

Taking Account

MARSHALL ROCHE
Newsletter – Autumn 2004

PROFITING FROM VAT...

For most small businesses, VAT is effectively an expense. If they are not registered, they cannot reclaim the VAT on their expenses, whilst if they are registered, they have to pay over VAT on their income. However, some may benefit from implementing the new flat rate VAT scheme, including some people who are not currently VAT registered.

Instead of adding up the VAT on sales and then deducting the VAT on purchases, the flat rate scheme enables a business to simply pay over a percentage of their turnover. The percentage depends on the nature of the business - for example, a pub would pay over 5.5% of their turnover, whilst a restaurant would pay over 12%. However, neither would be able to claim any VAT on their purchases - the amount paid to H M Customs & Excise is a straight percentage of takings.

When they were first introduced, the flat rates were set too high, so that they were not beneficial for most businesses. However, these have recently been reviewed and in many cases reduced. A full table of the rates is given on our web-site.

Anyone with a turnover below £150,000 pa. can join the scheme and we shall review VAT registered clients when we prepare accounts, to see whether this would be worthwhile. However, if you would like us to review your situation sooner, please get in touch.

The scheme may also interest those businesses that are not VAT registered, but make all, or nearly all, of their supplies to VAT registered customers.

For example, a security consultant with VAT registered customers can add 17.5% to his invoices, but need only pay over 10% of the total to the VAT-man.

Therefore, an invoice for £100 becomes £117.50, of which £11.75 is paid to the VAT office, producing an increase in profits of 5.75%, just for filling in the VAT return.

There is a further discount of 1% off the flat rate figures for the first year of VAT registration.

If you think that you may benefit from this new scheme and would like us to investigate further on your behalf, please contact us.

Marshall Roche

Chartered Accountants - Business & Finance Specialists

Check out our web-site at:-
www.MarshallRoche.co.uk

77 London Road, Cowplain, Waterlooville PO8 8UJ 023 9234 0775
Cowplain@MarshallRoche.co.uk

1 Portland Buildings, Stoke Road, Gosport PO12 1JH 023 9234 0770
Gosport@MarshallRoche.co.uk

1-b Fareham Park Road, Fareham, PO15 6LA 01329 505035
Fareham@MarshallRoche.co.uk

Registered Office:

61 Warsash Road, Warsash, Southampton, SO31 9HU 01489 480722
admin@MarshallRoche.co.uk

Tax free mileage allowance

Most people are aware that when they use their private car for work, they can claim a mileage allowance. Where the employer pays a mileage allowance at the same level as the Inland Revenue rates, then there is no adjustment needed for tax purposes. However, if the employer pays more, then the surplus is taxed as income. If the employer pays less (or none at all), then the full Inland Revenue rate can be claimed as an expense, resulting in a tax refund.

The allowable rates are 40p per mile for the first 10,000 business miles in a tax year, then 25p per mile thereafter.

For the self-employed, there is the option of claiming the mileage allowance as the deduction in the profit and loss account, or claiming a proportion of the actual costs. Therefore, if you run a cheap old car then you may well be better off claiming the 40p per mile, whilst an expensive car might work out better on the percentage method. *Whichever you choose, this method must be applied consistently for that car, so the time to consider this is when you change your car.*

The best solution is to keep detailed mileage records of business and private mileage for the new car and let us have these details when we do the next set of accounts -- then we can work out which basis is better for you.

Capital gains tax planning

Each person can make capital gains of £8,200 in the current tax year before paying capital gains tax. If an investment is owned jointly between husband and wife, there are two lots of allowance when it is sold.

Therefore, whilst it may have been beneficial to hold the investment in one person's name for income purposes, it is often better to transfer assets into joint names before selling.

However, if this is done too close to selling, the Inland Revenue may challenge it. Ideally, it should be before a sale is in prospect.

Unfortunately, this only applies to married couples because assets transferred between unmarried persons are valued at the date of the transfer, with any gain in value up to that point being taxable on the original owner.

Taking on a new employee?

New rules were introduced this year to try to curb illegal workers. All employers must now check the identity of their employees using a list provided by the Home Office. ***Failure to do so can lead to prosecution.***

The easiest way to establish identity is to see and take a copy of the employee's UK passport. Alternatively, form P45 or P60, backed up by a UK birth certificate. Again, these documents should be copied.

Full details of the steps to be taken and the documents acceptable can be obtained from the Home Office web site at www.ind.homeoffice.gov.uk.

Tax return reminder

As we approach the Christmas rush, once again we would urge clients who have not yet provided us with the information to prepare their tax returns to now do so.

As always, if matters are left to the last minute then this risks a penalty, because we cannot do everyone's tax return at the last minute.

Thank you for your cooperation.

Keeping tax records

Everyone is required to keep records to support the information on their tax returns. These may be little more than your P60 and a bank interest certificate, or they may be accounting records for your business.

Whichever, they must be kept for six years after the tax year to which they relate.

Personal records do not have to be kept, unless they include information relevant to your tax or business affairs.

No business rates

There was a threat recently that people working from home would be charged business rates on their home.

However, in a tribunal on the matter, the charge was thrown out.

Business rates will only be payable where part of the home is physically adapted for business use, so that it loses its 'domestic character'.

Note: The content of this newsletter is necessarily of a general nature and no liability can be accepted for any action or inaction on the part of any person without first consulting us.

A J Marshall t/a Marshall Roche is authorised by the Financial Services Authority to conduct investment business

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