
Resolve Newsletter June - July 06

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1. What next for the 2008 Self Assessment deadline?

Lord Carter of Coles is to reconsider his recommendation to accelerate the filing deadlines for Self Assessment Tax Returns. This has come as a huge relief to the accountancy profession.

We have always thought (and indeed lobbied the Institute of Chartered Accountants) that a fair solution would be to keep the 31 January filing deadline for online returns and to bring forward the filing deadline for paper based returns. It does not appear to make sense to bring this forward to November or December, but perhaps to September or October. This seems fair as it provides a carrot to those that can file online and allows HMRC more time to process paper returns.

We will be filing the majority of our client's Self Assessment Tax Returns online this coming year. By the year after we will be completely web based.

2. Reclaiming the £250 incentive payment from HMRC relating to end of year PAYE returns

Unless you have been living in a cave on your own for the last few years, you will be aware that businesses can receive £250 from HMRC as an incentive payment for filing their end of year PAYE returns online. There has been some confusion (not amongst our clients as we got it right last year) as to how this amount will be received.

HMRC announced in June 2006 that small employers that have filed their 2005/06 returns on line can deduct £250 from their next PAYE remittance even if they have not yet received their confirmatory letter. This is provided they received the following message when they filed their return; "The EOY return has been processed and passed full validation".

3. Tax and finance deadlines - July

6 July

Forms P11D, P9D to be filed. Copies or summaries of these forms must be given to employees.

Companies must file Form 42 "returns of reportable events" which occurred in 2005/06 in connection with unapproved share schemes.

Employers that provided a redundancy package in 2005/06 in excess of £30,000 must notify HMRC.

19 July

Class 1A National Insurance Contributions for 2005/06 are due.

31 July

Income Tax Self Assessment: The penalty for late filing doubles to £200 if outstanding returns for 2004/05 do not reach HMRC. Another 5% surcharge if 2004/05 income tax, Class 4 NIC and CGT are not paid.



4. CIS – what lies ahead?

And more importantly, what should we all be doing now?

We have known for ages that the new Construction Industry Scheme (CIS) is coming. Its implementation has been delayed to April 2007, however, there is still a lot to be done ahead of this date.

We will outline the new scheme, its requirements and highlight some of the pitfalls and opportunities it presents. We will also look at some of the changes that could affect contractors and subcontractors now. Many of these businesses could otherwise have a shock next year.

The new scheme

From 6 April 2007 the CIS4, CIS5, CIS6 registration cards, along with vouchers and the annual return will cease to exist.

The new scheme will rely almost entirely on electronic communication. Sounds nice and slick, but as we saw with the tax credits system a few years ago, computers can take away the application of common sense in decisions, causing trouble.

Most subcontractors already registered under the existing rules will be automatically transferred into the new scheme. There will not be any need to re-register.

Any new subcontractors wishing to join the scheme will be able to register and apply for gross payment status if they meet the business, turnover and compliance tests as before.

At the start of a new contract the subcontractor will be required to give their name, UTR (Unique Tax Reference), NIC number or company registration number to the contractor.

The contractor will then need to verify or check the payment status of each subcontractor with HMRC. This may be gross (as now), or under deduction (18%). HMRC will give the contractor a verification number for each subcontractor successfully matched to their system. If a subcontractor cannot be verified tax must be deducted at a higher rate (to be confirmed, but likely to be 30%). The verification process does not have to be carried out for every subcontractor every month. Having verified a particular subcontractor or the subcontractor was paid by the contractor (under the new or old system) in the last 2 years, then they can continue to make payments on the same basis until instructed otherwise.

Within 14 days of the end of each tax month the contractor must give a written statement to each subcontractor from whom they have made a deduction.(at either the lower or the higher rate) and must pay over the CIS tax deducted to HMRC. A monthly return must be submitted to HMRC showing the amounts paid to and deducted from all subcontractors.

Pretty severe penalties will be introduced for later filing of returns. Each late monthly return will incur a £100 penalty for example!

There are no annual returns under the new scheme.

Employment status

The need to distinguish between employed or self employed has not changed. The responsibility will still lie with the contractor to make sure each new contract does not constitute an employment contract.

HMRC is determined to focus contractors on this issue and as a result a new and important requirement under the new system will be the requirement placed on each contractor to sign a declaration on their monthly return stating that there are no workers listed that are in fact employees.

To help contractors, HMRC have issued some guidance on this particularly complicated aspect of the law.

Common Indicators of Employment:

- The contractor has the right to control what the worker has to do – where, when and how
- The worker supplies only their own small tools
- The worker does not risk their own money and cannot suffer a financial loss
- The worker has no business “set up”, by this we mean a yard, stock, other workers etc.
- The worker is paid by the hour, the day, the week or the month

Common Indicators of Self Employment:

- Within an overall deadline, the worker can decide how things get done
- The worker supplies materials, heavy plant or equipment for the job
- The worker bids for the job and will bear additional costs if things run over the original estimate
- The worker gets paid an agreed amount, regardless of the length of time taken to complete the job

The HMRC website has a new ESI (Employment Status Indicator) tool to assist contractors and workers to arrive at the correct status. It is only for guidance at this stage, however, in the budget it was announced that this tool will offer binding decisions by April 2007.

