

# Solutions

## Welcome...

...to our Christmas issue of Solutions, complete with lots of topical essential reading and useful articles contributed by our team members. As ever, we'd be interested to hear what you think so please share any feedback with **Victoria Doyle** by calling **0113 297 6767** or email **v.doyle@sagars.co.uk**

## Making sense of the new pension regime

There have been some dramatic changes to the way that certain pension contributions attract tax relief recently and it's taken a while for the new rules to become clear - not least because the proposals were altered several times before the Finance Bill was granted Royal Assent and the Chancellor re-visited the subject in his Pre-Budget report (PBR) on 9 December.

### A reminder about pre-2009 rules for individuals

From A Day, 6 April 2006, an individual could pay a pension contribution of up to 100% of net relevant earnings, receiving full tax relief up to a maximum of £215,000, a figure which increased each year to the 6 April 2009 limit of £245,000. A company could contribute up to £215,000 per employee per annum. These contributions had no personal tax implications for the individuals and the company could get corporation tax relief, subject to successfully demonstrating that their contributions were "wholly and exclusively" for the benefit of the trade.

### Clarification of the new regime

The new rules, which will affect pension contributions made after 5 April 2009, broadly limit higher rate tax relief on pension contributions made by anyone with taxable income over £150,000. In his PBR, the Chancellor also clarified the position in relation to company pension contributions and, in very broad terms, if your income is consistently below £130k per annum, then company contributions should not create a personal tax charge. More information is available in our Pre-budget report briefing, please contact us if you would like a copy.

In addition, because income is something that a taxpayer can potentially manipulate (e.g. if you own your own

company, you can choose what to pay yourself in a given tax year), a two year look-back test has been introduced with the aim of uncovering any such income manipulation.

### Explaining how the new rules apply to contributions by individuals

If your taxable income for the tax years 2007/08, 2008/09 and 2009/10 is consistently below £130k then you should not be affected by these new rules. For example, if your total income was equal to or less than £120k for each of the three years and you paid pension contributions of £40k a year, you can expect full tax relief on these contributions assuming you had sufficient relevant net earnings.

However, if your total taxable income was above the £130k threshold, the new rules will limit your ability to get higher rate tax relief on your pension contributions. If you have made regular (at least quarterly) pension contributions, you may still be able to make contributions at that level in each of the tax years to 5 April 2010 and 2011. Otherwise you will be limited to the lower of £30k or the average of your annual contributions in the three tax years to 5 April 2009. The fall back position is that you can get full tax relief on £20k of contributions.

From 6 April 2011 the rules are due to change again. Against this backdrop of change and complication, it is most certainly advisable to take specific advice before making any decisions or taking action regarding your pension.

If you have any Pension related queries, please get in touch with your usual Sagars contact or Kate Naylor on 0113 297 6825 or [k.naylor@sagars.co.uk](mailto:k.naylor@sagars.co.uk)



## Tax return filing deadline - final call for your information

Please ensure that we are in receipt of all of your records and any supporting documentation to enable us to finalise your tax return and file it with HMRC by the 31 January deadline. Please be aware that 31 January falls on a Sunday this year and we will be looking to submit returns on Friday 29 January so will need your signed returns back well before the 29th to help you avoid late filing penalties.

# VAT - rate increase and important online filing preparations for our clients

## The standard rate of VAT returns to 17.5% from midnight on 31 December 2009.

There will be a period of grace for businesses (such as pubs, restaurants etc.) trading across the midnight deadline to charge the lower rate until either the time when they close or, if earlier, 6:00am.

As a result of this change you might want to consider forwarding your books and records to us as a priority, so that we can complete your work and bill you at the lower rate!

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## For many businesses, on-line VAT return filing will become compulsory from 1 April 2010.

This will apply to all businesses with turnover exceeding £100,000 pa or those registering for VAT from 1 April 2010, regardless of their turnover. It is anticipated that all VAT registered businesses will be expected to submit returns electronically - probably from 2012.

Sagars have registered as an on-line agent with HMRC so that we can submit returns for our clients. However, each client must register through the Government Gateway or Customs' website, activating their registration once an authentication code has been received. Sagars can then be nominated as an agent by the client upon submission of our ID code.

Thereafter, HMRC will issue VAT Return prompts to us, acting as your agent. Returns will then be submitted on-line and payment made to HMRC electronically by the registered business. The existing VAT Return periods will remain unchanged.

