Business Matters

News & Information from Alexander Sloan, Chartered Accountants

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Protect your business against identity fraud

Identity fraud is an ever-increasing problem in the UK. According to the Home Office, the annual cost is now £1.7bn, with businesses shouldering around £50m of the burden.

The problem of **individual** identity fraud is relatively well-publicised. Known methods used by criminals to obtain sensitive information include searching through rubbish bins to find discarded bank statements; intercepting mail; copying credit cards during a transaction; and so-called 'phishing' scams, which involve sending emails which look as though they have come from a bank or similar organisation, and asking customers to 'confirm' their details by return email.

But **businesses** are also at risk, and as well as the potential financial damage, corporate identity fraud could ruin a company's reputation.

Corporate hijacking

There is a growing trend of corporate 'hijacking', with fraudsters registering as company directors at Companies House and then purchasing goods and services from suppliers, which they have no intention of paying for.

A common method used by the criminals involves accessing registered company records, changing the details of the company directors and registered address, and using the stolen identity to order goods, which are then intercepted at the fake address. Criminals can also make use of publicly available company bank account details and signatures for fraudulent purposes.

Reducing the risk

Clearly, it makes sense to minimise your exposure to an identity fraud risk.

Businesses can help to protect themselves by putting in place the following procedures:

- Storing sensitive documents in a secure place
- Shredding documents before disposing of them
- Checking their registered company details at Companies House regularly, to ensure that they have not been changed
- Registering for the 'Monitor' email alert system with Companies House (part of the Companies House Direct service, available at www.companieshouse.gov.uk), to receive notification whenever their company details are changed
- Ensuring staff are aware of the issues surrounding identity fraud, and limiting access to sensitive information to key staff
- Checking customers' credentials before extending credit to them
- Reducing the risk of electronic hijacking by ensuring that firewall and anti-virus software is up-to-date, and only opening legitimate email attachments
- Keeping key company bank account details out of the public domain.

KEEPING YOU ON THE RIGHT TRACK

We can help your business and your personal finances to stay on the right track Call us now and we'll arrange a meeting to discuss:

- Strategies to help your business improve its efficiency and profitability
- Reducing the burden of taxes on your business
- The tax issues that affect you and your family
- Maximising your wealth
- Retirement planning strategies for you and other family members

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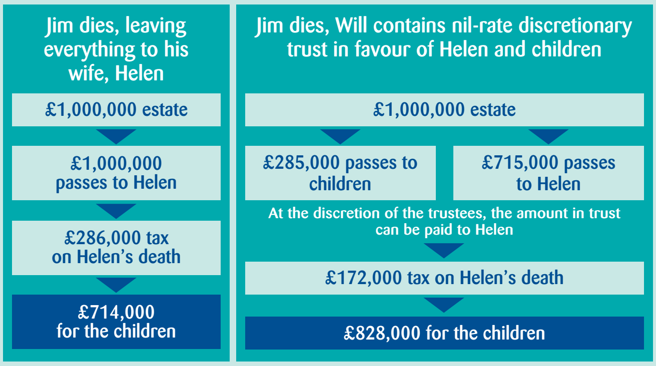
IN THIS ISSUE

A trust to save £114,000 inheritance tax

According to Government statistics, approximately 600,000 people die each year in the UK, 6% of estates pay inheritance tax (IHT), and the total IHT on death estates in this country amounts to approximately £3.6 billion. That means that, on average, each tax-paying death estate pays £100,000 in inheritance tax.

However, IHT has sometimes been called the 'voluntary tax'. One option for saving tax is make use of a nil-rate discretionary trust in your Will. The following example shows how this could save you £114,000.



Give and save £114,000 (or more)

£114,000 is the inheritance tax due on £285,000 of a larger taxable death estate. But if you have wealth surplus to your requirements, why not start a programme of lifetime gifts to reduce the value of your death estate?

- **All gifts to living people are potentially exempt transfers – they escape inheritance tax so long as you survive for at least seven years from the date of gift**
- **Gifts in consideration of a marriage are exempt from inheritance tax, subject to certain limits**
- **Gifts of up to £3,000 per year and smaller gifts of up to £250 per year/recipient are exempt from inheritance tax**

Reliefs can also reduce the taxable value of your death estate – for example, invest in a portfolio of qualifying shares and under current rules the portfolio escapes IHT if you survive for at least two years.

Keep and save £114,000 (and more)

There is a rule of thumb in inheritance tax planning that you should try to give away as much of your wealth as possible, as soon as possible. That is because gifts to living people are inheritance tax free so long as you survive for at least seven years from the date of gift, and it remains perfectly valid.

However, when you give away shares in your family company you usually want to avoid an immediate capital gains tax bill and therefore usually claim holdover relief under s165. That has the effect of shifting your capital gain on to the recipient of the gift, so that they have a larger capital gain if and when they in turn dispose of the shares.

A possible alternative for you to consider is to hold on to the shares until you die. Under current rules, business property relief would mean that there would be no inheritance tax to pay on your death, while your beneficiary would benefit from the tax-free uplift in CGT base cost to probate value, thereby reducing the amount of CGT he or she might have to pay later.

