cohen arnold

Chartered Accountants
Registered Auditors

Client Newsletter

New Burlington House
1075 Finchley Road
Temple Fortune
London NW11 0PU

Tel: 020 8731 0777
Fax: 020 8731 0778

E-mail:
mail@cohenarnold.com

Website:
www.cohenarnold.com

Employee benefits – save on tax

The tax system contains a number of exemptions that make it possible to reward employees, at least in part, in a way that is free of tax and national insurance. There are also benefits for the employer, who may be able to save employer national insurance contributions (NICs) in the process.

Here we examine some of the more popular tax-efficient benefits. Please note, however, that the availability of any exemption is contingent on the associated conditions being met.

Mobile telephones

Mobile telephones are arguably one of the most popular tax-free benefits. The exemption is limited to one mobile phone per employee. For the exemption to apply, the employer must provide the mobile phone for the employee's private use rather than reimbursing the costs of the employee's own phone. To be within the terms of the exemption the contract must be between the employer and the phone provider. However, the exemption does extend to the provision of a SIM card to be used in the employee's own mobile phone.

Childcare vouchers and employer-supported childcare

Employers can provide childcare vouchers and/or employer-supported childcare, such as a place in a private nursery, free of tax, providing that it is within the exempt amount. Employees who joined a scheme before 6 April 2011 are entitled to an exempt amount of £55 per week on which tax relief is given at the employee's marginal rate of tax. Where the employee joined the scheme on or after 6 April 2011, the exempt amount depends on the employee's marginal rate of tax.

The monetary value of the exemption is £55 per week for basic rate (20%) taxpayers, £28 per week for a higher rate (40%) taxpayer and £22 per week for an additional rate (50%) taxpayer. In each case the benefit is worth around £11 per week. Where care is provided in a workplace nursery, there is no limit on the exemption.

Health screening and eye tests

Employers can provide employees with one health screening and one medical check-up per tax year without liability. A separate exemption applies to eye tests, which the employer is required to provide under Health and Safety legislation, and/or corrective glasses for using computer monitors.

Small loans

Although a tax charge arises in respect of the provision of low interest and interest-free employment-related loans, an exemption is available for small loans, provided that the balance outstanding does not exceed £5,000 at any point in the tax year. In times of economic hardship this can be a valuable benefit, providing the employer with the means to help an employee over a difficult period without triggering a tax charge. However, a tax charge will arise if the loan is written off.

Christmas parties

The exemption for Christmas parties and similar functions is well known. Employees can enjoy the benefit of a tax-free bash (or several smaller functions) provided that the cost per head is not more than £150. However, if the cost per head exceeds the £150 threshold, the full amount is taxable, not just the excess over £150. The £150 limit applies per head, not per employee, meaning that guests are taken into account when calculating the cost per head figure.

Other benefits

There are many other potentially tax-free benefits available, including: tea, coffee and subsidised meals; employer-provided bicycles; zero-emission cars; car parking spaces; suggestion schemes; and long service awards.

For further information and advice on the tax-free benefits available, please contact us.

Inside this Issue...

Countdown to retirement: are you still on track?

Recent figures suggest that only a quarter of 50-somethings are financially prepared for retirement. Meanwhile, increased life expectancy, a falling state pension and poor returns on private investments all look set to add to the pensions squeeze.

But whether you have 10 years until you retire, or just six months, there are some simple steps that you can take to get your retirement planning back on track.

10 years to go…

Find out how much you're worth

As a starting point, you should establish what your likely state pension will be. This can be done by requesting a State Pension Forecast – visit www.direct.gov.uk. You should also contact your past and present providers or employers for an up-to-date pension forecast.

Decide how much money you will need

Naturally, you will need to calculate how much income you will require in retirement. Remember, you could spend a third of your life in retirement so it is important to be realistic with your estimates – and inflation is almost certain. So, whilst you may save money on commuting costs, you should make allowances for holidays, travel and any outstanding debts.

Determine how you will make up any shortfall

It is likely that your projected retirement income will be less than you would ideally like to achieve. However, with a potential 10 years left before you retire, there may still be time to get your pension plans back on target.

