client briefing

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Make do and mend?

In the current economic climate, it may make more sense to repair some of the facilities in your building, for example your electrical system, rather than replace them. What costs can you deduct and when?

For specified equipment that forms an integral feature of a building, last year's reform of capital allowances introduced a new 10% annual rate of writing-down allowance. But what happens if you decide to repair this equipment instead?

Integral features

Integral features include electrical and lighting systems, water, heating and air conditioning systems (and the floors and ceilings that may be damaged while repairing these systems), and lifts, escalators and external solar shading. A building's thermal insulation is also included, except where the building is also used as a residence.

The problem is that if, in any 12-month period, the total cost of repairing an integral feature is more than 50% of the cost of replacing it in full, the expenditure will qualify for capital allowances at the rate of only 10% a year.

So if you intend to carry out repairs (for example, to an electrical system), you will need to obtain an estimate from a qualified third party of the cost of full replacement, and keep a running total of your current and future repair costs in a 12-month period to test against 50% of that estimate.

Unanswered questions

Although HM Revenue & Customs has issued further guidance, there are several unanswered questions.

For example, the guidance does not explain what will happen to expenditure that is initially below the 50% limit, but then later exceeds it due to poor workmanship requiring remedial repairs, or whether expenditure can be reduced by insurance proceeds, so that only the net expenditure incurred is considered for the 50% test.

This is a complex area, so let us know if you are planning to repair or replace assets. Why wait longer than you have to for a tax deduction on your expenditure? When reviewing the tax treatment of repairs, we will also take other allowances into account, for example the annual investment allowance and the 100% allowance on energy-saving equipment.

Temporary first-year allowance saves tax

There are some generous tax breaks under the revised capital allowances regime. The latest in the Finance Bill 2009 is a temporary 40% first-year allowance (FYA) for expenditure on general plant and machinery. So what can you do now to maximise tax relief?

Most businesses, regardless of size, benefit from the 100% tax-allowable £50,000 annual investment allowance (AIA) for investment in their plant and machinery.

However, if you spend more than £50,000 in a year on most types of equipment, the excess expenditure attracts a writing-down allowance of only 20%. Equipment that becomes part of a building when fitted, eg a cold water system, is classed as an 'integral feature' and attracts a writing-down tax allowance of only 10% a year. It was and still is worth considering bringing forward or delaying expenditure to avoid exceeding the £50,000 AIA limit in any one year.

The Finance Bill 2009 will allow businesses incurring expenditure in excess of the AIA cap to claim a 40% FYA instead of the 20% writing-down allowance. This temporary measure is intended only for the 12-month period beginning on 1 April 2009 (companies) or 6 April 2009 (individuals and partnerships). The 100% allowance for designated energy saving or environmentally beneficial plant or machinery continues alongside the temporary FYA.

Some expenditure does not qualify for the temporary first-year allowance, primarily 'special rate' expenditure (including long-life assets and integral features), expenditure on cars, and expenditure on assets for leasing.

A key point is that you still do not have to allocate expenditure to the AIA in the order you incur it. If you spend more than £50,000 on equipment, you can choose which expenditure falls within the AIA and which does not.

Please get in touch at the planning stage so that we can advise you on the new 40% first-year allowance rules. We can help you plan your business expenditure on assets to maximise your tax relief and carry out a review to ensure that you have claimed all available tax reliefs on what you have spent to date. Don't pay more tax than is necessary.

Filing VAT returns online

With effect from 1 April 2010, if the value of your annual sales is more than £100,000 it will be compulsory for you to file your VAT returns online. You will also need to file online from this date if you are newly registered for VAT.

The benefits of online filing are very worthwhile:

- You get an extra seven calendar days to file your return, eg to 7 September 2009 for your July 2009 return.
- You also have three more working days before payment of any tax is taken by direct debit from your business bank account. This means you get an extra five calendar days if a weekend is involved, ie until the 12th day of the month.
- You don't have to worry about the post. When you have completed your VAT return, a printed acknowledgement is sent to confirm that HM Revenue & Customs has received the return.
- The online process will alert you to basic errors made in completing the return and some of the boxes are completed automatically.

