NEWBY CASTLEMAN

FORWARD THINKING ADVICE

CHARTERED ACCOUNTANTS

WINTER 2010/11

FRONTLINE

NEW PARTNER STRENGTHENS TEAM

We have further strengthened our position as leading East Midlands chartered accountants by expanding with the arrival of four new senior accountants and the appointment of John Griffin as Partner.

John (46) is now the tenth Partner at the firm and the second appointed this year after Annalise Lovett was promoted at our Loughborough branch back in April. His promotion also comes shortly after the arrival of four new senior accountants and four new trainees at our head office on Regent Road in Leicester.

Audit Manager for the past 15 years, John has risen through the ranks since joining the firm as a trainee in July 1985 and qualifying as a certified accountant four years later. More recently he has specialised in family business and corporate advice.

John, who lives in Oadby, comments, "I am delighted to have been promoted to Partner at a firm I am proud to have been working at for the duration of my career so far. Having been here for some time I know we are uniquely positioned in the market to provide specialist, forward thinking financial advice and to offer complete, personalised packages of accounting and tax solutions and I look forward to further strengthening relationships with our clients in my new role."

Chris Castleman, Managing Partner, says, "We are pleased to announce that John has been appointed to Partner. His new position is testament to the hard work and commitment he has shown to the firm during his time here and we believe he will be a real asset as we move forward. His promotion, along with the recent appointment of four new senior accountants and the arrival of four more talented trainees through our successful trainee scheme, shows that the firm continues to go from strength to strength."

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CAPITAL ALLOWANCES: TIMING THE RELIEF

The Annual Investment Allowance (AIA) is a kind of capital allowance which offers tax relief at 100% on qualifying expenditure in the year of purchase. From April 2010 the AIA doubled from £50,000 to £100,000 – a move welcomed by many businesses. However, the Coalition Government has subsequently announced that it intends to reduce the AIA to just £25,000 from April 2012.

Firms planning to spend a significant amount on qualifying items such as plant and machinery may therefore wish to consider the timing of their investment to ensure that it is as tax-efficient as possible.

IMMEDIATE WRITE-OFF FOR CAPITAL EXPENDITURE

Capital allowances are the tax equivalent of depreciation, allowing businesses to write off the cost of capital expenditure on items such as plant and machinery against profits. We can help businesses to choose whether to take the relief immediately (up to the AIA limit) or to write off the cost over a number of years by means of writing down allowances (WDAs).

The AIA enables businesses to obtain an immediate deduction for certain capital expenditure on plant and machinery up to the amount of the allowance. The AIA increased from £50,000 to £100,000 for certain expenditure incurred on or after 1 April 2010 for corporation tax purposes and 6 April 2010 for income tax purposes.

This means that a business can have immediate relief for qualifying expenditure, providing that the limit has not been reached. However, relief is not automatic and must be claimed. If the AIA is not claimed, relief is given by means of WDAs, which are currently given at the rate of 20% for main pool assets and 10% for special rate pool assets. The AIA can only be claimed for the accounting period in which the expenditure was incurred. Deferred claims are not permitted and, to the extent that the AIA is not used in an accounting period, it is lost. Unused amounts cannot be carried forward.

The decision as to whether it is beneficial to claim the AIA will depend on the particular circumstances. In many cases, claiming the full allowance will be very worthwhile as it will generate an immediate tax saving. With corporation tax rates for all companies set to fall from 2011, taking relief earlier rather than later will provide greater savings.

However, if the business is only planning to keep an asset for a short while (without replacing it) and sale proceeds are likely to be high compared to the original cost, a decision not to claim the AIA now may save future balancing charges. The decision will also depend on the tax written down value of the relevant pool. As the claim is not an all or nothing claim, it is however, possible to tailor the claim to suit the situation. For example, by claiming AIA on, say, 40% of the cost (with WDAs being given on the remainder), you can achieve a higher level of immediate relief, but save the pain of a future balancing charge.