You will need to maximise your savings during this period – as well as continuing to put money into your pension, you should utilise tax-efficient saving options such as ISAs.

If you own your own home, you might want to contemplate down-sizing or equity release.

You may also want to consider retiring later or working part-time to help you meet your retirement goals.

Review your investment strategy

Contact us to arrange a review of your investment strategy – it is not only how much you save but where it is invested that can make the difference. We can also discuss your retirement plans and will work alongside you to help you achieve your goals.

Five years to go…

Consider moving any stock market investments

Continue to maximise your savings, but consider moving any stock market-based investments (including pensions) into safer alternatives i.e. cash, bonds or gilts. If stock values fall suddenly, as many people are currently experiencing, you may not have sufficient time to recoup any losses.

If you have maximised your pension contributions, it may also be possible to contribute into a partner's pension plan. However, higher earners in a final salary scheme should be aware that any additional pension savings which breach the lifetime allowance could result in a tax bill. The lifetime allowance on money that can be accrued in a pension fund and still receive tax relief, is set to fall from £1.8 million to £1.5 million from April 2012.

Obtain up-to-date pension forecasts

Once again, arrange up-to-date pension forecasts to help you determine whether you are still on track to achieve your retirement goals. If necessary, you may need to pay voluntary national insurance contributions (NICs) to ensure that you receive the full state pension.

Start paying off your debts

If you have any outstanding debts such as a mortgage or credit cards, now is the time to use any surplus cash to reduce them.

Trace any lost pensions and investments

If you have any lost pensions, contact the Pension Tracing Service (0845 600 2537) as they may be able to help you trace the provider. Their database holds information on over 200,000 pension schemes.

Consider your options

Recent changes to the pension rules mean there is now more flexibility for those approaching retirement. With the previous compulsory annuity age of 75 removed, you now have more freedom to choose when and how you take your pension. While it is still possible to convert funds to an annuity, other options such as pension drawdown and continued pension investment may be available.

Six months to go…

Consider deferring retirement

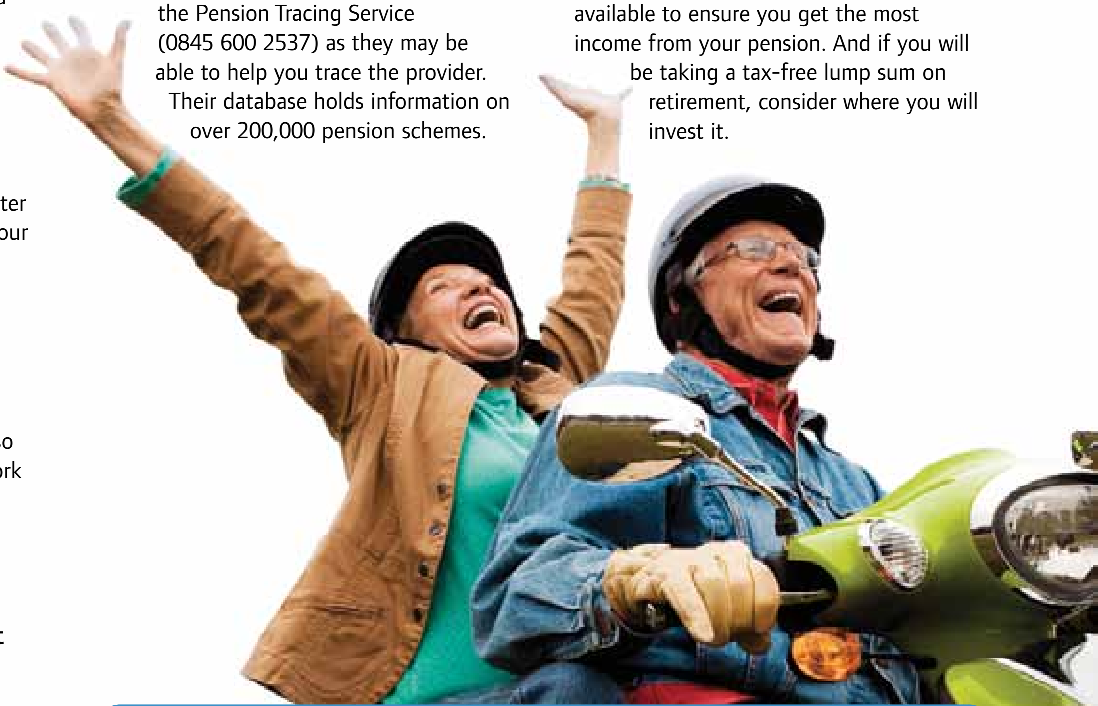
Deferring your retirement may mean that you qualify for a bigger pension. The withdrawal of the default retirement age also means it is easier for the majority of people to continue working beyond age 65. If you are planning to continue working, you will need to inform your employer as you no longer need to pay NICs when you reach the State Pension Age. You must also inform the Pensions Service if you intend to defer your state pension.