Talk to us about strategies for reducing inheritance and CGT.

Hang up the phone…

In 1991, the Conservative Government introduced a taxable benefit of £200 on employees who used their business mobile telephones for private calls. In those days, mobile phones were the size of bricks and only a few highly paid employees carried them. By the end of the 1990s, mobiles had reduced to a more practical size, were increasingly ubiquitous and had become a business necessity.

Under Labour, Chancellor Gordon Brown abolished the £200 taxable benefit, and since 1999 employers have been able to provide any number of mobile phones to their employees completely tax-free. Even if an employee's spouse or child uses the phone, the employer can pick up the phone bill with no liability to tax.

However, according to Mr Brown this tax break has been abused, so as of 6 April 2006, employers have been able to provide only one tax-free mobile phone per employee, and that phone cannot be given to a member of the employee's family.

The changes do not affect mobile phones provided before 6 April 2006.

Top-up cards

There is better news regarding the tax treatment of phone top-up cards and other phone related vouchers. Currently, where an employer gives employees top-up cards to pay for calls on their business provided mobiles, the employee is taxed on the value of those vouchers. This tax charge was removed on 6 April 2006 if the mobile itself is tax-free.

…and shut down the computer?

In another u-turn, the Government has withdrawn the tax-free status of computer equipment lent to employees. Although this scheme had been viewed as an excellent way to improve workers' computing skills and to encourage home-learning generally, the Government now feels it has been abused.

Since 6 April 2006 businesses are no longer able to provide any more computers to their employees to be used for non-business purposes. Any computer equipment currently on loan to employees will not be taxed, but computers provided to employees under new agreements made after 5 April 2006 will be taxed as a benefit-in-kind.

How to save £114,000

The average person in Britain has savings of less than £50,000. To generate enough income at retirement to double your state pension – currently a hardly-generous £7,000 per annum – would require savings of £114,000. If you have zero savings today, how much would you have to save to have £114,000 'in the bank' at age 60 or 65?

Assuming 6% growth, to save £114,000 would take:

Over 25 years – savings at £165 per month

Over 20 years– savings at £246 per month

Over 15 years– savings at £392 per month

Over 10 years– savings at £700 per month

Over 5 years– savings at £1,635 per month

£14,000 a year might not be much for a married couple to live on, so how will you achieve a comfortable retirement? Talk to us about tax breaks on pension savings and alternative savings strategies.

Your employees, their children, and the red tape burden

Being a parent is not easy, but neither is being an employer of parents. Although the requirement to pay tax-credits through the payroll to employees has now ceased, there are several changes to employment law for which employers need to start planning now.

Maternity leave set to be extended

Maternity pay is currently payable for up to six months and the mother can take a further six months unpaid leave if she qualifies. However, the Work and Families Bill currently going through Parliament will extend the paid leave period to nine months, and allow the Government to increase the period again to twelve months, by regulation. This change is due to take effect from 1 April 2007.

Fathers will also benefit as the Bill proposes that they should be permitted to take up any paid maternity leave that the mother hasn't used when she returns to work. The details of how this will work in practice are to be clarified in the regulations.

Flexible working

Once the parent is back at work he or she can ask their employer for a flexible working arrangement, if their child is aged under six. Parents of disabled children can ask for flexible working if their child is aged under 18. The Work and Families Bill extends this right to a much wider range of carers including those who care for adults. The definition of exactly who is a 'carer' in this context will again be left to regulation, but it is likely that parents of children aged up to 12 will fall into this category.

Childcare costs

While the parent is working, someone has to pay for the childcare, and the Government has been urging employers to help with these costs. Since 6 April 2005 employers have been able to provide their employees with childcare vouchers, or pay for childcare directly in a private nursery, with the first £50 per week being free of tax and national insurance contributions (NICs). The tax-free limit was raised to £55 per week from 6 April 2006. This represents a 10% rise in employment costs for the employer, if he or she pays the full tax-free amount.

A solution, which is perfectly acceptable to HMRC, is to substitute some of the employee's pay with the childcare vouchers. This way the employer can save on national insurance, since employers' NICs are not payable on the value of the vouchers. However there are some practical difficulties with such a salary substitution. The employee must agree to the change in their gross pay before it takes effect, which normally means signing revised terms of employment. When an employee is no longer eligible for the childcare vouchers, perhaps because the child is too old, the vouchers will need to be withdrawn and the employment terms readjusted.

If you run your own company and have young children you can give yourself tax free childcare vouchers, but these vouchers can only be redeemed with a registered or authorised childminder or nursery. The vouchers do not qualify as tax-free if they can be exchanged for cash.

Workplace nurseries

Employers who provide a workplace nursery can allow their employees to use the facilities with absolutely no tax charges. This is a very good deal for the parents who receive free or subsidised childcare close to their place of work, but many smaller employers cannot afford to set up such nurseries. To help such employers the Government is to make grants available to establish workplace nurseries in the next two tax years. The details of exactly how these grants will be made available have not yet been released.

