Autumn 2011

vision

Newsletter of HartleyFowler LLP

This issue covers current topics including: Changes to Tax Allowances and Avoiding Penalties, which you should retain as a useful reference guide.

Capital Allowances - act now!

If you are planning capital expenditure do it before 31 March 2012 otherwise you'll miss out on the benefits of the current tax relief.

The Annual Investment Allowance ("AIA") of £100,000 gives businesses 100% relief on capital expenditure, excluding cars and certain property related expenditure. This achieves a tax saving of about £20,000 for small companies and up to £50,000 for unincorporated businesses. However, from April 2012 the AIA will fall to £25,000 and the rate at which capital allowances are given will drop to 18% from the current 20%.

A further change from April 2012 is to 'short-life' assets. This enables the business to pool specific assets which have a 'short-life' rather than placing them into the general pool. Should the assets be disposed of within eight years full relief will be given on the whole cost, rather than being lost within the general pool.

However, if your year end is not 31 March 2012, then the timing of investment is important. E.g. If your year end is 30 June 2012, then the AIA is split between the period to March 2012 (£75,000) and June 2012 (£6,250) and NOT £81,250 for the year to June 2012.

Reducing your Corporation Tax Liability

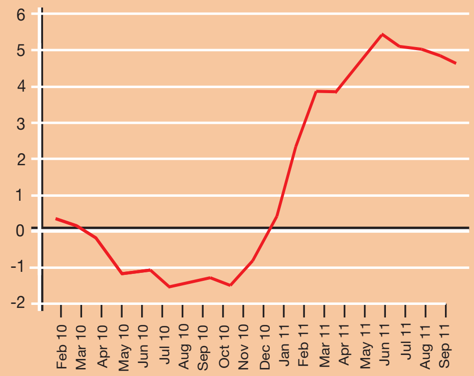
Research and Development (R&D) tax relief could reduce your company's tax liability.

If you are a small or medium sized company ("SME") that currently claims R&D tax relief there are proposals in place to increase the relief from 175% (ie the actual expenditure plus an extra 75%) to 200% under the Finance Bill 2011 (ie from 1 April 2011). And after this to 225% in the Finance Bill 2012 (from 1 April 2012). *...continues on page 3*

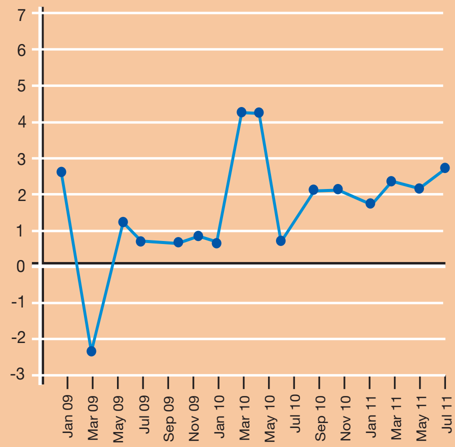
Stop Press! Stop Press! Stop Press! Watch out for the Chancellor's Autumn Statement on 29 November 2011.

Market tracker

Retail Price Index Change (%)



Increase in Annual Earnings (%)



In this issue...

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Hidden Penalties: Don't get caught out

The new PAYE penalty regime came in from May 2010, however, HMRC did not send out their penalty notices until April 2011. Together with other penalties introduced from April 2011, HMRC have now launched a torrent of penalties on unsuspecting businesses, are you up to date?

PAYE - Payments

- **P35 Annual returns:** HMRC are targeting business end of year submissions and issuing severe penalties for late payment - also triggering a review of all payments made.
- **Penalty:** Employers will receive a warning letter for the first late payment in a tax year, once the previous year's return is filed they will review all the payments made and if more than one was late they will issue penalties at a percentage of the PAYE due, related to the number of late payments.
- **How much?** This will range from 1% for two late payments; up to 4% for 11 or more late payments, this percentage is applied to the amount of tax that was late. Any amounts that are unpaid more than six months after the penalty date are liable to 5%, and a further penalty of 5% applies after 12 months. So, paying on the 23rd of each month for an annual PAYE of £250,000 will generate a penalty of £10,000!
- **When should I be paying?** Payments are due by 19th of the following month, or 22nd if you pay electronically. BUT – if these days are a weekend or Bank Holiday then payment is due the Friday before.
- **Common errors:** Payment by BACS takes two working days so attention to payment dates is essential. If these dates are missed by only one day that will count towards the penalty % and the amount of tax that was late. This means you could go for a whole year unaware that you have attracted a penalty! This is an important consideration when you cease trading or are buying or selling a business.

Having a "reasonable excuse" for missing the deadlines: You won't have to pay a penalty if you have a reasonable excuse for missing the deadline. What HMRC consider 'reasonable' has been the subject of a recent tax case and much press coverage, HMRC eventually lost the case for their interpretation of 'reasonable' as being 'exceptional' and not "the ordinary and natural meaning".

There is no clear definition as to what this means so don't get caught out by these hard hitting penalties. If you require assistance or further information Hartley Fowler can help you. To book a PAYE audit or for expert payroll and PAYE advice contact our specialist payroll bureau and employer taxes team.

PAYE - Filing

- Most employers must now file the in-year forms (P45/P46 etc) as well as end-year returns by internet. If you do not file online in time, HMRC may charge penalties from £100 up to a maximum of £3,000 depending on the number of forms that should have been filed online.
- The penalty for late filing of year end returns – P11D as well as P35/P14s was £100 per 50 employees per month late for 2011 returns. This will be amended in respect of 2012 returns so the initial penalty is £100, with daily penalties if the form is more than three months late.

