Silbury Chartered Accountants

Associated Companies

Long needed changes to the associated companies' rules means that spouses' companies are no longer automatically counted as associated companies when determining allocation of small companies' tax rate band and annual investment allowances. A company is associated with another if there is common ownership. The number of associated companies is used to share the small companies corporation tax rate band (currently 20% on profits of up to £300,000) and annual investment allowances (being 100% allowances on capital expenditure, soon to fall to £25,000 per annum) In the case of the small companies corporation tax rate band, this is divided equally between the number of associated companies. Annual investment allowances are shared between the associated companies at the discretion of the companies.

Under the revised legislation spouses' companies are only associated if their trade is related to their spouses' companies trade. These rules previously applied to close relatives, such as parent or sibling.

It is important that the associated companies' position is reviewed regularly to ensure beneficial treatments are not denied in error. Equally as the associated companies test is global and definitions of company status can be complex, it is important to ensure that tax reliefs are not given where there is no entitlement. The review should ensure that tax benefits are not being lost due to unnecessary company associations.

Furnished Holiday Lets

From April 2011 loss relief will only be available for offset against income from the same letting business. In addition from April 2011 the number of days which a property must be available will increase to 210 days and actually let 105 days. Whist there are some concessions during the introductory period of the new legislation, the legislation represents a tightening of the tax treatment on such properties.

Tax Investigation Insurance

In the current climate of increased activity by HM Revenue & Customs, it is even more likely that you will be asked to provide information as part of an enquiry (formal or informal, aspect or intervention) into your business or personal tax affairs. This can be both costly in time and money. Accountancy fees for dealing with investigations normally start from £1,000 and can escalate rapidly. With insurance in place, professional fees are no longer an issue, allowing you to give full priority to minimising any tax liability.

Bank Funding

Whilst trying to gain bank funding can seem like a waste of time, below are some tips from an ex banker that might assist the process.

- Managers are generally now putting forward lowest possible rates at the outset and they have little flexibility.
- Fees can be more flexible and can be spread over time.
- Any private funding of the business plan needs to be at a meaningful level, ie one which will motivate the borrower.
- Bank will see security as worth the following proportion of valuation;
  - 50-70% in the case of land.
  - 0-70% in the case of debtors.
  - 0-50% in the case of stock.
- Prepare a robust business plan allowing for loan repayments.
- Fixed sum request should be rounded up for contingency.

Capital Allowances: Trap for the unwary and the badly advised

Currently, you can claim 100% capital allowances on capital expenditure up to £100,000. The limit for the Annual Investment Allowance (AIA) reduces from £100,000 to £25,000 on 1 April 2012. It is worth thinking carefully, not only about timing of expenditure, but also about accounting dates, if you intend to incur substantial expenditure, because of the way in which the change to the rules will apply.

If your year end is 31 March 2012, then the rules apply exactly as you would expect. AIA on expenditure up to £100,000. But, if you have any other year end, the rules give an unexpected result. It involves splitting your accounting period into two across the date of change. The limit for the entire accounting period is then found by time apportioning the old and new limits, giving the amount of AIA claimable for 2 separate periods, to 31 March 2012 and from 1 April 2012, as follows:

Year ended	AIA limit	AIA to 31/03/12	AIA from 01/04/12
30/04/12	£93,834	£91,780	£2,054
30/06/12	£81,300	£75,068	£6,232
30/09/12	£62,397	£49,863	£12,534
31/12/12	£43,492	£24,657	£18,835
31/03/13	£25,000	£0	£25,000

We have anecdotal evidence of businesses planning to spend £100,000 before 31 March 2012 in the expectation of claiming AIA on £100,000. Whilst this is true for a business with a year end of 31 March 2012, those with another year end will be disappointed.

The timing of expenditure is critical to maximising tax relief, this must be planned and advice must be sought early enough to achieve this.

Increased penalties for self assessment tax returns

From 6 April 2011, the rules for charging penalties for late filing of self assessment tax returns (personal, partnership and trust) have changed. Previously, the penalty would be reduced to nil if all tax due was paid on time. This will no longer be the case and penalties will continue to be levied even where no tax is due.

The new penalties are as follows: initial penalty £100 for not filing on time; daily penalty of £10 for a maximum period of 90 days for filing more than 3 months late (HM Revenue & Customs must issue notice of this); first tax-geared penalty of greater of £300 and 5% of the tax liability for filing more than 6 months late; second tax-geared penalty of up to 100% of the tax liability for filing more than 12 months late.

Late payment penalties may be avoided by contacting HM Revenue & Customs and agreeing deferred payment, but this is available only for financial hardship.

If you are having problems in meeting the filing deadline, it may well be preferable to submit a tax return with carefully estimated figures and appropriate disclosures and paying the tax due on time. This should mitigate the penalties. However, in all cases, you should speak to us and we can advise you of the best course of action based on your specific circumstances.