Business Matters

News & Information from Hammonds Chartered Accountants and Business Advisers

Hammonds

Chartered Accountants and Business Advisers

Staff suggestions: a rewarding idea?

It is often said that your staff are your most valuable assets, and indeed your long-serving employees may know as much about your business as you do. So why not take advantage of that knowledge, and some tax breaks, to improve your profits?

If you set up a suggestion scheme for your staff you can offer tax-free encouragement rewards of £25 for every good idea, and give up to £5,000 tax-free for each brainwave that generates a real financial benefit for the business.

There is a limitation that one employee cannot receive more than £5,000 in reward for one suggestion, although a reward may be split between a number of employees if they jointly contribute to an idea. To pay over £25 tax-free the idea must be implemented and the reward must be linked to the expected financial benefit. The total amount of the reward must not exceed 50% of the expected net financial benefit during the first year of implementation, or on the same basis 10% over five years.

For example, suppose a member of your team suggests an idea for a new product combination and to reward that employee for the idea, and to encourage similar ideas, you decide to award him or her £4,000 under the conditions stated above. In this case, the cost to the employer is £4,000 and the net received by the employee is £4,000. If however you rewarded the same employee with a normal bonus, then depending on the employee's tax code, the cost of paying £4,000 net of tax, including NICs, could be as much as £8,000.

You are not required to register the suggestion scheme with HM Revenue & Customs or inform the tax authorities when you make a reward. However, you should keep a record of how you calculated each reward and draw up some rules for the suggestion scheme as it applies in your business.

Traps to avoid

The basic rules of your suggestion scheme can be very simple, but the scheme must be open to all your employees on equal terms and not restricted to a select group, such as the directors or managers. The suggestions must be of a nature that is outside of employees' normal duties and area of responsibility. So if you employ an 'ideas man' to research potential new products for your company, when he comes up with a new product line, that idea cannot be rewarded tax-free from the suggestion scheme, as product development is part of his job.

Another general rule is that the suggestions must not be made at a meeting that is held for the purpose of generating ideas, such as a brain-storming lunch. So the best policy might simply be to leave a well marked suggestion box in the staff room, with a copy of the suggestion scheme rules pinned to the notice-board.

For more information about these and other tax saving strategies, call us today.

OUR SERVICES

Here are just some of the ways that we can help you with your personal and business finances. Why not call us now and we'll arrange a meeting to discuss:

- Strategies for minimising your business tax burden
- Raising finance and maximising the value of your business
- Maximising wealth within the family using your annual exemptions and tax breaks
- Retirement planning strategies for you and other family members
- Timing transactions to minimise the tax bill
- Exit strategies and estate planning, for a secure future

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IN THIS ISSUE

Age discrimination: the new laws

New regulations effective from 1 October 2006 make it illegal to discriminate in the workplace on the basis of a person's age.

What the legislation means

The Employment Equality (Age) Regulations 2006 ban age discrimination, whether direct or indirect, in the areas of recruitment, employment and vocational training.

Key measures imposed by the legislation include:

- The setting of a default retirement age of 65, with a ban on compulsory retirement for employees below this age, except where it can be objectively justified
- A removal of the upper age limits for unfair dismissal and redundancy rights
- An obligation on employers to inform employees of their intended retirement date and of their right to make a request to work beyond retirement age at least six months in advance.

What you need to do

Employers are advised to review their employment policies now, in order to ensure that they comply with the new legislation.

The laws apply to workers of all ages, not just more elderly employees, so it is important to make sure that your policies do not discriminate against any members of staff, including younger employees, in key areas such as recruitment, training and promotion, employee benefits, pensions, redundancy and retirement.

Here are some procedural tips to get you started:

- Make sure that your recruitment and selection procedures focus objectively on the skills and abilities needed to perform the job, and not on a candidate's age
- Keep job advertisements free from inappropriate references to age, such as 'mature, experienced person', 'recent graduates', or 'young, energetic worker'
- Be aware that references to modern qualifications, such as GCSEs, could be seen to discriminate against older applicants; use 'GCSE or equivalent' instead
- All employees should be given equal access to training opportunities, regardless of their age
- Ensure that promotions are based on an employee's performance
- Long service benefits should reward loyalty and experience, rather than age
- Offer the same employee benefits, such as flexitime, to all staff
- Make sure that any decisions regarding redundancy are based objectively on the needs of the business.

If in doubt, always take proper legal advice to ensure that your procedures comply with the latest employment legislation.

Payroll Giving Grants – act now to take advantage

Government grants to help set up payroll charitable giving schemes are still available, but only up to December 2006, so now is the time to take advantage of the incentives if you wish to implement such a system.

