

TAX RETURNS GO ELECTRONIC!

The government is determined to encourage online filing of tax communications including returns.

For the first time changes are being made to filing requirements for annual tax returns for individuals.

Currently there are requirements or incentives for online filing of some PAYE and VAT returns for businesses. The government has now made changes to encourage electronic submission of individual tax returns. For 2007/08 onwards, the filing date for tax returns submitted in paper form is being brought forward to 31 October. The filing deadline for electronic submission remains unaltered at 31 January.

As an incentive to the earlier filing of tax returns, the enquiry window during which HM Revenue & Customs (HMRC) can query a self assessment return is also to be changed. This will generally be one year from the submission of the return.

More detailed information on these changes to the filing deadlines and to the enquiry window can be found in the C+T inform summary. This is available



on our website at www.chiene.co.uk > library > inform > individuals & investors > tax filing dates and enquiry windows. Please ask your usual C+T contact if you would like a paper copy of this inform, or if you wish to discuss the implications to you of these changes.

Going Online with C+T

It has been possible for some time to

submit simple tax returns online. There have however been significant issues, in particular with the inclusion of additional backup details and for the more complex returns. As a result, in the past C+T have felt it was in the best interests of clients to file only paper returns.

Recent HMRC improvements have changed the balance of advantage for our clients. All 2008 tax returns – individuals, trusts and partnerships – will be submitted online by the firm. Electronic submission of 2007 returns is being conducted on a trial basis. The online system will also allow better access to statements of accounts.

Helen Mackenzie, who leads our online implementation team, said “Our objective is to ensure that we deliver the best service to our clients from online submission. We have a strong IT infrastructure and internal controls to ensure smooth delivery. Equally we shall be explaining carefully to all clients the personal implications of electronic submission and reassuring them of the safeguards that are in place.”

QUARTERLY GOES ELECTRONIC TOO!

It is not just the tax return that is moving into the electronic age. If you would prefer to receive your copy of Quarterly by e-mail, please contact us at newsletter@chiene.co.uk and provide your full name, address and e-mail address to enable us to update our records.

CULTURAL UPDATE

Arts organisations need to plan their finances with particular care. This includes understanding and minimising the impact of VAT.

The VAT rules on culture were revised some years ago following a European Court ruling. More recently there have been some UK court rulings that have clarified some of the areas relating to VAT exemption. This has been followed by the recent publication by HMRC of a Business Brief which gives notice of its amended policy on one key element of the VAT exemption conditions following these court decisions.

Kenny McDowell, who advises many of Chiene + Tait's arts clients, commented: "Cultural organisations should review their VAT profile in the light of these recent decisions to see if action is needed".

More details of the changes are outlined in our inform summary, available in print or from our website. See www.chiene.co.uk > library > inform > VAT > VAT: cultural services. For further details please phone or email Kenny (kenneth.mcdowell@chiene.co.uk) or speak to your usual C+T contact.

CHARITIES TECHNICAL UPDATE

New disclosure requirements

New regulations for Scottish charities came into effect on 1 April 2007, setting out the information charities must include on certain documents issued after 31 March 2008. The documents to which these regulations apply include business letters, emails, invoices and fundraising literature. These rules mirror similar company requirements.

Full details can be obtained from the legislation, known as The Charities References in Documents (Scotland) Regulations 2007, which can be found at <http://www.opsi.gov.uk> > legislation > scotland > scottish statutory instruments > 2007 > 200-299 > No 203.

Constitution changes

Charities making changes to their constitutions are now required to take certain steps when applying to the Office of the Scottish Charity Regulator (OSCR), including the requirement for publicising the proposed changes. These regulations came into force on 31 May 2007.

The detailed requirements are set out in the legislation, known as The Charities Reorganisation (Scotland) Regulations 2007, at <http://www.opsi.gov.uk>>legislation>scotland>scottish statutory instruments>2007>200-299> No 204.

OSCR hopes to issue guidance material on the regulations in August 2007.

Rolling review

In March 2007, OSCR published an evaluation report on its proposed Rolling Review of charitable status. The report includes the written responses to the proposals and can be found at <http://www.oscr.org.uk> > Publication > Rolling Review.



IS YOUR IHT PLAN CURRENT?

Inheritance tax (IHT) is a tax which many people feel is not applicable to them. However, as it has recently been highlighted that the cost of the average home in Edinburgh has doubled in the last five years to in excess of £200,000, IHT is a penal tax which everyone should consider carefully. The rise in property prices follows this pattern all over the UK with some regions in England having an average house price in excess of £351,000. In the current tax year, the nil rate band for inheritance tax is £300,000. Therefore taking account of other assets, such as bank accounts, it is likely that for many the nil rate band could be reached and inheritance tax payable.



