NEWBY CASTLEMAN
FORWARD THINKING ADVICE
CHARTERED ACCOUNTANTS

NEWBY CASTLEMAN 60 YEARS 60th ANNIVERSARY

FRONTLINE

WINTER 2011/12

KEEPING THE YEAR END IN MIND

Next April may seem a long way off, but in tax planning terms it is never too early to start thinking about year-end opportunities. This article considers some of the planning options available to individuals before 5 April 2012.

DON'T WASTE PERSONAL ALLOWANCES

If your spouse or partner has little or no income, consider transferring income to them. For example, transferring an income producing asset or giving them shares in a family company which pays dividends will ensure that personal allowances are being utilised.

Similarly, it is costly for one spouse or civil partner to be paying tax at 50% and the other at only 20%. Equalising income where possible ensures that the basic and higher rate bands are not wasted, thereby reducing the overall combined tax bill.

The personal allowance is abated where income exceeds £100,000 (being reduced by £1 for every £2 of income over £100,000) and is lost completely once income reaches £114,950. Consider reducing income to below £100,000, for example by making pension contributions, donating to charity or, as mentioned above, transferring income producing assets to a spouse or civil partner. Other strategies can include delaying bonus or dividend payments.

MAKE PENSION CONTRIBUTIONS

Pension contributions can be made up to 100% of income, subject to the annual allowance of £50,000. Unused allowances (up to £50,000 per year) can be carried forward for up to three years. Unused allowances from 2008/09 will be lost unless used by 5 April 2012.

TAKE ADVANTAGE OF TAX-EFFICIENT SAVING OPPORTUNITIES

For 2011/12 it is possible to invest up to £10,680 in an Individual Savings Account (ISA), of which £5,340 can be in cash, with any balance in stocks and shares. Investments must be made by 5 April 2012 or the ISA allowance for 2011/12 will be lost. You might also want to consider other tax-efficient options such as investments in Venture Capital Trusts and the Enterprise Investment Scheme.

USE THE CAPITAL GAINS TAX (CGT) EXEMPT AMOUNT

For 2011/12 an individual is allowed to make capital gains of up to £10,600 before CGT is payable. If the limit is unused and sales of capital assets are planned, consider accelerating the sale to before 6 April to take advantage of the exempt amount. Spouses and civil partners can transfer assets between them on a no-gain no-loss basis, which enables both parties' annual exempt limit to be utilised.

USE THE INHERITANCE TAX GIFTS ALLOWANCE

The annual inheritance tax exemption for gifts is £3,000 for 2011/12. Any unused allowance for 2010/11 may be brought forward for use after the 2011/12 allowance has been exhausted. Consider making gifts up to this limit to ensure that the allowance is not wasted. Gifts covered by the exemption do not form part of the estate for inheritance purposes.

The success of any tax planning will depend on your individual circumstances, and it is essential to consider the bigger picture. Please contact us for advice tailored to your requirements.

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COUNTDOWN TO RETIREMENT: ARE YOU STILL ON TRACK?

Recent figures suggest that only a quarter of 50-somethings are financially prepared for retirement. Meanwhile, increased life expectancy, a falling state pension and poor returns on private investments all look set to add to the pensions squeeze.

But whether you have 10 years until you retire, or just six months, there are some simple steps that you can take to get your retirement planning back on track.

10 YEARS TO GO…

FIND OUT HOW MUCH YOU'RE WORTH

As a starting point, you should establish what your likely state pension will be. This can be done by requesting a State Pension Forecast – visit www.direct.gov.uk. You should also contact your past and present providers or employers for an up-to-date pension forecast.

DECIDE HOW MUCH MONEY YOU WILL NEED

Naturally, you will need to calculate how much income you will require in retirement. Remember, you could spend a third of your life in retirement so it is important to be realistic with your estimates – and inflation is almost certain. So, whilst you may save money on commuting costs, you should make allowances for holidays, travel and any outstanding debts.