FUTURE CHANGES

In the Emergency Budget the Chancellor announced that for expenditure incurred on or after 1 April 2012 (corporation tax) and 6 April 2012 (income tax) the AIA will be significantly reduced to £25,000. Businesses that are planning to incur high levels of capital expenditure on plant and machinery in the next couple of years may therefore wish to accelerate purchases to before 1 April or 6 April 2012 (as appropriate). This would allow immediate write off of capital expenditure of up to the current limit of £100,000. The limit is pro-rated if the accounting period spans these dates.

The rates of WDA are also set to be reduced from April 2012 to 18% for main rate expenditure and 8% for special rate expenditure.

Please talk to us about the timing of any investments that you are planning.

INCREASE IN THE STATE PENSION AGE

The state pension age will now rise to 66 by 2020 for both men and women, six years ahead of the plan put in place by the previous Labour Government.

In the Comprehensive Spending Review, Chancellor George Osborne announced that the retirement ages of men and women would be equalised at 65 by November 2018, with both ages rising to 66 by 2020.

In 2007, the Labour Government followed the recommendations of Lord Turner's Pensions Commission and decided that the state pension age should rise: to 66 by 2026, to 67 by 2036 and to 68 by 2046. The Coalition has brought forward the plan on the grounds that people are living longer and state pension costs have become unsustainable at current levels. The timescale for raising the pension age to 67 and 68 is now also likely to be accelerated.

We can help you plan for a comfortable retirement – please contact for advice.

NEW SCHEME TO EXPOSE ROGUE EMPLOYERS

A Government scheme is being launched to publicly expose employers who deliberately pay their staff less than the National Minimum Wage (NMW). The scheme comes into effect on 1 January 2011 and defaulting employers will have their breaches publicised by the Department for Business, Innovation and Skills (BIS).

It follows recommendations from the Low Pay Commission, which called for a 'name and shame' policy to be put in place to expose those employers who show a wilful disregard for the NMW regulations.

A number of changes to the NMW came into effect in October 2010, including an increase in the main adult rate – for further information visit: **www.lowpay.gov.uk**

MANAGING AN AGEING WORKFORCE

As life expectancy increases, many people are choosing to work for longer. Add to this the withdrawal of the default retirement age (DRA), and it is clear that businesses will need to adapt to the changing demographic of the UK workforce. Here we consider the proposed changes to the rules on retirement, and include advice on managing an ageing workforce.

THE DEFAULT RETIREMENT AGE

The Government has announced that the DRA will be abolished from 1 October 2011. The proposals allow for a six month transition from the existing regulations, meaning that the changes could begin to take effect from April 2011. Consequently, the majority of people may soon be able to work beyond age 65 if they wish.

Currently, an employer can force a member of staff to retire at the default age of 65, irrespective of their circumstances. Although staff can request to work beyond the DRA, it is entirely at the company's discretion. More information on the removal of the DRA is expected to be released before the end of 2010. At the time of going to print further details on the change had not been published.

EMPLOYING AN OLDER WORKFORCE

Official statistics suggest that by 2020, almost a third of the workforce will be over the age of 50. Yet despite changing demographic trends, a recent study has found that just 14% of UK managers consider their organisation to be prepared to deal with ageing employees. To help ensure that your firm is well-equipped to manage an older workforce, consider the following points.

HEALTH AND SAFETY

While there is a common assumption that speed and agility decline with age, short-term absence is often lower amongst older employees and research suggests that the health and fitness of older workers is in fact improving.

However, employers will still need to consider health and safety issues and should carry out a risk assessment for all employees, regardless of their age. This may involve: assessing whether heavy lifting is needed in a particular job or whether it can be removed; adapting workstations to minimise repetitive movements; and adjusting lighting, temperature and working conditions.

FLEXIBLE WORKING

Flexible working can take many forms, including: part-time or reduced hours; job sharing; seasonal work; home working; flexi-time; term-time only; temporary contracts and unpaid leave. Research suggests that many older people would have continued to work if they had been offered the option of flexible working. Flexible employment may therefore allow businesses to retain valued employees who may have otherwise retired.

You should also ensure that members of staff, managers and supervisors are made aware of the flexible working options that are available, how decisions are made and what criteria are used.

TRAINING AND DEVELOPMENT

Providing training opportunities can help to keep staff motivated, regardless of their age or level of experience. While training is often offered to less experienced team members, such openings should also be made available to older workers, who may in fact welcome the change.

