Welcome

In this January 2009 issue of the Employment Tax for Business newsletter we take a look at some topical employment tax issues, and other current matters of interest for businesses.

Car purchase and lease costs: HMRC confirms new tax relief regime
In December, HM Revenue & Customs issued a technical note and draft legislation showing how tax relief, on cars newly purchased or leased from April 2009, will be redefined. Nearly all businesses incur at least some car operating costs therefore the potential impact of these changes is widespread.

In keeping with the Government's stated green agenda, the new rules now provide additional incentives for lower CO_2 rated cars. The main rules in summary are:

- The 100% First Year Allowance for very low CO_2 rated cars (110g/km or less) will continue till at least 31 March 2013.
- Cars up to 160g/km will be treated the same as other plant; meaning that 20% annual writing down allowances will be due. Cars over 160g/km go into a separate pool providing only 10% annual allowances. On the one hand this should reduce some of the record keeping – especially for larger employers who previously had to keep and submit separate records showing the written down value of each car each year. The flip side is that no balancing allowances or charges will now be due on disposal – this will considerably defer tax relief on more expensive vehicles.
- Lease costs on cars over 160g/km will attract a straight 15% disallowance. For cars of 160g/km or lower, no disallowance will be due. One plus point here is that there will only be one disallowance in a chain of leases.
- There is no fundamental difference in treatment between petrol & diesel cars. Therefore the lower CO_2 rating of most diesels will provide an extra incentive
- Transitional rules mean that most cars purchased or leased before April 2009 will be dealt with under the old rules.

It is of course important to look at the net 'whole life cost' involved (rather than undertaking a simple analysis of month by month costs), before establishing vehicle policies, and deciding on new vehicle purchases or hires. There is often a tendency to overlook business taxes in this 'whole life cost' calculation; however these are clearly an important part of the equation. Even if your business does not currently pay direct taxes, this may not always be the case, and there will of course be some indirect tax costs to consider (including VAT and IPT).

Other potentially volatile factors, which must be factored into whole life costs, include variations in depreciation, insurance risks, and early termination charges.

When analysing whole life costs, employers would normally also consider the employee impact, and whether it would be better for the employee to run their own vehicle in one form or another? So far, there are no plans to radically alter the Approved Mileage Allowance Payments (AMAPs) rules whereby employees receive tax relief for driving their own cars; up to 40p per mile for the first 10,000 business miles and 25p per mile thereafter.

Employment Status Indicator (ESI) tool
HMRC has also launched an updated version of its on-line ESI tool. The updates are intended to make the tool easier to use, and some specific questions in relation to provision of materials have been clarified.

Whilst not legally binding on either side, the tool can be useful when deciding whether to engage an individual on an employed or self-employed basis. It may be used completely anonymously, yet allocates each user a unique identification number, which can be retained for future reference.

However; as any good market researcher knows; if questions are slanted in a particular way, this can materially affect the answers. It is therefore hardly surprising that some of the responses, provided by the ESI tool, err on the side of HMRC. As this may create additional and possibly unnecessary costs for the employer, we would recommend you consult with a specialist if in doubt.

Payrolling taxable expenses and benefits
For some time now the government has been thinking about whether it should replace the current annual P11D reporting system, with a requirement for employers to payroll taxable benefits. Responses to initial consultation suggested that certain organisations (particularly those representing payroll businesses) were strongly in favour; however a significant proportion were opposed to the idea. Critics of the scheme pointed out that it would not actually reduce employers' reporting obligations, it would simply mean that benefits must be quantified in real time rather than at the year end. Overall, the common theme of the response was that such a process should be optional, rather than mandatory for all.

Following this lukewarm response, HMRC has pressed ahead with a further public consultation program, involving the setting up of study groups, with the intention of later developing 'experimental frameworks'. To this end HMRC has sought to identify volunteer employers and agents who are willing to take part in its further studies.

In our view, the consultation does rather play down the fact that the main beneficiary of such a move would be HMRC itself. A very large chunk of HMRC's resource is taken up each year, in processing forms P11D and assessing any resulting tax underpayments. One suspects the Department would like to place more of this burden on the shoulders of employers.

And finally… love your taxes… from cradle to grave?
To coin a well worn cliché, often attributed to Daniel Defoe or Benjamin Franklin, nothing is more certain than death and taxes. However, did you know that children can now experience all the thrills and spills of the fiscal system from as early as age 4? In a move sure to rival the PS3 and Wii, an online game at Directgov Kids Big Blue Office now allows your kids to create and run their own tax and spending budget. Come to think of it, we've never seen Hector the Inspector and Superman in the same room either! Whoever said taxes are boring?

About us

Employment Tax for Business is an independent tax consultancy. Based in the North West of England, we provide services to clients throughout the UK. Our business partners have previously led the employment tax departments of major international accountancy practices.

Our role is to provide clients with the very highest level of technical expertise, commercial awareness, and personalised service, tailored to individual client needs.

Contacts

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