DETERMINE HOW YOU WILL MAKE UP ANY SHORTFALL

It is likely that your projected retirement income will be less than you would ideally like to achieve. However, with a potential 10 years left before you retire, there may still be time to get your pension plans back on target.

You will need to maximise your savings during this period – as well as continuing to put money into your pension, you should utilise tax-efficient saving options such as ISAs.

If you own your own home, you might want to contemplate down-sizing or equity release.

You may also want to consider retiring later or working part-time to help you meet your retirement goals.

REVIEW YOUR INVESTMENT STRATEGY

Contact us to arrange a review of your investment strategy – it is not only how much you save but where it is invested that can make the difference. We can also discuss your retirement plans and will work alongside you to help you achieve your goals.

FIVE YEARS TO GO…

CONSIDER MOVING ANY STOCK MARKET INVESTMENTS

Continue to maximise your savings, but consider moving any stock market-based investments (including pensions) into safer alternatives i.e. cash, bonds or gilts. If stock values fall suddenly, as many people are currently experiencing, you may not have sufficient time to recoup any losses.

If you have maximised your pension contributions, it may also be possible to contribute into a partner's pension plan. However, higher earners in a final salary scheme should be aware that any additional pension savings which breach the lifetime allowance could result in a tax bill. 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 from April 2012.

OBTAIN UP-TO-DATE PENSION FORECASTS

Once again, arrange up-to-date pension forecasts to help you determine whether you are still on track to achieve your retirement goals. If necessary, you may need to pay voluntary national insurance contributions (NICs) to ensure that you receive the full state pension.

START PAYING OFF YOUR DEBTS

If you have any outstanding debts such as a mortgage or credit cards, now is the time to use any surplus cash to reduce them.

TRACE ANY LOST PENSIONS AND INVESTMENTS

If you have any lost pensions, contact the Pension Tracing Service (0845 600 2537) as they may be able to help you trace the provider. Their database holds information on over 200,000 pension schemes.

CONSIDER YOUR OPTIONS

Recent changes to the pension rules mean there is now more flexibility for those approaching retirement. With the previous compulsory annuity age of 75 removed, you now have more freedom to choose when and how you take your pension. While it is still possible to convert funds to an annuity, other options such as pension drawdown and continued pension investment may be available.

SIX MONTHS TO GO…

CONSIDER DEFERRING RETIREMENT

Deferring your retirement may mean that you qualify for a bigger pension. The withdrawal of the default retirement age also means it is easier for the majority of people to continue working beyond age 65. If you are planning to continue working, you will need to inform your employer as you no longer need to pay NICs when you reach the State Pension Age. You must also inform the Pensions Service if you intend to defer your state pension.

CONTACT YOUR PENSION PROVIDER(S)

Contact your pension provider(s) to find out how much your pension is worth and how it will be paid.

TALK TO AN EXPERT

Talk to an adviser about the options available to ensure you get the most income from your pension. And if you will be taking a tax-free lump sum on retirement, consider where you will invest it.

Whatever your current situation, we would welcome the opportunity to discuss your pension and retirement planning with you.

EMPLOYEE BENEFITS – SAVE ON TAX

The tax system contains a number of exemptions that make it possible to reward employees, at least in part, in a way that is free of tax and national insurance. There are also benefits for the employer, who may be able to save employer national insurance contributions (NICs) in the process.

Here we examine some of the more popular tax-efficient benefits. Please note, however, that the availability of any exemption is contingent on the associated conditions being met.

MOBILE TELEPHONES

Mobile telephones are arguably one of the most popular tax-free benefits. The exemption is limited to one mobile phone per employee. For the exemption to apply, the employer must provide the mobile phone for the employee's private use rather than reimbursing the costs of the employee's own phone. To be within the terms of the exemption the contract must be between the employer and the phone provider. However, the exemption does extend to the provision of a SIM card to be used in the employee's own mobile phone.

