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A R Lee & Co *newsletter*

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Some challenging times ahead...

As the excitement of the Olympics and the success of Team GB begins to fade, and the Paralympics gets underway, we look ahead to some major changes to the way in which employers must operate PAYE and also the taxation of Child Benefit for the first time. Both changes present new challenges and are very unwelcome at this difficult time.

We have included details of the new rules in this latest edition of our regular newsletter, as well as many other matters which may be of interest to you, or to your business.

Unfortunately, the Eurozone remains in economic turmoil which continues to hold the UK back from recovery. As a result, both investors and banks remain very cautious and the economic outlook is extremely uncertain.

As always, if there are any matters you would like to discuss with us in more detail, then please let us know and we will be very pleased to help.



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BUSINESS NEWS

HMRC Investigation Activity

HMRC's latest campaign against the e-marketplace continues with the issue of formal notices to internet auction sites such as eBay and Amazon requiring full details of their trading members on threat of fines if they fail to comply. HMRC will then use this information to cross check against their own records.

On 26 September 2012, HMRC will launch a new campaign in relation to the direct selling industry aimed at people who sell goods on behalf of businesses and receive commission. Agents, consultants, representatives and distributors will be invited to disclose any undeclared income.

After previously targeting plumbers and electricians, HMRC now intend to follow up with roofers, carpenters, bricklayers, joiners and window fitters in a "Home Improvement" campaign.

In September 2011, The Mortgage Verification Scheme was set up by the Council of Mortgage Lenders, in conjunction with the Building Societies Association. The scheme allows mortgage lenders to send an applicant's income details to HMRC for verification if fraud is suspected. HMRC is particularly interested in cases where a higher level of income is shown. By 31 May 2012, nearly 600 referrals had been received.

Latest Advisory Fuel Rates For Company Cars

The new rates effective from 1 September 2012 are:



| Engine size | Petrol | Diesel | LPG |
|-----------------|--------|--------|-----|
| 1400cc or less | 15p | | 10p |
| 1401cc – 2000cc | 18p | | 12p |
| Over 2000cc | 26p | | 17p |
| 1600cc or less | | 12p | |
| 1601cc – 2000cc | | 15p | |
| Over 2000cc | | 18p | |

National Loan Guarantee Scheme

Earlier this year, the government launched the National Loan Guarantee Scheme (NLGS) under which they will guarantee unsecured loans made by banks, enabling them to borrow at a cheaper rate. The saving is then passed on to the customer, who will receive a discount of 1% compared to the interest rate they would otherwise have paid.

If you are thinking about borrowing money from your bank for your business, do ask them about the NLGS, or ask us for a referral to a suitable bank.

Buy to Let Property

Many of our clients have chosen to invest in buy to let property and we have a lot of experience in the tax treatment of such investments. If you are considering, or are about to purchase, a buy to let property, then please do speak to us before contracts are exchanged. We will then be able to ensure you have organised your purchase as tax efficiently as possible, as there are various factors that may need to be considered.

EMPLOYMENT NEWS

Real Time Information (RTI)

The new RTI regime will be mandatory for all employers and commences from April 2013. Employers will be notified between April and October 2013 of their start date and may only have a short period to comply.

RTI will require every employer to submit details of each payroll run to HMRC electronically on or before the normal pay date. As a consequence, all employee information will need to be completely up to date and accurate, as data submission cannot be delayed. HMRC will also know exactly how much Tax and NI is due for each pay period. Penalties

will ultimately be due for any failure to comply.

If you currently operate your own payroll, you will need to check what you will need to do in order to be RTI compliant. If you use commercial software, then your supplier will no doubt be in touch with you. If you currently prepare your payroll manually, then you will probably need to change to a different system, or out-source your payroll. We already prepare payrolls for over 100 employers and will be happy to discuss your requirements with you.

RTI is intended to facilitate the new Universal Credit

which is to be phased in from next year and will rely on up to date income details for claimants. RTI will also enable HMRC to identify and collect unpaid PAYE from employers who are behind with their payments.

