BUSINESS NEWS
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Reducing Your Income Tax Liability

The 2009 Budget revealed Government proposals to introduce a new additional rate of income tax. This new rate of 50% is due to be imposed from 6 April 2010, and will apply to the portion of taxable income that exceeds £150,000.

When combined with national insurance (NI) of 1%, this adds up to a top rate of 51% for both employees and the self-employed. On 6 April 2011, the combined tax rate rises again when NI rates will be increased by 0.5% across the board.

In addition, from 6 April 2010, individuals who have a total income in excess of £100,000 will have their tax-free personal allowance reduced by £1 for every £2 of income over £100,000.

For those who are self-employed and draw up accounts to, say, 30 April, any profits made since 1 May 2009 will be taxed in 2010/11. They may therefore already be accruing higher tax charges on their current profits.

If you are likely to have income in excess of £100,000 for 2010/11, you could use the following strategies to reduce your total taxable income:

- If your spouse has a lower marginal tax rate, transfer income generating assets such as shares, let property or bank deposits into your spouse's sole name.
- Make gift-aided charitable donations.

Paying increased pension contributions may help to reduce your marginal tax rate, but there are restrictions where your income has topped £150,000 for any tax year since 2007/08. (See 'Pensions Update' below). New tax rules apply where irregular amounts of pension contributions are paid after 22 April 2009. This is a very complex area, so please contact us for further advice.

- If you run your business through your own company you may wish to consider restricting your income to below either of the two key thresholds of £100,000 or £150,000 by reducing your salary and dividends and leaving any surplus cash in the company.
- If you currently operate your business in your own name, incorporating your business may allow you to control your marginal tax rate more effectively in the future.

We are advising those who are likely to be affected by the new higher rate of income tax to consider whether incorporation may be a way forward. Let us know if you require more advice on this and remember any restructuring of your business might need to be done before **31 March 2010** to take full advantage of any tax savings.

Pensions Update

Another blow for those with income of £150,000 or more is the withdrawal of the full higher rate tax relief which will no longer be given on pension premiums from 6 April 2011. The income limit applies to total income less certain deductions and not just business profits. This will result in many losing out on tax relief on their pension contributions from the 2011/12 tax year onwards. The higher rate relief is tapered for those with income between £150,000 and 180,000, whilst basic tax rate relief (currently 20%) will apply to relevant income of £180,000 or more.

If you think you may be affected by the new thresholds and would like advice on legitimate ways of reducing your income, please let us know.

The Companies Act: the missing links

On 1 October 2009 the final sections of the Companies Act 2006 came into force. The main features of the changes are detailed below.

New company formation

The documentation for forming a company differs significantly from previous requirements. The Memorandum of Association will be a short document, evidencing the intention of each subscriber to form a company and become a member of that company. Companies will no longer be required to specify their objects, and the concept of authorised share capital will be abolished.

New Model Articles will be introduced, which are written in plain English and shorter than the previous 'Table A'. There will be three types, as follows:

- Private company limited by shares
- Private company limited by guarantee
- Public limited company

In practice, companies will be formed using either Model Articles, Model Articles with amended provisions, or bespoke Articles. The Statement of Capital is a new requirement, giving a 'snapshot' of a limited company's issued share capital at a given time. It will need to be provided in various circumstances, including as part of the application to incorporate and with each annual return made up on or after 1 October 2009.

Existing companies

Companies formed under 'old law' before 1 October 2009 will need transitional provisions. For instance, provisions in their memorandum which go beyond the newly required information (such as objects clauses and authorised share capital) will automatically be regarded as provisions of their Articles of Association.

Companies would be well advised to examine their Memorandum and Articles of Association with a view to adopting the new Model Articles, or changing some of their current provisions. Changes to Articles require a majority of 75% of the voting rights of those eligible to vote. Special resolutions can be passed by written resolution, but a copy should be filed at Companies House within 15 days of its being passed.