CHILDCARE VOUCHERS AND EMPLOYER-SUPPORTED CHILDCARE

Employers can provide childcare vouchers and/or employer-supported childcare, such as a place in a private nursery, free of tax, providing that it is within the exempt amount. Employees who joined a scheme before 6 April 2011 are entitled to an exempt amount of £55 per week on which tax relief is given at the employee's marginal rate of tax. Where the employee joined the scheme on or after 6 April 2011, the exempt amount depends on the employee's marginal rate of tax.

The monetary value of the exemption is £55 per week for basic rate (20%) taxpayers, £28 per week for a higher rate (40%) taxpayer and £22 per week for an additional rate (50%) taxpayer.

In each case the benefit is worth around £11 per week. Where care is provided in a workplace nursery, there is no limit on the exemption.

HEALTH SCREENING AND EYE TESTS

Employers can provide employees with one health screening and one medical check-up per tax year without liability. A separate exemption applies to eye tests, which the employer is required to provide under Health and Safety legislation, and/or corrective glasses for using computer monitors.

SMALL LOANS

Although a tax charge arises in respect of the provision of low interest and interest-free employment-related loans, an exemption is available for small loans, provided that the balance outstanding does not exceed £5,000 at any point in the tax year. In times of economic hardship this can be a valuable benefit, providing the employer with the means to help an employee over a difficult period without triggering a tax charge. However, a tax charge will arise if the loan is written off.

CHRISTMAS PARTIES

The exemption for Christmas parties and similar functions is well known. Employees can enjoy the benefit of a tax-free bash (or several smaller functions) provided that the cost per head is not more than £150. However, if the cost per head exceeds the £150 threshold, the full amount is taxable, not just the excess over £150. The £150 limit applies per head, not per employee, meaning that guests are taken into account when calculating the cost per head figure.

OTHER BENEFITS

There are many other potentially tax-free benefits available, including: tea, coffee and subsidised meals; employer-provided bicycles; zero-emission cars; car parking spaces; suggestion schemes; and long service awards.

For further information and advice on the tax-free benefits available, please contact us.

TAX REMINDER – DON'T MISS THE SELF ASSESSMENT DEADLINE!

31 January 2012 is the last day for filing your 2011 Tax Return online without incurring penalties.

Following the introduction of HMRC's new penalty regime, there has been a significant increase in the value and frequency of fines for the late filing and late payment of income tax through Self Assessment. An initial penalty of £100 is payable the day after the initial filing deadline is missed (even if there is no tax payable). This is followed by a series of additional ongoing penalties for late filing and payment.

We can help you to prepare your Tax Return – please contact us for further advice and assistance.

JUNIOR ISA LIMIT IS RAISED

The annual amount that can be invested into a new Junior Individual Savings Account (JISA) has increased from £3,000 to £3,600.

In July the Government published detailed regulations on the new tax-free savings account, which included an amendment to the annual contribution limit as previously announced in March.

JISAs are available from 1 November 2011 and are seen as a replacement for Child Trust Funds (CTFs), which were closed to new savers in January 2011.

The Government has confirmed that JISAs will have the following key features:

- All UK resident children under the age of 18 who do not have a CTF will be eligible for Junior ISAs
- Any income or gains will be tax-free
- Both cash and stocks and shares Junior ISAs will be available
- There will be an overarching contribution limit of £3,600 per year which will be indexed by CPI from 6 April 2013 onwards
- Accounts will be owned by the child and funds will be locked in until the child turns 18
- Children will have the right to manage their accounts from age 16
- Junior ISA accounts will by default become adult ISAs on maturity.

Meanwhile, the investment limit for existing CTFs will rise from £1,200 to £3,600 per year from November, in line with the new limit for Junior ISAs.

THE MOVE TO ONLINE VAT FILING

HM Revenue & Customs has launched a consultation on the next steps for moving VAT online.

It proposes that from 1 April 2012, it will be compulsory for VAT registered businesses with a turnover below £100,000 to file VAT returns online and make electronic payment of any VAT due. There are also plans to make online the default (though not compulsory) channel for all businesses for VAT registration, deregistration and changes to registered details.

