

## Hobsons : Newsletter April 2010

### Tax News

[Annual Investment Allowance \(AIA\)](#)

[61% Tax Rate?](#)

[Gift Aid Donations, yearend planning points](#)

[Problems with PAYE Notices of Coding for 2010-11](#)

[Tax Diary April/May 2010](#)

We have now been presented with the Government's latest Budget announcements and perhaps for the first time in recent years many of the tax rates and allowances are unchanged. We have highlighted one of the few increases below, the doubling of the Annual Investment Allowance. We have also covered this month articles which highlight a possible 61% tax rate, planning pointers regarding Gift Aid donations and Notice of Coding irregularities for 2010-11.

Our next newsletter will be published 5 May 2010.

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### Annual Investment Allowance (AIA)

One of the few increases in tax allowances disclosed in the Budget last month was a doubling of the Annual Investment Allowance, from £50,000 to £100,000. This increase is effective from 6 April 2010 (income tax ) and 1 April 2010 (corporation tax).

The AIA is a capital allowance, an amount you can write off against taxable profits for purchases of qualifying plant and equipment; not cars.

What also slipped through, perhaps unnoticed, is the cessation of the 40% first year allowance (FYA) on the same date. During the tax year 2009-10 it was possible to claim a £50,000 AIA and a 40% FYA on any balance of qualifying expenditure over £50,000. So if you spent £200,000 your total write off against profits would be £110,000. (100% x £50,000, plus 40% x £150,000)

Taking into account the increase in the AIA and the 20% writing down allowance on expenditure in excess of £100,000, the actual break even mark is capital expenditure of £250,000. Any expenditure in excess of this amount will qualify for less overall capital allowances in 2010-11 as compared with allowances available in 2009-10.

### Bonus for self-employed businesses.

Profitable self-employed business owners are facing an additional 50% income tax charge in 2010-11 on earnings in excess of £150,000. Judicious use of the AIA can have considerable benefits.

Lets consider a self-employed trader with taxable profits after all deductions, but before claims for capital allowances, of £250,000.

For 2010-11 the 50% income tax charge, not the total tax charge, would be £50,000. (£250,000 - £150,000 at 50%) If the trader spent £100,000 on qualifying plant or equipment, that qualified for the AIA, he or she could write off the £100,000 against the £250,000 profits and all of the 50% rate income tax charge would be eliminated! A tax saving of £50,000.

In cash terms that represents a 50% recovery of the £100,000 investment in the new plant or equipment.

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### 61% Tax Rate?

As part of the drive to increase tax revenues HMRC will be reducing your personal tax allowance of £6,475 in 2010-11, if your taxable income exceeds £100,000. They will knock £1 from your allowance for every £2 your income exceeds £100,000. Your personal allowance will be eliminated when your earnings reach £112,950.

The extra tax you will pay on the top £12,950 of your earnings is 40% of the £12,950 plus 40% of the lost personal allowance (£6,475 x 40%), a combined 60% tax charge. If you take into account the extra 1% NIC charge, a not inconsiderable 61% marginal rate!

Accordingly anything you can do to reduce your income back below £100,000 will save you up to 61% in reduced tax and NIC.

Careful planning of capital expenditure to make use of the AIA as mentioned in the previous article in this newsletter could be the key; or perhaps a salary sacrifice or increase in pension contributions? You could also consider a gift aid donation, see article that follows.

Planning is obviously critical - call if you would like us to design a strategy to safeguard your tax allowance, should it be under threat.

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### **Gift Aid Donations, yearend planning points**

When you make a Gift Aid donation you are deemed to have deducted tax at the standard rate, 20% before you pay. If the highest rate of tax you pay is 20% then no further tax relief is available. If however you are a higher rate, 40%, tax payer in 2009-10 you can claim for the extra 20% tax relief (40%-20%) - simply include the Gift Aid payments you have made on your tax return and the relief will be included automatically in your tax calculation.

Common sense would suggest that the Gift Aid payments you can claim for 2009-10 are the payments made in that year? Not so! HMRC allow you to include Gift Aid payments made up to the date you file your tax return.

For 2009-10 the deadline for filing your self-assessment tax return is 31 January 2011 - accordingly if you filed your return on the last date allowed you could theoretically include any Gift Aid payments made in the period 6 April 2009 to 31 January 2011.

