

# UPDATE

Spring 2006

## HELP IN THE EARLY YEARS

Early Years Recruitment Ltd (EYR) is a client with a real **success story** to date and still has many **exciting opportunities** ahead.

EYR was incorporated on 27th March 2003 by Mike Price who had worked in recruitment for eight years prior, with five of those years specialising in education recruitment.

It is the only truly specialist recruitment company in the North of England providing support to schools and nurseries in the form of nursery nurses and classroom assistants.

With no previous knowledge or experience of owning or managing a business, Mike would be the first to say that the past few years have been a steep learning curve.

Mike has certainly learned fast, however, with EYR experiencing amazing success almost immediately and now boasting three branches; it's not stopping there. With further

acquisitions and a franchise project in the pipeline, 2006 is looking to be another year of growth and success.

Working within a highly skilled sector Mike and his team have little spare time to concentrate on the back office aspects of running a business. He believed that EYR needed a strong and able company to take care of this element and to provide business support in all areas. This support has been provided by Clarke Nicklin.

Mike was introduced to Andrew Baggott at Clarke Nicklin through a recommendation from a funding provider after identifying the need to ensure appropriate funding was in place for the development of his business.

(See page 2)



Mike and his team celebrating the early success of EYR



CHARTERED

an

ACCOUNTANTS

integral

BUSINESS

part of

ADVISORS

your

TAX

success

CONSULTANTS



Continued from front page

Andrew reviewed, advised on and project managed the implementation of an appropriate funding package, which also entailed advising on a restructure of the accounting and administration operations of the business.

Mike says: "This introduction to Clarke Nicklin has worked out perfectly for me. As well as getting the advice and assistance to sort out my initial requirement, this exercise also resulted in an objective and positive review of the whole of my business operations with Andrew.

"As a result of this, I felt that the best solution for my business was for Clarke Nicklin to provide a complete outsourced finance function covering my accounts processing, payroll bureau, management accounts, tax advice and even management of day to day online banking and finance.

"I also have the added benefit of frequent partner contact with Andrew, giving access to invaluable advice akin to employing an experienced finance director.

"With all of this and my compliance requirements covered, I can concentrate on development opportunities, safe in the knowledge that I have a team of professionals working with me, who have the expertise to help me control and develop my business."



Mike Price

# YEAR-END TAX REVIEW

**Most people would prefer not to think about tax, but if you can bear to do so, you may end up paying less of it. It's a good idea to review your tax affairs at least once a year and the end of a tax year is a good time for it.**

**This newsletter sets out some of the areas which should be included in a 'year-end tax review'. Of course, the precise circumstances of each individual have to be taken into account in deciding whether any particular plan is suitable or advantageous – but these suggestions may give you some ideas to discuss with us.**

## Employee cars and fuel

Employees usually depend on their employers to come up with a tax-efficient pay package. But there are some points which employees should watch out for, in case the employer hasn't noticed.

Company cars themselves are taxed on a percentage of their original list price, based on the carbon dioxide emissions rating of the vehicle. The calculation of the benefit has been changing each year to increase the tax on 'gas guzzlers' progressively, but at least it's now fixed for a few years to come – the minimum 15% benefit is available on ratings up to 144g/km in 2005/06 to 2007/08.

The main planning point arises if you are due for a change of company car. You may consider whether a lower-rated car would be attractive because of the lower tax charges. You may also think about owning the car yourself and claiming a mileage allowance for business use – the employer can pay 40p a mile tax-free for up to 10,000 miles in a year.

On the other hand, the rules are quite favourable for those with a 'pure perk' car – minimal business mileage – as long as it has a low CO<sup>2</sup> rating.

The benefit of having the employer provide free fuel for private motoring in a company car is based on the same percentages as the car benefit, applied to a fixed figure. It is worth checking that the tax you pay to the Revenue doesn't outweigh the benefit of not having to pay the garage for petrol. For example, if you have a salary of £40,000 and a company car with a CO<sup>2</sup> rating of 170g/km, the tax on a petrol benefit in 2005/06 would be £1,210, and your employer will pay NIC of £387. If your private petrol would cost less than that altogether, it would be cheaper to pay for it than to have it free.

The recent rises in the cost of fuel make the sums complicated again – because the Revenue's fixed figure hasn't gone up. But it's still likely that 'free fuel' is actually not a good idea.

## Should VAT be flat?

A simplified 'flat rate VAT scheme' is available for businesses with turnover of up to £150,000. You pay a lower rate of output tax on your sales, but you don't claim input tax on your expenses. The rate depends on the type of business you are – some rates seem to be generous and some are less so. It is at least worth considering the figures if you qualify, to see if it might save you money or time, or even both.

# N... THINGS TO CONSIDER

## Capital gains

Up to 1998, it was common to 'bed and breakfast' shares just before the end of the tax year, in order to take advantage of the annual tax-free allowance for CGT. This particular plan – selling a shareholding and buying back exactly the same thing the next day – no longer works, but it is still possible to achieve the same result (at the cost of more stockbroker's commission) by switching to a different investment. On a substantial portfolio and over a period of years, this can save a great deal of tax.

The 'taper relief' which was introduced to replace the old inflation allowance goes up for those assets which have been held since before 1998 on 6 April each year. If you are thinking of realising some investments, it may be best to wait until then – and you'll pay any tax a whole year later, as well.

Taper relief is much more generous for 'business assets' than it is for 'investments'. From 6 April 2004, property let to an unincorporated trader – such as a sole trader running a shop – has qualified for business assets taper in the hands of the landlord. The trouble is that the previous years of non-business ownership up to April 2004 still only entitle you to the lower rate of relief. The complications of taper relief are such that the most important thing is to understand what your assets count as and how much relief you are likely to get. It's better to take advice on this early, rather than to be disappointed by a lower level of relief than you expect after you have sold something.

