

# In this issue

- Cut your tax bills - go green
- VAT claims and business mileage
- Pensions White Paper
- The Work and Families Act 2006
- Age and employment
- Construction industry countdown
- Handy hints for Excel
- Puzzle and who wrote that?

# Business Update

Autumn 2006

## Welcome

Welcome to the Autumn edition of our newsletter. As usual we cover a mix of business news with some lighter features as well and we trust that you will find it a useful and interesting read. Please remember that we would be delighted to hear from you if you would like to discuss any of the matters raised.

It is rare for a highly technical change of law to make tabloid headlines but that is what happened over the proposed changes on the inheritance tax of trusts. Now that the dust has settled, and various amendments made, we examine the final outcome.

Other recent developments covered in this edition include the age discrimination rules, the latest on the construction industry scheme and the pensions white paper. Finally we review the rules on company cars and also look at VAT on business mileage.

## IHT - attack on trusts

You will be aware that Gordon Brown's Budget statement included changes to the inheritance tax (IHT) treatment of some trusts. These created alarm and uncertainty.

Although there have been some amendments made, it remains advisable to have a health check on any trusts that you may have created or on your will if it provides for the creation of a trust.

This area is highly technical and accordingly this article covers only the very key issues.

Lifetime transfers into Accumulation and Maintenance (A&M) trusts and Interest in Possession (IIP) trusts have always been exempt from IHT if the settlor lived for the next seven years. Also they have not been subject to the periodic or exit charges suffered by other trusts.

From 22 March 2006, the rules currently applying to discretionary trusts will apply to both A&M and IIP trusts. So there may be:

- a chargeable transfer on entry with a lifetime rate of up to 20%.
- a periodic charge of up to 6% every 10 years
- an exit charge when funds leave the trust.

Existing A&M trusts which provide that the assets in trust will go to a beneficiary

absolutely at 18 retain the old IHT treatment.

However, few trusts provide for this since 18 is widely considered to be too young. Therefore, one of the amendments to the legislation is that if a child

becomes absolutely entitled to assets at or before the age of 25, rather than 18, then IHT charges may only arise for the seven years post age 18.

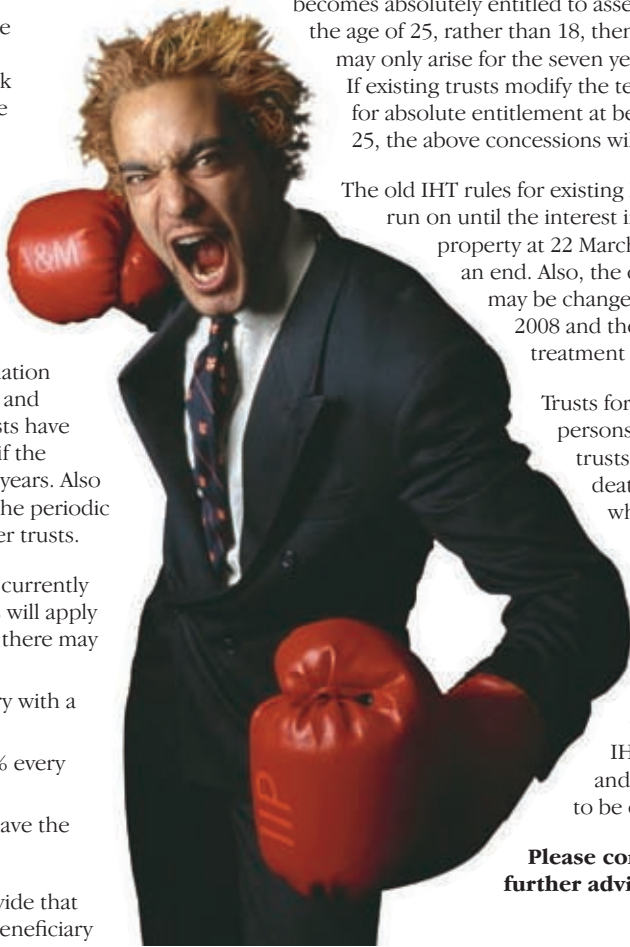
If existing trusts modify the terms to provide for absolute entitlement at between 18 and 25, the above concessions will also apply.

