

TOUGHER RULES ON TIME TO PAY

HM Revenue & Customs (HMRC)
is toughening its response

TAX RELIEF ON CHILDCARE

One of the most effective forms
of tax assistance is the
childcare voucher scheme

ACHIEVING NON-RESIDENT STATUS
INVESTING TO SAVE INHERITANCE TAX
AVOIDING COMMON TAX ERRORS



- Managing the changes in default retirement age
- Expats lose pension freeze appeal

- Six million people face new tax bills
- Review of automatic enrolment into workplace pensions

WELCOME



Jonathan Langdon

Welcome to the Milsted Langdon autumn newsletter, which brings you updates and practical advice on issues that may affect you financially.

Our bulletin contains a round-up of tax and financial news and developments that we hope will be of interest to both businesses and private individuals.

In this edition, we look at why some people are facing new tax bills while others will receive rebates. We also examine the coalition Government's review of automatic enrolment into workplace pensions, as well as changes to tax relief on childcare and tougher rules from HMRC on companies asking for longer to

pay their taxes.

We also outline changes to the current default retirement age and take a look at the rules for achieving non-resident status. We also offer advice on overseas pension planning, investing to save Inheritance Tax and avoiding common tax errors.

We hope you enjoy reading this newsletter and that you find it useful. We would welcome your feedback on the content, or ideas for topics that you'd like to see featured in the future, so if you would like to comment please email advice@milsted-langdon.co.uk or call our **Taunton office** on **01823 445566**, our **Bristol office** on **0117 945 2500** or our **Yeovil office** on **01935 383500**.

For professional financial advice, tailored to your individual circumstances, on any of the topics covered in this newsletter, please contact us.

SIX MILLION PEOPLE FACE NEW TAX BILLS



Stephen Griffiths

Six million people in the UK have underpaid or overpaid tax via the Pay As You Earn (PAYE) system, meaning new tax bills for some and rebates for others.

About £2 billion was underpaid in the past two years, resulting in around 1.4 million people owing HM Revenue & Customs (HMRC) an average of £1,500 each. At the same time, £1.8 billion has been overpaid,

with 4.3 million people due a rebate of on average £418.

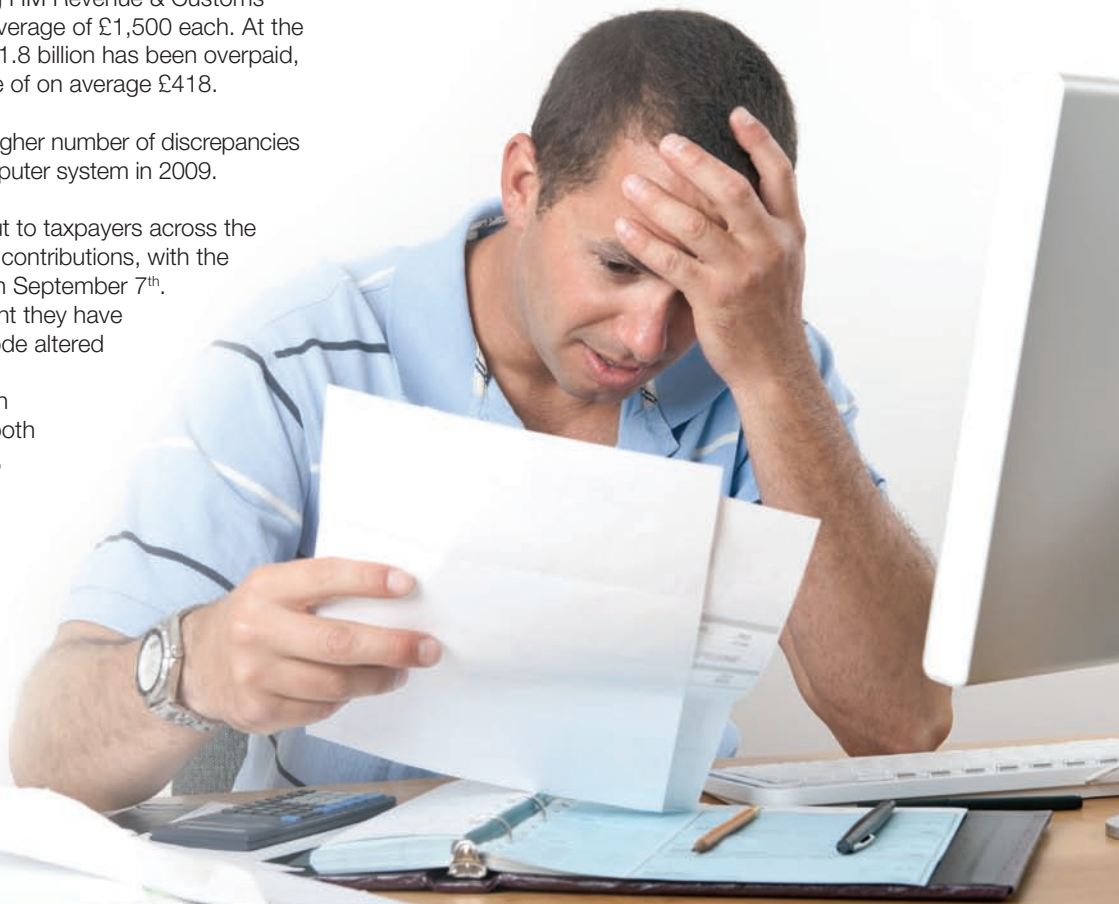
HMRC has been able to identify a higher number of discrepancies since the introduction of a new computer system in 2009.

