

the bottom line

Welcome to the Summer edition of "the bottom line". This issue deals with benefits and expenses and News in brief.

BENEFITS IN KIND AND FLEXIBLE BENEFIT SCHEMES

At this time of year with the filing of forms P11d (Returns of Expenses and Benefits) behind us, we thought we would highlight issues raised and also consider more tax efficient ways of rewarding staff. PAYE regulation is becoming an increasing burden and some businesses are 'getting caught out' when a routine PAYE inspection arises.

Company cars and motor expenses

Due to significant changes in the taxation of company cars, these are no longer the 'perks' that they used to be. The provision of a car and private fuel is now taxed according to CO2 emissions. By way of an example, a car with a list price of £18,000 with CO2 emissions of 190gm/km results in a taxable benefit of £4,500 for the car and £3,600 for private fuel. The tax cost of this to a 40% taxpayer is £3,240 per year. The employer is also subject to Class 1A NIC of just over £1,000. Just taking the fuel element based on £4.10 per gallon and 25 miles to the gallon, an individual would need to travel in excess of 8,780 private miles in a tax year for the benefit to be worthwhile. This is ignoring Class 1A NIC which would impact particularly on owner managed businesses.

An individual can be reimbursed for any business mileage when using his own car at a rate of 40p per mile for the first 10,000 miles and 25p per mile thereafter. There are no tax implications of such payments (except that they are allowable deductions in the company accounts) and payments at these rates do not need to be declared on forms P11d. Individuals with company cars can similarly be reimbursed for private mileage but at a lower rate of between 7p and 14p, depending on the cylinder capacity and the type of fuel used.

With the introduction of Limited Liability Partnerships, it is possible to change your business structure, which notwithstanding other commercial and tax issues, often allows a more efficient tax treatment for the 'partners' of a business when dealing with the issue of cars. We would be happy to provide you with more detail on this structure and how the tax savings would benefit you.

Company vans

If there is unrestricted private use of a company van an individual is taxed on a benefit of £500 per annum (£350 if the vehicle is over 4 years old). Private incidental use is allowed and details have been given in a previous newsletter.

Gym membership

Payments to a gym are treated as benefits in kind and subject to tax and Class 1A National Insurance.

Training and subscriptions

Most work related training courses can be provided by an employer without any tax implications to the employee. The same is equally true of subscriptions that are relevant to the business, such as professional bodies.

Eye tests

It is a legal requirement under health and safety legislation for an employer to provide access to eye sight checks for all employees that use a VDU. These costs are not taxable, and in addition a contribution can be made for spectacles that are required specifically due to use of a VDU in the course of business, tax free.

Overdrawn Loan accounts

If an individual or director earning in excess of £8,500 per annum receives a loan from the business, not in the ordinary course of its business, and does not pay interest or pays it a rate lower than the official rate (currently 5%) to the company, the notional

beneficial loan interest is taxed as a benefit in kind. Loans of less than £5,000 are exempt.

Computer equipment

No taxable benefit arises in respect of a loan to employees of computer equipment for private home use, provided that the value of the equipment and related expenses do not exceed £2,500. (The loans must not be restricted to directors and senior staff).

Mobile phones

The provision of a mobile phone to an individual is no longer a taxable benefit. However we would remind you that you should only reclaim VAT on the business proportion of the bill. Customs are tightening up on this when carrying out inspections.

Staff Entertaining

There is a limit of £150 per annum for staff entertaining at a staff function. More than one function can be included but if the total of these exceeds £150, whole functions must be excluded to get below the limit. All other staff entertaining should be included on forms P11d and the employee will be taxed accordingly. Alternatively the employer can make good any tax by way of a PSA (PAYE Settlement Agreement), whereby the company settles the tax directly at the end of the tax year.

Private medical insurance and Permanent health insurance

Private medical insurance premiums paid by an employer on behalf of their employees are included on forms P11d and are taxed as benefits in kind. Class 1A national insurance at a rate of 12.8% is payable thereon by the

employer. Some companies now also provide access to health screening and dental cover. Routine medicals and health screening when incurred directly by an employer are not taxable on the employee, although if the costs are reimbursed to the employee rather than being incurred directly, the tax free treatment may not apply. All other costs are subject to tax. However the position regarding permanent health insurance policies is less clear.