Since 2010, larger businesses and all new VAT registrants have had to file VAT returns online and pay their VAT electronically. Others can still file paper returns and pay by cheque.

The move is part of a wider general Government drive to move transactions from paper to online. There are plans to introduce a new online VAT registration service from October 2012, with the aim of making registering quicker and easier, and there are also consultations to move direct taxes online.

PRESERVING ENERGY AND MAXIMISING PROFIT

The advantages of becoming energy efficient are well documented, but have you considered the potential benefits to your bottom line? By becoming environmentally friendly you can reap the rewards of a greener and more profitable business.

There are many simple steps you can take to improve your energy efficiency, from using energy-saving bulbs, to switching off electrical apparatus when it is not in use, and properly maintaining equipment in order to maximise its energy efficiency.

Here are a few measures that can be taken to reduce some of the £1 billion worth of energy that is wasted by small and medium-sized businesses in Britain every year:

- Replace light bulbs with energy-saving bulbs or consider purchasing motion-sensitive lighting for areas that are not in continual use
- Turn off lights when they are not needed and maximise the use of natural daylight
- Turn off or turn down any radiators not located in permanently used areas
- Do not leave electrical apparatus, such as computers and photocopiers, switched on or in standby mode at night – fitting timers can be a good way to ensure this
- Maintain your equipment and premises to maximise energy efficiency – it may save you money in the long run.

There is also financial support available for those businesses looking to make more substantial changes.

TAX INCENTIVES

Enhanced Capital Allowances (ECAs) allow businesses to claim the full cost of certain energy-efficient equipment against their taxable profits. There are three ECA schemes:

- Energy-saving plant and machinery
- Low carbon dioxide emission cars, and natural gas and hydrogen refuelling infrastructure
- Water conservation plant and machinery.

For a full list of the equipment covered by the schemes, please refer to the ECA website: www.eca.gov.uk/etl

REDUCED RATES OF VAT

A reduced rate of VAT is available when purchasing some energy-efficient equipment. Contact us for more information.

