

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

Liz Elliott
Tax specialist

How the non-taxable child benefit is to turn into taxable income!

As a complex way of restricting the child benefit to those with income up to £50,000 per year, from 7 January 2013 the benefit will be taxed. And we thought the idea was to simplify the workings of the benefits and tax systems!

There are marginal tax rate traps galore for this one as if your income is between £50,000 - £60,000, when the benefit is clawed back completely through the tax system, the marginal tax rate can be up to a staggering 71%! That would be the case if you have 4 children, but there are plenty of other odd and unacceptable situations when the marginal rate bites hard if your income is between those magic figures when your top tax rate should really be 40%.

Please contact us to discuss the opportunities to avoid this trap by reference to your own circumstances.

Company cars

Plenty of changes announced here - most of which will not come in for a few years as a company car is not something which can be changed overnight.

The time scale means that careful planning can reduce the impact of the changes and we are ready to advise you of your options.

The changes include the following examples:

- 100% tax write-off for the company on a car purchase currently applies if CO2 emissions do not exceed 110 g/km. That is reducing to 95 g/km from April 2013.
- For other cars the annual tax write-off is basically either at 18% or 8%, depending on CO2 emissions. Currently the cut-off point is CO2 emissions of 160 g/km but again from April 2013 that is reducing to 130 g/km.
- The income tax charge on the user of a company car will be facing increases, some of which are quite nasty. About the only good news is that a diesel company car will no longer have a 3% supplement to the normal tax charge – but you will have to wait until April 2016 for that.

A full review is needed of the company car policy for businesses and drivers, so do contact us to explain the options.

Real Time Information (RTI)

Employers will electronically provide monthly information to HMRC in respect of wages and salaries paid to employees, and in due course will not have to file year end returns such as form P35 and P14.

Volunteers will pilot this scheme from 6 April 2012 and the plan is that all employers will use RTI by October 2013, phasing it in from 6 April 2013. We will keep you up-to-date with developments on this important topic.

TAX E-NEWS

Monthly Update

Tax bands

There are traps galore here, too, as the planned increase in the personal allowance to £10,000 in the lifetime of this Parliament is linked to a determination that 40% taxpayers will not gain much of an advantage overall. This is achieved by reducing the income level at which the 40% tax rate starts to bite. For 2012/13 it will be gross income of £42,475 and for 2013/14 the figure is £41,450. The result is that 300,000 taxpayers will become 40% taxpayers without enjoying an increase in their income!

Again, if this sounds like you we can discuss possible ways round this trap in your particular circumstances.

Personal allowance trap

We mentioned this last month but even more people stand to suffer a marginal tax rate of 60% in 2013/14 than ever before. This is because the trap will apply to those with taxable income between £100,000 and an increased amount of £118,410. This is one tax trap it pays to avoid, as at that level of income you should be paying tax at 40% rather than 60%.

There are several techniques to avoid all this – please contact us for help so you plan ahead in plenty of time.

Tax reliefs to be capped

If you tend to claim tax reliefs which do not have any specific monetary limit, this is all going to change from 6 April 2013. Specifically there will be a maximum amount on which you can claim tax relief, which will be the greater of 25% of your income or £50,000.

Careful planning will therefore be required, with the restriction likely to apply to tax reliefs such as loan interest and charitable donations.

Payments by employers towards the incidental costs of home-working

Whether or not an employee is able to substantiate a claim for working from home, the employer can make a tax-free payment to cover reasonable additional household expenses incurred in carrying out duties of the employment under home-working arrangements.

There is a modest, but useful, increase in the tax-free payment from 2012/13 to £4 per week (we know, not the most impressive form of tax break around, but worth having!)

To minimise the need to keep detailed records, this tax-free payment can be paid without the employee having to provide supporting evidence of the actual costs incurred. Larger payments than £4 per week can be made tax-free if supporting evidence is provided by the employer that the payment is wholly in respect of the additional household expenses incurred by the employee in carrying out his duties at home.

Controlling directors are not specifically debarred from this modest tax exemption, and there is scope to maximise the exemption if you are a director who regularly takes work home (are there any directors who don't do that?!)

E-Markets disclosure

HMRC are running a campaign offering people trading via online marketplaces, such as eBay, to come forward and pay the tax they owe on any undeclared income. Traders have until 14 June 2012 to advise HMRC that they intend to make a disclosure of undeclared income, then details of the tax liability and payment of the amount due must be made by 14 September 2012.

Not everyone who uses online marketplaces to sell items will be a trader - those who sell just a few items online are unlikely to be trading.

HMRC are using information from a variety of data sources to identify traders and they will investigate those who fail to make a disclosure.

Therefore it's important to take action now if you think there may be something to declare.