Millions of letters have been sent out to taxpayers across the UK informing them of errors in their contributions, with the first 45,000 landing on doormats on September 7th. Of these, 15,000 will tell the recipient they have underpaid and will have their tax code altered next year to recoup the money, while 30,000 will be due a rebate. In some cases, individuals may face both underpayments and overpayments, which would effectively cancel each other out, depending on the amounts.

Such discrepancies arise when the amounts of tax and National Insurance deducted by employers using PAYE do not match records held by HMRC. However, officials have said they will consider writing off any

additional payments owed to them if taxpayers can demonstrate that they provided all the information required to calculate their tax correctly.

At Milsted Langdon, we routinely check that our clients are not overcharged by HMRC and have an accurate PAYE code. However, for anyone else who may be concerned and would like more information on whether they are paying the correct amount of tax, please contact us.



TAX RELIEF ON CHILDCARE



Sarah Jenkins

For individuals with both a career and children, good childcare is essential. One of the most effective forms of tax assistance is the childcare voucher scheme, which is available to parents from all backgrounds and salary brackets, providing their employer runs the scheme.

The system enables parents to pay their childcare fees out of their pre-tax income, thus reducing their tax liability and cutting the cost of nursery fees, in relation to their earnings.

From April 2011, parents who pay the basic rate of tax will be able to claim £55 per week exempt of Income Tax and National Insurance when they join an employer-supported childcare scheme. This amount will be reduced to £28 and £22 for higher and additional rate taxpayers, respectively, when they join a scheme. Current users will be unaffected by these changes.

The Government is also to reduce and then stop its contributions to Child Trust Funds (CTFs).

Currently, most parents receive a voucher for £250, which they can use to open a tax-free shares-based savings scheme or cash account for the newborn. They can then add up to £1,200 a year, tax-free. The Government adds an extra £250 when the child turns seven.

Any babies born after 1st August 2010 will receive just £50 towards a CTF. For families earning less than £16,190, the payment will be cut from £500 to £100. As of August this year, seven-year-olds no longer receive their birthday present from the Government.

Payments will stop completely from 1st January 2011, although existing CTFs will run until the child's 18th birthday. The child, as well as friends and family, will still be able to contribute up to £1,200 a year in total, and the option to change the type of account and/or move it to another provider will also remain.

For more information on childcare tax relief, please contact us.



ACHIEVING NON-RESIDENT STATUS



Elaine Durrant

Leaving the UK either for work or retirement may seem like an attractive option, but achieving non-resident status requires a complete break from the UK and a number of major lifestyle changes. This means it will not be suitable for everyone.

As well as taking care of more practical matters, including accommodation, removals and visa or work permit

requirements on the ground, any move needs to be carefully planned from a tax perspective.

To gain non-resident status, anyone leaving the UK for employment needs to work abroad for at least one complete tax year. Return trips to the UK should not exceed 90 days, although the 90-day limit is not definitive; the key point is to show that the individual concerned really has cut their ties with the UK, so it may be advisable to ensure the total number of days is significantly below this figure.