Personal Tax Returns – from April 2011

Penalties for late filing

- One day late and you will be charged an initial penalty of £100 (even if you have no tax to pay or you have already paid all the tax you owe). Three months late and you will be charged an automatic daily penalty of

£10 per day, up to a maximum of £900. Six months late and you will be charged further penalties, which are the greater of 5% of tax due or £300. Twelve months late and you will be charged yet more penalties, which are the greater of 5% of tax due or £300. This could mean a penalty of up to £1,600 for a late tax return that was actually a repayment!

Penalties for late payment

- Thirty days late and you will be charged an initial penalty of 5% of the tax unpaid at that date. Six months late and you will be charged a further penalty of 5% of the tax that is still unpaid. Twelve months late and you will be charged a further penalty of 5% (so 15% in total) of the tax that is still unpaid. In addition, interest will be charged on all outstanding amounts, including penalties unpaid within 30 days, until payment is received. The late penalty regime also applies alongside any tax geared filing penalties (previously surcharges may have been be reduced if tax geared penalties applied).

Penalties for behaviour

Across nearly ALL taxes there are new penalties for Inaccuracy and Failure to Notify changes, the level depending on the behaviour of the taxpayer, the more serious the reason for the error, the higher the penalty.

- If you take reasonable care to get your tax right, HMRC have said they will not charge a penalty, even if you do make a mistake.

- If the inaccuracy is 'careless' (you failed to take reasonable care) then a 30% penalty may be applied.
- A higher penalty of 70% of the tax due is charged where there was 'deliberate' withholding of information.
- A 100% penalty is charged if deliberate and there was concealment.
- The 30/70/100% penalties could be reduced to 0/20/30% respectively if the taxpayer makes an unprompted disclosure. It may even be reduced to half (15/35/50%) where the disclosure was prompted.

With VAT, for example, an Inaccuracy penalty will apply for submitting a VAT Return that contains an error. A failure to notify penalty will apply for an under-assessment – if you are late submitting a VAT Return and receive an estimated assessment that understates the liability, and you fail to take 'reasonable steps' to tell HMRC the correct liability within 30 days, then the penalty will be triggered.

A failure to notify penalty will also apply for not registering for VAT at the correct time when you reach the thresholds.

So, now you know!

Continued from front page...

Research and development...

reducing your corporation tax liability

The rules that need to be followed in order to qualify for this relief are quite complicated. In general terms, if you are an SME (a different scheme is available for large companies) and you spend at least £10,000 during the year on qualifying expenditure, this lower limit is likely to be removed for expenditure made after 1 April 2012, then you could be entitled to claim this relief.

Qualifying expenditure is the sticking point for most companies – it must be of a nature that seeks to achieve an advance in overall knowledge or capability in a field of science or technology. It cannot simply be an advance in the company's own state of knowledge or capability (the detailed definition is set by the Department for Business, Innovation and Skills). Also the company no longer needs to own the intellectual property to which the R&D expenditure relates in order to make the claim.

Assuming the conditions are met (there are more conditions than outlined here) then you are only able to claim the tax relief on revenue expenditure, not capital expenditure on assets. If you think that your company might qualify for R&D tax relief then please give us a call to arrange a meeting to discuss the options available to you.

Celebrating staff success

Exams Success

Congratulations to our training staff who have received their results in the latest exams of the Institute of Chartered Accountants in England and Wales (ACA) and the Association of Chartered Certified Accountants (ACCA), regarded globally as the leading business and finance qualifications.

In particular to Edward Mountney, from our Wimbledon office, who passed his final exams and can now apply for the ACA qualification, and Lawrence Murphy in our Horsham office who has qualified as an affiliate member of the ACCA. Daniel and Diana have taken another step towards qualification by passing further professional stage papers.

Moving Up

We are pleased to announce that both Jeff Fletcher in our Brighton office and Chris Wharton in Wimbledon have been promoted to Assistant Manager roles within their audit departments.

Moving In

As part of our continued growth, several new staff members have joined us recently in our local audit teams, we are pleased to welcome Stuart and Sean to Horsham, Catherine and Natalja to Wimbledon and Michael to Brighton.

Congratulations to you all on your achievements, from all the partners and staff at Hartley Fowler. You thoroughly deserve the success and we are proud of you.

Peter Collins, managing partner, said: "We are delighted that our staff has achieved such excellent results in their various exams, as they continue to build their professional skills to their own benefit, and that of our clients. Encouraging and supporting our staff to develop and move forward in this way is very much a part of the way we do business, because we recognise just how much value their knowledge and experience adds to our practice and the services we offer. "

Client Achievements

The second Merton Business Awards were a huge success, celebrated in a dinner and awards presentation attended by over 250 guests in the Debenture Lounge at The All England Tennis Club in Wimbledon. Run by Merton Council, South London Business and Merton Chamber of Commerce to reward and celebrate the many dynamic and innovative businesses in the borough.

We are delighted to announce that clients of Hartley Fowler were represented in 5 of the 10 categories: Merton Community Transport (Commitment to the Community), Julia Boggio Studios (Best Small Business & Entrepreneur of the Year), Art Division (Best Small Business, Best Business for Marketing & Entrepreneur of the Year) and StarTurn Entertainment Ltd (Best Business for Hospitality and Leisure).

Congratulations to all those nominated and particularly Julia Boggio (right) who not only won the Entrepreneur of the Year category but was Commended in the Best Small Business category.

The event was attended by Julien Upson and Jonathan Askew, our Wimbledon partners. Julien said: "Business awards recognise SMEs from any industry that show innovation, expertise, imagination and a solid vision for the future growth of their business.

We help our client's businesses in many of these areas and we urge businesses who want to get involved and benefit from the publicity associated with awards to speak to us."

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