The Payroll Giving Grants scheme offers employers with less than 500 staff a grant of up to £500 for setting up a Payroll Giving Scheme.

The grants are administered as follows:

- Employers with between one and 199 employees are entitled to £300
- Employers with 200-249 staff receive £400
- Employers with 250-499 staff receive the full amount of £500.

Using Payroll Giving, employees can make regular gifts to their elected charities from their gross salary, receiving tax relief of up to 40% on any donation.

The Government will also match the first £10 donated by each employee every month, for a period of six months up until March 2007.

To register for a scheme, businesses need to use a Payroll Giving Agency, which will supply a grant application form.

More information on the scheme and details of Payroll Giving Agencies are available at: **www.payrollgivinggrants.org.uk**.

Bridging the pensions gap – at a cost to employers?

In October 2004, the Pensions Commission reported that an estimated 12.1 million workers over the age of 25 were not saving enough for retirement, and that major reforms of the pensions system would be needed if the retirement funding needs of an ageing population were to be met. Now, those major reforms are beginning to take shape.

White Paper recommendations

In April this year the Commission, headed by Lord Turner, made recommendations for action. These resulted in a Government White Paper.

As published, the main elements of the White Paper are:

- The state pension age for men and women will increase to 66 from 2024, to 67 from 2034 and 68 from 2044, with each rise being phased in over two years
- The state pension will be made more generous, with future increases linked to earnings rather than prices
- The number of years it takes for people to qualify for a full basic state pension will be reduced to 30
- From 2012, people will be automatically enrolled into a new, low-cost national savings scheme, although opting out will be possible.

New savings scheme

Of great significance to employers is the proposed introduction of a new savings scheme, with automatic enrolment for staff and compulsory employers' contributions.

Employees will be asked to pay 4% on a band of their earnings into the new National Pension Savings Scheme (NPSS), while employers must contribute 3%. In addition, the Government will contribute 1% in the form of tax relief.

Company contributions will be phased in, in equal 1% installments over three years and support will be offered to small businesses. Businesses which already offer a pension scheme on an auto-enrolment basis that is at least as generous as the NPSS will not be required to participate.

However, there has been criticism of the NPSS proposals, with the Confederation of British Industry claiming that they will cost businesses around £2.3 billion.

Contact us if you are concerned about any aspect of pensions or pension schemes.

Claiming capital allowances

Although depreciation is deducted in your business accounts, it is not tax-deductible. Instead, when we complete the corporation tax return for your company or the self-employed pages for your Tax Return, we include a claim for what are called capital allowances. But what are 'capital allowances'?

In a nutshell, they are the means by which you can deduct against tax, the capital cost of assets brought into your business. The categories of assets are wide ranging, but while you can claim capital allowances for tools, equipment, cars and even for the cost of industrial and agricultural buildings, there are other items – land, and the cost of most buildings, for example – which do not qualify. However, a claim might be possible in respect of plant in an existing building.

The rates of capital allowances are not the same for all businesses. Basically, for small businesses and SMEs and for the most frequently claimed capital allowances – i.e. on plant and machinery – a larger proportion of the cost can be claimed against income in year one, with the allowances for later years claimed at 25% on the written down value.

	Small	Medium	Large
Plant cost	50,000	50,000	50,000
Year 1 claim	-25,000	-20,000	-12,500
Written down value c/f	25,000	30,000	37,500
Year 2 claim	-6,250	-7,500	-9,375
Written down value c/f	18,750	22,500	28,125
Year 3 claim	-4,688	-5,625	-7,031
Written down value c/f	14,062	16,875	21,094

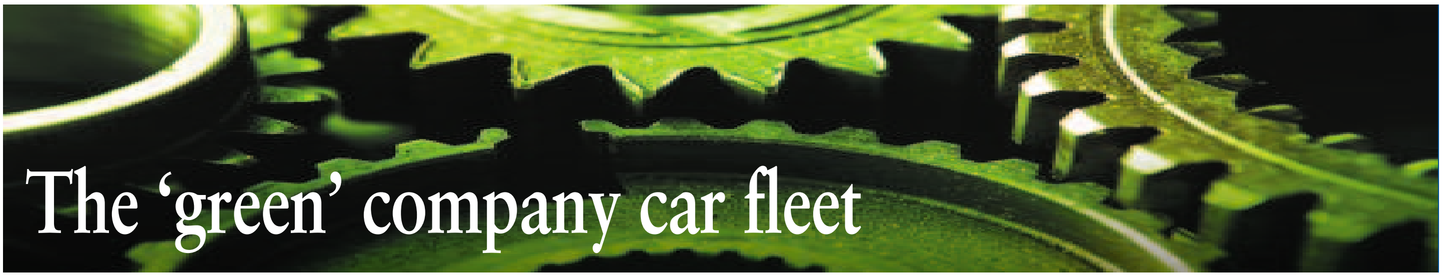
After year one most plant and machinery is pooled. The most frequent exception to this rule is for cars which cost more than £12,000, where the maximum claim is £3,000 per annum – hence the requirement to identify each car separately.

