



## SPRING NEWSLETTER

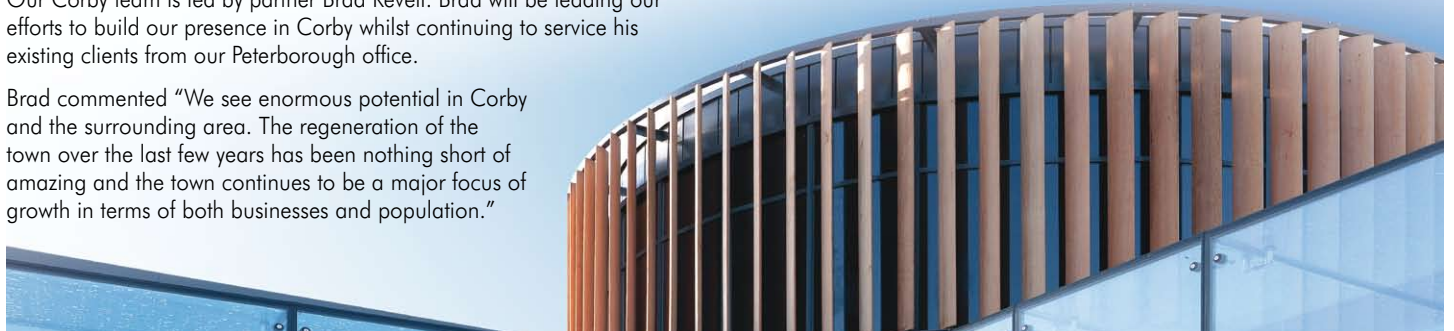
### New office - Corby

**We are pleased to announce the opening of our new Corby office, based at the newly opened and innovative Corby Enterprise Centre (pictured below).**

Our Corby team is led by partner Brad Revell. Brad will be leading our efforts to build our presence in Corby whilst continuing to service his existing clients from our Peterborough office.

Brad commented "We see enormous potential in Corby and the surrounding area. The regeneration of the town over the last few years has been nothing short of amazing and the town continues to be a major focus of growth in terms of both businesses and population."

Brad has already developed links with the Corby business community through his member of the Corby Business Group. He added "One of the key strengths of Corby is the variety of businesses that are present; from smaller owner managed businesses through to large companies and subsidiaries of larger companies. We think Bulley Davey has a lot to offer Corby business and we look forward to being part of the ongoing regeneration and development of the town."



### Client Briefings

We regularly produce some more detailed articles on topics that may be of interest to you. These are available for download from our website at [www.bulleydavey.co.uk](http://www.bulleydavey.co.uk). Alternatively printed copies can be obtained on request from any of our offices (contact details on the back page). Our briefings for spring 2011 are:

#### VAT Matters for the Smaller Business

Our briefing focuses on VAT matters of relevance to the smaller business. It highlights common risk areas to give you a better understanding that will hopefully contribute to a reduction of errors thereby minimising penalties. Areas covered include consideration of bad debts, motor vehicles, gifts and entertaining and non business use. It also includes concise explanations on the small business schemes available for your consideration including the Flat Rate Scheme and the Cash Accounting Scheme.

An archive of previous client briefings, newsletters and a wealth of other useful resources are also available from our website at [www.bulleydavey.co.uk](http://www.bulleydavey.co.uk). Please contact us for advice on any specific issues.

#### Essential Employer Update

Every year there is more red tape for employers to comply with. It is written to provide employers with a practical summary of recent and forthcoming changes. The focus is on the key areas that may have an impact on your business and any associated costs you need to be aware of.

# Avoiding travel turmoil

It is not just the physical battles of travelling during the winter months that can be problematic but also securing tax relief on those travelling expenses which continue to increase. Understanding the specific rules is vital to ensuring that HMRC challenges on motoring and related travel costs do not arise later!

The issue is often considered to be a problem area for employed individuals but this article focuses instead on the self-employed individual whether operating as a sole trader or as a member of a partnership.