The old IHT rules for existing IIP trusts will run on until the interest in the trust property at 22 March 2006 comes to an end. Also, the current interest may be changed before 6 April 2008 and the old IHT treatment may be retained.

Trusts for disabled persons and certain trusts created on death for a child or which create a life interest are exceptions to the new rules.

All existing trusts should be reviewed to ensure future IHT is minimised and wills may need to be changed.

**Please contact us for further advice.**



**NEW CLIENTS** We are always interested in prospective new businesses and welcome referrals and introductions from existing clients

Barrington House, 41-45 Yarm Lane, Stockton-on-Tees TS18 3EA

Tel: (01642) 632032 Fax: (01642) 632033

E.mail: [info@bainesjewitt.co.uk](mailto:info@bainesjewitt.co.uk) Web Site: [www.bainesjewitt.co.uk](http://www.bainesjewitt.co.uk)

# Cut your tax bills - go green

Recent government reports suggest that many businesses do not realise that the fuel efficiency (or otherwise) of a car may affect the amount of tax due from both employees and employers.

The list price of the vehicle and certain accessories is the starting point for working out the tax bill for employees who receive a company car. This can be very different to the price paid and can usually be obtained from the manufacturer.

The exhaust emissions of the car are then used to find a percentage (see table), which is applied to the list price. This will give the value of the benefit of the car which will be taxed. The employer will also pay Class 1A NICs of 12.8% on the same amount.

## Example

Charlie has a company car throughout 2006/07. It has a 2.5 litre diesel engine with CO<sup>2</sup> emissions of 198 g/km and a list price of £26,000. The percentage from the table is 26%, plus the diesel supplement of 3%, so the benefit is £7,540 (£26,000

@ 29%). If Charlie is a higher rate taxpayer, his tax bill will be £3,016 (£7,540 @ 40%). The employer will be liable to Class 1A NICs of £965 (£7,540 @ 12.8%).

Of course, driving a different car could cut the tax bill.

## Example continued

If Charlie had a company car throughout 2006/07 with a 1.6 litre diesel engine, with CO<sup>2</sup> emissions of 135 g/km and a list price of £17,000, the percentage from the table would be 15%, plus the diesel supplement of 3%, so the benefit would be £3,060 (£17,000 @ 18%). If Charlie is a higher rate taxpayer, his tax bill would be cut by £1,792 ((£7,540 - £3,060) @ 40%). The employer's NICs bill would also be cut.

If cleaner company cars interest you, a good starting point is [www.comcar.co.uk](http://www.comcar.co.uk)

Please contact us if you would like to review the position of company cars or would like to talk about the calculation of car benefits.

## Company cars 2006/07 and 2007/08

CO2 emissions (gm/km) (round down to nearest 5gm/km)	% of car's list price taxed	Fuel benefit (£14,400 x %) £	Company cars
up to 140	15	2,160	<ul style="list-style-type: none"> <li>For diesel cars add a 3% supplement, but maximum still 35%. This is waived for Euro IV diesels. For 2006/07, no waiver for diesels registered on/after 1 January 2006.</li> <li>Discounts apply to certain environmentally friendly cars.</li> <li>For cars registered before 1.1.98 charge is based on engine size.</li> <li>The list price includes accessories and is subject to an upper limit of £80,000.</li> <li>List price is reduced for capital contributions made by the employee up to £5,000.</li> </ul>
145	16	2,304	
150	17	2,448	
155	18	2,592	
160	19	2,736	
165	20	2,880	
170	21	3,024	
175	22	3,168	
180	23	3,312	
185	24	3,456	
190	25	3,600	
195	26	3,744	
200	27	3,888	
205	28	4,032	
210	29	4,176	
215	30	4,320	
220	31	4,464	
225	32	4,608	
230	33	4,752	
235	34	4,896	
240 and above	35	5,040	<b>Fuel benefits</b> <ul style="list-style-type: none"> <li>The fuel benefit charge is proportionately reduced if provision of private fuel ceases part way through the year.</li> <li>The fuel benefit is reduced to nil only if the employee pays for all private fuel.</li> </ul>

## VAT claims and business mileage

To reclaim the VAT back on business mileage allowances paid to employees a business has to keep a proper VAT receipt. A debit or credit card slip, which most people are routinely given at the garage, is not sufficient. These rules were introduced at the beginning of the year but it is only now that HMRC are starting to check for these receipts on VAT visits.