When the asset is sold there will be a balancing adjustment – either a balancing allowance (claim) where the asset is sold or disposed of for less than the written down value, or a balancing charge (an addition to the year's taxable profit) where the asset was sold or disposed of for more than the tax written down value. Where assets are pooled, the disposal proceeds or value are simply deducted from the written down value of the pool, and the final balancing adjustment is not reached until the proceeds exceed the value of the pool, or the business ceases.

Key points

- Capital allowances replace a claim for depreciation against taxable income
- Generally the key date is the date expenditure is incurred, so timing of expenditure governs the timing of tax relief
- Small businesses can claim a 50% first year allowance on most types of plant and machinery, for expenditure in the year ended 31 March 2007 (companies) or 5 April 2007 (sole owners/partnerships)
- Claims on cars are restricted to £3,000 per annum
- Private use restrictions apply for sole owners and partnerships.

Contact us for more information about claiming capital allowances.



The 'green' company car fleet

How green is your company car, or your company's car fleet? As well as being environmentally-friendly, addressing your car fleet's emissions can have a real impact on your costs.

For example:

The tax on car and car fuel benefits, and the road fund license are all already based on car emissions

- A 100% first year capital allowance is available for cars with very low emissions
- The Government has announced a new 10% car and car fuel taxable benefit rate from 6 April 2008 for petrol cars with CO_2 emissions of no more than 120g/km
- It has been suggested that new rules will link first year capital allowances on all cars to emissions.

Whether you are the driver of a company car, the fleet manager for your company or the owner of a company with a car fleet, you cannot ignore the impact that car emissions might have on your bottom line.

Contact us today to discuss your company car costs and the potential for savings in 'painting your fleet green'.

Keep your fuel receipts

When your employees use their own cars for business purposes and reclaim the fuel costs from you, you should now make sure that they submit VAT invoices from the fuel supplier, as evidence of purchase. Businesses must now retain VAT receipts to support the claim for VAT input tax recovery on fuel purchased by employees. This can be a full VAT invoice or a less detailed VAT receipt, as appropriate.

WEB WATCH

ESSENTIAL SITES FOR BUSINESS OWNERS

Work Wise UK www.workwiseuk.org.uk
Campaign to encourage the adoption of remote, mobile and flexible working practices.

Britain in the EU www.europe.gov.uk
New online facility offering information and guidance on the European Union.

Trade Association Forum www.taforum.org
A guide to UK trade associations, federations and guilds.

Stop RSI www.stop-rsi.co.uk
Advice and information for businesses on avoiding Repetitive Strain Injury.

REMINDERS FOR YOUR DIARY

September 2006

30 Deadline for submission of the 2006 Tax Return if you wish HMRC to calculate the tax or, if you are an employee, you wish to have a 2005/06 balancing payment of less than £2,000 collected through your 2007/08 PAYE code.

End of CT61 quarterly period.

Business and personal planning need not be left until the end of the tax year – talk to us now about tax and financial strategies for you and your business.

October

1 Due date for payment of Corporation Tax for period ended 31 December 2005.

5 Individuals/trustees must notify the Revenue of new sources of income/chargeability in 2005/06 if a Tax Return has not been received.

14 Due date for income tax for the CT61 quarter to 30 September 2006.

19/21 Quarter 2 2006/07 PAYE remittance due.

November

1 Please ensure you are retaining your documents for the 2007 Tax Return.

2 Last day for notifying car changes in quarter to 5 October – P46 (Car).

Update: New deadline for self-assessment Tax Returns

The deadline for filing self-assessment Tax Returns is to be brought forward, following the Government's acceptance of revised recommendations put forward by Lord Carter of Coles.

The original recommendations of the Carter Review of HMRC online services, which was published at the time of the Budget, would have seen the deadline for filing paper Returns brought forward from 31 January to 30 September, and a new earlier deadline of 30 November for Returns filed via the internet.

However, the proposals caused consternation among professionals and business groups, and following the response to the partial regulatory impact assessment, Lord Carter revised his recommendations.

For 2007/08 and subsequent returns, the deadline for filing paper Returns will now be set at 31 October, while the 31 January deadline for electronic filing will remain unchanged.

In order to avoid late filing penalties and interest, please ensure that we have the information required to complete your Tax Returns when requested.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.

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