

## VAT rate back to 17.5%

**Subject to any radical changes in the forthcoming Pre Budget Report, from 1 January 2010 the temporary VAT rate of 15% will revert back to the original standard rate of 17.5%.**

We have set out a number of points below which may help you in determining when the increase should be applied and also how collect your cash a little quicker.

### Tax Points

Managing cash flow is currently one of the key areas for all businesses in these challenging times, so getting the planning for the VAT change rate is important.

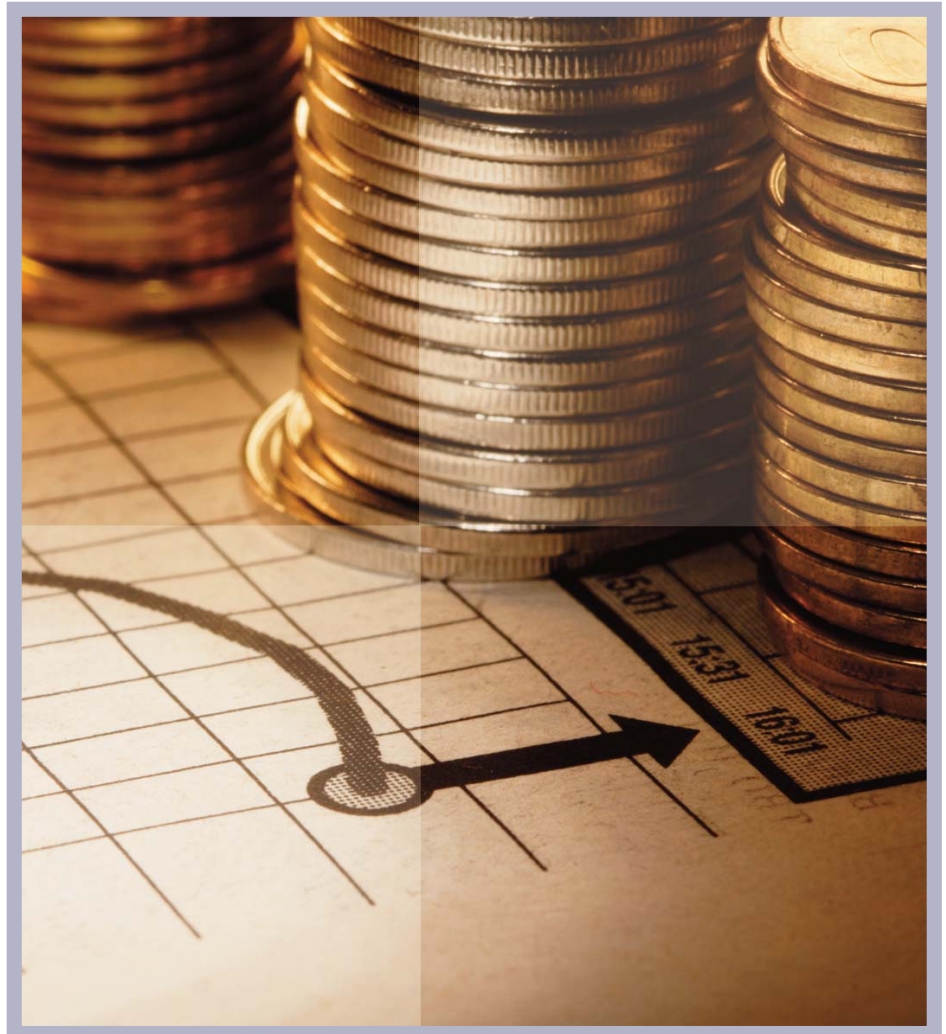
The key point for the rate change is that the normal tax point rules for VAT will apply for most cases and its worth reminding ourselves what they are.

- VAT is due when a customer receives goods or services (the “basic tax point”)
- The basic tax point can be superseded if an “actual” tax point is created by either the receipt of money or raising a sales invoice, as long as this happens within 14 days of the goods being supplied.
- In the case of an increase in the rate of VAT, the charge can be based on the basic tax point. So invoices raised in January for goods delivered to a customer in December can still benefit from 15%.

