asked not to. A number of people also only gave details of the assurance company used rather than amounts paid – a problem when many policies have automatic premium escalations. Finally, a number of clients failed to include details of whether pension payments were made gross or net of tax.
- Omission of information about bank/building society interest and share dividends or other sources of private income - we have had at least one incidence where a tax investigation was opened on a business, costing the business around £3,000, because one of the partners omitted to tell us about a payment received from a local college for running a three hour training course.

We could go on, but you probably get the drift. Its frustrating trying to deliver a first class service to clients when information comes to us late or incomplete. We appreciate that tax is daunting, and that’s why you engage us to help you. However we need the basic information from you in order to do this, and we need that information complete and provided timeously – the data request form is specifically constructed to achieve this.

We also ask sole traders and partnerships to let us have their accounts no later than 31 August after the tax year, in respect of year ends in the proceeding tax year – eg we asked for year ends between 6 April 1999 and 5 April 2000 no later than 31 August 2000. This gives all our clients at least 5 months to get their records to us, in some cases 16 months – however a high number ignore these timescales and send their accounts into us late – this leads to a rush of work in November-January each year. This is frustrating in many ways - it puts significant pressure on our staff; it also means that we have to concentrate our resources on preparing accounts for late submitters at the expense of sidelining work for clients with June or September year ends who submit their accounts promptly; finally it means we have little time, particularly in January each year, for non Self Assessment work – for the clients who got their accounts and papers into us early it must be very frustrating that we cannot commit sufficient resources to providing our full range of services.

Self Assessment has shifted a large element of responsibility from the Inland Revenue to taxpayers, or more often their accountants. Like most firms we have not increased our fee levels significantly as a result of this – we have absorbed the cost. However if we are going to handle Self Assessment work efficiently we must have co-operation from our clients.

### Payroll Services

If you find payroll a chore for your staff, and have difficulties in keeping pace with the latest legislation on tax credits, CIS, SSP, SMP, or a myriad of other payroll issues, then did you know we can make your life easier? We have a computerised bureau payroll service available from our Brading office at reasonable rates – ask for a specification and price list.

Remember that if payroll is a problem for you, the start of the 2001/02 tax year is an excellent time for a change!

## Update 1 – 26 February 2001

### Inland Revenue Investigations

The advent of Self Assessment has led to a shift in Inland Revenue resources away from basic clerical work to investigative and checking work. This has naturally led to an increase in the number of tax enquiries being started. Our policy is always to support clients through enquiries. In some cases this will be at no extra cost to our normal fees where the enquiry concentrates on one aspect of the accounts or tax returns. More extensive enquiries are charged separately.

As you may be aware it is possible to purchase tax investigation insurance. Many accounting firms routinely insist on their clients having this. We do not. Despite the increase in investigative work by the Inland Revenue Insurance does not seem to offer good value at present – bear in mind it covers professional fees only not the actual tax.

Although the new enquiry regime under Self Assessment was meant to lead to a more “neutral and fact finding” approach by the Inland Revenue (their words) most in the accountancy profession would tell you just the opposite is happening. Self Assessment has given the Inland Revenue new powers, including the right to open an enquiry without giving a reason, and there is anecdotal evidence to suggest considerable low level abuse of these powers by the Inland Revenue. The Inland Revenue targets are much the same as they always have been with cash businesses such as pubs, shops and car dealers being favourites.

Your risks from a tax investigation can be minimised by ensuring a high quality of record keeping. In a full enquiry under Self Assessment the Inland Revenue will try and discredit your records – properly balanced cash records (including drawings and cash balances) will reduce the Inland Revenue's ammunition against you, as will adequate records of the source of monies introduced to the business.

Ultimately there is an element of “luck of the draw” with tax investigations – in an enquiry situation the Inland Revenue will find something to pick up on in most businesses, even if its as small as private use of car or phone bills.