The rules apply to the situation where employees purchase fuel themselves and then make an expenses claim based on a mileage allowance or their actual fuel costs. Employees driving company cars, as well as those employees who claim a mileage allowance for driving their own cars for business journeys, are caught by the rules.

Company car drivers who are paid a fuel-only rate need VAT receipts to at least cover the full amount of the mileage expenses claimed for business use.

Where employees are paid a rate per mile, typically 40p, for using their own car, VAT receipts will only be required to cover the fuel element of the expenses - typically 10p to 18p per mile. If the fuel element is, say, 12p, and 100 miles are claimed, the VAT receipts retained need to be at least £12.



## Pensions White Paper

It is not long ago that stakeholder pensions were introduced. Then we had A-Day and now further changes to pensions are being considered. A White Paper was released on 25 May and contains many proposals which would change the pensions system quite radically.

Amongst the main proposals are the following:

- a low cost savings scheme, through personal accounts, in which employees would be automatically enrolled unless they were members of their employer's scheme which met a minimum standard
- employers would be required to make contributions while the employee is in the scheme
- employees would contribute 4% of earnings between approximately £5,000 and £33,000. Employers would pay 3% on the same band of earnings and a further 1% would be added from the

employees' basic rate tax relief (some employees would receive higher rate tax relief too)

- there would be measures to help smooth the introduction of compulsory employer contributions
- non-employees and the self employed would be able to opt into the personal accounts scheme
- the basic state pension would be re-linked to earnings from 2012 but only if it could be afforded at that time
- the state second pension would become a simple, flat rate top-up to the basic pension
- there would be a gradual rise in the state pension age, rising to 66 between 2024 and 2026, from 66 to 67 between 2034 and 2036 and then to 68 in 2044 to 2046.

These are only proposals, of course, and we will keep you informed of future developments.

# The Work and Families Act 2006

The Work and Families Act 2006 is part of a raft of family friendly measures which had their origin in a ten year strategy for childcare - Choice for parents, the best start for children - published in 2004.

The Act is enabling and the detail will follow, but the essential changes are as follows:

## Maternity pay

The Act extends the maximum period for maternity pay and adoption pay to 52 weeks from the current period of 26 weeks. This will be done in two stages - the first increasing the period to 39 weeks from 1 April 2007.

## Paternity leave

Fathers or partners responsible for children will become entitled to additional paternity leave of up to 26 weeks. The Act also provides that regulations can be made to allow fathers to claim paternity pay (beyond the two weeks that they are currently entitled to) if the mother, being entitled to maternity pay, returns to work.

## Flexible working

Parents of children under 6 (or under 18 if disabled) have a right to request flexible working. From April 2007 the Act extends this right to employees with the responsibility for caring for a spouse or relative. Relative has not yet been defined.

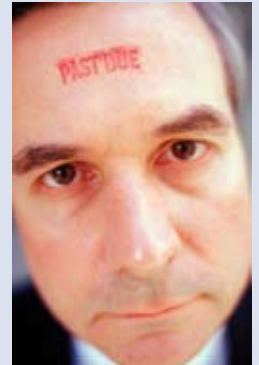
Employers can refuse a request for flexible working, but they must have good reason. Flexible working can mean anything from compressed working hours to merely having access to a phone.

## Annual leave

New regulations are to be made on the amount of annual leave entitlement. The government is committed to make paid leave for bank holidays additional to the minimum 20 days annual leave currently provided for. Therefore the annual leave entitlement is expected to rise to 28 days as part of these new measures.

# Age and employment

From 1 October 2006 the Employment Equality (Age) Regulations 2006 come into effect. This means that direct discrimination, indirect discrimination, harassment and victimisation will be unlawful on the grounds of age. The following areas are covered by the legislation.



## Recruitment and selection

- It will be unlawful to specify a particular age unless an employer can show it is objectively justified, such as fixing a maximum age for recruitment to reflect training requirements or when there is a genuine occupational requirement such as a young actor for a particular role.
- When writing job adverts employers must avoid using language which may imply they are looking to recruit someone of a particular age, such as 'lively' 'young' or 'mature'.
- With regard to recruitment only, the legislation does not apply for over 65s.