### Advance invoices and payments

There will be occasions where goods and services are paid for in advance. In this situation the raising of the sales invoice before 1 January creates a tax point on a day when the rate is still 15%. Whilst this may seem gratuitous, don't forget that last year it would have worked in reverse! Businesses and individuals who are not able to recover VAT will be able to benefit from this.

There are however, some anti forestalling rules that will apply to certain substantial transactions or transactions between connected persons invoiced in advance, where the customer cannot fully recover



the VAT. If you think you may fall into this category, please get in touch so we can advise you further.

### Continuous Supply of Services

Where services are supplied on a continuous basis, for example by accountants and other professionals, requests for payment are raised and then VAT invoices raised once payment has been received. A tax point is created when an invoice is raised or payment received, whichever happens first. Therefore, an invoice raised on 31 January 2010 for the prior three months work could just charge VAT at 17.5%.

There is, however, a concession that allows work carried out up to 31

December to be charged at 15% where the work can be measured. This would have some considerable benefit for those customers who cannot recover the VAT.

### Overlap of Services

There will also be occasions when a job is started in December, but not completed until January or even later. In this instance it may be worth encouraging the customer to pay in advance. Failing that you can opt to split the invoice into the work carried out pre and post the rate change.

### Slow Invoicing

If goods and services are supplied pre 1 January, but the invoice is not raised until after that date, it is at the discretion of the supplier as to which rate they use.

**Cash Accounting**

The key point with the cash accounting scheme is that it does not change the tax point as far as VAT is concerned, but only the time when the VAT charged is entered on a VAT return i.e. usually from the earlier invoice date to the later date of payment. Therefore VAT is only due at 15% on pre 1 January invoices paid in 2010 because that was the rate of VAT applying at the invoice date.

**Trading Overseas**

Not only is there a change in the UK VAT rate, there are also changes that will affect businesses who either supply services overseas or receive services from overseas, or who supply goods to other EC countries.

As regards the supply of services to overseas businesses, with effect from 1 January, the rules will change such that

the supply will be deemed to take place in the country where the customer is located and that customer will have to account for VAT under the reverse charge mechanism, which itself is being amended. Services to non business customers will remain liable to VAT in the country where the supplier is located.

For businesses who supply goods to other EC countries, there will be enhanced quarterly ESL returns required where such supplies exceed £70,000 per quarter. This threshold will reduce to £35,000 in 2012.

Finally there is a new online procedure for obtaining refunds of VAT paid in other EU countries with effect from 1 January, replacing the existing paper system.

**For advice on VAT matters, please speak to your usual PM+M contact.**

**THE 50% TAX RATE APPROACHES**

From next April, anyone with an income of more than £150,000 is going to be paying the new higher rate of 50% income tax on the top slice of their income. If this means you, your focus over the next few months needs to be on looking at how this tax can be minimised.

There are a range of planning possibilities, from the very simple, such as ensuring both husband and wife use all their lower rate tax bands, to the very complex. For many people, a combination of relatively simple planning ideas will be sufficient to shelter them from the higher rate tax.

For others, consideration might perhaps be given to a bespoke strategy to allow tax efficient extraction of income from their business. We can advise you on the range of strategies available and the risks and benefits attaching to each.

Reviewing your investments can be critical. For example you might consider moving away from income generating investments to those which generate capital or other tax efficient returns.

Our advisers will be delighted to speak to you and advise you on the best planning strategy.

**We have prepared a free help sheet setting out 20 top tips to help reduce your exposure to the 50% tax rate. If you would like a copy of this, please contact Claire Jewsbury on 01254 67 9131.**



**Tips, service charges and the National Minimum Wage**

**From 1 October 2009 new legislation has come in to place in respect of the National Minimum Wage.**

The main change to the existing legislation is that employers are no longer allowed to include tips, gratuities and service charges that are paid to staff through the payroll when calculating a worker's National Minimum Wage. Tips direct from customers or from a