Directors' service addresses

Directors (and company secretaries where applicable) of existing and new companies may set out a service address rather than their usual residential address. This can be the company's registered office.

Individual companies will have to maintain two registers of directors – one including a service address for each director, and a further register containing the residential address of each director (protected information).

Home addresses will not be put on public record after 30 September 2009, and access to the Companies House register will be very strictly limited (eg liquidators, the police, HM Revenue & Customs (HMRC) and credit reference agencies). If no action is taken, the residential address will automatically become the service address until the information is provided in the next annual return.

Shareholders no longer have to provide any address to Companies House.

Registrar's powers

A new range of powers for the Registrar of Companies includes powers to decide on the form and manner in which companies must deliver documents, what is needed for a document to be properly delivered, provision of electronic delivery for certain documents, and amendments to the register.

Striking off

The existing procedures will be carried over in a similar form. However, there will be a new simplified administrative restoration procedure for companies struck off by Registrar's action. Whatever the route of dissolution, the time limit for application to restore will be six years (currently two years for liquidation, 20 years for striking off).

New saving limit for ISAs

From 6 October 2009 depositors aged over 50 can take advantage of a new higher investment limit for Individual Savings Accounts (ISAs). Announced in the 2009 Budget, the change means that people aged 50 or over can deposit £10,200 into their 2009/10 ISA, up to £5,100 of which can be in cash. The remainder can be made up of stocks and shares.

If your birthday falls between 6 October 2009 and 5 April 2010 you will be able to take advantage of the increased ISA limits on, or after, the day you turn 50.

The rise equates to a 50% increase in the total savings limit, which remains at £7,200 for all other ISA investors. The new limit will apply to all ISA investors from 2010/11 onward. Approximately five million savers who currently use their full ISA allowance will benefit from the reform.

Salary sacrifice: reap the rewards

By using a salary sacrifice scheme you can reduce your total salary costs while increasing the value your employees receive from their employment package. This involves substituting part of your employees' pay for a tax-free voucher or benefit.

There is a range of tax-free benefits that can be given in place of salary, such as:

- Childcare vouchers worth up to £55 per week
- A daily meal allowance for employees incurring a cost on a meal or meals while travelling
- Use of a company bicycle and safety equipment
- Payment for relevant training courses
- Parking at or near work.

Planning ahead

You will need to match the particular benefit offered to each employee, to ensure they can actually take advantage of the tax-free status. For example, childcare vouchers are only tax-free where the child the employee is responsible for is aged under 16, and the voucher is redeemed for registered or approved childcare. Slightly different rules apply for disabled children. For lower paid employees, care should be taken that there is no adverse effect on tax credits for childcare where vouchers are provided by the employer.

The potential benefits

A daily tax-free subsistence allowance of £10 for two meals could be worth over £2,300 per year for employees who are on the road for 230 working days a year. If employees had to find £10 per day out of their taxed pay, they would need additional gross pay of £14.50, assuming their deductions amount to 31% in tax and national insurance. Replacing £2,300 of the annual gross pay of an employee subject to basic rate tax with a tax-free meal allowance of £2,300, will lead to a net pay increase of £713. As well as this tax saving for the employee, the employer will save national insurance costs of £295, giving an overall saving of £1,008. These tax savings can be shared more equally by reducing the employee's gross pay by less than the £10 daily allowance.

The subsistence allowance can only be paid to employees who are away from their home or office for at least five hours to claim the one meal rate, or 10 hours to claim the two meal rate. They must have actually paid for at least one meal. The subsistence rates are set by HMRC, and need to be included in your P11D dispensation agreement with your local tax office before your can pay them tax-free to your employees.

Setting up a scheme

The salary substitution must be agreed in advance of the employee becoming entitled to the pay. For example, gross pay due from 1 January 2010 could be reduced in December 2009 in return for a subsistence allowance, but a bonus accrued for the period to 30 September 2009 cannot be substituted for MBA course fees payable as the bonus entitlement has already arisen. You also need to amend your employee's written employment conditions to include the revised level of gross pay.