Permanent health insurance is taken out to provide an employee with income in the event that they are unable to work as a result of ill health or disability. Where a claim is made the employee is effectively provided with replacement income when the employer has stopped making salary payments. If the premiums are not treated as benefits in kind and hence subject to tax and national insurance, any income under the policies will be taxable. If however the payments are included on forms P11d, any income paid under the policy can be tax free provided certain other conditions are met. From the employers perspective the premiums are tax deductible in computing profits for corporation tax purposes.

Pension contributions

Contributions to approved employee pension schemes are not treated as taxable benefits and do not have to be included on the annual returns.

Holidays

With the ongoing debate about life/work balance your employees may prefer to take additional holidays. There are no tax implications of this and this is a good method of rewarding staff without it costing them anything!

Pay

Many individuals would rather receive their whole salary by way of their pay packet. This is not particularly tax efficient but gives clarity to the employment relationship. The above detail is not intended to be comprehensive but simply to highlight issues or suggest better ways of rewarding your staff. If you would like more information on any of the points raised or would like us to design a 'Flexible benefits' package for your business please contact us. We can also carry out a PAYE healthcheck whereby we consider the expenses and benefits paid currently, and ensure that the business is fully compliant with the PAYE regulations.

Contacts:

For further information about the issues raised in this newsletter or if you would like to find out about the range of services that we can offer, please contact Stephen Dabby, Morisha Christy, Tony Sian or Nick Nicolaou.

NEWS IN BRIEF

Transfer of Undertakings

The Transfer of Undertakings (Protection of Employment) Regulations 1981 are being overhauled with the new regulations coming into force on 1 October 2005. These regulations cover the continuous employment of individuals on a transfer of an existing business from one entity to another.

Small Business Rate Relief

This relief is available from 1 April 2005 and targets businesses that occupy a property with a rateable value of less than £10,000. Eligible properties with a rateable value below £5,000 will get 50% relief and this will decrease on a sliding scale of 1% for every £100 up to a rateable value of £9,999. The Small Business Rate relief has to be applied for before it can be claimed and there are a number of conditions which apply. For further information check www.mybusinessrates.gov.uk.

Operating and Financial review (OFR)

The OFR regulations mainly affect listed companies but will also affect the Directors' reports of large and medium unlisted companies. The regulations came into force on 1 April 2005 and for accounting periods beginning on or after that date listed companies will have to produce an

OFR and large and medium unlisted companies will have to prepare an expanded Directors' report. The regulations make it clear that the OFR is to reflect the directors' view of the business, and to focus on matters relevant to members. The OFR should be forward looking, should complement and supplement the financial statements, and should be comprehensive and understandable, balanced and neutral, and comparable over time.

Headed notepaper

With many limited companies now producing their own notepaper, many businesses are sending correspondence on letterheads which does not comply with the Companies Act. Headed paper should show the full name of the company exactly as registered at Companies House, the registered office address, the place of incorporation, (generally England & Wales), and the company number. If the same paper is to be used for invoices the VAT registration number should also be detailed thereon.

HM Revenue and Customs

You may have noticed that any correspondence from the tax authorities is now headed H M Revenue and Customs, as a result of a merger of the two bodies. They also have a combined website at www.hmrc.gov.uk.

OUR SERVICES

We wanted to remind you that at Greenback Alan we provide all manner of services to assist you as individuals and also your business in dealing with the ever increasing legislation and financial aspects of your affairs. These services include:

- Audit and preparation of annual accounts
- Preparation of monthly or quarterly management accounts
- Dealing with all aspects of corporate and personal tax including International implications
- Inheritance tax and will planning
- Assistance with VAT, Company Secretarial matters including new incorporations, and payroll processing

- Corporate finance activities including acquisitions, MBO's, business disposals and financial planning
- Dealing with regulatory authorities such as the FSA, ABTA
- Advice on accounting and business systems
- General advice to help you run your business including employment advice.

We pride ourselves on the high level of partner led service provided to our clients. We are only successful because of you and we are always looking for more good clients to help us to grow. Please do not hesitate to recommend us to others like you.



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