In all cases, HM Revenue & Customs (HMRC) will need convincing that the overseas employment is genuine. If this is the case, providing the other rules are satisfied, it should be

possible to obtain non-resident status.

For people moving abroad for other reasons, it may be more difficult to convince HMRC that a clean break from the UK has been made. The landmark case of Robert Gaines-Cooper, who was ruled to be a UK resident despite living in the Seychelles and keeping his visits to the UK below 90 days, highlights the importance of keeping ties to the UK to a minimum. Mr Gaines-Cooper suffered from owning a house, where his wife and son continued to live, and a collection of classic cars in the UK. This proves that while the 90-day rule is important, it is not the only consideration.

Popular tax havens including the Isle of Man, Channel Islands, Switzerland and Monaco all have local taxes of varying levels, but most allow outsiders to cap their tax liability. Switzerland, for example, allows foreigners to pay tax on their property rather than their income, provided the person concerned is not gainfully employed in the country.

Individuals in this situation need to ensure they are operating well within the existing rules. Otherwise they leave themselves vulnerable to a challenge on their non-resident status, and the possibility of losing their tax exemption benefits.

If you wish to discuss the rules surrounding non-resident status, or would simply like more information, please contact us.



TOUGHER RULES ON TIME TO PAY



Roger Isaacs

There have been further reports that HM Revenue & Customs (HMRC) is toughening its response to companies that are asking for longer to pay their taxes under the Time to Pay scheme.

According to Syscap, an independent finance provider in the IT sector, HMRC rejected more than 11% of Time to Pay applications during the first quarter of 2010 – more than double the 5.3% rejected in the same period last year.

There has also been a sharp increase in the number of disqualification proceedings brought against company directors for non-payment of Company Tax. More than 800 company directors faced such actions over the year ending in March, a 24% increase year-on-year.

Since 6th April 2010, large companies have had to bear the financial burden of an Independent Business Review (IBR) if they wish to defer payment of £1 million or more – a move designed to discourage applications from companies who are

not genuinely struggling with tax payments.

Currently, around 250 businesses each year would need a review, following an increase in the number of larger requests to the scheme. Unless the facts are straightforward, the review must be carried out by a suitably-qualified professional adviser on the IBR panel.

HMRC said that such reviews would speed up the process of assessing a business's long-term viability and ability to pay, and would ensure support was not granted or withheld inappropriately. Businesses would therefore be unable to gain an advantage through using Time to Pay over firms which had sourced finance elsewhere.

The Government also announced in the June Budget that it will consider enabling HMRC to request security against unpaid tax bills from businesses that fail to hand over Pay As You Earn or National Insurance contributions on time. Failure to meet this demand would be considered a criminal offence, possibly with penalties of up to £5,000.

For more details on help with meeting your tax liabilities, please contact us.

EXPATS LOSE PENSION FREEZE APPEAL



Graham Puddy

Around half of the one million UK pensioners currently living overseas will continue to have their pensions frozen, following a decision from the European Court of Human Rights.

The case was brought by a group of pensioners representing those countries – including Australia, Canada and South Africa – where pensions are frozen at the level they were at when the recipient retired.

Within the European Economic Area and countries with which the UK has reciprocal arrangements, such as the USA, pensions rise in line with inflation – potentially making a big difference to people who retired a number of years ago.

The Court rejected the appeal by an 11-6 majority, following an eight-year legal battle. The campaigners conceded they had no further legal avenues to pursue, but vowed to take their fight to the 'court of public opinion', raising awareness of their plight in an effort to get the UK Government to change its mind.

The Government, which argued that its first responsibility should be to pensioners living in the UK, is set to save around £500 million per year as a result of the decision.