You might want to consider retraining older team members to fill any vacancies or skills shortages – this may prove to be a cheaper alternative to external recruitment. It will also allow the business to utilise the experience and skills of older employees.

With the default retirement age set to be phased out, employers will need to review their policies on retirement. Further advice can be found at: www.businesslink.gov.uk.

We can help with all aspects of running a business – please contact us for advice tailored to your requirements.

PROTECT YOUR BUSINESS AGAINST SOARING UTILITY COSTS

In times of economic difficulty, it is more important than ever to avoid unnecessary costs, and rising utility bills can represent a significant proportion of a firm's overheads.

Conducting a utility audit might seem like a time consuming distraction but you could be pleasantly surprised by how much it adds to your bottom line. By understanding your utility services and implementing conservation habits, you can reduce energy waste and develop energy savings and solutions.

DON'T GET LEFT IN THE COLD! USE THE CHECKLIST (BELOW) TO IDENTIFY POTENTIAL SAVINGS FOR YOUR BUSINESS.

- [ ] **Have a member of staff responsible for checking all utility bills** – Make sure they know how the bills are calculated, what tariffs are available etc, and question any suspect charges
- [ ] **Carry out your own readings of all energy and water meters each month** – Use the information to plot patterns of use
- [ ] **Annually review the tariffs you use** – Not only do your usage patterns change, your suppliers also change the deals they offer

- [ ] **Shop around for cheaper electricity and/or gas suppliers** – Even as suppliers raise their prices, you could shave pounds off your bills
- [ ] **Monitor overnight energy usage** – Check if it is being used by essential equipment and if so that you have the best overnight tariff
- [ ] **Make the best use of cheap rate electricity** – If you can arrange usage by water heaters etc so that 15% of total electricity usage occurs during off peak hours, you might benefit from switching to a day/night tariff
- [ ] **If you are on a Maximum Demand tariff, review your supply capacity** – If your declared supply capacity is more than 15% higher than your highest Maximum Demand, contact your supplier to have it lowered
- [ ] **Find ways to reduce usage during peak hours** – Try rescheduling non-essential activities
- [ ] **If you are on a monthly tariff, check your power factor** – Check that you are not being penalised for a poor power factor
- [ ] **If your site has more than one gas meter, make sure they are aggregated for billing purposes** – This can reduce both standing and unit charges and could lead to a better rate
- [ ] **Make sure your water meter is the right size** – Standing charges are calculated according to meter size – don't pay for an unnecessarily large one
- [ ] **Invest in energy efficient appliances and equipment** – Have you considered the enhanced capital allowances for energy-saving equipment? Contact us for more details of the allowances available to you.

THE NEW RULES ON COMPANY CAR REPLACEMENTS

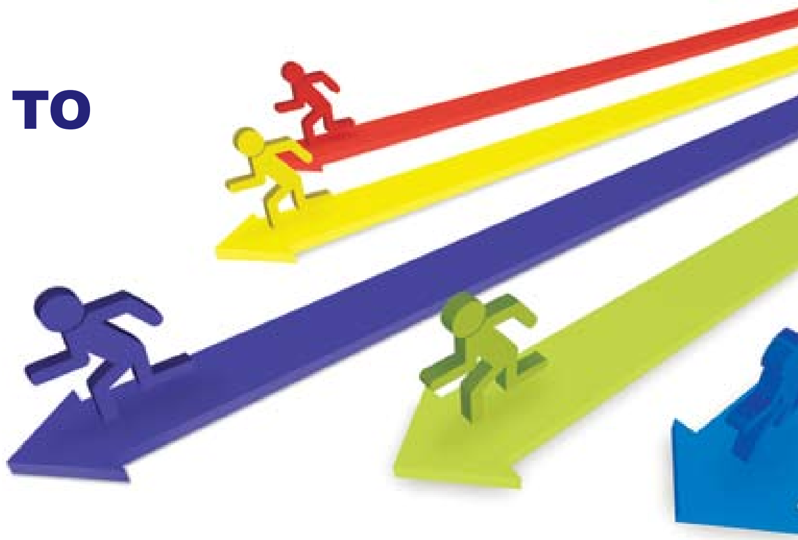
Previously, when employers started to provide cars to employees or when they changed or stopped providing company cars, Form P46 (Car) had to be submitted by the employer to HMRC. This enabled HMRC to keep tax codes up to date, which in turn ensured that the employee did not end up with an unexpected tax bill.