TAX TIP

New employees

Remember to use the new style form P46 from 6 April 2006 when taking on an employee who does not present a completed form P45. This form tells you which PAYE code to use. The new P46 form also includes a box where former students can indicate whether you need to deduct Student Loan repayments from their wages.

An HM Revenue & Customs (HMRC) dispensation can reduce the amount of work required to complete forms P11D. You need not report expenses payments covered by a dispensation.

Tax Return submission dates set to change

Hidden away in the Government's 2006 Budget documents was a proposal that would affect everyone who has to submit a Tax Return.

At present there is one compulsory Tax Return filing deadline: 31 January after the tax year end. Tax Returns are normally issued on 6 April, so taxpayers have over nine months to collect the information required and complete the form either by hand, online, or with our help. However the taxpayer must also calculate the amount of tax due to be paid on 31 January, which can be very complicated. HMRC will do this tax calculation and let the taxpayer know the amount in good time for the January payment date, if the Return is in by 30 September.

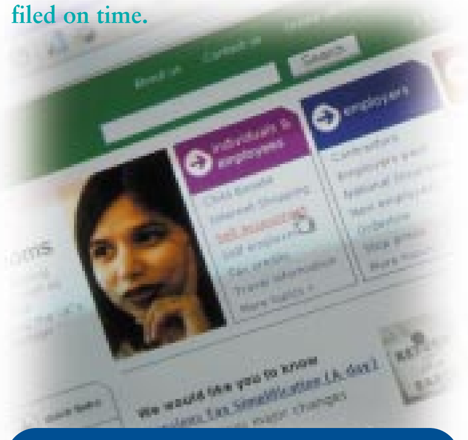
Review recommendations

However, the Carter Review, which was commissioned by the Government last year to advise on HMRC's online services, has now recommended that all taxpayers should have to file their Tax Return by 30 September if they send in a paper copy of the form. Those taxpayers who submit their Return online will have an extra two months to file online – by 30 November. These new deadlines are proposed to take effect from 2008.

Lord Carter of Coles, who led the Review, also suggested that HMRC should have exactly 12 months starting from the actual date the Tax Return is received to query any aspect of that return. Currently, HMRC has a 12 month window in which to raise queries which starts from 31 January, the final deadline for submitting the return, so they have longer to look at Returns which are submitted early.

In practice, the completion of a Tax Return cannot start until the PAYE forms such as P60 and P11D are given to employees on or before 31 May and 6 July respectively. Where an individual is self-employed their accounts must be prepared before the profit and expense figures are included on the face of the Return. Many tax payers will also have to wait for their bank or building society to confirm the amount of interest paid on their savings during the tax year. All this pre-preparation work means that many Tax Returns cannot be completed until at least July or August, which will leave about two months over the summer holiday season to submit a paper Return.

Although the proposals are still under review, the Government has already accepted them in principle, so it seems likely that the filing deadlines will change. But whatever the outcome, remember that for your peace of mind, we can help ensure that your Tax Return is completed and filed on time.



We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

WEB WATCH

ESSENTIAL SITES FOR BUSINESS OWNERS

Workplace Health Connect www.workplacehealthconnect.co.uk
Free, practical advice for SMEs on health issues at work.

Bank Safe Online www.banksafeonline.org.uk
Banking industry initiative offering strategies for safer online banking.

Vehicles at Work www.hse.gov.uk/workplacetransport
Preventing common vehicle accidents at work.

Institute for Family Business www.ifb.org.uk
UK family business network.

REMINDERS FOR YOUR DIARY

June

30 End of CT61 quarterly period.
Last day for UK businesses to reclaim EC VAT chargeable in 2005.
Annual adjustment for VAT partial exemption calculations (March VAT year end).

July

6 Last day to file Taxed Award Scheme Returns, file P11Ds, P11D(b)s, P9Ds. Issue copies of P11Ds or P9Ds to employees.
Deadline for relevant third parties to give non-employees information on benefits or expenses they have provided to them in 2005/06.
Last day for filing Form 42.

14 Due date for income tax for the CT61 period to 30 June 2006.

19/21 Quarter 1 2006/07 PAYE remittance due.

31 Final date for payment of 2005/06 Class 1A NICs.
Second self assessment payment on account for 2005/06.
Annual adjustment for VAT partial exemption calculations (April VAT year end).
Liability to 2nd £100 penalty arises for 2005 Tax Return still not filed.
5% surcharge on any tax unpaid for 2004/05.

August

2 Last day for notifying car changes in quarter to 5 July – P46 (Car).

31 Annual adjustment for VAT partial exemption calculations (May VAT year end).

September

30 Deadline for submission of the 2006 Tax Return if you wish HMRC to calculate the tax or, if you are an employee, you wish to have a 2005/06 balancing payment of less than £2,000 collected through your 2007/08 PAYE code.
End of CT61 quarterly period.

Business and personal planning need not be left until the end of the tax year – talk to us now about tax and financial strategies for you and your business