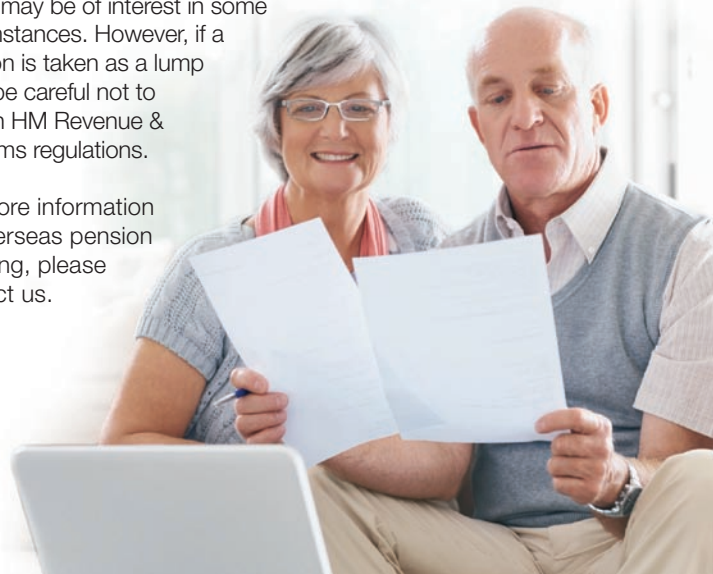
As a result, anyone planning to retire to one of the countries where

rates are frozen should ensure they have enough additional savings to make up for this potential shortfall.

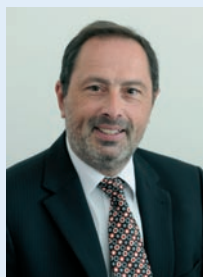
They may also wish to consider transferring their UK pension overseas, in order to benefit from a low or tax-free pension income. Using a Qualified Recognised Overseas Pension Scheme (QROPS), it is not necessary for the pension to be registered in the holder's country of residence, so the retiree could, for example, retire to a popular destination such as France or Spain, but move the pension to a light-tax jurisdiction like Monaco or the Channel Islands.

It is also possible to transfer the pension to a country where there is no requirement to purchase an annuity on retirement, which may be of interest in some circumstances. However, if a pension is taken as a lump sum, be careful not to breach HM Revenue & Customs regulations.

For more information on overseas pension planning, please contact us.



MANAGING THE CHANGES IN DEFAULT RETIREMENT AGE



Gary Salter

The Conservative-Liberal Democrat coalition plans to phase out the current default retirement age (DRA) from April 2011.

With the Government also planning to raise men's state pension age to 66 by 2016 (2020 for women), and the possibility of future changes being linked to increases in life expectancy projections,

the abolition of the DRA will be welcome news for the 62% of over-65s who said in Prudential's Class of 2010 retirement survey that they wanted to continue working to boost their retirement income.

In fact, there were 53,000 more over-50s in work in the first quarter of this year, and the number of those aged 55 and over in employment is expect to rise nearly 40% to 7.16 million in the next 10 years.

Despite this, many businesses will not be pleased by the forthcoming DRA change. While they accept that it is currently too low, firms would prefer to see the limit raised rather than removed altogether. A survey earlier this year by an international law firm showed that 70% of employers opposed the abolition of the DRA, while only 55% were against increasing it.

So with no set plans for the phasing out of the DRA, and more than 100,000 people pushed into retirement against their wishes in 2009, we consider how employees can minimise the

risk of being forced to retire and what employers can do to prepare for the abolition of the DRA.

Before they reach retirement age, employees should prove they are interested in their work and keen to develop their skills by making the most of any training opportunities that are available (both internally and externally) and keeping up-to-date with technological developments.

As they reach retirement age, employees should request to continue working and ensure they are thoroughly prepared for the following interview. If their employer does not want them to continue working full-time, they could consider a part-time or holiday cover role.

Many employers, however, are concerned about the potential performance level of employees over the age of 65, and how they can manage their workforce accordingly.

Others worry about the possibility of souring relationships with employees if they have to dismiss them on grounds of poor performance and capability, as well as the consequences for workforce planning, development and promotion.

With 85% of businesses currently using the DRA as their contractual retirement age, employers need to start planning now to ensure they are ready to tackle these issues. Matters for consideration include the necessary policy changes, employee communications, the development of flexible retirement options and pension issues.

To discuss any of these areas in more detail, please contact us.

REVIEW OF AUTOMATIC ENROLMENT INTO WORKPLACE PENSIONS



Steve Horton

From 2012, employers will be required to automatically enrol all eligible employees between the ages of 22 and state pension age into a qualifying workplace pension scheme, and make minimum contributions.