Getting the status wrong can be expensive and awkward so due care ought to be given to the status of workers over the next few years.

Compliance failure

Traditionally, failing to comply with obligations has always had consequences. Under the old scheme these became an issue when a contractor went to renew a certificate at the end of a 3 year cycle.

To retain a CIS certificate, at the point of renewal, the subcontractor must meet their obligations relating to submitting tax returns and making payments on time. No infringements can be overlooked unless deemed “minor and technical”. We don’t find this definition particularly helpful or clear.

We understand that the number of certificates not being renewed is rising. This is hardly surprising if you consider an incorporated business with 2 directors, operating under the CIS scheme. 30 payments are required by this business throughout the year! We arrive at 30 as

follows: 12 each for PAYE and CIS, one for corporation tax, one for Class 1A NIC and 4 for the directors self assessments! Missing one or two of these may mean that the company cannot get its CIS certificate renewed.

With 30 returns and payments to make, is it any wonder that one might get missed or forgotten?

The new system in practice and our views

Compliance failure will be identified quicker as the new system is real time, however, it will also be rectified quicker (i.e. contractors can get back to gross pay faster than they would have done before in the event of a failure). Compliance records will be checked each time a new subcontractor is verified. The boundaries of acceptable failure to comply have been set by legislation, however, we have reviewed them and they appear complicated! Should you require a copy of these, please contact the office.

Businesses in the new scheme are going to have to manage their cash flow carefully and be much more vigilant about filling returns and making payments to HMRC.

In addition to this, with their ESI tool, HMRC are attempting to reduce the size of the grey area that has surrounded the employment status of workers.

We are not convinced that a paperless CIS system will be any more effective or easier than the existing system. Let's face it, the paperless office hasn't materialised either. Paper will still need to be provided to subcontractors as they will need to complete a Self Assessment Tax Return. If this is only an annual statement, we envisage issues with changes of address, subcontractors moving around and paper getting lost.



5. Measuring the performance of your business and making your profit grow

Measuring the performance of your business

Is your business performing well? At a recent seminar hosted by Barclays Bank the speaker highlighted 3 areas that in his opinion made a business tick!

Finance, marketing and operations

The key words and phrases underneath these headings are as follows:

Finance

- Turnover or sales, cashflow, break even point, gross/net profit margin

Marketing

- Advertising spend, selling effectiveness, customer retention, new business won, repeat business, brand perception, new products, market position

Operations

- Output per person or machine, age of equipment, set-up times, down time, absenteeism, staff turnover, staff training, defect rates, performance advantage

So, how is your business performing?

If you would like to discuss this or any of the areas or terms mentioned above, please contact our office to arrange a meeting.

Making your profit grow

There are only 5 ways to increase your profits and we list them in order of importance:

Raise prices

This is the best and most effective way to increase your profits. The customers that leave you as a result or complain are generally in the bottom quartile of your best customers anyway. Your best customers will not be too concerned. There is a widely accepted 80:20 rule, i.e. that generally 20% of customers will generate the profits of a business.

Lower direct costs

Buy materials and supplies cheaper, or get them delivered faster. This is a good way of squeezing more profit out of a business as the increase in margin falls straight to the profit line. Working on this aspect of performance will mean negotiating hard with suppliers, asking for deals and discounts.

Fix the under-performers

If staff, customers or suppliers are not performing as they should be, then change them or set about working with them to raise their level. Businesses should not sit on these issues for very long and it is important to be decisive and take corrective actions. Remember the 80:20 rule above that we mentioned in relation to pricing, the same rule applies to underperforming staff for example.

Increase volumes

Again, this is another way to quickly increase profits, however, if volume comes as a result of lower prices or a drop in quality, then this may be detrimental to the business.

Lower the overheads

Staff, customers and the market will only perceive this as negative and in most cases a reduction in overheads will have only a negligible impact on profits. However, a longer strategy to keep costs under control and budget effectively for overheads can have a positive impact on any business.

To discuss any of these comments or issues, please contact our office, we would be happy to meet with you to discuss your business, focussing on these areas.



6. The Resolve Business Solutions World Cup

The Resolve Business Solutions mini world cup was a huge success. 7 teams from across the world battled it out on narrower than normal pitches in front of an enthusiastic crowd in Histon last week.

The eventual winners were San Marino, a mixed team led by Sentinel Oncology Limited. They managed to beat a Republic of Ireland team that all appeared to develop left feet in the penalty shoot out that decided the final.

Thanks to everyone that turned up and got involved.



The winning team – well done chaps



The style and grace of the Republic of Ireland (Resolve) v Qatar (Barclays Bank)



The Cambodia team (Peters Elworthy and Moore) talking tactics and one chap being sick (well if D Beckham can do it!)



Some players from the winning team! – they were very close as a unit

Disclaimer

Resolve Business Solutions are a registered firm of Chartered Accountants and advise that you seek professional advice before making decisions on tax and accounting matters that may be referred to above.