EXCLUSIVELY FOR CONTRACTORS

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Wheawill & Sudworth
CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS

SHOULD YOU CHANGE YOUR YEAR-END ?

This is a subject that Gordon Morrison has been focusing on ever since the IR35 legislation was introduced and particularly since the result of the Judicial Review.

If your company has a 31st March 2001 year-end and does not actually pay a salary to you during the year then a deemed salary calculation is made and the deemed payment date is 5th April 2001.

Just look at the calculation below. Based on these figures the deemed salary would be £79,500 and the tax and National Insurance liabilities amount to £32,040.

Okay, - so what's the problem? Well it's a pretty nasty one. Because the salary has not actually been paid then the company will be subject to corporation tax on the same amount. It's ridiculous but true that in these circumstances you end up paying tax twice on the same amount of income.

You will get tax relief the following year and quite likely a refund of the corporation tax that you have paid but it has to be financed and it is a significant amount to find. This is why we are advising all our clients with year-ends of 31st March to change them to 5th April. There is still the problem of this timing difference for those of you with other year-ends but the closer your year-end is to the 31st March then the more acute the problem. Of course, those of you who are outside the IR35 legislation do not have this problem.

How will my income change?

	£	£	Tax & NI £
Invoices Rendered		100,000	
Less allowable expenses (5% allowance)	5,000		
Pension payments (say)	10,000		
Allowable travelling costs (say)	5,000		
Professional Indemnity Insurance (say)	500		
		20,500	
Subject to tax		79,500	
Tax Payable			
Income subject to tax as above	79,500		
Less Employers N.I.	8,169		8,169
Gross Salary		71,331	
Less Income Tax	21,484		
N.I.	2,387		
		23,871	23,871
		47,460	32,040

This is intended to be a simple explanation of the importance of having the correct year-end as far as the deemed salary calculation is concerned. If you are concerned as to how it affects you personally then please contact Gordon Morrison by email: gordonm@wheawill.co.uk

You can see from the example that the taxable profits of the company are £79,500 and the corporation tax liability i.e. the amount of the duplicated tax payment would be £15,900.

STAKEHOLDER PENSIONS

As you know the legislation is in place and the Stakeholder regime has now started. We have already likened the rules as far as they affect contractors to the old de-minimis provisions which contractors took advantage of until the rules were tightened up two or three years ago.

The important point is that you are allowed to make a gross contribution of £3,600 per annum even if you have no income. Contributions are now paid net of basic rate tax so if you contribute the maximum on a monthly basis is will cost you £234 with the tax man contributing the extra £66. In many ways it is better than de-minimis ever was because it means that you can contribute into a pension fund for your children as soon as they are born and still get tax relief for the contributions.

It just shows you how worried the Government is about the aging population and the ability of the state to provide a reasonable old age pension.

Increasingly, the financial sections of newspapers are underlining the importance of starting to make financial preparations for your retirement at an early age particularly in times of low interest rates (and therefore low investment returns) and this provides an ideal mechanism to do this.

IT SECURITY SPECIALISTS TO BE AFFECTED BY NEW LAW

Legislation is being pushed through Parliament with such indecent haste these days that it is not only the intended target that is being affected by changes in the law but also other industry groups who were not in the front line

This seems to be the case with the Private Security Industry Bill which awaits Royal Assent upon which it will become an Act of Parliament. The intention was that the legislation would affect rogue wheel-clampers and night-

club bouncers.! However, the definition of" security consultant" includes anyone giving advice about security precautions in relation to any risk to property. This means that it is likely to include systems administrators who maintain computer access controls and programmers and consultants whose work frequently includes tasks relating to information security.

Apparently the Government will be consulting with the DTI on precisely how the new law will apply to IT security and the consultants involved in this work but the Home Office Minister responsible is not at this stage handing out any comforting words to the IT profession

BUY TO LET - AN UPDATE

We have talked about buy to let in previous newsletters and the enormous amount of money that is pouring into this market. With interest rates continuing to fall it looks even more attractive to gear-up by borrowing on the equity in your house and diving into the buy to let market.

Our advice to you is to be very, very careful. It may look like a one-way bet with falling interest rates, an increasing number of properties being rented out and astronomic increases in house prices **but** life does not work like this forever and at some stage the market will even itself out. In fact, the property market has only been a sure fire winner for about the last 30 years and any hiccup particularly if it is accompanied by a softening in rentals could make this a very nervous market to be in.

THE TAX CUTTING CHANCELLOR?

According to the Institute for Fiscal Studies, taxes have in real terms increased by more than 4% per annum during the last 5 years.

It just goes to show that honouring a commitment not to increase income tax does not count for very much in the overall scheme of things!

EMPLOYMENT LITIGATION – THE CLAIMS MOUNT

During the year ended 31st March 2000 employment tribunals in England and Wales registered almost 100,000 claims by individuals. This is double the figure for ten years ago. Of these claims 40% were in respect of unfair dismissal. It is estimated that about the same number i.e. approximately 40,000 are settled with the assistance of ACAS, which means that some payment was made by the employer and 30% of the claims were withdrawn.

Average awards are approximately £5,000 but from time to time there is a real corker. Earlier this year a lady working for Granada had a claim settled in her favour She had originally brought a sex discrimination claim against Granada in 1993 when she was sacked after becoming pregnant. This was settled for £11,000. Following this Granada refused to supply potential new employers with a reference. The European Court of Justice decided that she had been victimised and that this was covered by discrimination laws. She collected £195,000!

The reason that we cover developments in employment law in this newsletter is that many Contractors have employees from time to time and a claim like this can wipe out large companies never mind small ones.

There is a solution and that is to take out insurance. It just has to be a sensible remedy for anybody who has employees.

PERSONAL LIABILITY FOR PROFESSIONAL ADVICE

In a recently decided case, which went to the Court of Appeal a decision, has been given which could have ramifications for professional people of many disciplines.
The case concerned a surveyor whose company went bust. The surveyor while working for the company had given a mortgage valuation seven years earlier and because of the insolvency of his employer found himself personally liable for advice, which had been given.
The impact on other professionals is clear and it is obviously not the intention of any employer to put employees in a position where they could personally be at risk. There is a solution and that is to make sure that the company purchases insurance cover, which will deal with any "run-off" period so that employees are protected.

TAX MAN SENT TO JAIL

If you found the rest of this Newsletter rather heavy going and we hope that you have not) here is a little bit of light relief. Former Inland Revenue Officer Chandrakant Patel has been sent to jail for three years for generating false tax repayment claims. Obviously this is one kind of new business that the Government are not keen to encourage!!

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