Once RTI is operational, all employees must be entered on the payroll, even those who are currently excepted from the P45/P46 procedures such as casual, temporary or student workers. If an employee is not likely to receive a payment for three months, they will have to be noted as "on hold", otherwise HMRC will close their record for that person.

National Minimum Wage (NMW)

From 1 October 2012, the NMW will increase to:

- | | |
|---|-------------------------|
| • Workers aged 16-17 | £3.68 (no change) |
| • 18-20 years | £4.98 (no change) |
| • 21 and over | £6.19 (currently £6.08) |
| • Rates for apprentices under 19, or 19 or over and in the first year of their apprenticeship | £2.65 (currently £2.60) |

Employing An Apprentice

If you are thinking about expanding your business, but are concerned about the cost of taking on your first full-time employee, then maybe consider an apprentice instead. Help with the recruitment process is available via various training companies and you may also be entitled to a subsidy from the Government of £1,500. The current National Apprenticeship wage is £2.60 per hour.

Holiday

Entitlement for Casual Workers

A casual worker is someone who works irregular hours, or works on a casual basis. However, such employees are legally entitled to the same 5.6 weeks holiday as regular workers. Their entitlement can be calculated on their average hours worked, but an easier way is to multiply the hours they have worked so far by 12.07 percent.

Intermediaries Legislation (IR35)

HMRC is to increase their inspections of companies who they believe should be operating under the Intermediaries Legislation, better known as IR35, and have set up three dedicated teams with specialist staff.

In May, they published new pilot business entity tests which they propose to use when assessing the risk of a company failing to comply with the IR35 legislation. These are based on a points system:

Risk Factor

| <i>Measures</i> | <i>Points</i> | <i>Measures</i> | <i>Points</i> |
|---|---------------|--|---------------|
| Does the company rent or own business premises? | 10 | Billing by invoice | 2 |
| Does it need PII insurance? | 2 | Business plan and bank account | 1 |
| Can it benefit from efficiency? | 10 | Repair bad work at own expense | 4 |
| Assistance (i.e. does it use other employees who generate 25% of turnover?) | 35 | Previous PAYE in the same employment in last 12 months | -15 |
| Advertising | 2 | Right of substitution | 2 |
| Client risk | 10 | Has actual substitution taken place? | 20 |

HMRC propose to target companies that fall in either the high or medium risk bands. Although voluntary, HMRC are inviting companies to apply the tests themselves and to retain evidence of the results. If they check and agree a company falls in the low risk band, they will agree not to check again for the next three years provided the information given is correct and the company's circumstances do not change.

This is only a pilot exercise at this stage and the new tests may, or may not, continue to be used in the future, but it is useful to know how HMRC are thinking. However, it should be emphasised the tests have no legal force and each case will ultimately be decided on the facts and relevant case law.

Test Scores

This table tells you which risk band you are in:

| <i>Total Score from the tests</i> | <i>Risk band</i> |
|-----------------------------------|------------------|
| Less than 10 | High risk |
| 10 to 20 | Medium risk |
| More than 20 | Low risk |

OTHER NEWS

Taxation of Child Benefit

With effect from the week commencing 7 January 2013, Child Benefit is to be withdrawn from households that include certain higher earners. If a single parent or either partner has income of more than £50,000, the Child Benefit will be clawed back by £1 for every £100 of excess income. Once income reaches £60,000, all Child Benefit will be clawed back.

Whilst this may seem straightforward, the clawback will be achieved by way of a tax charge on the highest earner and not by reducing or stopping the Child Benefit payment.

We will therefore need to know when we prepare your annual Tax Return if you are likely to fall into this category.

Child benefit will continue to be paid to all parents regardless of the level of their income. All adjustments will be made through either the PAYE or Self Assessment system. If there are two partners and both earn less than £50,000, then no adjustment will be made. If either partner's earnings exceed £50,000, an adjustment will be due. The rules also get very

complicated when partners come or go and liability has to be calculated on a weekly basis from the date the relationship changed.

The new rules are both unfair and impractical and, in our opinion and that of many other commentators, are a train crash waiting to happen but, nevertheless, must be applied. So please excuse us if we start asking you strange questions next year about your relationships and your partner's earnings if we do not also act for them!