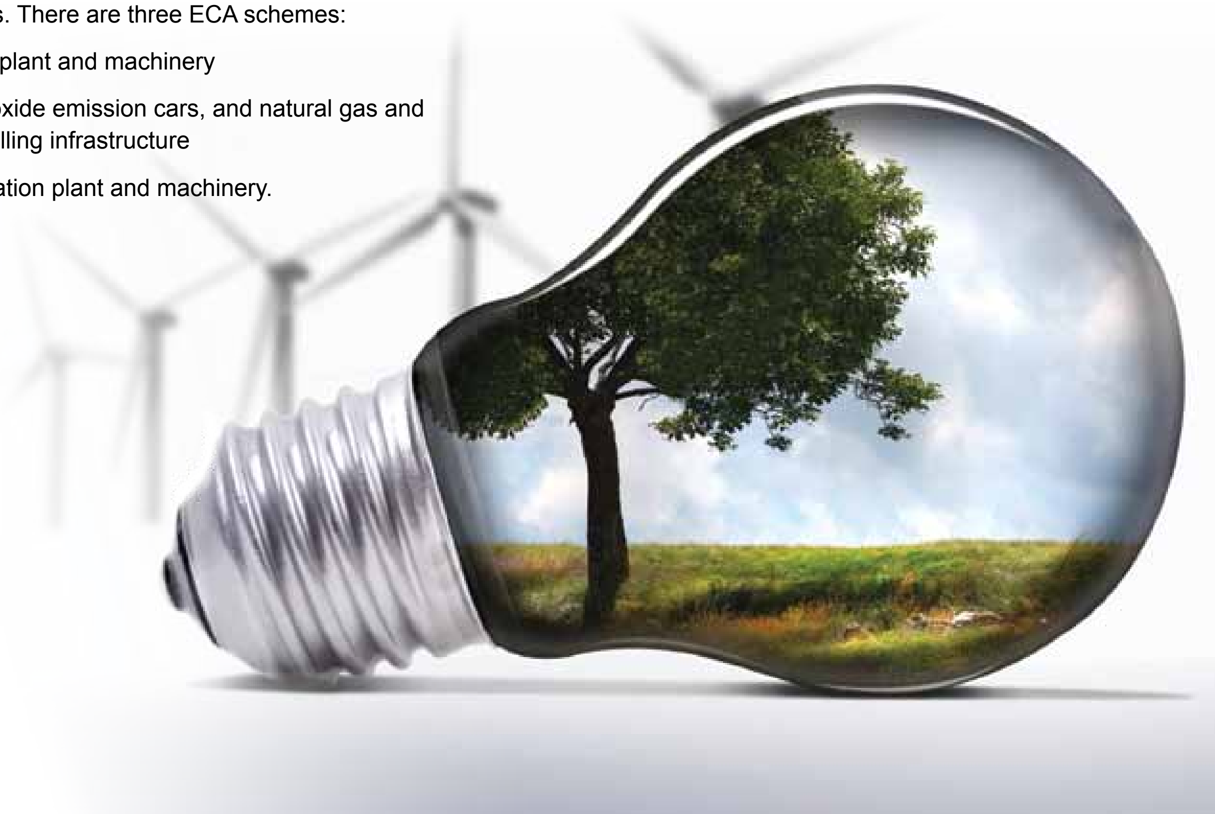
ENERGY-EFFICIENT LOANS

The Carbon Trust provides interest-free loans that allow small or medium-sized enterprises to borrow between £5,000-£100,000 to replace or upgrade equipment with a more energy-efficient version. See if your business is eligible by visiting their website: www.carbontrust.co.uk

STILL CONCERNED ABOUT COSTS?

Why not calculate your payback period – the amount of time it takes for an environmental project to pay back the money invested in it? You can do this by using a simple formula available via the Business Link website: www.businesslink.gov.uk

For more information on a variety of strategies to improve your profitability, contact us today.



PAYE: COLLECTING REAL TIME INFORMATION

As HMRC prepares to pilot Pay As You Earn (PAYE) Real Time Information (RTI), new research has found that many employers are not prepared for the forthcoming changes. In a recent study, more than three-quarters of small businesses questioned admitted that they are unaware of the future reforms.

While the fundamentals of PAYE will remain the same (i.e. use of codes, employers deducting tax and national insurance), RTI will change how and when employers and pension providers report information to HMRC. It will require employers to provide information to HMRC for PAYE, national insurance and Student Loans *at the point of pay*.

Under the current PAYE system, employers tell HMRC what deductions they have made from employees' pay after the end of the tax year. However, under RTI employers will report tax and national insurance deductions when, or before, payments are made. It is hoped the new system will ensure that the correct deductions are made from pay, and result in more employees paying the right amount of tax and national insurance in the tax year.

HMRC states that RTI is designed to make the PAYE process simpler and less burdensome for employers by: making it easier to ensure individuals pay the right tax after a change of job; removing the need for the P45/P46 process over time; offering the prospect of simplifying the PAYE end of year reconciliation process for employers and HMRC; removing much of the uncertainty that leads to errors in the tax credits system; and supporting the introduction of the universal credit from October 2013.

PAYE RTI is being piloted with volunteer employers and software providers around the UK from April 2012. Subject to successful completion of the pilot, large businesses will be required to start using RTI from April 2013. All businesses will be expected to use the new system from October 2013.

For more information on the introduction of PAYE RTI, visit www.hmrc.gov.uk/rti. If you would like further advice on operating PAYE, please contact us.

Contact Ian Fawcett **irf@newbyc.co.uk** **0116 254 9262**

COULD YOUR BUSINESS BENEFIT FROM R&D RELIEF?

