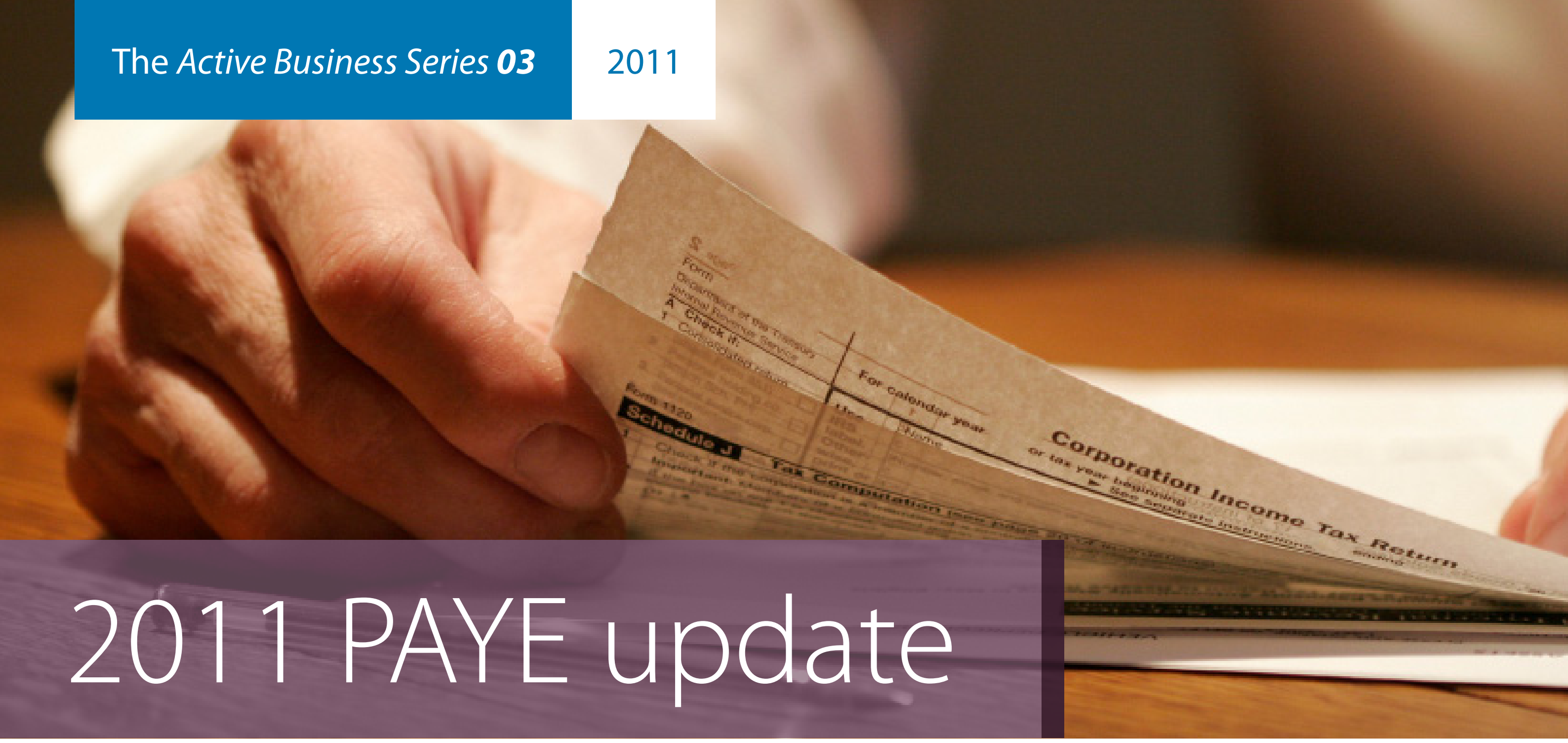

2011 PAYE update

There have been a number of developments during the last year - here is a brief overview of the changes.

NATIONAL INSURANCE

The new rates for national insurance have been announced for the tax year starting on 6 April 2011. The earnings threshold is replaced by two thresholds: a primary threshold (PT) for employees and a secondary threshold (ST) for employers. This further complicates the national insurance system, particularly if you operate a contracted out occupational pension scheme.

These changes time in with the increases in rates already announced. The accruals point remains frozen, while the upper earnings limit has reduced. This means that some employees will be paying less national insurance than at present and offers some scope for tax planning.

The lower earnings limit will increase from £97 to £102. This is the threshold at which an employee earns credits for the state retirement pension and is eligible to claim statutory sick pay and other statutory payments. As this increase is more than 5%, it could mean that part-time and low-paid workers could find themselves put outside the scope of these statutory schemes.

If you need help in understanding these changes and their implications, please call us.

Beresfords

CHARTERED ACCOUNTANTS

Beresfords | 01303 850 992
mail@beresfordsaccountants.com | www.beresfordsaccountants.com
Castle House Castle Hill Avenue Folkestone CT20 2TQ

REAL TIME INFORMATION

The government plans to amend the PAYE system by introducing real time information (RTI).

This means that every time you run the payroll, you must send in details of how much tax, national insurance you have deducted. There are up to 102 pieces of information that must be sent.

