

# Tax Newsletter



## VAT: changes to the cash accounting scheme

HM Revenue & Customs have announced changes to the Cash Accounting Scheme which will take effect from 1 April 2007.

The changes are:

The annual turnover limit below which businesses can start to use the scheme, will increase from £660,000 to £1.35 million.

The annual turnover limit above which businesses must leave the scheme, will increase from £825,000 to £1.6 million.

The scheme allows eligible businesses to account for and pay VAT to HMRC only when they receive payment from their customers. A condition of this treatment is that users of the scheme can only recover VAT on purchases when they pay their suppliers.

For most businesses the scheme offers a cash flow benefit and provides automatic relief from VAT on bad debts without the need to apply for Bad Debt Relief.

Clients with relevant enquiries about this or any other aspect of VAT can contact Peter Wood, VAT Manager.

## Company cars – advisory fuel rates

With uncustomary efficiency, HM Revenue & Customs have adjusted the advisory fuel rates for company cars 'to better reflect the current cost of driving business miles'. They point out that fuel prices have fallen by more than 10% since the rates were last set. (NOTE: Rates for business mileage in employee owned cars remain unchanged).

The new rates were announced on the Revenue's website on 1 February 2007 and came into effect from that date. However, perhaps in an attempt to soften the blow, it was announced on 7 February 2007 that 'where employers have practical difficulties implementing the new lower rates they can continue to use the older higher rates for a further month, i.e. to 28 February 2007, without having to take account of the

income tax, NIC and VAT implications of paying allowances at the higher rate. This will allow time for drivers and employers to adjust to the new rate.'

The new rates are as follows:

Engine Size	Petrol	Diesel	LPG
1400cc or less	9p	9p	6p
1401cc to 2000cc	11p	9p	7p
Over 2000cc	16p	12p	10p

HM Revenue & Customs have stated that they aim to 'provide employers with as much certainty as possible by keeping the fuel rates unchanged where there are modest variations in fuel prices. In line with the commitment made when they were introduced, they will be reviewed during a tax year only in the event of a variation in fuel prices of greater than 10% from the prices used at that time.'

We trust HM Revenue & Customs will react as quickly should fuel prices increase...

## Pension planning

A-day has introduced a wide range of opportunities but has also removed some valuable facilities. The new system has **no carry back**, carry forward or basis year procedures, which makes it more important than ever that you take advantage of the opportunity to contribute to your pension within the same tax year as you earn the income.

From A-day, 6 April 2006, you can make fully tax relievable personal contributions of up to £215,000 per annum, or your earnings if lower. You would obtain basic rate tax relief at source with a further relief available via your tax return if you pay tax at the higher rate.

Therefore, you might wish to consider making a one-off pension contribution in order to minimise your income tax liability for the 2006/07 tax year. The pension contribution must be paid before 5 April 2007. If you intend to make a contribution before this date it may be possible to reduce your tax payment due on 31 July 2007.

**Please contact us if you wish to discuss this further.**

## Great news for company directors

HM Revenue & Customs have finally published updated guidance on the position of tax relief relating to employer contributions into pensions, confirming the 'wholly & exclusively' rule will only be applied in limited circumstances.

In the original guidance published for A-Day in the Business Income Manual, HMRC stated contributions would only qualify for tax relief if they were 'wholly and exclusively' for the purpose of the business.

However, the rules have been described as both vague and confusing for IFAs, the industry and even for local inspectors of taxes who have to make the final decision on whether contributions meet the new rules.

In the new guidance HMRC confirms the payment of a pension contribution is part of the normal costs of employing staff and as a result the 'wholly and exclusively' rules will generally only be considered in limited circumstances.

The new guidance, which is effective for all accounting periods ending on or after 6 April 2006, will particularly affect owners and directors of companies and any connected employees, such as a spouse or child who may work for them.

Reaction from the pensions industry to this long awaited clarification has been very positive. Andrew Tully, marketing technical manager at Standard Life, says: 'This guidance allows employers and advisers to plan pension contributions with more confidence, as it is clear the vast majority of pension contributions will receive full tax relief.'

And Tully adds: "For connected people such as spouses, pension contributions comparable with unconnected employees is acceptable, but if there is no comparable employee, a contribution which aims to provide a reasonable benefit at retirement – such as two-thirds of salary – shouldn't give HMRC any cause for concern."

If you would like to discuss this further please contact **Maurice Arthur**, Wealth Management Manager.

## VAT: more bad debt relief for businesses supplying goods on credit

### Background

Where a business supplies goods on credit there are two supplies – goods (taxable) and credit (exempt). Businesses must account for VAT on the supply of goods at the time of sale. However, where customers default, businesses are allowed to make claims

for bad debt relief. Previously, VAT legislation restricted the relief to a 'straight-line' methodology between the value of the goods and the exempt credit. This is now being changed.

### What has changed?

HM Revenue & Customs has announced an amendment to the bad debt relief rules which can be applied from 1 September 2006 and must be applied from 1 September 2007.

### What are the new rules?

New legislation will, for the first time, allow businesses to reflect existing commercial practice such as an actuarial method or the 'Rule of 78'. The purpose of any calculation is to arrive at the amount outstanding in respect of the goods element, which is then used for calculating the amount of bad debt relief that can be claimed.

Between 1 September 2006 and 31 August 2007 businesses have been given a choice of using either the old or new rules.

If you would like to know more about this change and its potential benefit to your business, please contact **Peter Wood**, VAT Manager.

### Important dates

<b>21 March 2007</b>	Budget
<b>6 April 2007</b>	New CIS rules come into operation

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