With 85% of a typical UK employer's expenses being staff-related, any increase in staff costs is likely to have a marked effect on a company's profits. Other factors have also come into play since the initial report was published, including the challenging economic climate,

proposed changes to the state pension age and increases in life expectancy predictions.

As a result, the coalition Government has announced a review of the current arrangements for automatic enrolment to see if they match the costs and benefits to both employers and individuals.

The review will cover the earnings threshold for automatic enrolment – which currently stands at £5,035 in 2006/07 terms – as well as the age group and size of firm which qualify, and whether an employee should be enrolled when they start work for the firm. It will also consider introducing a de minimis contribution level, which is small enough for automatic enrolment not to apply.

INVESTING TO SAVE INHERITANCE TAX



Simon Denton

One proven way to reduce Inheritance Tax (IHT) bills is to invest in assets which qualify for Business Property Relief, as these are exempt from IHT once they have been held for two years.

While these have been available for many years, they have previously typically involved higher risk investments. Milsted Langdon can advise on three different forms of investment which offer Inheritance Tax advantages, but with a lower degree of risk than previously seen.

Protected AIM Fund

Investing in a portfolio of AIM shares (the Alternative Investment Market of the London Stock Exchange) would typically be regarded as a higher risk portfolio with potentially high returns, but also possible losses.

The particular funds we are focusing on offer a built-in life assurance policy, so on your death any possible fall in value will be covered by this policy. In addition, the funds can be accessed at any time.

Inheritance Tax Income Fund

The fund aims to invest in "lower risk" smaller companies which are trading in the wholesale sector. These are anticipated to produce

stable, although modest, returns with a carefully managed risk profile.

The target level of income is a minimum of three percent net for basic rate taxpayers, and fund managers will receive no annual management fees if the income falls below this level. As these investments can be sold at any time, the fund provides an accessible source of revenue and a modest level of income.

EIS Investments

EIS investments are primarily intended to defer Capital Gains Tax liabilities. By reinvesting any gain into EIS investments, these liabilities are deferred indefinitely.

Such investments would suit individuals holding buy-to-let properties or stock market investments who wish to realise the gains made, as well as older clients with high Income Tax liabilities, due to the 20 percent relief received.

For those where Inheritance Tax is not the main concern, an alternative option is an Enterprise Zone Trust (EZT).

The initial allowance can be offset against an individual's Income Tax, giving rise to a reduced liability or a repayment of tax almost equal to the whole investment, as well as a typical return of 15 to 20 percent.

To discuss any of these options, or for more information, please contact us.



TAUNTON OFFICE

Winchester House,
Deane Gate Avenue,
Taunton, TA1 2UH
Tel: 01823 445566
Fax: 01823 445555

BRISTOL OFFICE

One Redcliff Street,
Bristol,
BS1 6NP
Tel: 0117 945 2500
Fax: 0117 945 2545

YEOVIL OFFICE

Motivo House
Yeovil,
BA20 2FG
Tel: 01935 383500
Fax: 01935 383511

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www.milsted-langdon.co.uk • info@milsted-langdon.co.uk

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AVOIDING COMMON TAX ERRORS



Jon Stocker

HM Revenue & Customs has issued a reminder regarding the various 'toolkits' it offers to help with preparing returns. Although they are aimed at tax professionals, the toolkits highlight some common errors and the steps that can be taken to reduce them.

For private and personal expenditure, areas to watch include:

- Record keeping, such as non-business expenses being incorrectly recorded and claimed in error as allowable expenses
- Personal bills being paid by the business
- Travel and subsistence
- Entertaining, gifts, subscriptions and sponsorship
- Drawings and capital account

If you would like to discuss any of these areas in more detail, please contact us.

The first series of toolkits covers:

- Marginal small companies' relief
- Capital allowances for plant and machinery
- Personal and private expenditure
- Capital Gains Tax for land and buildings
- Capital Gains Tax for trusts and estates

While the main area of risk in all of these cases is failing to keep proper records, other issues can cause further difficulties.

In terms of capital allowances for plant and machinery, problems can arise from:

- Record keeping, such as different proportions of non-business use during the period of ownership and detailed records of all acquisitions and disposals
- Acquisitions and disposals, including whether the asset qualifies for capital allowances
- Non-business use of assets, particularly cars



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