It is important, therefore, that you let us know if you require this service so that we can work with you to ensure that we take the necessary steps to have the right procedures in place before 1 April 2010.

If you have any VAT queries, please get in touch with your usual Sagars contact or John Fisher on 0113 297 6901 or by email [j.fisher@sagars.co.uk](mailto:j.fisher@sagars.co.uk)



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## Sage and Windows - compatibility issues to be aware of

**If you are currently using Sage Accounts 2007 (v13) (or below) or Sage Instant Accounts version 12 (or below) and you're considering buying a new PC - beware, your existing Sage program may cease to operate correctly with your new hardware!**

The PC you are currently using will most likely have Windows XP installed as the operating system. This operating system was replaced with Windows Vista in 2006 and more recently with Windows 7 in October 2009, so

any new PC you buy will probably have Windows 7 installed.

Sage Accounts 2007 (v13) (or below) and Sage Instant Accounts version 12 (or below) will not operate correctly on PCs with either the Windows Vista or Windows 7 operating system. So, in addition to upgrading your computer, you would also have to upgrade your Sage package to enable continued use.

Contact Sara Martlew on 0113 297 6723 for further details and the cost of upgrading your Sage Package.

## How do you feel about kissing your loved one under the mistletoe this year?

During the festive season couples spend longer periods of time together and (it's widely reported) argue more as a result. Add to that financial worries and having to put up with each other's relatives and it's no great surprise that one popular new year's resolution is to divorce.

Whilst "tax planning" may not be uppermost in your mind as you set off to see your divorce lawyer, something to be aware of is that you can end up paying capital gains tax where assets are transferred between spouses as part of a divorce and there is a finite period from the time you permanently separate where this tax can be avoided. The moral of this story therefore is to ensure that you add your tax adviser to the list of people to speak to - as soon as possible!

## HMRC interventions

**H M Revenue & Customs (HMRC) have changed the way that they conduct enquiries, reserving traditional enquires for higher-risk taxpayers and applying an 'intervention' based approach for others.**

HMRC will now use more informal means of communication and are permitted to conduct one enquiry to deal with all taxes. Visits to business premises, previously reserved for VAT and PAYE investigations only, may now extended to Income Tax and Corporation Tax enquiries.

There is now a greater risk that a specific aspect of a tax return will be queried by HMRC, which could lead to a more extensive enquiry. There is also the potential for a taxpayer to be selected for a complex cross tax enquiry which could cost thousands of pounds to defend against.

In response to this we have reviewed the scope of our Fee Protection Service to ensure that it provides adequate protection. From renewal, a new service will be provided which has a much broader scope and simply covers fees incurred by ourselves for attending meetings with HMRC and dealing with any HMRC correspondence. The service excludes routine compliance work for fees incurred in respect of the routine presentation of a client's affairs (e.g. preparing a tax return) and fees incurred in respect of attending the record review stage of a HMRC meeting. Full terms and conditions are available on request.

**Clearly the importance of purchasing protection against HMRC enquiries is greater than ever and we strongly recommend that all clients take advantage of this Service. Please get in touch with your usual Sagars contact if you have any queries.**

## Go green to save on tax

**Instead of dreaming of a white Christmas, think about the green options that are available to help you minimise your tax liability.**

If you buy a low emission, energy efficient car through your company, you could gain 100% capital allowance tax relief in the year of purchase. In addition, the recipient of the car will benefit from a very low benefit in kind charge and, depending upon the vehicle, you could also enjoy road fund licence at nil rate.

For details about the vehicle makes and models that are considered good green options take a look at the following website:

[www.thegreencarwebsite.co.uk](http://www.thegreencarwebsite.co.uk)

The Enhanced Capital Allowance (ECA) scheme is a key part of the Government's programme to manage climate change. It provides businesses with enhanced tax relief for investments in equipment that meets published energy-saving criteria.