Contact your pension provider(s)

Contact your pension provider(s) to find out how much your pension is worth and how it will be paid.

Talk to an expert

Talk to an adviser about the options available to ensure you get the most income from your pension. And if you will be taking a tax-free lump sum on retirement, consider where you will invest it.



Whatever your current situation, we would welcome the opportunity to discuss your pension and retirement planning with you.

PAYE: collecting Real Time Information

As HM Revenue & Customs (HMRC) prepares to pilot Pay As You Earn (PAYE) Real Time Information (RTI), new research has found that many employers are not prepared for the forthcoming changes. In a recent study, more than three-quarters of small businesses questioned admitted that they are unaware of the future reforms.

While the fundamentals of PAYE will remain the same (i.e. use of codes, employers deducting tax and national insurance), RTI will change how and when employers and pension providers report information to HMRC. It will require employers to provide information to HMRC for PAYE, national insurance and Student Loans *at the point of pay*.

Under the current PAYE system, employers tell HMRC what deductions they have made from employees' pay after the end of the tax year. However, under RTI employers will report tax and national insurance deductions when, or before, payments are made. It is hoped the new system will ensure that the correct deductions are made from pay, and result in more employees paying the right amount of tax and national insurance in the tax year.

HMRC states that RTI is designed to make the PAYE process simpler and less burdensome for employers by: making it easier to ensure individuals pay the right tax after a change of job; removing the need for the P45/P46 process over time; offering the prospect of simplifying the PAYE end of year reconciliation process for employers and HMRC; removing much of the uncertainty that leads to errors in the tax credits system; and supporting the introduction of the universal credit from October 2013.

PAYE RTI is being piloted with volunteer employers and software providers around the UK from April 2012. Subject to successful completion of the pilot, large businesses will be required to start using RTI from April 2013. All businesses will be expected to use the new system from October 2013.

For more information on the introduction of PAYE RTI, visit www.hmrc.gov.uk/rti. If you would like further advice on operating PAYE, please contact us.

Planning for a prosperous 2012

We all know how difficult it is to keep New Year's resolutions, but why not resolve to do something that will really make a difference to your business profits and personal wealth during 2012?

Take a few minutes to read and complete the following table, selecting the points you want to take action on.

Realistically of course, you can only hope to put four or five points into practice over the next few months, so use the Action column to put your top five points into order of priority. Then please feel free to contact us to discuss these points in relation to your unique circumstances.

In 2012 I will:	Good idea	ACTION
Personal Planning		
Minimise my income tax liability		
Build net worth through planned investment strategies		
Start making tax-efficient savings, for the short or long term		
Protect my assets from bankruptcy		
Start saving to fund my children's education		
Review my charitable giving		
Business Planning		
Start my own business		
Raise finance for a new or expanding business		
Take more action to make my remuneration or profit extraction more tax and NIC efficient		
Retirement and Estate Planning		
Protect my family by executing an enduring power of attorney		
Make arrangements to protect my family from financial hardship if I should die or become incapacitated		
Provide for my business if I, or any other key personnel, die or become unable to work		
Maximise savings in my final working years		
Save to maintain my current standard of living in retirement		
Minimise the tax liability on my estate		
Find out what my business or other assets are really worth		
Transfer all or part of my business/other assets to my heirs		
Develop my estate plan as circumstances change		
Review my Will for tax efficiency		
Arrange insurance – the right type, and the right amount		

Call us now and we can help turn your resolutions into reality – but don't leave it too late!