From April 2009 employers were informed that they no longer had to submit Form P46 (Car) for replacement company car changes. This was then followed by a statement that, from April 2010, Forms P46 (Car) relating to replacement company car changes would not be accepted.

However, following discussions about the impact of this on employers and employees, HMRC has confirmed that changes have been agreed.

Consequently, from April 2011 employers will be able to notify HMRC electronically of any replacement car changes. The paper form P46 (Car) will not be changed, so only electronic notifications of replacement company cars will be accepted.

PROPOSED EXTENSION TO FLEXIBLE WORKING



The Government recently announced plans to extend the right to request flexible working to parents of children under the age of 18 from April 2011.

The right to request flexible working currently applies to parents of children under the age of 17 (under 18 if the child is disabled) or individuals who have caring responsibilities for certain adults. This right will be extended from April so that parents of all children under the age of 18 will have the right to request flexible working, subject to meeting the existing qualification criteria.

To be eligible, the individual must:

- Be an employee
- Have at least 26 weeks' continuous service; and
- Have not made an application within the previous 12 months.

The Government estimates that the new rules will benefit a further 300,000 employees, in addition to the 10.5 million employees who are currently eligible to apply for flexible working.

A consultation is taking place to consider how the extension will be implemented and to examine a new system of flexible leave in accordance with the Coalition's pledge to 'encourage shared parenting from the earliest stages of pregnancy'.

However, the Additional Paternity Leave regulations, which came into force in 2010 and apply to parents of children due on or after 3 April 2011, will remain in force 'as an interim measure'.

For more information on flexible working and advice on how to manage requests, visit **www.businesslink.gov.uk.**

CORPORATION TAX: WHAT'S CHANGING?

The June 2010 Emergency Budget delivered some welcome news to companies and others affected by corporation tax. The news took the form of rate cuts, both to the main rate of corporation tax and to the small profits rate. Here we look ahead to the forthcoming changes and consider the planning opportunities that may be available for businesses.

WHAT'S CHANGING?

As far as larger companies are concerned, the main rate of corporation tax will fall from 28% to 27% for the financial year 2011, which starts on 1 April 2011. Further cuts will follow in each of the next three successive years, reducing the main rate to 26% from 1 April 2012, to 25% from 1 April 2013 and to 24% from 1 April 2014. The main rate of corporation tax currently applies to companies with profits in excess of £1,500,000.

Small companies (profits up to £300,000, with marginal relief available on profits between £300,000 and £1,500,000) also benefit from a reduction in the small profits rate from 21% to 20% from 1 April 2011.

PLANNING OPPORTUNITIES

The reduction in the rate of corporation tax offers a number of planning opportunities. Delaying profits to a later accounting period will allow them to benefit from a lower rate, as well as delaying the date by which the tax must be paid. Likewise, accelerating expenses will give relief for those expenses at higher rates of tax.

If the company has unrelieved losses, relieving them earlier rather than later will provide relief at a higher rate. Generally, a trading loss for a 12 month period can be carried back and set against the profits of the preceding 12 months. However, as a temporary measure, losses incurred in accounting periods ending after 23 November 2008 and before 24 November 2010 (inclusive), can be carried back for up to three years rather than 12 months (up to a maximum of £50,000). In a climate of falling corporation tax rates, carrying losses back will give a higher rate of relief for the losses than carrying them forward.

The rate reductions, together with the increases in the rates of Class 1 and Class 4 National Insurance Contributions (NICs) scheduled for April 2011, swing the pendulum back in favour of incorporating a business and extracting profits by way of a dividend. However, this may not suit all businesses so please talk to us for advice tailored to your particular circumstances. Dividends must be paid out of retained profits and do not benefit from a corporation tax deduction. However, they do not attract NICs. Thus a reduction in corporation tax rates, combined with increasing NICs, favours profit extraction in this way.