It is important that you register for online filing as soon as possible to avoid any last-minute rush as the deadline approaches.

How did the Budget stack up?

This year's Budget, though aimed primarily at boosting the economy and plugging the government's financial gap, contained some useful measures for business.

The temporary extended tax relief for trading losses is now more generous than previously announced. It is available for losses of two accounting periods, rather than just one as originally planned. Businesses can carry back up to £50,000 of losses a year against the profits of the two years before the immediately preceding year. Businesses can already carry back unlimited trading losses against profits of the preceding year.

New allowances and tax rates

Company losses in accounting periods ending between 24 November 2008 and 23 November 2010 can benefit, and sole traders and partnerships can also claim additional relief for losses in accounting periods ending in the tax years 2008/09 and 2009/10.

Companies investing more than £50,000 in equipment will benefit from a temporary first-year allowance (FYA) of 40%. The first £50,000 a year already qualifies for the annual investment allowance that gives 100% tax relief. The new 40% FYA covers expenditure over £50,000, which would otherwise have received a 20% allowance. Some equipment is excluded, cars in particular.

Personal allowance reduction

The small companies' corporation tax rate of 21% continues this year and the main rate will stay at 28% for the financial year 2010. Incorporation may become more attractive to individuals and partnerships who from 6 April 2010 will be hit by the 50% tax rate on income over £150,000 and the gradual withdrawal of the personal allowance on income over £100,000.

The introduction of new measures to crack down on income splitting between spouses has been postponed, so running a business as a company in which both partners take dividends remains beneficial. There are some limitations and you should take advice.

Capital gains tax

Capital gains tax (CGT) remains at 18%. One way of avoiding high rates of income tax may be to leave profits in your company. Eventually you could sell or liquidate the company, paying only 18% CGT, or even 10% if your gain qualifies for entrepreneurs' relief.

One surprise Budget announcement is the abolition, from April 2010, of the tax reliefs for furnished holiday lettings. You might want to consider disposing of such property before 6 April 2010, so that you can claim CGT entrepreneurs' relief, rollover relief or holdover relief.

As always, we are happy to advise further on how you can plan for the changes announced in the Budget.

Did you know that, as the bank base rate has plunged, HM Revenue & Customs has responded with several reductions to the rate of interest on tax paid late? From 24 March 2009, you will be charged at 2.5% for most tax underpayments. The rate was 4.5% from 6 January and 3.5% from 27 January 2009. One exception is inheritance tax, where the rate is now an unprecedented 0%.

Companies that pay quarterly instalments of corporation tax will be charged 1.5% on underpayments and receive 0.25% on overpayments. The interest on most other repayments of tax is now 0%.

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Did you know that businesses will be able to delay paying part of April's 5% increase in business rates, though not immediately? Business rates general have risen in line with the previous September's retail price index, but since last September, inflation has fallen to zero.

Relief will not be instant. When the regulations are in place, local authorities will write to businesses offering a revised payment schedule for 2009/10. Until then, businesses must pay the bills they have received.

Rates will still rise by 2% with the remaining 3% phased in over the next two years. At present, the relief only covers England, but it may be extended to the rest of the UK.

Financial services compensation scheme

Investors have welcomed the increase in the amount of deposits covered by the Financial Services Compensation Scheme (FSCS). Since 7 October 2008, each depositor in a defaulting authorised firm, such as a bank, has been eligible for compensation of up to £50,000 (an increase on the previous amount of £35,000).

The FSCS was set up mainly to help private individuals, including sole traders, but depositors and investors in small companies are also covered. A small company is defined as one that meets at least two of the following criteria:

- A turnover of no more than £6.5 million (£5.6 million for accounting periods that started before 6 April 2008).
- A balance sheet total of no more than £3.26 million (£2.8 million for periods starting before 6 April 2008).
- No more than 50 employees.

Large companies are generally excluded, though some claims in respect of compulsory insurances may be covered. Partnerships and unincorporated associations are excluded if they have net assets of more than £1.4 million. Trusts are covered in a similar way to individuals.

Whether a charity is covered depends on how it is constituted. If a charity is a limited company, it will be covered if it qualifies as a small company. If it is an unincorporated association, its net assets must not exceed £1.4 million.

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