Business Round-Up

Changes to the Business Link service

Earlier this year the Government announced plans to reform how it delivers its Business Link advisory services. As part of these changes, the regional Business Link centres will close on 25 November 2011.

Regional centres will still offer support up until this date, although the service available may vary across the country.

In its place, the Department of Business, Innovation & Skills (BIS) will offer a single online network presence and a contact centre, whilst developing partnerships with private sector providers of business support and advice services.

A number of enhancements will also be made to the existing Business Link website (www.businesslink.gov.uk) in order to improve the online service for business users.

Junior ISA limit is raised

The annual amount that can be invested into a new Junior Individual Savings Account (JISA) has increased from £3,000 to £3,600.

In July the Government published detailed regulations on the new tax-free savings account, which included an amendment to the annual contribution limit as previously announced in March.

JISAs are available from 1 November 2011 and are seen as a replacement for Child Trust Funds (CTFs), which were closed to new savers in January 2011.

The Government has confirmed that JISAs will have the following key features:

- All UK resident children under the age of 18 who do not have a CTF will be eligible for Junior ISAs
- Any income or gains will be tax-free
- Both cash and stocks and shares Junior ISAs will be available
- There will be an overarching contribution limit of £3,600 per year which will be indexed by CPI from 6 April 2013 onwards
- Accounts will be owned by the child and funds will be locked in until the child turns 18
- Children will have the right to manage their accounts from age 16
- Junior ISA accounts will by default become adult ISAs on maturity.

Meanwhile, the investment limit for existing CTFs will rise from £1,200 to £3,600 per year from November, in line with the new limit for Junior ISAs.

The move to online VAT filing

HMRC has launched a consultation on the next steps for moving VAT online.

It proposes that from 1 April 2012, it will be compulsory for VAT registered businesses with a turnover below £100,000 to file VAT returns online and make electronic payment of any VAT due. There are also plans to make online the default (though not compulsory) channel for all businesses for VAT registration, deregistration and changes to registered details.

Since 2010, larger businesses and all new VAT registrants have had to file VAT returns online and pay their VAT electronically. Others can still file paper returns and pay by cheque.

The move is part of a wider general Government drive to move transactions from paper to online. There are plans to introduce a new online VAT registration service from October 2012, with the aim of making registering quicker and easier, and there are also consultations to move direct taxes online.

Web Watch

Essential sites for business owners

www.thepensionsregulator.gov.uk

Find up-to-date guidance on the workplace pension reforms and useful tools for employers

www.bitc.org.uk

Home of the Business in the Community charity, offering support to firms throughout the UK

www.smeweb.com

News, tips and advice for small and medium-sized enterprises

www.unclaimedfinances.co.uk

Information and advice on locating unclaimed assets

Reminders for your Winter Diary

December 2011

30 Last day to file your 2011 Tax Return electronically if you wish to have a 2010/11 balancing payment of less than £2,000 collected through your 2012/13 PAYE code.

31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2011.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2010.

January 2012

1 Due date for payment of Corporation Tax for period ended 31 March 2011.

14 Due date for income tax for the CT61 quarter to 31 December 2011.

19/20 Quarter 3 2011/12 PAYE remittance due.

31 First self assessment payment on account for 2011/12.

Capital gains tax payment for 2010/11.

Balancing payment – 2010/11 income tax/Class 4 NICs.

Last day to renew 2011/12 tax credits.

Deadline for amending 2010 Tax Return.

Last day to file the 2011 Tax Return online without incurring penalties.

First payment due date for 2011/12 Class 2 NICs.

February 2012

1 £100 penalty if 2011 Tax Return not yet filed online. Additional penalties may apply for further delay. Interest starts to accrue on 2010/11 tax not yet paid.

2 Submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2011/12.