KNIGHT & COMPANY
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TAX E-NEWS

Welcome to our monthly tax newsletter, designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember - we are here to help you so please contact us if you need further information on any of the topics covered.

GETTING ROUND THE NEW RESTRICTIONS TO 100% TAX RELIEF ON BUYING EQUIPMENT

As we mentioned in the February edition of Tax E-News, the £100,000 annual investment allowance reduces dramatically to £25,000 from 1 April 2012.

If that is a problem, and your company needs to spend, say, £40,000 in the year on equipment, one solution is to pay the extra £15,000 yourself in your capacity as an employee of the company. You then have your own £25,000 expenditure limit and you can claim full tax write-off against the income you receive from your company. This is because your employment is a qualifying activity for the purposes of capital allowances, provided we are NOT talking about cars, motorcycles or cycles.

You need to show that purchasing the equipment is a necessity for you to use in the performance of the duties of your employment, and that should not be a problem. Care is needed in getting the paperwork right.

CAUGHT BY THE PERSONAL ALLOWANCE TRAP?

Do you know if you are one of the 700,000+ people paying a marginal income tax rate of 60%? This is an increasingly unfair trap which exists if your income is just over £100,000. That means you are a 40% taxpayer, but some of your income will (amazingly) be taxed at 60%. You may not even realise this as it is not absolutely clear from the tax computation we produce for you each tax year.

How can this happen? Itȇs all down to the withdrawal of the personal tax allowance by £1 for every £2 that your income exceeds the magic figure of £100,000. And with the large increase in the personal allowance (the plan is to get that up to £10,000 eventually) it is a tax trap that will affect more and more people each year. Here is what it means in figures for 2011/12:

Taxable income	Marginal rate
£100,000 to £114,950	60%
£114,951 to £149,999	40%
£150,000 +	50%

And for the next tax year 2012/13 it is even worse in terms of the number of people affected:

Taxable income	Marginal rate
£100,000 to £116,210	60%
£116,210 to £149,999	40%
£150,000 +	50%

As if the above was not bad enough, add in your national insurance contributions at 2% if employed or self-employed and you suffer a marginal rate of 62%!

There are several techniques available to avoid this unacceptable tax rate. Please contact us for help.

ELECTRICIANS TO LOSE THEIR SPARK

HMRC have just launched their Electriciansô Tax Safe Plan, to encourage electricians to declare any income they have kept quiet about so far. If you know of any electricians in that category, please point them towards us and we will get the best tax deal for them under this plan.

The special deal involves lower penalties than are normally charged on previously undeclared income and represent a convenient way of coming clean and getting the tax position in order.

Notification for taking part has to be made by 15 May 2012 and the tax arrears have to be paid by 14 August 2012.

Similar campaigns will start soon and we are ready to help anybody within the following categories:

- Not completed tax returns but are liable to tax at the 40% or 50% rates.
- Those in the construction and building work industry who are not paying the correct amount of tax. This includes roofers, window fitters, bricklayers, carpenters and joiners.
- Direct selling from buying and selling goods direct to others, or receiving commission on such sales.
- Those using e-marketplaces to buy and sell goods as a trade or business (the odd deal should not be a problem).

BUSINESS RECORDS CHECKS ï REVIEW, SUSPENSION AND RELAUNCH

The pilot programme of BRCs began in April 2011 and involved checks by HMRC on the standard of small and medium-sized enterprisesô (SMEÕs) statutory business records. Up to 4 January 2012, 2,437 BRCÕs had been carried out. These found that 28% of SMEs had some issue with their record-keeping, and an additional 11% had issues serious enough to warrant a follow-up visit.

HMRC undertook a strategic review of the project in consultation with the professional and representative bodies. The purpose of the review was to consider the overall aims of BRCs, examine whether the current approach is the best way of achieving the policy objectives and identify what changes are needed to ensure that the objectives are achieved.

As a result of the review, the scheme has been suspended! However, donÕt celebrate too much as it will be relaunched early in the 2012/13 tax year with a fresh approach. This will partly involve:

- Collecting far less revenue than originally forecast
- More focus on businesses considered to be at a higher risk of keeping poor records
- No penalties charged unless poor records lead to an incorrect tax return.

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