For more information about the equipment that qualifies for the allowance and further details about the scheme and its benefits, eligible products and their performance criteria, visit the following website:

[www.eca.gov.uk](http://www.eca.gov.uk)

Your usual Sagars contact can help you with any queries or you can get in touch with Becky Bonner on 0113 297 6750 or [r.bonner@sagars.co.uk](mailto:r.bonner@sagars.co.uk)

## Christmas gift ideas

**Christmas is a time for giving so here are a couple of gift ideas that could reduce your exposure to Inheritance Tax.**

**Firstly**, suppose you own a property that is worth £700,000 and you leave it all to your surviving spouse in your Will. Although there is no Inheritance Tax payable if you die first, tax could be payable when your spouse dies. Had you left a small interest (say 1%) in the property to your children or a family trust, your spouse would no longer own the whole of the property. A discount of 10% could be applied in arriving at the value of a 99% share in the property, and in our example the tax saving would be nearly £28,000.

**Secondly**, imagine you own an investment property jointly with your brother and you want to give this to your daughter to avoid IHT on your death, but you cannot afford to lose the income. You might expect that keeping the income would deem the property to remain part of your estate, under the gifts with reservation of benefit rules. Surprisingly, these rules do not apply to a gift of an undivided share in an interest in land, so after seven years the property would drop out of your estate. However, the gift is a disposal for Capital Gains Tax so you will pay 18% tax on your unrealised gain, using current market value (suitably discounted of course as you only own a share!) as your sale proceeds. In some cases, this tax may not be a significant problem and a price worth paying to avoid a higher IHT charge at 40% later.

**Colin Williams can assist you with any IHT queries, please contact him on 0113 297 6736 or email [c.williams@sagars.co.uk](mailto:c.williams@sagars.co.uk)**

# We wish you a merry Christmas and a happy new year

It's a long standing Sagars tradition that we make a charitable donation in lieu of sending festive greetings cards to our clients and professional contacts. We have been pleased to support Leeds based St. Gemma's Hospice in this way for the past six years and are delighted to pledge our 2009 donation to them. St. Gemma's is a very worthy cause and we hope that you approve of our decision to assist them.

We would like to take this opportunity to wish you a very happy festive season from all of the team at Sagars

Our offices will close at 12 noon on Thursday 24 December and open again on Tuesday 29 December, remaining open with the exception of Friday 1 January.

## Calling all business angels

**This is a popular time of year for angels - but we're more interested in those who want to invest in business than the type you might find on top of your Christmas tree!**

It is understandable in the current climate that the availability of funding is restricted and this has resulted in more opportunities for business angels.

We have a number of potential business angels registered with us as well as those who are looking to tap into the alternative sources of funding and support that angels can provide.

If you are interested in registering with us as a business angel, please contact Clive Smetham (details opposite). Not only can we help to match you up with suitable businesses investments, but we can also advise you on the Enterprise Investment Scheme (EIS). Taking advantage of this can potentially provide a tax efficient arrangement to ease any investment that you make.

## Are you seeking funding?

**Do you have a project that needs additional funding? We might be able to help you locate that crucial finance.**

Maybe you simply need working capital, perhaps you're looking at improving your green credentials or considering re-branding? Alternatively, you might be contemplating expansion or investing in new technology. Whatever your circumstances, there are a number of initiatives and less obvious sources of finance that may be available to you to help you achieve your goals. Access to these funds is dependent upon meeting certain criteria but we can introduce you to a number of possibilities, assess your suitability for each and hopefully help you to secure the additional funds that you require.

If you are interested in investing or exploring funding options, contact Clive Smetham on 0113 297 6700 or email [c.smetham@sagars.co.uk](mailto:c.smetham@sagars.co.uk)



## Charitable giving

**The season of goodwill increases our awareness of charitable giving and we are all familiar with making cash gifts under Gift Aid. The charity benefits by reclaiming income tax equivalent to 25% of our gift and, if we pay tax at higher rates, we obtain some tax relief too.**

However, many of us donate goods to charities, and generally Gift Aid will not apply unless your chosen charity can match your goods with their eventual sale proceeds. Therefore, some charities are bar coding donated goods with a unique donor reference and can record every item they sell on your behalf.

Provided you and the charity ensure these goods remain your property until sold, and you have the right to keep all or part of the sale proceeds, the charity is actually selling your goods on your behalf. After they have been sold the charity would invite you to donate the sale proceeds so you have now made a qualifying Gift Aid payment in cash. If you donate goods of significant value to charity, asking them to record what they have sold could save you tax and boost their income too.

Colin Williams can help you with any queries relating to this article, contact him on 0113 297 6736 or [c.williams@sagars.co.uk](mailto:c.williams@sagars.co.uk)



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