## Two jobs = Too much NIC?

If you have more than one employment, or an employment and a self-employment, you could end up paying too much in National Insurance Contributions. There is a higher rate of NIC (11%) on the first slice of everyone's income, then a 1% charge on income above a set limit (£32,760 in 2005/06). If two employers pay salaries separately, or you have employment and self-employment, you may pay 11% on two separate amounts that add up to more than the limit.

It is a simple matter to apply for the limit to be operated on the combined figure, but it is supposed to be done before the start of a tax year in which you are likely to pay too much. It is always easier not to pay NIC than to get it back after overpaying!

## Tax-free perks

The taxman usually wants a slice of any 'benefits in kind' provided by an employer to employees – particularly if they are directors of their own limited company. But there are quite a few benefits that are tax-free by law and so if your employer buys them for you, that's cheaper than paying you salary (with tax) for you to buy them yourself. There is a long list of possibilities, but here is a selection:

- childcare vouchers of up to £50pw
- mobile telephones where the employer owns the phone
- computers for home use worth up to £2,500
- vans where the private use is restricted to home-to-work travel
- loan of a bicycle for commuting

## Investment limits

Contributions to some tax-favoured investments are capped for each fiscal year. The limit for Individual

Savings Accounts (ISAs) is £7,000 in total. You can put up to £200,000 a year into Enterprise Investment Schemes and the same amount into Venture Capital Trusts. Extra pension contributions may get better relief if you make them before the end of the tax year.

Of course, the tax relief does not on its own make something a good investment – but if you are thinking of putting money into one of these schemes, you may want to do so before 5 April to maximise the benefit.

## Second homes

The property market has been the source of big profits in recent years. Gains on your 'only or main residence' are not charged to tax (unless you use part of it exclusively for a business purpose), but a second home or an investment property are chargeable.

If you actually use more than one property as a residence, you can choose which one you want to be

exempt from CGT. Although this might be the one that you live in most of the time, you are likely to obtain an advantage – and give yourself greater flexibility in the future – if you make an 'election' within two years of acquiring the second home. For example, if you decide to sell the second home first, or if the gain on it is larger than the gain on your main home, it might be useful for it to be exempt. You can only elect for a 'residence' to be exempt, not an investment property that is let out to others. So a 'buy-to-let' property is chargeable to CGT and receives the lower rate of taper relief. But if you are letting out a property that you have lived in, or you move to live in a property that you have let out, you can enjoy significant extra reliefs.

**Steve Humphries and Tony Jakara will be pleased to discuss your year-end tax situation.**

# Staff SPOTLIGHT

**The most important asset in our business is the people who work for us. With this in mind, we have decided to introduce a member of our team in every issue of Update.**



In our first Staff Spotlight may we introduce Vicky Collins.

Vicky is the longest serving member of our tax department, having joined us back in 1993 as an audit junior. She moved into our tax department in 1996 as a tax junior and is now one of our tax seniors.

Within the department, headed by Tony Jakara, Vicky is responsible for some 250 of our personal tax clients and all of our P11D clients. Her work covers the preparation, formulation and submission of their tax returns and all P11D returns.

She is the friendly voice at the end of the telephone for these clients and the interface between them and HM Revenue & Customs.

So why after 13 years is she still with Clarke Nicklin? Vicky replies: "Because I enjoy my job, the variety of the work, the relationships that I have built up with a diverse range of clients and the satisfaction I get from doing a good job for them.

"Hitting the return deadlines can at times be a bit fraught but even that often adds to the buzz of the job."

Outside of work, Vicky's main preoccupation is her 21/2 year old son, Matthew and, when time permits, reading and listening to music.

## Revised VAT rules on mileage allowances

New regulations regarding the recovery of VAT on mileage allowances came into force on 1 January 2006.

- The main change to the current system is that an invoice must now be retained in support of a claim for VAT recovery. Prior to this, businesses had been allowed to recover the VAT without the need to hold a VAT invoice.
- The change is effective from 1.1.06 regardless of the VAT return period end date. From that date, employers should retain VAT invoices, including the less detailed VAT invoices normally provided by garages and supermarkets as proof of purchase.
- HMRC acknowledge that businesses will need a little time to make the necessary changes to their arrangements in order to hold VAT invoices in support of their claims. Therefore, HMRC will be administering the change with a light touch until such time as businesses have had a reasonable period to adjust to the new requirement.
- As with the existing system, input tax may only be claimed on the cost of fuel for business use. As such, invoices only need to cover this amount.
- HMRC accept that the amount of the invoice in many cases will not match the input tax claim in respect of business fuel in any one claim period and invoices may cover more than one period, particularly where fuel is purchased towards the end of a period.
- Clearly, a claim cannot be supported by a VAT invoice which is dated after the dates covered by the claim. This means, in practice, that it may be advisable for employers to arrange for their employees who use, or may use, their cars for business purposes to retain all fuel invoices. This will ensure that, at the end of the claim period, the value of business fuel is covered by an invoice.
- The input tax deduction rules with regard to Partial Exemption are unaffected by these changes.
- The fuel prices per mile rates used to determine the business fuel cost remain unaffected. HMRC publish their own rates but also accept rates set by recognised motoring agencies, e.g. RAC, AA etc.

**If you are unclear about this new procedure, please contact Tony Jakara.**

Clarke Nicklin LLP, Grove House, 227/233 London Road, Hazel Grove, Stockport SK7 4HS

t: 0161 483 5284 f: 0161 483 1464 e: enquiries@clarkenicklin.co.uk w: clarkenicklin.co.uk

This firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide.