

Garbetts
Pre year end tax planning questionnaire for PSCs 2006-07

Contractor name: _____

PSC name: _____

Garbetts reference _____

Please return by 14 February 2007 – than you

1. IR35 status

It is your responsibility to decide the IR35 status of contracts, in light of the contract wording, advice/reviews received and similar. Please let us know whether:

- all contracts outside of IR35
- all contracts caught by IR35
- some contracts caught, others not caught – if so please set out below which are caught and which are not

We are still able to review contracts for you, but please note 2006-07 reviews must be concluded before 28.2.07. For more information on contract reviews, and a pre review checklist visit (which must accompany all contracts for review)

- www.garbetts.com/download/IR35contractreviews.pdf
- www.garbetts.com/download/contractreview.xls
- www.garbetts.com/download/contractreview.pdf

2. Pension payments

Please let us have details of any pension payments you currently make (we need annual or monthly contribution amounts, policy name), showing separately:

- contributions to executive pension schemes by your company
- contributions to personal pension schemes by your company
- contributions to personal pension schemes paid from private bank account

If you pay contributions for a spouse please let us have similar information.

If you have a EPP please ask your IFA or pension company if there is a minimum salary requirement – it is your responsibility to ensure this is adhered to if there is.

3. Salary levels – self

We recommend, if outside of IR35, a default of £8k pa pro rata if necessary, and subject to any pension funding requirements.

If you want a different salary level please let us know. In most cases the tax implications of dividend v salary are neutral, but salary incurs an additional National Insurance cost. The annual NI cost at different salary levels (employers and employees NI) are:

Salary £5,000	-	£nil
Salary £8,000	-	£704
Salary £12,000	-	£1,655
Salary £18,000	-	£3,083
Salary £24,000	-	£4,512
Salary £30,000	-	£5,940

A salary of below £4,368 will jeopardise state pension/benefit rights, but a salary of £4,369 will protect these rights and leave no NI due. £5,035s is probably the most efficient salary level in monetary terms, but is sometimes seen as provocative. If you have previously paid salaries at higher levels and wish to reduce to this level, then we are happy to process this so long as you accept the risk that it may be regarded as provocative.

It is sometimes argued that a “realistic” salary reduces the risks of an IR35 or S660a investigation – there is no evidence to support this. However for insurance purposes (with our partner Qdos Consulting) a minimum of £8,000 is recommended.

If you are considering an increased salary to try and circumvent S660a, see our analysis at <http://www.garbetts.com/download/S660A.pdf> - generally its better to forgo the spousal dividends than increase salaries to “market” or “commercial” levels.

If you have an Executive Personal Pension plan, please ask your IFA or pension company for the minimum salary requirement.

If you have had a period of sickness or maternity (or a non working spouse has) and wish to claim SSP or SMP, then please let us have the appropriate medical certificates and dates..

<p><u>4. Salary and dividend levels – spouse</u></p> <p>If you spouse does not other wise use his or her personal allowances then we recommend a salary of £5,000 pa.</p> <p>Please advise if you would like a spouse salary on that basis, or at another salary level.</p> <p>If you have no spouse or wish to not claim any spouse allowances, please let us know.</p> <p>Please confirm your spouses income from sources other than your company, so we can check share allocations are efficient.</p> <p>“Spouse” includes common law relationships and civil partnerships.</p>	
<p><u>5. Other income – self</u></p> <p>Please advise estimated levels of any other 2006-07 income, i.e. apart from via your company, eg rental income, bank interest, share dividends, pensions from former employments.</p> <p>IMPORTANT: If you started your PSC during 2006-07 please include details of earnings prior to starting the PSC (per P45).</p>	
<p><u>6. Projected company income and expenses January – March 2007</u></p> <p>Please let us have an estimate of your company income net of vat for the January to March 2007 quarter – this is particularly important if it income level has changed due to new contracts, a period out of contract, etc.</p> <p>This figure should comprise (i) sales invoices to be received between 1 January 2007 and 31 March 2007 and (ii) any invoices for work carried out before 31 March 2007 but paid afterwards (regardless of whether or not an invoice has been raised)</p> <p>Please also let us know if you have any unusual expenses to come through between now and 31 March, eg capital investment in new equipment, and let us have details.</p> <p>NB if your year end is not 31 March, we may need to request further information from you.</p>	

7. Company accounts

If you have not already forwarded us your company accounts information to 31 December 2006 (i.e. quarterly vat papers, bank transactions, receipts, mileage log, etc) , please let us have these as soon as possible.

If you use our spreadsheet format, then that's all we need.

8. Expenses

Please confirm that all travel and mileage expenses in the company conform to the 24 month rule relating to contracted time at the site. See www.garbetts.com/download/expenses.pdf for more information on expense claims and the 24 month rule.

Please advise whether (i) mobile phone accounts (ii) land line accounts are in your own personal name or the company name, and what percentages are claimed of each.

9. Life policies etc

Does your company pay for life insurance, health insurance or similar on your behalf?

If so, please advise the payments under each policy, what type of cover is provided (eg private medical, critical illness, sickness, etc).

Importantly please advise whether the policy is in your name or the company name – this effects its tax allowability.

We need this information to establish any possible benefits in kind. We do not recommend payment of such insurances via your PSC.

We are not interested in professional indemnity insurance, etc.

10. Changes in circumstances

If you have any imminent changes in circumstances, family or business, please let us know.

Eg Marriage, propose to return to permanent employment, seeking work abroad, etc

<p><u>11. Shareholdings</u></p> <p>(a) Does your company have any shareholders other than yourself?</p> <p>(b) Did your company have any shareholders other than yourself, but these shareholdings were transferred out following the first Arctic Systems court appeal being lost in Spring 2005? At that time we advised clients to make such transfers</p> <p>(c) If the answer to (b) is yes, would you like us to now reinstate those shareholdings for you pending the next court hearing / legislation?</p> <p>By way of background S660a is due back in the courts this year, but currently the position at the last level of appeal was to uphold the taxpayers appeal meaning the law and its interpretation are unchanged from previous years, and spousal dividends are possible subject to normal company law obligations.</p> <p>See our S660a guidance at http://www.garbetts.com/download/S660A.pdf</p>	
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<p><u>12. Business reserves</u></p> <p>Historically, the recommendation has always been to restrict dividends to the lower of (i) the amount needed to cover drawings / personal living expenses and (ii) the basic rate tax band. Any unused funds being left in the company to defer Higher Rate Tax.</p> <p>Its becoming evident that whilst tax advantageous, this strategy places funds at risk with respect to IR35 and a safer strategy would be do maximise the dividend each year – this minimising IR35 risk, but does increase the personal tax liability, or, perhaps more correctly, advance the personal tax liability.</p> <p>Our briefing on this is at:</p> <p>http://www.garbetts.com/download/dividendstrategy.pdf</p> <p>Please let us know:</p> <p>(a) would you like dividends maximised to minimise IR35 risk; or</p> <p>(b) would you like to minimise / defer Higher Rate Tax, accepting that this increases the IR35 risk?</p>	
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Thank you for your help in completing this questionnaire