New PAYE Penalty Regime – is your payroll in order?

With effect from April 2010, all employers will face additional risks of penalties and interest if they make late monthly payments of PAYE and NICs.

Not only will these changes increase the complexity of the compliance burden, they raise the prospect of penalties and interest in respect of late payments and incorrect end of year returns. Only one late payment per year will be permitted with subsequent failures to pay on time automatically generating a penalty of between 2% and 12% of the tax or NIC involved.

We can help lessen this burden

The Morris Crocker inhouse payroll bureau is suitable for any business, regardless of its size or complexity. Produced weekly, monthly or quarterly, your payroll will be delivered accurately and on time through a service which can be tailored specifically to your needs and priced at an extremely competitive fixed rate. **Please contact us for more details.**

Tax-free Health Checks

As part of new legislation introduced by the Finance Bill 2009, HMRC will allow one health screening and one medical check up per employee per year to be tax exempt. An owner-manager is therefore entitled to arrange an annual health check and charge it to the business tax-free.

Minimum Wage to increase from October

The National Minimum Wage (NMW) rates increase with effect from 1 October 2009. The new rates are as follows:

Age	Hourly rate
22 and over	£5.80
18-21	£4.83
16-17	£3.57

Employers who are found to be in breach of the NMW legislation are now subject to automatic penalties, ranging from £100 to £5,000. This is in addition to the wages already owed to the employee.

From October 2010, 21-year-olds will be included in the main adult rate of the NMW.

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Furnished Holiday Lettings Scheme
for Overseas Property Investors

In the April 2009 Budget, the Chancellor announced the repeal of the "furniture holiday lettings" or FHL rules with effect from April 2010. This means that certain tax benefits will no longer be available to owners who rent out their furnished holiday homes on a short term basis in the UK.

However there was also a very important change in the interim which will allow owners of qualifying overseas property to benefit from the tax advantages of the existing furnished holiday lettings rules. These advantages include certain capital gains tax (CGT) reliefs, capital allowances relief which can be claimed on plant and machinery such as furniture, and offsetting any losses against other income.

Previously, landlords with income from furnished holiday accommodation not in the UK did not quality for this beneficial treatment. Until April 2010 property within the European Economic Area (EEA) is now regarded as qualifying property, provided it meets certain criteria. For instance it must be let on a commercial basis, and be available as holiday accommodation for at least 140 days in the tax year. Also, it can only be occupied by the same person for up to 155 days.

If you own an overseas property and would like further information on the changes taking place next April or are considering purchasing an overseas property to take advantages of the tax savings before then, please contact us.

News from Morris Crocker

"It only feels like yesterday…"

Our congratulations go to two members of staff, Sally Knowlton and Stuart Cann, who this year celebrated 40 years and 25 years respectively with Morris Crocker. They are now members of a select group of long serving employees, Sally having originally started work in the Portsmouth office and Stuart at the office in Petersfield.

Exam Success

Well done also to Lara Brackwell who has passed the rigorous final exams to become a Chartered Accountant. Lara joined Morris Crocker in 2004 and is already providing valuable assistance to small and medium sized businesses.

All for a Good Cause

This has been another busy year for Morris Crocker staff in supporting local and national charities. It seems rarely a day goes by without someone in the office getting involved in a fundraising activity. There are really too many to mention here but a few of the main ones this year have been:

- **Dragon Boat Race** – Rowans Hospice and Naomi House
- **Moonlit Memories Walk** – Rowans Hospice
- **Ben Nevis Climb** – Help for Heroes
- **Great South Run** – Duchenne Family Support Group
- **Wear it Pink** – Breast Cancer Campaign

Next on our list is Children in Need.

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Contact address

The partners of Morris Crocker are happy to discuss matters arising from this newsletter, as well as any other issues related to your business or personal financial affairs.

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