



## Higher Charges For Company Cars

The taxable benefit charged for the non-business use of company cars is set to increase from 6 April 2010, and again in 2011 and 2012. The tax on free fuel for private journeys in cars and vans will also increase from 6 April 2010. The aim of these changes is to encourage employees to choose company cars with lower CO2 emissions or even go electric.



Choose low emissions

### Example

The benefit of driving a car with CO2 emissions of 160g/km is currently taxed at 20% of the vehicle's list price. From 6 April 2010 the benefit for the same car will be taxed at 21% of its list price. The taxable amount of the vehicle's list price continues to increase by one percent point each year, although the maximum taxable benefit for even the most polluting cars will continue to be capped at 35% of the list price.

The taxable benefit of driving a company car with CO2 emissions of 120g/km or less is currently only 10% of the list price, but from 6 April 2012 the car will have to have CO2 emissions of less than 100g/km to fall into the 10% band. The good news is that the drivers of all purely electric cars or vans will not be taxed on a car benefit for five years from 6 April 2010.

### Fuel

The fuel benefit for a non-electric vehicle is calculated as the relevant percentage of list price applied to a fixed value of £16,900. From 6 April 2010 this fixed value is raised to £18,000. Hence the taxable benefit of having free fuel for a car with CO2 emissions of 160 g/km will increase from £3,380 to £3,780. The taxable benefit charged when fuel is provided for private use in a company van will increase from 6 April 2010 from £500 per year to £550 per year.

The only way to save tax in the future with a company car is to use an electric vehicle!

### New Year Greetings

The partners and staff of McMillan & Co. wish all of you a happy and prosperous New Year and look forward to helping you achieve success in 2010.

### Tax Returns

This is a final reminder to send us your tax information if your tax return is still outstanding, so we can complete your return and submit it on time to avoid unnecessary penalties. If you have your tax return for approval, please review it ASAP!

This newsletter is written for the general interest of our clients and is not a substitute for professional advice. Please contact McMillan & Co for specific advice before taking any action.

## Tax Deadlines

### 1 January

New VAT rules for international services. New system for international VAT refunds. Corporation tax due for small companies with year end 31 March 2009.

### 4 January

Final day to register to make a disclosure of undeclared off-shore income.

### 19 January

PAYE & NIC due for month to 5 January, and for 3rd quarter 2008/09.

### 31 January

Submit personal tax return for 2008/09 or receive £100 fine (capped by tax outstanding). Final instalment of income tax and CGT due for 2008/09, plus first instalment of income tax for 2009/10. Confirm estimated figures for Tax Credits claim. Accounts for companies with year ends: 31 March 2009 and 30 April 2009 must reach Companies House.

Submit outstanding tax claims for 2003/04. Claim any overpaid class 2 NIC for 2008/09.

### 2 February

Forms P46 (car) for quarter ended 5 January must reach HMRC.

### 19 February

PAYE & NIC due for month to 5 February.

### 28 February

Any unpaid tax due for 2008/09 attracts automatic 5% surcharge.

### 19 March

PAYE & NIC due for month to 5 March.

### 31 March

Corporation Tax return due for year end 31 March 2009. Last day for tax claims for 2004/05.

## Big Rise In NI Costs

National Insurance (NI) is a tax in all but name. When the Government wants to increase its revenue without raising income tax, it puts up the NI rates. The effect on individuals is the same as an increase in the basic rate of income tax. However, the NI increase also applies to employer's contributions, so it costs more to employ people. The higher NI rates are due to come into effect on **6 April 2011**, unless the next Government decides not to implement the increase.

As it stands the main employee's NI rate will increase from 11% to 12%,

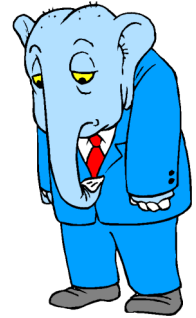
and the additional rate paid by those in the higher tax brackets will rise from 1% to 2%. In total an employee on average wages will be paying about 9% more in NI costs from April 2011. This will not buy any additional rights to state benefits.

The employer's rate of NI is due to rise from 12.8% to 13.8%, which will also apply to the cost of providing benefits in kind such as company cars. This amounts to a 7.8% hike in the NI paid by employers in respect of the wages and benefits of every person they employ. You need to budget for

these increased costs, which may mean making cuts in your payroll.

The self-employed do not escape the NI rise. The main rate for the self-employed will increase from 8%

to 9% and the additional rate will rise from 1% to 2%. This means the self-employed will pay at least 12.5% more in NI in 2011/12 and beyond.



Higher NI from 2011

## When Does A Van Become A Car?

Certain small commercial vehicles are built with very high comfort standards these days, so such a 'van' could be used as the main family 'car'. But you don't want your company-owned pick-up to be treated as a 'car' by the Tax Office as this would mean you paying far more tax, see example.

### Example

The Mazda BT-50 2.5 TD double cab pick-up has a list price of £15,063 and a CO2 emissions rating of 244g/km. This is how much tax you would pay if this vehicle was classified as a car or

van for tax purposes:

	2009/10 Car	2009/10 Van
Taxable benefit of private use:	£5,272	£3,000
Fuel provided for private journeys:	£5,915	£500
Total taxable benefit:	£11,187	£3,500
Tax due at 40%:	<b>£4,475</b>	<b>£1,400</b>

The definition of a van for tax purposes is a vehicle designed to carry goods rather than people, which weighs less than 3,500kg. In addition HMRC suggest that the vehicle should be able to carry a

payload of least one tonne. However, this guidance on payload is not the law. If you have a pick-up that carries less than one tonne it will still be a van rather than a car for tax purposes if you can show it is either:

- a goods vehicle; or
- a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used.

It doesn't matter what the vehicle is actually used for (such as the school run), it is what it was designed to be used for that counts.

## How To Reclaim VAT On Bad Debts

If your business has not been paid for a completed sale, you can reclaim the VAT on that sale from HMRC where the following conditions apply:

- Where goods were supplied, the ownership of those goods must have passed to the customer.
- The VAT charged on the sale has been paid to HMRC.
- The invoice is overdue by at least six months; and
- The amount overdue has been written-off as a bad debt in your books.

You must reclaim the VAT paid within three years of the earliest date on which that the claim is possible, i.e. six months after the invoice was due to be paid. This

imposes a 3½ year window for claiming the relief.

You need to make the claim for repayment of the VAT in box 4 of your current VAT return. You do not have to inform your late-paying customer that you are reclaiming the VAT due on a particular sale. However, where your customer is also VAT registered it should repay to HMRC any input VAT it has claimed on purchases where the invoice remains unpaid six months after it became due for payment. This rarely happens in practice, but it is a rich seam for VAT inspectors.



You must pay the VAT first

Beware of circumstances where your customer has left just the VAT amount shown on the invoice as unpaid. The amount of VAT that can be reclaimed in this case is not 100% of the VAT shown on the invoice. The cash received for the sale must proportionally reduce the net invoice amount and the VAT charged. Only the VAT fraction of the outstanding debt can be claimed as VAT bad debt relief.

If you have any questions about how or when to reclaim VAT in respect of bad sales debts, please ask us.