OTHER CORPORATION TAX CHANGES

Alongside the Chancellor's Autumn Statement on 29 November, the Treasury also announced further proposals to reform the corporate tax system over the next five years. Key elements include an overhaul of the rules for Controlled Foreign Companies as well as plans to introduce a lower 10% rate of corporation tax on profits from patents. More details on the changes are expected to be published over the coming months.

In addition to the forthcoming rates changes, HM Revenue and Customs (HMRC) is changing the way in which corporation tax returns must be filed. From 1 April 2011, company tax returns and accounts for accounting periods ending after 31 March 2010 must be filed online using the inline Extensible Business Reporting Language (iXBRL) format, the new standard designed for business financial reporting. Updated guidance on iXBRL tagging is available on the HMRC website.

We can help you plan to minimise your tax liability and provide advice on all aspects of running a business. Please contact us for assistance.

INCREASE IN SAVERS' COMPENSATION LIMIT

The deposit protection limit for savings is increasing from 1 January 2011. Under the new regulations, the compensation limit for savers who lose money when a bank or building society goes under is rising to the equivalent of the first €100,000 (around £84,450).

It follows new European legislation aimed at 'harmonising' the amount of money that is paid out to savers throughout Europe. The new rules also stipulate that compensation claims should be made within 20 days of an institution being declared in default.

The compensation limit was last raised in 2008 to fully protect the first £50,000 of savings – up from the previous limit of £35,000.

CAP ON PENSIONS TAX RELIEF TO BE REDUCED

The Government has announced that the annual tax-free amount that individuals can invest into a pension will be significantly reduced from April 2011.

The Treasury has confirmed that the annual allowance for tax-privileged pension saving is being cut from £255,000 to £50,000. The Government claims that an annual allowance of £50,000 will affect 100,000 pension savers – 80% of which it said will have incomes over £100,000. It was originally thought that the cap on tax relief would fall to a figure between £30,000 and £45,000.

In addition, the lifetime allowance on money that can be accrued in a pension fund and still receive tax relief, is set to fall from £1.8 million to £1.5 million. The new annual allowance will come into force in April 2011. However, the cut in the lifetime allowance is not expected to take effect until April 2012.

IS YOUR PAYE CODE CORRECT?

The Pay As You Earn (PAYE) system has come under the spotlight in recent months, after it emerged that coding errors had resulted in millions of people over and underpaying tax. The problems have highlighted the need for individuals to regularly check their PAYE code, as detecting errors at an early stage could avoid a substantial tax bill later on.

The PAYE system aims to collect, over the course of a tax year, approximately the right amount of tax from your earnings. This is done by the issue of one, or sometimes a series, of tax codes which are used by your employer to calculate the tax to be deducted from your earnings.

However, many people can go for years paying the wrong amount of tax – either too much or, perhaps more worryingly, too little – because they have an incorrect tax code. In particular, they may not have notified the tax office of changes in their circumstances that would affect their tax position, such as changing jobs and losing the benefit of a company car, or they may have started investing in a personal pension plan.

It is important that we check your PAYE code now, because it is much easier to rectify mistakes before the tax year ends. As a first step though, look at your salary slip and see which code is currently being applied.

The letter in the code tells us whether your code includes one of the standard allowances, and you can see if this is right for your circumstances:

L includes the basic personal allowance

P includes the full higher rate personal allowance for age 65 -74 (assumes income less than £22,901)

Y includes the full personal allowance for age 75 or over (assumes income less than £22,901)

T means that the code is to be changed only if a specific notification is received from the tax office. There is usually an adjustment in your code which requires manual checking by HM Revenue and Customs (HMRC) each year – for example, you might be over 65 with income over the limit for the full higher rate of personal allowance and therefore your allowance has to be re-calculated every time the rates and limits change.

K HMRC may try to increase the tax you pay on one source of income to cover the tax due on another source which cannot be taxed directly – for example, the tax due on your taxable employment benefits might be collected through increasing the tax you would otherwise pay on your company salary. A K code applies when the 'other income' adjustment reduces your allowances to less than zero – in effect, it means that the payer has to add notional income to your real income for PAYE purposes. The maximum tax which can be deducted using a K code is 50% of the source income.

HMRC will often try to collect tax on other income through your PAYE code but you may prefer to pay the tax through self assessment – we can arrange for the adjustment to be removed.