## What qualifies?

To qualify for tax relief, an expense must be wholly and exclusively incurred for the purpose of the trade. When an expense is incurred for a non trade or private purpose then it is not tax relievable. There will be situations where an expense is incurred for more than one purpose and modern practice may allow a deduction using apportionment where there is an identifiable part or proportion which is incurred wholly and exclusively for the trade. Fuel and other motoring costs are generally apportioned based on the ratio of business miles to total miles, so it is critical to distinguish a business journey from a private one. The most common example of a private journey is the cost of travel from home to work which is generally disallowed.

There are clearly some trades where home to work travel may be solely for the trade as there is no identifiable place of business operations. These are often referred to as itinerant trades. However, where there is an identifiable place of business operations, travel costs from home to that destination are not tax deductible as they are said to have a predominantly private purpose.

The site at which business records and equipment are kept and maintained does not necessarily equate to a place of business operations as a recent case has demonstrated.

Once a week, the taxpayer traded fast food from Chelford market. He had a trailer from which he operated and which he transported to the market. During the relevant period, the taxpayer also traded at two markets at Kendal and one at Blackpool.

The taxpayer stored his trailer, stock and items used for his work at a unit called the 'Showman's Yard' which was four miles from the taxpayer's home. There was also a workshop at the premises. Four days a week the taxpayer attended the Showman's Yard in order to clean and carry out repairs of his equipment.

On market days, the taxpayer went to the Showman's Yard, collected the trailer, transported it to the market, traded and returned it to the yard before going home. The same exercise was also performed by the taxpayer in respect of the Kendal and Blackpool markets.

HMRC accepted that the costs of travel from his home to the yard should be allowed but refused the mileage costs between home and the markets on the basis that the place of business was the market place, principally at Chelford but also at Blackpool and Kendal.

The Tribunal agreed that the place of business was the market place and disallowed the costs of travel from home to the market including the travel costs from home to collect the trailer and stock on market days.

The case shows that when considering whether travel costs are allowable or not it is vital to establish the exact nature of the trade and how business activities are organised. If you have any concerns in this area please do contact us.

## The Bribery Act 2010

**The Bribery Act is due to come into force in April 2011 and will be applicable not only to all UK businesses, including their overseas operations, but also overseas businesses conducting activities in the UK.**

The Act will replace the UK's common law and statutory offences related to bribery. Obviously larger entities (British Aerospace comes to mind!) will need to assess the impact very carefully, but it will apply to every entity regardless of size.

Amongst other offences such as active bribery and passive bribery, the Act will introduce a new corporate offence which will be committed if a person associated with a commercial organisation (such as a company or partnership) bribes another person with the intention of gaining financial or other advantage. Any such organisation found guilty of the offence will be subject to an unlimited fine and its directors could face a prison sentence of up to 10 years. The only defence for the organisation is if it can demonstrate that it had 'adequate procedures' in place to prevent bribery.

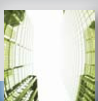
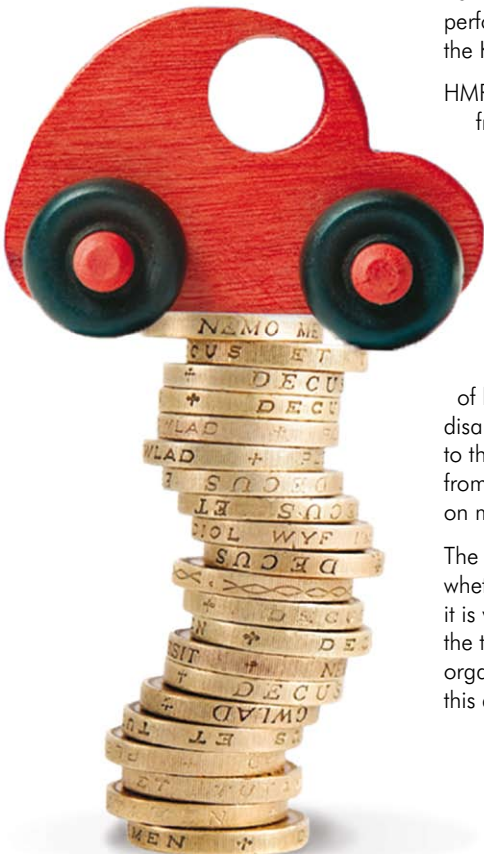
However, the Act currently offers no guidance as to what constitutes 'adequate procedures' and it is for this reason that the Ministry of Justice delayed the implementation date of the 2010 Act to April 2011, to allow for public consultation on this matter. In mid January it was announced that the Act is being reviewed but it has been suggested changes are unlikely. There is a possibility of a further delay in the implementation date and it is thought that there may be some amendments to the eagerly anticipated guidance on necessary procedures.