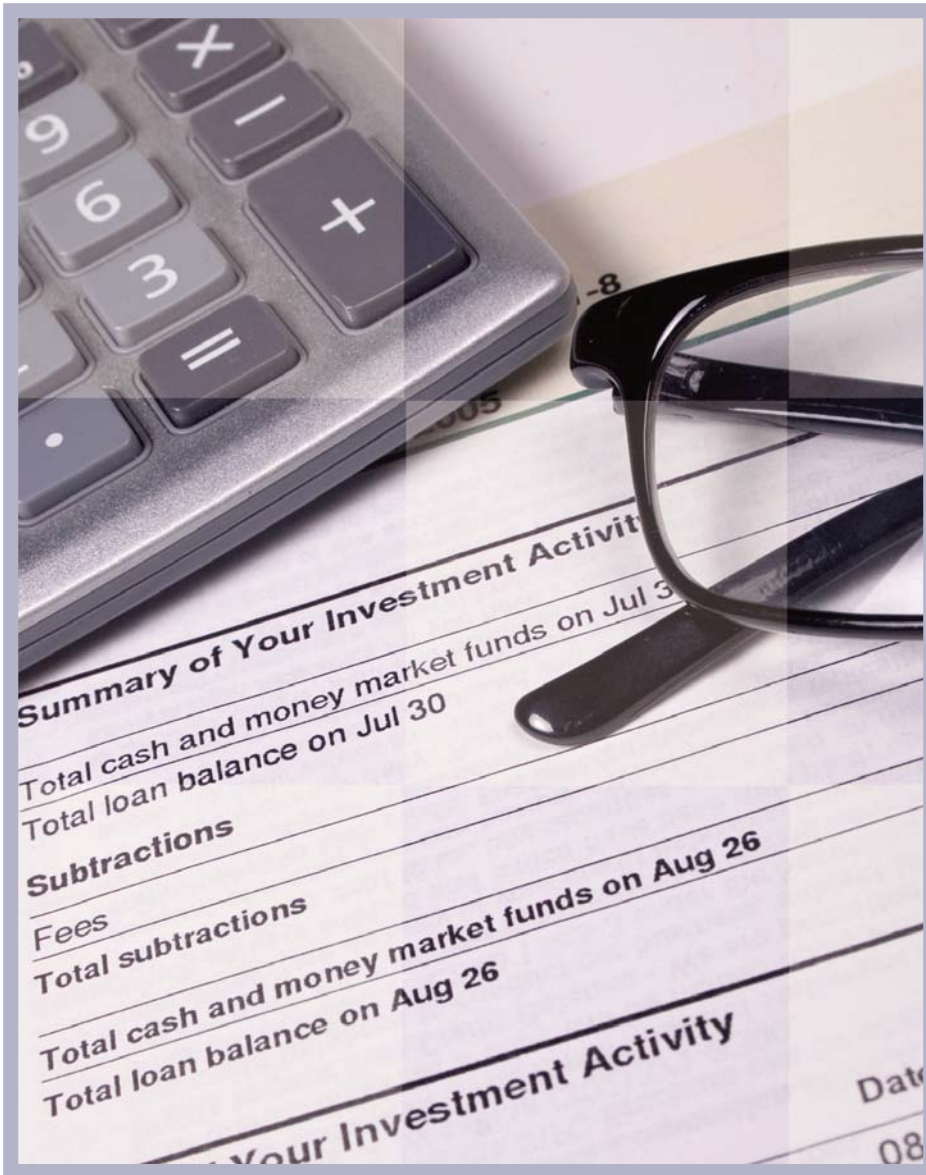
troncmaster direct to staff will continue not to count towards the National Minimum Wage.

The rates of the national minimum wage were increased on the same day. They are now:

Adult	£5.80 per hour
Workers aged 18 -21	£4.83 per hour
Workers aged 16-17	£3.57 per hour

If HMRC finds that an employer has underpaid the National Minimum Wage they will issue a notice of underpayment showing the arrears that must be paid to the workers and the penalty due to HMRC.

Penalties are 50% of the underpayment with a minimum of £100 and a maximum of £5,000 per firm.