### 2000/01 year end tax planning

With the end of the 2000/01 tax year near, a few thoughts on basic tax planning issues:

- maximise your ISA contributions for yourself and your spouse - £7,000 pa each.
- ensure your pensions are funded to the maximum level of relief available – note that carry forward and carry back relief for Personal Pensions is abolished from 6 April 2001 – our briefing last autumn (available on the news and bulletins section of our www site) explained more about this.
- if you haven't used your 2000/01 CGT allowances, £7,200 for an individual in 2000/01, consider “bed and ISA” or “bed and spouse” of shares – basic “bed and breakfast” is no longer available.
- retirement relief thresholds fall to £100k and £400k for 100% relief/50% relief from 6 April 2001 – if you are over 50 consider locking into relief now by transfer to a trust or limited company.
- if you are a 40% tax payer and your spouse isn't, consider using your spouses basic rate band by transfer of investments across or by paying your spouse a salary from your business.
- consider the timing of business expenses. If you have a 31 March or 5 April year end then money spend before the year end will benefit from tax relief a year earlier – and remember that expenditure on IT equipment now qualifies for 100% allowance. However if your income is rising consider whether its better to defer expenditure to a later year and achieve relief at a higher tax rate.
- if your estate is worth more than £234k it may be liable to Inheritance Tax. Consider reducing this by utilising your £3,000 pa gift allowance (and use last years if unused - you can carry forward one year only), or by larger gifts which will normally be free of tax if you survive 7 years. Make sure you have up to date wills in place, and that larger estates have been reviewed and planning measures are in place.
- where ISA and pension allowances have been exhausted consider tax efficient investments such as Venture Capital Trusts or Offshore Roll-up Bonds, particularly if you are a 40% tax payer.

## Update 1 – 26 February 2001

### Tax and company cars

A new regime starts for company cars from April 2002. In the main this will not affect sole traders and partners but it will affect company directors or employees who receive company cars. The major changes are:

- a move to taxing company cars by reference to emission levels rather than value
- abolition of mileage and age discounts
- a reform of the Inland Revenue Authorised Mileage Rates for use of own cars (commonly known as Fixed Profit Car Scheme or FPCS rates) to reduce from four rate bands to one. This will also effect Sole Traders and Partners who calculate mileage at these rates
- abolition of the right of employees/directors who use own car for business to claim a deduction based on actual costs where this exceeds the amount due at IRAM/FPCS rates.

The practical effect of the above is that in some cases the existing advice of having cars owned privately where possible will change. In a few cases it may now be advantageous, after April 2002, for cars to be company owned and funded.

In the short term no action is needed, and we will produce a more detailed briefing on this in the next few months, however if buying a new car now give consideration to its emission ratings.

### CGT Taper Relief – when to sell assets

Taper relief replaced indexation relief from April 1988. It was further reformed for disposals of business assets after April 2000. If you are considering realising an asset that is likely to incur Capital Gains Tax it is worth considering the date of disposal carefully – a short delay in sale could increase the Taper Relief by a year, which in turn reduces the effective CGT rate on the asset. A short call to us can determine whether this will be relevant for you.

Another point to watch is taking care that the higher rate of Business Asset Taper Relief (BATR) is not compromised by tainting an asset with non business use – this can happen if you mix investment and business assets in one company or if an asset is used for a mixture of business and private purposes. Talk this through with us if you are concerned.

### IR35 latest

Many of our clients operate Personal Service Companies (PSCs) and will be potentially affected by the IR35 rules that apply from April 2000.

A judicial review of these rules takes place in March 2001, and may lead to a last minute overruling, however it would be unwise to rely on this.

Over the next few weeks we will be individually reviewing the affairs of clients who operate through PSCs so that IR35 status can be clarified and the deemed salary for 2000/01, if relevant, can be projected. If you operate a PSC you should hear from us by 14<sup>th</sup> March.

There is an assortment of guidance on IR35 available on our web site. We will shortly be producing a consolidated set of guidance notes and a status assessment questionnaire – these will be available in March 2001.

### Class 1A National Insurance

A reminder that from April 2000 Class 1A Employers NI applies not only to cars and fuel but to any employer funded benefit in kind. Care will be needed when completing 2000/01 P11Ds to ensure that Class 1A is charged on relevant benefits – extra confusion will arise because the P11Ds also report details of non taxable expense payments, to which Class 1A NI should not be applied.

Class 1A NI is payable by 19 July 2001 for 2000/1. The existing method of reporting Class 1A NI on the next years P35 has been abolished.