RoffeSwayne
chartered accountants

Issue 1 **2011**

BUSINESSUPDATE

In 2006 Lord Carter of Coles reported on his review of HMRC online services. He recommended that all statutory business tax returns should be filed electronically by 2012 and significant progress has been made to date. The next major milestone, which is nearly upon us, concerns corporation tax returns.

iXBRL deadline approaching fast

All corporation tax returns (including form CT600, tax computations and company accounts) in relation to accounting periods ending after 31 March 2010 and submitted after 31 March 2011, must be filed online as paper returns will no longer be accepted. In addition, corporation tax and related payments must be paid electronically.

It is important to appreciate that compulsory filing will not change:

- who has to file a company tax return
- when the return has to be filed or the tax paid
- what is legally required to be filed as part of a company tax return.

So what is going to change? Well the answer is it's the format in which returns have to be filed. Specifically CT600 returns will have to be submitted electronically via the internet through the Government Gateway and in XML (Extensible Markup Language) format. Accounts and tax computations will also have to be electronically submitted but in iXBRL (inline Extensible Business Reporting Language) format. In broad terms tags are used to define both the content and the structure of the data and operate in a similar way to bar codes. There are many thousands of different tags which are pre-defined using special dictionaries known as taxonomies. HMRC have indicated that from April 2013 all items in the accounts will be required to be tagged. In the run up to then they will allow the use of a minimum (but still a significant) number of mandatory tags.

These formats are computer-readable data standards for financial reporting statements. Extensible Business Reporting Language (XBRL) is being adopted by numerous governments, regulators, companies and organisations across the world. However, XBRL is only machine readable whereas iXBRL is both machine and human readable so HMRC can see what you intended to display. The developments have significant advantages for HMRC in terms of smarter data handling with less manual processing and better risk profiling. Other users of financial data may also benefit as a result of efficiencies.

Additional information such as supporting schedules to the accounts or tax computations can be submitted online in PDF format. Most accountants in business or practice will rely on support from:

- commercial accounts production software
- corporation tax software
- HMRC online filing tool (suitable for straightforward situations only)
- template based workbooks
- conversion software
- outsource providers.

Up until now, companies have needed to file their accounts separately with HMRC and Companies House. However, a combined filing service has recently been announced for small companies with relatively straight forward financial affairs whereby those companies can now make a single online submission. Separate submissions are still required in other situations.

The Government Gateway will reject the filing where parts do not comply with the required format. However, HMRC have recognised that as this is a fundamental change to corporation tax compliance that not everyone will get it right first time. They have indicated that they will take a sympathetic approach to penalties in the first two years of implementation where there is a reasonable excuse and reasonable care has been undertaken.

Please contact Linda Warner on 01483 416232 or lwarner@roffeswayne.com if you need advice on this matter.

Securing business success

As many as half of all businesses fail in their first three years of trading, and the recession has wiped out many well established businesses over the last two years.
A contributor to ensuring business success and avoiding failure is to know your enemies.

A Roffe Swayne factsheet is available which focuses on the key areas to watch, so that success is secured. If you would like a copy please call Jane Steel on 01483 416232 or email her on jsteel@roffeswayne.com.

Client focus

Navigate Design Limited

Navigate, founded in 2002 by Managing Director, Gareth Gammon, is a leading independent marketing communications company, with offices in London and a studio in Petersfield. The company works with clients to create a vision for their marketing strategies and provides a focus on the fine detail of marketing, in order to generate quantifiable results.

Navigate offers publishing services such as creating, writing, editing, designing and producing publications, in print, online or via e-mail. The company also delivers digital and online services in website design and build, Content Management Systems, Search Engine Optimisation, pay-per-click, online newsletters and magazines, web domain registration and hosting – alongside event organization, PR and marketing strategies.

The company's client base covers a wide range of sectors, such as maritime, education, travel, local government, business, charity and sport. Clients include Portsmouth International Port, the Crown Estate, Hampshire Chamber of Commerce, Mitie and the Passenger Shipping Association.

