



NEWSLETTER 17 OCTOBER 2010

Please note I will be out of the office on Monday 25 October and also from Friday 29 October to Monday 1 November inclusive for a long weekend. Anne or Val will provide limited office cover during this time.

MINIMUM WAGE CHANGES FROM 1ST OCTOBER 2010

As from 1 October 2010, employees will no longer have to be aged 22 to become eligible for the top hourly minimum wage adult rate. The new rates are: £5.93 per hour for low paid workers aged 21 and over, up from £5.80; £4.92 per hour for 18-20 year olds, up from £4.83; and £3.64 per hour for 16-17 year olds, up from £3.57.

For the first time there will be an apprentice minimum wage of £2.50 per hour and this will apply to those apprentices who are under 19 or those that are aged 19 and over but in the first year of their apprenticeship.

PROPOSED CHILD BENEFIT CHANGES

As you may be aware the child benefit may be taken away from families that include a higher rate taxpayer. This is proposed from April 2013.

This announcement means the effective tax rate for parents earning slightly above £43,875 is extremely high (from April 2013).

If you are affected and earning just above £43,875, please consider restricting your dividend income (and your spouse if a shareholder) from April 2013 so that you retain this tax free child benefit. You may wish to increase your dividends prior to April 2013 to compensate, albeit suffering 25% tax on your dividends (this is a lower tax rate than after April 2013).

VAT INCREASE

Please make preparations for the VAT increase coming shortly. Please note the change applies from 4th January 2011 not 1st January. The date of your invoice in most cases will be the relevant date (the tax point). If you happen to have been paid before this date, the payment date becomes the tax point. If you are cash accounting for VAT please consider that some, if not all, the January 2011 income will relate to an invoice date of December and therefore VATable at the old rate of 17.5%.

Particular care should be taken if you are on the flat rate scheme – an extra 1.5% of your GROSS income will be payable on your VAT return for income that relates to invoices dated 4th January and after. Consider invoicing your customers early or get payment up front if your customers cannot recover VAT.



EMPLOYER'S NIC HOLIDAY FOR NEW BUSINESSES

For a limited period the above scheme is available to new businesses in the South West (and other regions) that meet certain conditions. The relief for qualifying businesses is a saving of up to £5,000 of the employers NI that would normally be due for each of the first ten employees they employ. This is a potential saving of up to £50,000.

The scheme is only available to businesses started after 22nd June 2010

Managed service companies do not qualify and special rules apply to employers within the IR35 legislation. However directors outside IR35 do qualify.

At times when government assistance can be hard to find this scheme could offer new businesses a massive boost and should be considered whenever possible.

However it is questionable whether an owner director should start a payroll to save 13% Employer's NIC and 20% corporation tax, whilst still paying 12% Employees NIC and 20% income tax.

This is not realistically a way to save tax for owner-managers but certainly is for those new businesses taking on non-connected party employees.

IR35 AND TAX COMPENSATION COVER

With the Office of Tax Simplification still to report proposals for the replacement of IR35, the existing legislation is still in force and being actively applied by HMRC.

If you are "caught by IR35", then all fees are considered "deemed salary" through the personal service company and Tax and NIC will need to be deducted. With the risks and potential liabilities involved if HMRC should make a successful challenge you might wish to consider our Tax Compensation Cover (TCC).

TCC provides you (who are already protected by fee protection cover) the opportunity to upgrade your protection to include tax, interest and penalties providing complete peace of mind.

For only £25 per month (including IPT) you can upgrade to TCC, which will give you full protection (up to £75,000) should HMRC successfully challenge your status. This is subject to the acceptance of your existing contracting by our insurer.