



CURRENT TAX TOPICS

Increased VAT from 1 January 2010

At the moment, despite the warnings of the difficulties it will cause from the major retailers, the VAT rate will rise to 17.5% on **1 January 2010**. HM Revenue and Customs have introduced measures to prevent deliberate advancing of invoice dates to give customers the benefit of the 15% VAT rate.

For those of you who are not registered for VAT, or who are unable to recover the VAT on our charges, an additional cost will arise from the higher VAT rate if your 2009 tax return/accounts are prepared after 31 December 2009. Accordingly, if you have not already given us the information to deal with your tax return and or accounts we would encourage you to do this as soon as possible and at the latest by **31 October 2009** so we can endeavour to ensure your 2009 fee is charged at the 15% rate.

Those of you who are in business and have customers who are unable to recover VAT on your charges will also want to consider carefully the timing of your charges made before 31 December 2009.

Income tax changes from 6 April 2010 onwards

Our annual newsletter highlighted the changes in income tax rates that will apply from next April. Whilst tax planning opportunities are limited, particularly with the restriction on large one off pension contributions, there are some possibilities that occur to us. Unincorporated businesses whose proprietors have annual income in excess of £100,000 and who have the ability to defer significant amounts of revenue expenditure (such as repairs) until after **5 April 2010**, may want to consider doing so, firstly to prevent a claw back of personal allowances and secondly, where income exceeds £150,000 per annum, to obtain relief for the expenditure at the new 50% rate.

Those who operate their businesses through limited companies will need to consider the timing of withdrawals of profit as salary or dividend to achieve the best result in terms of their own income tax liabilities. The use of a limited company does offer more scope for controlling one's personal income from the business and individuals who are affected by the new tax rates may want to

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consider incorporating their businesses to obtain that greater control. However, the potential tax savings from incorporation have to be weighed against the other pros and cons of operating via a limited company.

Finally, individuals who do not run businesses may also be able to improve their position; the point on timing of expenditure is equally relevant for property rental activities while those who make substantial gift aid donations should also consider the timing of these.

Hopefully the foregoing comments illustrate some of the possible ways in which the hike in personal tax rates from next April can be dealt with. The remaining time until 6 April 2010 offers valuable breathing space and if you want to discuss these or any other tax planning strategies further please contact the partner dealing with your affairs as soon as possible.





HM Revenue and Customs enquiries

With the current state of the economy, the pressure is undoubtedly on HMRC to raise as much revenue as possible and we are seeing evidence of this in the more aggressive approach they are taking on tax return enquiries. A couple of examples:

- Self employed medical consultants are being refused a deduction for the cost of travel to and from their home, even when the home is established as the place of business, perhaps with a consulting room where patients are regularly seen.
- Mileage logs are being asked for covering the entire year to justify motor expenses claims, rather than one for a representative month.

In this new regime, it is vital that detailed records are maintained to support the business expenditure claimed, as HMRC are loath to allow a deduction for any items that are not supported by a receipt or invoice. We would also remind clients that it is a requirement that all business records are retained for a period of six years. Where HMRC

identify an additional tax liability in the year of enquiry they frequently seek an adjustment for the previous five years also and it is important that we have the detailed records to refute such an adjustment if appropriate.



Estate planning

To suggest that assets are given away during an economic downturn may seem an odd idea, but for those who are able to do so, now is an opportune time. Gifts of assets carry capital gains tax as well as inheritance tax implications, and in this period of depressed values it may be possible to transfer assets to the next generation without incurring a significant CGT liability.

With the present fiscal pressures our feeling is that there could

well be a scaling back of the 100% business property relief currently available for inheritance tax purposes and if this does occur owners of shares in unquoted trading companies may regret having delayed the passing of those shares to the next generation until their death. Loss of control is another reason given for doing nothing, but that point can be addressed by use of a trust.

We are always happy to discuss estate planning with our clients as we feel our detailed knowledge of their financial affairs and in many cases their family situation places us in an ideal position to advise, and to ignore estate planning in the current economic climate could be a wasted opportunity.

Disclaimer

This newsletter is intended to give general guidance only and no liability can be accepted for any action taken based on the information given. For advice on any specific queries arising from the topics covered above please contact the partner dealing with your affairs.

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