A draft version of this guidance is currently available from the Ministry of Justice website. This proposes a principles-based approach, referring to the following six principles:

- risk assessment
- top level commitment
- due diligence
- clear, practical and accessible policies and procedures
- effective implementation
- monitoring and review.

The draft guidance also offers a series of case studies covering a variety of situations, including the use of business partners and hospitality.

The key step is almost certainly the proposed risk assessment and every business needs to consider what their risks might be from April 2011. In many cases the risk will be very low but where it is not, appropriate procedures will need to be designed.



# Reforms to the welfare system

The Government is to introduce a Welfare Reform Bill in 2011 to give effect to a number of reforms to the welfare system. Over the next two Parliaments the current system of means-tested working-age benefits and tax credits will be replaced with the Universal Credit.

Universal Credit is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It aims to support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance.

For those in employment Universal Credit will be calculated and delivered electronically, automatically adjusting credit payments according to monthly income reported through an upgraded version of the PAYE tax system (on which HMRC has issued consultation papers). The system will thus respond more quickly to changes in earnings.

A phased approach to the introduction of Universal Credit will be adopted with the first individuals expected to enter the new system from 2013, followed by the gradual closure of existing benefits and Tax Credits claims.

We will keep you informed of key developments as they unfold as such changes impact upon many workers, families and their businesses.

# Business Records Checks

The need to keep proper records to comply with tax obligations and so avoid penalties has been increasingly emphasised in recent times following changes in tax law. HMRC have a range of guidance available which can be accessed at [www.hmrc.gov.uk/record-keeping/index.htm](http://www.hmrc.gov.uk/record-keeping/index.htm) and yet they have indicated that in the small and medium sized (SME) business sector there is still concern about poor business records and the resulting loss of tax.

In a recently issued consultation document known as Business Records Checks HMRC state:

'The loss of tax through poor record keeping, particularly in the current economic climate, cannot continue and HMRC is, therefore, determined to use the powers at its disposal to improve business record keeping and so reduce the loss to the Exchequer that stems from poor business records'.

They indicate that poor record keeping may be a problem in around 40% of all SME sized businesses. Accordingly HMRC have now announced in the consultation document that they are planning to check up to 50,000 SME business records annually in a new initiative commencing in the second half of 2011. They also state that they intend to impose penalties for significant record keeping failures as a means of bringing about an improvement in record keeping.

The consultation itself is not about whether HMRC should have the powers to

check business records, or the penalties which ensue for failure as these powers and penalties already exist. Rather the consultation is concerned with implementing a programme that will establish:

- a clear understanding of record keeping obligations
- the level of penalties that significant record keeping failures should attract in order to change behaviour
- whether an SME should be allowed a period of time to make necessary changes to bring records up to standard before being penalised.

If you would like to discuss the nature and extent of record keeping requirements for your business please do not hesitate to contact us for further advice.



# Child savings accounts

For children born before 3 January 2011, a Government voucher was issued to open a child trust fund (CTF) account. This capital would then be invested in either cash or shares, with returns being tax free. The idea behind these accounts was to provide all children with a 'nest egg' for when they reached adulthood. Extra vouchers were issued when children turned 7, but these were withdrawn from 1 August 2010.

