

APRIL 2008 - ENEWS

This month has been a busy month as usual. We update you on Entrepreneurs' Relief and the government's announcement that they plan to compensate those individuals who are worse off following the income tax rate changes.

We also include our usual round up of news. Please browse through this month's articles using the links below and contact us if any issues or questions arise.

- Credit squeeze
- Homeworking costs increase
- P11D deadline looming
- Employment Support Allowance
- Skills gap
- Employees entitled to know more
- Entrepreneurs' relief
- 10% rate of income tax
- Marks & Spencer VAT win

Credit squeeze

It appears that many businesses are suffering a cash "squeeze" from delayed payment of their invoices as the credit crunch begins to impact on the economy. There are complaints from businesses that some large customers have begun to extend their payment period terms. This is putting a strain on the cashflow of businesses.

According to the Times, the Federation of Small Businesses estimates that 10% of small business collapses are triggered by late or non-payment of bills.

Stephen Alambritis, head of government affairs at the federation, said:

'A number of big customers have raised their payment terms because of the credit crunch. It is becoming an area of concern. Normally businesses would go to their banks when they need more cash but that is not easy at the moment.'

Internet links: [Times online](#) and [FSB website](#)

Homeworking costs increase

From 6 April 2008, HMRC has increased the tax and NIC free guideline rate that employers can pay home working employees without keeping records from £2 to £3 per week.

Please do get in touch if you would like advice on payment of homeworking expenses as this can be a complex area.

Internet link: [HMRC guidance](#)

P11D deadline looming

The forms P11D, which report employees and directors benefits in kind and expenses, are due for submission by 6 July 2008 for the year ended 5 April 2008. The process of tracking down the information can take some time so it is important that you don't leave things until the last minute.

Some things to be aware of:

Company cars

The benefit is based on a percentage of the list price plus accessories – not what the business paid for the car. The percentage is linked to the CO₂ emissions of the car.

Provision of fuel

Employees provided with free fuel for private as well as business motoring will be assessed on a further benefit. This is calculated as a percentage linked to the CO₂ emissions of the car and a set figure of £14,400 for 2007/08.

The set figure has increased to £16,900 for 2008/09. This is a good time to check whether or not the individual would be better off paying for their own private fuel. Don't forget that the employer also pays 12.8% employer only Class 1A NIC on the value of broadly all benefits in kind so there is a saving for the business as well.

HMRC have issued the usual guidance to employers on the completion of the forms P11D together with tips on how to avoid errors based on last years forms P11D.

If you would like any help with the completion of the forms P11D or a reminder of the information we require to complete the forms on your behalf please get in touch.

Internet links: [HMRC guidance](#) and [P11D completion tips](#)

Employment Support Allowance

Incapacity Benefit and Income Support are to be replaced by Employment Support Allowance (ESA). The change takes effect from 27 October 2008.

The employer form SSP1, which is used when an employee's entitlement to SSP ceases, will be re-designed to coincide with the change. The change should mean that employers will not need to include as much information on the new form which will be made available from October 2008.

One other change will be the removal of form SSP1L which will no longer be used. This is because periods of SSP with a previous employer will not count towards an employee's maximum period of SSP.

The changes are subject to Parliamentary approval.

Internet link: [HMRC guidance on ESA](#)

Skills gap

With school and college students preparing to start the summer term and sit final examinations, the CBI has published the results of a new annual audit of the nation's skills.

The 'CBI/Edexcel Education & Skills Survey 2008' of 735 firms, employing 1.7 million people between them, has identified apparent skills gaps in the workplace and reveals the skills that employers value the most.

The CBI report shows that over half of employers (53%) lack confidence in their ability to find enough people with the right skills for their business. Also worrying is the apparent lack of basic skills, such as the ability to read, write and do simple maths, which are still a major cause for concern.

The CBI's Deputy Director-General, John Cridland, said:

'A worrying number of employers have little confidence that they will be able to plug their skills gaps. In our new stock take of the nation's skills, too many firms also say poor basic skills are hampering customer service and acting as a drag on their business's performance'.

To read more about the survey visit the link below.

Internet link: [Press release](#)

Employees entitled to know more

The Information and Consultation of Employees Regulations 2004 have been extended to cover undertakings with 50 or more employees from 6 April 2008.

Under the Regulations, employees have the right to be:

- informed about the company's economic situation;
- informed and consulted about employment prospects; and
- informed and consulted about decisions likely to lead to substantial changes in work organisation or contractual relations.

There is no automatic requirement to negotiate an Information & Consultation (I&C) agreement but employers are required to negotiate an I&C agreement if at least 10% of employees - subject to a minimum of 15 employees - make a formal request for an I&C agreement. Alternatively, employers can choose to start negotiations themselves.

To read more about the requirements under the regulations visit the links below.

Internet link: [BERR guidance](#) and [Business link](#)

Entrepreneurs' relief

After business leaders voiced their objections to the abolition of taper relief, the Chancellor introduced a new Entrepreneurs' Relief (ER). ER may be available for disposals, reorganisations and relevant transactions taking place on or after 6 April 2008.

The main effects of this relief are:

- the first £1m of gains qualifying for relief will be charged at an effective rate of 10%;
- gains in excess of £1m will be charged at 18%;
- an individual will be able to make more than one claim for relief, up to a lifetime total of £1m of gains.

Professional bodies are calling for amendment to the draft legislation as it makes its way through the Parliamentary system. One of the issues identified with the new rules is the problem of "associated disposals" and whether or not these qualify for relief. An example would be the situation where an individual wishes to dispose of the business premises which he owns personally and lets to the business.

Please do talk to us if you are planning to dispose of your business, as planning is best undertaken early.

Internet link: [ICAEW website](#)

10% rate of income tax

Since the start of the tax year the basic rate of income tax has been reduced from 22% to 20% and the starting rate of 10% abolished for income except for savings and dividend income.

The government has faced opposition over the tax rate change which was announced in the 2007 Budget. Those on low wages and some pensioners are receiving less net income than they did before the end of the tax year. The change has faced much criticism as not all those who lost out on the removal of the 10% band for earnings are able to claim tax credits to supplement their income.

Around 40 MPs apparently signed a motion challenging the decision which according to MPs left more than five million low earners worse off. The government has announced that it will "compensate" those individuals who are worse off. It is unclear quite how this compensation will work due to the individuals differing personal circumstances.

We will keep you informed of developments.

Internet links: [BBC news](#) and [Financial Times article](#)

Marks & Spencer VAT win

M&S have won a landmark victory in the European Court of Justice. The case concerned whether or not HMRC were correct to limit the amount of VAT they repaid to the company after their chocolate teacakes were reclassified as a cake rather than a chocolate biscuit. The issue of cakes and chocolate biscuits is an important one as it means they are zero rated rather than standard rated. The case dates back many years.

HMRC only repaid M&S 10% of the output tax it had overpaid on sales of chocolate teacakes on the grounds that the other 90% had been suffered by the customer and so M&S would be 'unduly enriched' if it got it all back. The European Court of Justice has ruled that HMRC cannot restrict the repayment if they would be treating M&S unfairly by repaying others 100% of the overpayment. The House of Lords is now expected to confirm that M&S have been treated unfairly.

Internet link: [BBC website](#)