

Capital Allowances update—timing is crucial!

October 2011

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What are capital allowances?

Capital Allowances are tax deductible allowances available on the purchase of a capital asset.

How much can I claim?

The amount you can claim changes each year as the government change tax policy and amend the rates of different types of capital allowance. The general rates are currently between 10-20% of the cost unless they are specific environmentally friendly assets, but these rates will fall by 2% from 1 April 2012.

In 2008 the government brought in Annual Investment Allowances as an incentive for businesses to invest. When introduced it allowed a business to claim up to £50,000 tax relief for investment in capital assets in the year that they buy the asset (for most assets but specifically excluding cars). This rate was increased to £100,000 for purchases from 1 April 2010. There are restrictions if other businesses are also under the same control; please contact us for more details if this applies to you.

What's changing?

From 1 April 2012 the amount of expenditure qualifying for Annual Investment Allowance is being drastically reduced to £25,000. Any investment over this amount will qualify for a normal writing down allowance which will take several years to recuperate.

This means that if you were planning on investing in plant or machinery in the next six months or so you should carefully consider the implications of the timing of your purchase.

For example:

A business has a year end of 31 March. In the year ended 31/03/12 up to £100,000 can be invested and claimed in full as a tax deductible allowance. In the year ended 31/03/13 only £25,000 can be claimed.

A business has a year end of 30 April. In the year ended 30/04/12 the maximum that can be claimed is £93,750, but of this no more than £2,083 can be claimed for expenditure in the period from 1 April to 30 April 2012.

A business has a year end of 31 December. In the year ended 31/12/11 the maximum that can be claimed is £100,000. In the year ended 31/12/12 only £43,750, but of this no more than £18,750 can be claimed for the period from 1 April 2012 to 31 December 2012.

What would this mean in terms of tax?

Using the example of a company buying a new machine for £45,000.

If the year end is December and it is purchased before 31 Dec 2011 then £45,000 can be claimed – resulting in a reduction in tax bill of £9,000 in the first year, if it is purchased in April 2012 then the allowances will only save £4,695 – £4,305 worse off!

It is even worse if the year end is 30 April 2012. If the machine is bought in March then the saving of £9,000 applies, but if it is bought in April then the allowances will only save £1,920!

Please contact us if you are planning to invest in equipment shortly as timing is crucial!

Morrell Middleton Chartered Certified Accountants . Registered Auditor.

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Morrell Middleton is the trading name of S J Morrell FCCA, Morrell Middleton Ltd Reg No:4354944, Morrell Middleton Auditors Ltd Reg No:4354929 (a Registered Auditor), All companies are registered in England

VAT moves online—you cannot avoid it

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Two years ago the move to compulsory filing of VAT Returns online started. Businesses with a turnover over £100,000 and those who are new registrations are already filing on line.

From April 2012 every other VAT registered business will be required to file their returns online and pay their VAT by electronic means.

What does this mean?

Paper returns will be phased out in the Spring 2012. All returns will be filed online either through your own software or on HMRC's website. Failure to file correctly will result in a penalty.

You will no longer be able to send a cheque in payment of your VAT liability. You will either have to pay by direct debit (recommended), bank transfer, online banking or using a giro slip at your local bank. If you need giro slips they have to be applied for well in advance.

Who is going to file the Return?

If you have access to a computer then you can register and file your own returns. If you need help to do this we can talk you through it. It is not difficult, but we understand that not everyone wants, or is able, to do this themselves. We can therefore file the Returns for you if you wish.

What about paying?

We cannot assist with the payment of VAT. If you want to pay by direct debit or giro please contact us and we will sort this out for you. Otherwise if you are paying directly you will need to know HMRC's bank details as follows:

| | |
|-----------------|--|
| Sort code: | 08 32 00 |
| Account number: | 11963155 |
| Account name: | HMRC VAT |
| Reference: | <i>Your VAT number</i> |
| Bank details: | Citi Citigroup Centre Canada Square Canary Wharf London E14 5LB |

HMRC will charge penalties where the return or the payment is not received by the due date – please contact us if you would like any more information or assistance with your online registration or the filing of VAT returns in the future.

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