If you only have a small amount of income taxable at 40% for 2009-10 this may be a way to recover or reduce 40% tax and benefit a worthy cause.

If this concession continues tax payers who suffer the new 50% income tax charge, or that have income over £100,000 and stand to lose all or part of their personal allowance, could consider a significant Gift Aid donation. For the first year affected by these increases, 2010-11 you could include Gift Aid payments made from 6 April 2010 to 31 January 2012. (As long as you have not utilised any of the payments on your 2009-10 return.)

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### **Problems with PAYE Notices of Coding for 2010-11**

HMRC have belatedly realised that a significant number of the Notice of Codings issued for 2010-11 are incorrect. One unfortunate consequence is that whilst you may have been sent a revised, corrected code number, your employer may not. Employers cannot change their payroll records unless they are formally sent a copy.

This is likely to affect the following groups of tax payers:

- Pensioners and those receiving State Benefits
- Those with company car and possibly car fuel benefit
- Those on incomes over £100,000 who may continue to receive their full personal allowance when they should not.
- Taxpayers who had one-off deductions from their 2009-10 code number, underpayments of tax for previous years, one-off benefits and so on.

There is a danger that if you are affected you will pay too much, or not enough tax in 2010-11, at least until your code number is corrected.

If you are concerned and have recently received a corrected code number for 2010-11, be sure to speak with the person or department that operates your employers PAYE - you need to ensure the code number they will use for April 2010 onwards is the latest code number you have received.

Of course even the corrected code may be incorrect! Please call if you would like us to check your Notice of Coding.

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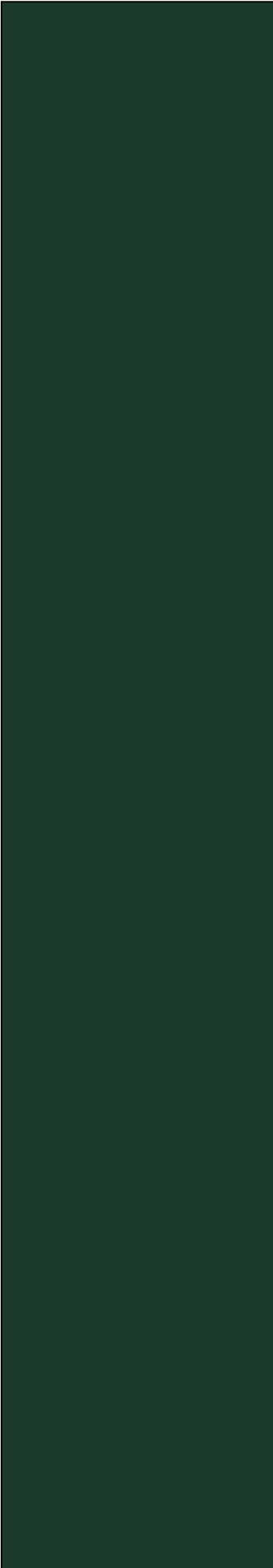
### **Tax Diary April/May 2010**

**1 April 2010** - Due date for corporation tax due for the year ended 30 June 2009.

**19 April 2010** - PAYE and NIC deductions due for month ended 5 April 2010. (If you pay your tax electronically the due date is 22 April 2010)

**19 April 2010** - Filing deadline for the CIS300 monthly return for the month ended 5 April 2010.

**19 April 2010** - CIS tax deducted for the month ended 5 April 2010 is payable by today.



**1 May 2010** - Due date for corporation tax due for the year ended 31 July 2009.

**19 May 2010** - PAYE and NIC deductions due for month ended 5 May 2010. (If you pay your tax electronically the due date is 22 May 2010)

**19 May 2010** - Filing deadline for the CIS300 monthly return for the month ended 5 May 2010.

**19 May 2010** - CIS tax deducted for the month ended 5 May 2010 is payable by today.

**19 May 2010** - The payroll forms P35 and P14s must be filed by this date - employers late in filing these forms may receive a penalty.

**31 May 2010** - Ensure all employees have been given their P60s.

**DISCLAIMER - PLEASE NOTE:** The ideas shared with you in this newsletter are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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