Vouchers at birth will not be issued for children born on or after 3 January 2011. However, any existing vouchers which have not yet been used to open an account remain valid. Existing accounts remain open and the tax free status will still apply. In addition parents, friends and family can contribute up to £1,200 in total per year. The registered contact can change the trust fund account type or provider at any time. The child can do this once they turn 16. When the child turns 18 the account stops being a CTF account and the money can be withdrawn or reinvested.

See [www.childtrustfund.gov.uk](http://www.childtrustfund.gov.uk) for information.

## So how can parents save for their children born after 2010?

Well, the Government is to introduce a new 'Junior ISA' to replace the CTF account. These new accounts will provide parents with a simple and tax free way to save for their children but without any contributions from the Government. The key features of the new account will be:

- All returns will be tax free.
- Funds placed in the account will be owned by the child and will be locked in until the child reaches 18.
- Funds can then be withdrawn without losing any of the tax benefits.
- Investments will be available in cash or stocks and shares.
- Annual contributions will be capped, although the limit has not yet been set.

The new accounts should be available in autumn 2011. Eligibility will be backdated from then to ensure that no child born after the withdrawal of the child trust fund vouchers will miss out on a tax free savings opportunity.

The key advantage of parents making contributions into a CTF account or a Junior ISA is the combination of tax free status and capital growth. More significant capital growth may be realised with a stocks and shares investment rather than cash investment alone.

If a parent instead provides capital in an ordinary bank account or makes share investments for their child, annual income in excess of £100 will be treated as taxable income of the parent. It therefore follows that significant tax savings could accrue over the life of a CTF or Junior ISA account.



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## Class 2 NIC (National Insurance Contributions) – new payment arrangements

Class 2 NIC will be payable by the self employed at a flat rate of £2.50 per week in 2011/12. Currently, Class 2 NIC are paid by quarterly account billing or by monthly direct debit. This is set to change in 2011/12, to bring it in line with payments of income tax and Class 4 NIC.

There will be no collections of Class 2 NIC payments from April 2011 until August 2011. Payments will commence in August from when a monthly direct debit will be taken. This means that by January 2012 six instalments will have been paid, equal to half the liability for the year. By 31 July 2012, the liability for the year will have been paid in full. Unlike income tax and Class 4 NIC there will be no balancing payment on 31 January 2013, as Class 2 is a set amount and does not need to be estimated.

There will be an alternative option to pay Class 2 NIC by two six-monthly direct debits, one on 31 January in the tax year and one on 31 July following the end of the tax year, instead of paying monthly direct debits. For 2011/12 this means the first payment will be due on 31 January 2012 and the second on 31 July 2012. The amounts of the monthly direct debits will vary between £10 and £12.50. The six-monthly payments will be £65 each.

### Other NIC changes

The rates and limits for NIC generally are changing from 6 April 2011. The new rates

and limits can be found at [hmrc.gov.uk/rates/nic.htm](http://hmrc.gov.uk/rates/nic.htm)

Employee salary (employee NIC only)	2010/11	2011/12
£20,000	£1,571	£1,533
£50,000	£4,259	£4,380
£100,000	£4,759	£5,380
Self employed profits (Class 4 NIC only)		
£20,000	£1,143	£1,150
£50,000	£3,114	£3,323
£100,000	£3,614	£4,323

Due to the increase in the 0% band for Class 1 NIC, employees earning up to £23,800 will be paying less NIC in 2011/12 than in 2010/11.

Employees earning above this limit will see an increase in their NIC bill.

For the self employed, those with profits up to £19,000 will be paying less Class 4 NIC in 2011/12 than in 2010/11. Those with higher profits will see a rise in their Class 4 NIC liability.

If you require any further information about the NIC changes for 2011/12 do contact us.



## Eileen Newland retirement

After more than 40 years with our administration department Eileen decided that it was time for her to take life a little bit easier.

During her time with us Eileen saw her department relocated twice as part of a period of significant change and growth for the firm. Her contribution to this was celebrated at an informal lunchtime gathering on her last day in the office with us.

Our best wishes go to Eileen for a long and happy retirement.