We can help you check your PAYE code to ensure that you are paying the correct amount of tax. Please contact us for assistance.

Self assessment reminder...

Don't forget, 31 January 2011 is the last day for filing your 2010 Tax Return online. We can help you prepare your Tax Return for submission to HMRC – please contact us for more information. Returns filed after 31 January may attract a penalty, so please collate all the relevant documentation as soon as possible to ensure that you meet the deadline.

REGIONAL EMPLOYER NICS HOLIDAY

In the Emergency Budget, the Chancellor unveiled plans to introduce a Regional Employer National Insurance Contributions (NICs) Holiday for new businesses. Here we examine the scheme in more detail and consider the implications for businesses.

WHAT IS THE SCHEME?

The Regional Employer NICs Holiday scheme provides new businesses in certain areas of the country with a break from paying employer NICs in respect of the first 10 employees that they take on in the first year of business. The scheme, which was announced in the Emergency Budget on 22 June, was launched on 6 September 2010 and runs for three years, ending on 5 September 2013.

The scheme's voluntary nature means that the holiday is not applied automatically and new businesses wishing to take part must apply to do so.

The scheme is only open to businesses that meet certain conditions. To be eligible:

- a sole trader, partnership or company must start a **new business** in the period 22 June 2010 to 5 September 2013 inclusive;
- the principal place at which the new business is carried on when it is started is **not in an excluded region** (Greater London, the East and South East); and
- **qualifying employees** are engaged for the purposes of the new business.

WHAT IS A NEW BUSINESS?

Most businesses that are genuinely new will qualify, providing that the other criteria are met. However, anti-avoidance rules apply to prevent businesses that are not genuinely new reorganising to take advantage of the holiday. These rules act to exclude existing businesses taken over by someone else, the transfer of part of an existing business to a new company and suchlike from benefiting from the holiday.

BUSINESS LOCATION

A new business can only apply to take part in the scheme if its principal place of business is in a designated area. The included countries and regions are:

- Northern Ireland
- Scotland
- Wales
- East Midlands
- North East
- North West
- South West
- West Midlands
- Yorkshire and Humber

The business must continue to operate in a designated area. If a business starts up in a designated region, but subsequently moves into an excluded region during either the initial period or the holiday period in relation to a qualifying employee, the benefit of the scheme ceases immediately.

QUALIFYING EMPLOYEES

The scheme relieves employers of the need to pay employer NICs in respect of the first 10 qualifying employees (subject to the maximum saving per employee) employed during the first year of the business. In determining whether the limit of 10 has been reached, it is necessary to take account of all employees, including directors, and those who work part-time or who earn less than the secondary NIC threshold (£110 per week for 2010/11).

POSSIBLE SAVINGS

The scheme offers new businesses the opportunity to save up to £50,000 in employer NICs. There is no limit on the amount that can be paid to a qualifying employee under the scheme, although the relief available in respect of any one employee is capped at £5,000. For 2010/11 this means that an employer can obtain relief in full for the employer contributions that they pay in respect of qualifying employees earning £44,778 or less.

HOW TO OPERATE THE SCHEME

Employers operating the regional employer NICs holiday scheme will need to withhold the employer NICs that they would normally pay to HMRC in respect of the first 10 qualifying employees. The holiday period for each employee runs from the date on which the employee was taken on (which must be within the first year of business) for 12 months or, if earlier, until the end of the scheme (6 September 2013). However, the holiday period will end before the 12 months is up if the £5,000 limit per employee is reached earlier.

If the employer recruits more than 10 employees at the same time, the employer is free to choose which employees are qualifying employees under the scheme. The more the employee is paid, the higher the potential NIC savings for the employer.

If the employee is a member of a contracted-out pension scheme, the employer can withhold the amount of NIC payable at the relevant not contracted out rate.

At the end of each month or quarter, the amount that the employer pays over to HMRC is the amount calculated in accordance with normal rules, less the amount of employer NICs benefiting from the holiday.

HMRC provides a record keeping form at www.hmrc.gov.uk/forms/e89.pdf. These records can be inspected by HMRC.

Further information on the scheme, including a postcode checker and an application form, is available on the HMRC website (www.hmrc.gov.uk).