Gareth says: "Our services are personal and provide the drivers which help our customers make a great deal more of their marketing and communications, cost effectively. Navigate helps steer customers on the right course for growth".

Roffe Swayne's involvement with Navigate began in early 2010 when they were recommended to Navigate by accounting software providers Sage. At that time Navigate was implementing Sage 50 Accounts and had a particular interest in the link between Sage 50 Accounts and Traffic job management system. Roffe Swayne's Business Support Manager and Sage specialist, Andrew Bagley, has assisted with the structuring and implementation of Sage 50 Accounts to ensure timely management reporting. Andrew has worked with Navigate to integrate both customer and supplier transactions from Traffic to Sage in order to minimize duplication and maximize the quality of information and profitability by job.

Gareth Gammon says: "In order to provide an efficient and effective service to our clients we need to have the systems in place to be able to do that, and the help that Roffe Swayne have given us on our financial systems has done just that."

www.navigate-design.com
T: 01730 235666

Above: The Navigate team outside the Petersfield studio

Pension contributions

There are many opportunities for pension planning but the rules can be complicated. Anti-forestalling legislation applies in 2010/2011 which has further complicated this area.

The rules include a single lifetime limit (£1.8 million in 2010/11) on the amount of pension saving that can benefit from tax relief as well as annual limits on the maximum level of pension contributions (£255,000 for 2010/11). The single lifetime limit will be reduced to £1.5 million from 2012/13. The annual limit will be reduced to £50,000 for 2011/12. This limit includes employer pension contributions as well as contributions by the individual. Any contributions in excess of the limit are taxable on the individual.

Tax relief is currently available on pension contributions at the taxpayer's marginal rate of tax. Therefore a higher rate taxpayer can pay £100 into a pension scheme at a cost of only £60. An additional rate taxpayer can pay £100 in at a cost of only £50. Indeed for some individuals, due to the complexity of the tax system, the effective relief may actually exceed 50%.

However, for individuals with an income in excess of £130,000 in 2010/11 or in either of the preceding two tax years, special rules may apply to limit the tax relief on certain pension contributions.

With the inability of the government to provide adequate levels of retirement pensions widely acknowledged, it is more important than ever to provide for a secure old age.

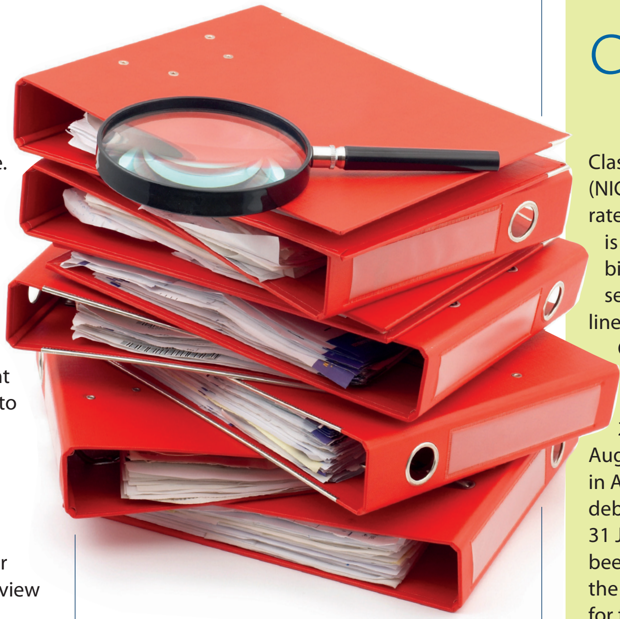
All individuals, including children, can obtain tax relief on personal pension contributions (not retirement annuity premiums) of £3,600 (gross) annually without any reference to earnings. Higher amounts may be paid based on net relevant earnings (NRE).

Individuals can make pension contributions of up to 100% of their NRE in a tax year. Contributions must be paid during the tax year. There is no facility to carry contributions back to the previous tax year for 2010/11 although a facility will exist from 6 April 2011.

Directors of family companies should, as an alternative, consider the advantages of setting up a company pension scheme or, alternatively, arrange for the company to make employer pension contributions. If a spouse is employed by the company consider including them in the scheme or arranging for the company to make reasonable contributions on their behalf.