IHT applies to all assets, however there are many ways to mitigate the potential liability. Most importantly, there are a variety of useful reliefs and exemptions including an annual exemption of £3,000, habitual gifts out of income, transfers between spouses and business property relief, to name a few. Life assurance can also play an important part in meeting the liability arising from an untimely death. Careful planning and consideration as early as possible can make a significant difference to the potential liability and on the question of who is liable to pay the IHT. To discuss inheritance tax planning contact your usual C+T adviser.

pensions

PENSIONS TO THE MAX

The new pension regime, introduced from 6 April 2006, contains a cap on the effective level of pension contributions that an individual (or his employer) can make for each tax year. This is the much publicised annual allowance. The annual allowance, which has been set for the first years of the new pension tax rules, is as follows:-

| TAX YEAR | ANNUAL ALLOWANCE |
|----------|------------------|
| 2006/07 | £215,000 |
| 2007/08 | £225,000 |
| 2008/09 | £235,000 |

The concept of the annual allowance is simple, as always with tax rules, the devil is in the detail. In this case the key is the "pension input period". Instead of pension contributions simply being allocated to the tax year in which they are paid, each pension arrangement has its own 12 month pension input period. The contributions for that arrangement are aggregated for each pension input period. The total is considered for the tax year in which the pension input period ends for the purpose of ensuring that the annual allowance is not breached. The actual date of payment still counts for other tax relief purposes.

By default, the pension input period for a new arrangement starts when the first contribution is made into it. For instance, a single payment of £200,000 to a new arrangement on 1 June 2007 is considered as being within a 12 month period ending on 1 June 2008, and so

counts towards the 2008/09, and not the 2007/08, annual contribution limit. Accordingly the limit would be breached if a second pension contribution of say £200,000 were made on 6 April 2008.

Ian Ody, a pensions specialist and a director of CTFS Ltd, explains "The rules allow the default pension period to be altered. This can have two benefits. It avoids unexpected allocation of pension contributions when testing for the annual limit. Further, in some circumstances it can allow contributions well above the annual limit to be made over a short period of time."

Please contact Ian, his CTFS colleagues or your usual C+T adviser for more information on this and other pension topics.

A "TAX AMNESTY"

HM Revenue & Customs have announced what the press is describing as a "tax amnesty" for those with undeclared offshore bank accounts. For those who indicate by 22 June 2007 their intention to disclose information on interest earned on offshore accounts, limited penalties will be charged provided disclosure and full payment is made by 26 November 2007.

HMRC have successfully gained more information from many banks in relation to offshore accounts and it is expected that many taxpayers will come forward under the "amnesty" to avoid the threat of greater penalties at a later date.

For more information please phone or email your usual Chiene + Tait contact.

business & enterprise

ALL SIZES COVERED: SHARE BASED ACCOUNTING

Many companies, ranging from large listed groups to small family companies, offer share incentives to their employees. The government has been keen to promote wider share ownership. Tax incentives, in particular the Enterprise Management Scheme for smaller businesses, have encouraged the use of share options.

The accounting for share incentives was for many years a subject of controversy. However there are now established UK and international accounting standards which are almost completely identical. The UK standard on share based payments is known as FRS 20.

There are two key elements to the FRS 20 requirements, as follows:

- Rules on the disclosure of share arrangements in the notes to accounts.
- A requirement to show a quantified fair value for share incentives as a cost in the profit and loss account.

A detailed summary of the share based accounting rules can be seen in our inform summary. See www.chiene.co.uk > library > inform > financial reporting > IFRS2/FRS 20 share based payment, or ask your audit contact for a paper copy.

Implementation

The requirement to use the accounting standard first applied to listed companies for accounts starting on or after 1 January 2005. Unlisted companies now also face similar requirements for accounts starting on or after 1 January 2006. Fortunately the need to work out and put a cost through the profit and loss account for share incentives is not usually required for small companies entitled to the benefits of the FRSE accounting rules.

The share based accounting requirements can therefore be summarised in the following table:-

| | Start | Disclosure | Quantification |
|----------------|-------|------------|----------------|
| Listed | 2005 | ✓ | ✓ |
| Unlisted | 2006 | ✓ | ✓ |
| Small unlisted | 2006 | ✓ | ✗ |

C+T experience

The firm has advised many companies, including listed companies, on the practical implementation of share based accounting. This has included the quantification of the accounting costs using approved accounting models.

Irene Gray, who leads our audit technical services, said "Our experience has included assisting clients with Big 4 auditors on all aspects of the accounting rules, as well as medium sized businesses. We are therefore familiar with Black Scholes and other option pricing models." Partner Kenny McDowell added "Share based accounting is a specialist area, and we are happy to advise companies looking for outside assistance with these rules, as well as guiding our ongoing audit clients."

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