The proposed timetable is:

- January 2013: large employers move to RTI
- April 2013: medium-sized employers move to RTI
- August 2013: small employers move to RTI
- October 2013: every employer has moved to RTI.

This means that in less than three years' time, even the smallest employer must be submitting data using RTI.

We can make sure that you are ready for this change.

PENALTIES

From May 2010, a penalty may be imposed on an employer who is late in submitting a PAYE return or payment. These penalties will not be imposed until after the tax year has ended on 5 April 2011, so you could be incurring penalties without realising it.

There is no penalty for a single "offence", but thereafter penalties are incurred at 1% of the payroll, increasing to 4% if you are late every month.

We can help you ensure that you do not incur penalties. If you are late for any reason, we may be able to help you if there is "reasonable excuse" for the lateness.

CHRISTMAS PARTIES

You are allowed to spend up to £150 per person attending a Christmas party or other social occasion.

Please note that:

- the limit is per person, not per employee
- the limit is per person who attends, not those who accept the invitation
- if the limit is breached, the whole cost is taxable, not just the excess

- the limit includes VAT even if you can claim this back as input tax
- party costs include taxis, overnight accommodation and similar expenses
- the limit cannot be used to cover Christmas presents to staff.

Last year some Christmas parties were caught out by unexpected snowfall. This meant that some people could not attend with the consequence that those who did were hit by a tax charge. We can advise on procedures by which the employer can pay this tax.

In the meantime, you may wish to consider having your party in January when hopefully the snow has gone, and everyone is feeling rather fed up having just received their credit card bills. You may also find diaries and restaurants less booked up!

Although not a tax matter, we remind clients that an employer is "vicariously liable" for the conduct of employees at staff parties. If someone drinks too much and causes an accident while driving or gets too friendly with a colleague, the employer could face expensive legal action.

AGE EQUALISATION

The government has brought forward by two years from 2020 to 2018, the age at which men and women reach state retirement age of 65. This is also the age at which individuals stop paying national insurance. From 2018 to 2020, the common retirement age will increase to 66 for men and women.

This change affects all women born after 5 April 1950 and all men born after 5 April 1953. Some women will find that this latest change defers their state retirement age by up to two years.

We can provide further information and advice.

PENSIONS

The previous government announced that it was restricting pension relief to taxpayers that earn more than £150,000 a year. This took 22 pages of tax law and involved complex calculations.

The new government has decided to keep the pension restriction but to implement it in a simpler way. This is done in two stages:

- the annual allowance is being reduced from £255,000 to just £50,000 from 6 April 2011
- the lifetime allowance is being reduced from £1.8 million to £1.5 million from 6 April 2012.

Points you need to consider are:

- are pension schemes still tax-effective for high earners?
- is there opportunity to exploit the rule that allows unused annual allowance to be carried forward for three years? This includes using deemed allowances from 2008/09 for 2011/12
- can you benefit from some of the transitional reliefs if you are already exceeding these new allowances?
- are you offering an employer-financed retirement benefit scheme (EFRBS) that is caught by these new provisions?

Whatever type of pension scheme you operate, you should have it reviewed in light of these and other developments being planned.

Please note these other pension changes already announced:

- the NEST scheme of employee pensions is introduced from 2012
- national insurance relief for contracted out money purchase schemes is withdrawn from 2012

TAX ENQUIRIES

Increasingly, HMRC is issuing formal queries when a few years ago it would simply ring up the employer.

In most cases, this is nothing to be worried about. The matter is addressed simply by passing the letter to us for a reply. Some of these letters can look formal and even intimidating. In most cases, we can deal with the matter quite easily for you.

There are things you can do to avoid having enquiries raised and to help us to deal with any enquiries that do arise:

- keep your accounting records up to date
- possibly, compare your gross and net profit margins with those for your industry sector, and understand any significant variations.

We can help with any of these matters.

Some enquiries are generated on a random basis. Other enquiries are caused as part of a campaign to investigate a particular business sector. So an enquiry does not necessarily mean that you are suspected of a tax offence.

HMRC have fearsome powers that can be used if they do suspect an offence. Last year, it was held that they could enter your premises without warning and take away all your computers. Their powers can be equivalent to, or even greater than, those of the police.

If you believe you may be investigated for a possible serious offence, it is essential that you contact us as soon as possible. Although HMRC's powers are wide, they are not unlimited. There have been instances when they have exceeded their powers. In such cases, we can take action for you.

LAST YEAR WAS A VERY GOOD YEAR...

To finish off our look at changes in 2010, we point out some of the tax changes you may have missed:

- the first-tier tax tribunal has defined "woman", and the Court of Appeal in a tax case defined the word "bonkers"
- HMRC gave advice on how to fill in a paying-in slip for bank payroll tax. Only banks pay this tax
- HMRC stated that you can notify them of your death by telephone
- the first-tier tax tribunal gave a scientific explanation of what happens when you toast a piece of bread, and explained the VAT consequences of changing a battery in the remote control of a repossessed television
- a new tax called landline duty was introduced, and then repealed before it started
- among the new tax cases to quote as a legal precedent is one called Yum Yum. This held that a classic Jaguar car is not tax allowable as a pizza delivery van
- and in Ashworth TC646 a person was penalised for excise duty offences because he did not smoke enough.