## Pension Schemes – Make your SSAS work for you

Borrowing from your existing Small Self-Administered Scheme (SSAS) to invest in plant or machinery is a tax-efficient way of maximising spending power as well as boosting pension savings. However, for cash-rich small businesses, it is also a great facility to effectively gain two lots of tax relief on big purchases.

For example if a business has gross profits of £100,000, it will pay corporation tax at 21%. If it purchased a machine at £40,000, utilising the annual investment allowance, this would reduce taxable profit to £60,000, meaning corporation tax payable would be £12,600. However, an alternative approach would be to instead make a pension premium directly into the SSAS, utilising the tax relief on pension contributions, and to then borrow the money back from the SSAS to purchase the machinery, utilising the tax relief of the Annual Investment Allowance. This method would bring the final taxable profit down to £20,000, which would mean corporation tax payable would be just £4,200; a tax saving of £8,400.

Of course, there are some disadvantages to this approach – SSAS's are more expensive than conventional pensions to set up, you can only borrow up to 50% of the scheme's value and of course, the money has to be paid back. But the tax deductible low interest (1% over base) repayments, and double tax relief gained from this approach mean that it is an attractive option for small businesses who need to finance a big purchase.

**The loan-back facility is just one of the ways in which a SSAS can be used to achieve considerable tax savings. If you have a SSAS and would like some advice on how you can make it work for you, call our wealth management team on 01254 67 9131.**

## PAYE - All Change!

2009 will see the last of the HM Revenue and Customs incentives to file your PAYE annual returns online. From April 2010, online filing will become mandatory for all employers, and penalties will be charged for non-compliance. This can be done either directly on the HMRC website, or by using specialist software.

Employers you must ensure you are prepared for both of these changes before the 6<sup>th</sup> April 2010.

Due to the current economic climate, in recent months a lot of our work has unfortunately been spent on final pay calculations and P45's. This kind of task can be daunting for any business, but especially so if you never been through this kind of climate before.

By outsourcing this type of work, along with other aspects of payroll, you will find you will have more time to focus on important business issues and opportunities. You still retain full control but leave the detail to us.

**At PM+M we have a dedicated payroll bureau that is always up-to-date with the constantly changing legislation, tax changes and deadlines. If you feel we could be of assistance, please call Julie Whitfield on 01254 67 9131.**



## VAT Changes – implications for accounts software

As discussed in our VAT article, from the 1st of January 2010, a number of legislative changes are being introduced which have the potential to impact on a large number of businesses.

### VAT Rate

The standard rate of VAT is returning to 17.5% and should be used on all invoices raised on or after 1st January 2010.

### EC Sales list

Businesses that are required to file an EC Sales List have additional changes to be aware of.

- Additional reporting of sale of services separately to the reporting of sale of goods
- The frequency of reporting sales of goods has changed from quarterly to monthly
  - In addition to the change of reporting frequency, the time period for submitting your EC Sales has been

reduced from 42 days to 14 days or 21 days for electronic submissions.

- Changes to the format of the EC Sales list reporting online, and changes to the treatment of VAT on the supply of services across EU borders

### How does this affect my accounts software?

PM+M Technologies supports Access Dimensions and Horizons and Sage 50 (including Instant Accounts).

### Access Software

PM+M Technologies will contact those businesses for which we provide support to discuss any upgrade requirements or changes.

If you do use Access Dimensions or Horizons, and your current version is 2.43b and below you will need to speak to your support provider to organise an upgrade. Users of 2.43c and above may need a service pack installing depending upon your use of the software.

### Sage 50 and Sage Instant Accounts

Sage will be issuing a service pack update for users of Sage 50 Accounts 2007 and above and Sage Instant Accounts version 14 and above. You must have a valid Sage cover contract to obtain the service pack.

**If you would like to discuss pricing and purchase of Sage cover or would like to discuss the procedures for updating your software to deal with the changes please contact Colin Emmett on 01254 682248.**

**STOP PRESS: The chancellor's pre-budget report will take place on Wednesday 9th December 2009. Coverage will be available on our website from the 10th December. To receive a free copy of our summary, email [info@pmm.co.uk](mailto:info@pmm.co.uk) with your details or call Claire Jewsbury on 01254 679131.**

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