Corporation tax relief is available on research and development (R&D) revenue expenditure at varying rates. Recent changes to the relief, together with reforms planned for 2012, mean that this may be an attractive benefit for many small and medium-sized enterprises.

There are two schemes governing the availability of relief – the Small or Medium-sized Enterprise (SME) Scheme and the Large Company Scheme. Here we focus on the relief that is available for SMEs.

SMALL AND MEDIUM-SIZED COMPANIES

The SME scheme applies to companies with fewer than 500 employees and either of the following:

- an annual turnover not exceeding 100 million euros
- a balance sheet not exceeding 86 million euros.

The scheme provides relief for companies that spend at a rate of at least £10,000 on qualifying R&D costs in an accounting period. Subject to further consultation, the minimum expenditure limit of £10,000 will be removed from 1 April 2012 and relief will thereby be extended to lower levels of qualifying R&D expenditure.

SME relief is capped at 7.5 million euros per project and subject to the most recent accounts having been prepared on a going concern basis.

From 1 April 2011, relief under the SME scheme is given at a rate of 200% of the actual qualifying R&D expenditure. So if a company spends £20,000 on qualifying R&D, it can claim a total deduction of £40,000 – £20,000 in respect of the actual expenditure plus a further £20,000 R&D relief. From 1 April 2012, the rate of relief under the SME scheme is set to increase by 25% to 225% of qualifying R&D expenditure.

QUALIFYING EXPENDITURE

Relief is only given for R&D projects which seek to achieve 'an advance in overall knowledge or capability in a field of science or technology,' through the 'reduction of scientific or technological uncertainty'.

It must not simply be an advance in its own state of knowledge or capability. There are some restrictions on the areas of innovation that may qualify, so please contact us for details.

In addition, the project must be related to the company's organisation or trade. This can be an existing organisation/trade or one that the company intends to start up based on the R&D.

CLAIMING R&D RELIEF

Where the project meets the definition of R&D, relief can be claimed on the associated revenue expenditure. Broadly, this is expenditure on the day-to-day running of the project. You will need to keep track of the following types of expenses connected with the project: employee costs; payments to staff providers; material costs; and payments for clinical trials, utilities and computer software used directly in the R&D.

Relief under the scheme is not given for capital expenditure (in respect of which capital allowances may be available).

Claims for R&D relief can be made in the company tax return. The time limit for making a claim is two years from the end of the corporation tax accounting period to which the claim relates.

If you would like more information on R&D relief, and advice on how to claim, please contact us.

PLANNING FOR A PROSPEROUS 2012

We all know how difficult it is to keep New Year's resolutions, but why not resolve to do something that will really make a difference to your business profits and personal wealth during 2012?

Take a few minutes to read and complete the following table, selecting the points you want to take action on. Realistically of course, you can only hope to put four or five points into practice over the next few months, so use the Action column to put your top five points into order of priority. Then please feel free to contact us to discuss these points in relation to your unique circumstances.

In 2012 I will:	Good idea	ACTION
Personal Planning		
Minimise my income tax liability		
Build net worth through planned investment strategies		
Start making tax-efficient savings, for the short or long term		
Protect my assets from bankruptcy		
Start saving to fund my children's education		
Review my charitable giving		
Business Planning		
Start my own business		
Raise finance for a new or expanding business		
Take more action to make my remuneration or profit extraction more tax and NIC efficient		
Retirement and Estate Planning		
Protect my family by executing an enduring power of attorney		
Make arrangements to protect my family from financial hardship if I should die or become incapacitated		
Provide for my business if I, or any other key personnel, die or become unable to work		
Maximise savings in my final working years		
Save to maintain my current standard of living in retirement		
Minimise the tax liability on my estate		
Find out what my business or other assets are really worth		
Transfer all or part of my business/other assets to my heirs		
Develop my estate plan as circumstances change		
Review my Will for tax efficiency		
Arrange insurance – the right type, and the right amount		

Call us now and we can help turn your resolutions into reality – but don't leave it too late!