## Service related benefits

- Employers may continue to use length of service criteria to reward staff, as long as the period of service is not more than five years. A simple example would be where an additional day's annual leave is granted for each year of service. A length of service criteria exceeding five years can still be lawful providing it fulfils a business need, for example as a reward for loyalty.

## Retirement

- There will be a national default retirement age of 65, with lower ages having to be objectively justified on a case by case basis.
- When an employer wishes to retire an employee of over 65 they will have to notify the employee between 6 and 12 months in advance of the intended retirement date and tell the employee of the right to request to work beyond the retirement date. If such a request is made, it must be made by the employee no less than three months before the intended retirement date. All employers must consider such requests, meet to discuss it, and provide a response within a reasonable time frame. Provided the correct procedure is complied with, there will be a presumption that a dismissal at or above the age of 65 is a planned retirement and there will be no right to claim unfair dismissal.
- An employee aged 65 or over who is dismissed for any reason other than a planned retirement will have the right to bring a claim for unfair dismissal.



# CONSTRUCTION INDUSTRY COUNTDOWN

The much delayed new Construction Industry Scheme will dispense with the current system of cards, certificates and vouchers. When contractors take on a new subcontractor they must contact HMRC to confirm whether payment should be made net of 18% tax or gross. This process is known as verification.

A timetable of what should be happening follows. Please get in touch if you would like more information.

## November

HMRC will provide contractors with details of subcontractors they have used in the last two years who will be treated as verified. Contractors should check these records and then obtain the name, address, unique taxpayer reference or company registration number from those not contained on HMRC's list so that they can be verified before the start of the new system. Without verification, tax must be deducted at a higher rate yet to be agreed. (30% is being used in HMRC illustrations.)

## December

Contractors can check their IT system via the HMRC internet gateway.

## January

HMRC will issue contractor packs detailing the new rules.

## February

Contractors should verify any subcontractors they are using who were not included on the list issued to contractors in November.

## March

HMRC will issue details of all newly verified subcontractors to contractors.

## April

6 April is the 'go live' date for the new system!

## Handy hints for Excel

This new regular feature article aims to provide useful tips and tricks for business related software. In this issue we cover Excel's Date and Time functions.



Dates are stored in Excel as numbers - starting at 01-Jan-1900. So, the date 01/01/07 for example, is actually stored as 39083.

Times are stored as parts of a day as a decimal fraction so, 06:00 is stored as 0.25 and 22:00 is stored as 0.916666666666667!

### Display Date and Time

To display the current date and time in a cell, type in the formula: =NOW()

This formula displays both the date and time in the cell. To display just the date, then use the formula: =TODAY()

These formulae update each time the sheet opens. To insert today's date into a cell and not have it update automatically,

press Ctrl and ; together.

### Date and Time calculations

	A	B
1	01/11/2006	
2	19/02/1980	
3	26	26

For example, cell A1 contains today's date, cell A2 contains a date of birth.

To ascertain age, then one of two different formulae can be used:

The formula in cell A3 is =DATEDIF(A2,A1,"Y")

The formula in cell B3 is =YEAR(A1)-YEAR(A2). The cell B3 must be formatted to a general number.



%	≥	%	%	171
≥	%	≥	≥	145
Σ	≥	Σ	Σ	
Σ	%	%	%	
121			?	

## Puzzle

What is the value of the last column in the grid? Answer below.

## Who wrote that?

The following are allegedly genuine extracts from letters to HMRC:

*'My husband died on 3 November. Is there any post-war credit still due as I understand a person has to be dead before they can claim any benefit?'*

*'I cannot pay the full amount at the moment as my husband is in hospital. As soon as I can, I will send on the remains.'*

*'I am a vermin destroyer but have not earned anything for a month. I shall be glad to call on you at any time.'*

*'Re your request for a form P45 for new employee. You already have it, and he is not leaving here but coming, so we haven't got it.'*

*'I am writing to inform you that I am now married. I realise I should have done so eight months ago, but I was not aware that I had to.'*

The answer to the puzzle is 146

### Disclaimer - for information of users

This newsletter is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this newsletter can be accepted by the authors or the firm.