Please contact Kathryn Knight on 01483 416232 or kknight@roffeswayne.com if you need advice on this matter.

Be alert to records



The ability of those in business to make a complete and correct return of their taxable business profits depends directly on keeping full and accurate records of all their business receipts and expenditure.

However, HMRC have recently indicated that there are problems with the standard of business records maintained by a sizeable number – estimated at 40% in fact - of small and medium sized enterprises (SME). This has come to light in a recently issued consultation document in which they have also announced plans to check up to 50,000 SME business records annually in a new initiative commencing in the second half of 2011.

The policy objective is to check business records in-year and to impose penalties for 'significant' record keeping failures with a view to driving up standards of record keeping across the business population and so reduce any tax lost to the Exchequer as a result of poor business records. Their own revenue impact assessment indicates that this could net the Exchequer revenue of £600 million over the next 4 years!

Small firms face fines for poor book-keeping

HM Revenue and Customs (HMRC) plans to target up to 50,000 small businesses to ensure their book-keeping is up to scratch, with fines of up to £3,000 if any problems are uncovered.

This seems to contrast with a 'light touch' approach which has been adopted towards small businesses in other areas, for example with mistakes arising from the recent change in the standard rate of VAT.

The 2008 Finance Act gave HMRC the power to launch these investigations and it is set to begin doing so in the second half of 2011.

HMRC has argued that forcing smaller firms to keep better records would benefit them in the long term, as it would improve their wider financial management and reduce the chance of a more costly compliance inspection at a later date.

We will continue to offer our support to you, to ensure you are keeping the correct records and prevent such problems from arising. In the meantime if you are unsure of the records you need to keep please contact Liz Beadsley on 01483 416232 or lbeadsley@roffeswayne.com for help, rather than waiting for HMRC to visit.

Class 2 changes

Class 2 National Insurance contributions (NIC) are generally due at a weekly flat rate by all self-employed. Currently, this is actually paid by quarterly account billing or by monthly direct debit. This is set to change in 2011/12, to bring it into line with payments of income tax and Class 4 NIC.

There will be no collections of Class 2 NIC payments from April 2011 until August 2011. Payments will commence in August, from when a monthly direct debit will be taken. This means that by 31 January 2012 six instalments will have been paid, equal to half the liability for the year and by 31 July 2012, the liability for the year will have been paid in full.

There will be an option to pay Class 2 by two six-monthly direct debits, one on 31 January in the tax year and one on 31 July following the end of the tax year, instead of paying monthly direct debits.

As the rate for 2011/12 is set at £2.50 per week the amounts of the monthly direct debits will vary between £10 and £12.50. The six monthly payments will be £65 each.

If you have any questions in relation to this matter please do not hesitate to contact Julie Worsley on 01483 416232 or jworsley@roffeswayne.com.

The chameleon changes

Draft legislation has now been issued to cover changes to the tax treatment of Furnished Holiday Lettings (FHL). Following years of relatively stable and perceived advantageous tax treatment for UK properties, the regime had been under threat of abolition following its extension to European Economic Area (EEA) properties. Instead, following a consultation process, the special regime will continue to apply albeit in a modified form.

It will still be the case that if certain conditions are met, FHL will be treated as a trade. This can be preferable to the tax regime for normal let property in a number of specific areas, as the rules and reliefs for trades are often more generous.

However, from April 2011 there will be two types of FHL business; a UK FHL business consisting of properties in the UK and an EEA FHL business consisting of properties in one or more EEA states. FHL losses will only be able to be set against income from the same FHL business.

New qualifying conditions will also apply but are only due to take effect from April 2012 as follows:

- The property must be available for letting for at least 210 days a year (generally the tax year) and actually let for at least 105 days.

The current position is that the property must be available for letting for 140 days and actually let for 70 days.

- A 'period of grace' will be introduced to allow businesses that do not continue to meet the 'actually let' requirement for one or two years to elect to continue to qualify throughout that period.

Please contact Elizabeth Huson on 01483 416232 or ehuson@roffeswayne.com if you need any advice on this matter.

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Repair at your leisure

The issue as to whether certain expenditure on buildings is repair or capital in nature is often a source of contention between HMRC and taxpayers. From the business perspective a repairs deduction generally provides immediate tax relief whereas capital expenditure on premises may not qualify at all. Two recent cases in this domain both ended in success for the businesses concerned.

The first case concerned an individual who had income from property lettings and claimed a deduction of £119,002 as repairs and renewals. One of the properties let had been owned for 30 years and consisted of a house, an outbuilding, garden and grounds. The listed outbuilding had become extremely run down and was becoming dangerous.

The architect concerned confirmed this and stated that, as the building was listed, there was no option other than to undertake a substantial repair scheme. He was concerned that the roof could collapse if there was heavy snow, the point work had perished, the brickwork had been affected by frost, some of the timbers were rotten and had wet rot, there was no felt under the tiles, the slates had slipped, there was no damp course, an internal partition was required to keep any timber away from moisture and the rafters, doors and windows were in an appalling state of repair.

The plans for the repair scheme were produced to the Tribunal, including photographs of the outbuilding, before and after the work and the consent letters from the council. In undertaking this repair scheme it had also 'made sense' to bring the interior more up to date, including heating, electric power points and water supply, although there were no basins, toilets, kitchen or anything that would allow the building to be anything more than additional living space ancillary to the main house.

The work involved shoring up the structure, grouting, pointing, decorating and replacing windows, doors and roof, keeping exactly to the previous external design apart from a change to the size of a door.

The Tribunal found that the disputed work was one of essential repair. What was very important in this case was all of the factual evidence that the taxpayer was able to produce.

Are alterations incidental?

The second case concerned £63,050 incurred by a company on the construction of a control room to house security equipment. The issue was whether this could qualify as alterations to an existing building incidental to the installation of plant and machinery for the purposes of the company's qualifying activity. If so, then the costs incurred on the construction if not repair expenditure could at least potentially qualify as plant and machinery.

The control room was contained within an existing building already in use by the company and it required substantial alteration to turn it into the control room in question. The existing walls, floors and ceiling had to be strengthened, a floor compatible with extensive computer usage had to be installed, an interlock needed to be fitted, as were fire-proof security doors.

The room was also adapted to render it substantially independent in terms of its facilities. It was provided with washroom facilities, a kitchen and an independent power supply.

In this case, the Tribunal held that there was a close enough link between the costs incurred and the equipment in question and so the majority of the construction costs were allowed.

This is an area of tax which continues to evolve so if you are thinking of any major repair work and want to know the most tax efficient method before you start, please get in touch with Mike Walsh or Rob West on 01483 416232. Mike's email is mwalsh@roffeswayne.com and Rob's is rwest@roffeswayne.com.

VAT Matters for the Smaller Business

We have a factsheet available on VAT matters aimed at smaller businesses. This report highlights common risk areas and will help to reduce errors and minimise penalties.

If you would like a copy please call Jane Steel on 01483 416232 or email her on jsteel@roffeswayne.com.

Your contacts

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Chris Baxter, Mark Leigh, Sharon Ward, Jeremy Gardner, Linda Warner, John Fisher, Elaine Way, Tony Kelly, Matthew Katz, Liz Beadsley, Helen Kay, Lulu Emms and Jon Vickery.

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Promotions at Roffe Swayne

We are delighted to announce the promotion of Jonathan Vickery and Lulu Emms to Director.

Jonathan, Director of Audit, joined Roffe Swayne in 2001 having previously worked at Citroen Wells in Central London. He undertakes audit work for the firm's larger clients but specialises in audits of Solicitors, Financial Services Authority members and Pension Schemes.

Lulu, Director of Accounts, has been with Roffe Swayne since 1993. She undertakes accounts work on a wide variety of clients specialising in owner managed businesses.

Roffe Swayne's Managing Partner, Sharon Ward, said "Jonathan and Lulu are both immensely valued members of our team. These promotions reflect their commitment to providing excellent client service and their contribution towards the continued success of Roffe Swayne."