

# Driving Facts

## TAX NEWS

### 2008 Pre Budget Report

When Alistair Darling stood up on 24 November 2008 to deliver his Pre Budget Report, the headline measures were already widely known, with a little help from Damian Green and his friends no doubt.

The most immediate measure was of course the temporary cut in VAT. Now the dust has settled on this change, we take the opportunity to concentrate on some of the other issues that may be pertinent to motor dealers in the current economic climate, both those that Alistair Darling mentioned as part of his speech, as well as the numerous others that only came to light later on.

#### Time to pay your tax bill?

With cashflow a critical issue in the motor sector at the moment, payments to the taxman will be an area of concern for many dealers. In the pre-budget report the Chancellor announced a new "time to pay" service for businesses unable to pay their tax. The objective is to help businesses struggling with cashflow to defer their Corporation Tax, PAYE, National Insurance or VAT liabilities without incurring penalties or surcharges. There will still be interest but experience suggests current HM Revenue & Customs (HMRC) interest rates (currently around 4.5%) compare favourably with bank overdraft rates. In order to qualify you will need to show your business is:

- in genuine difficulty
- unable to pay its tax on time
- likely to be able to pay if HMRC allowed it more time.

There is a dedicated helpline to call to make a time to pay arrangement. HMRC will discuss these arrangements either with you or your authorised tax agents. At Trevor Jones we strongly recommend all of our clients who may qualify for such an arrangement to work with us to marshal their arguments in advance of the call - in this situation, preparation is everything.

We can advise you on the information you need to support your case and help you assemble it. This is likely to include:

- Details of your current bank facilities (overdraft, loan etc);
- Amounts of current cash reserves;
- Budget & cashflow projections for the period which we are looking to make the arrangement (and how these will impact upon your bank facilities) and;

Issue 27  
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Trevor Jones

- Estimates of likely tax liabilities that will be payable over that time.

We can also help you lay out a proposed payment schedule to put forward to HMRC together with estimates of the likely interest cost arising from the deferral. Collectively we can then decide whether you or we should make the call – in most cases we would suggest the call be made by us.

Our fees for the work will depend on how readily available this information is and whether you need our assistance to prepare some or all of the information for you. Ultimately however, our fees will always be minor when compared to the cashflow benefits a deferral will bring. In our experience, presenting a well thought-out case is much more likely to generate a favourable outcome with a longer period granted for making the payments.

The Chancellor has made a commitment but the first instinct of the taxman is not necessarily to be sympathetic to your cause. With our experience of dealing with HMRC, and our knowledge of this new system, using Trevor Jones to set the position out in the most objective way possible is likely to maximise the chances of a successful outcome.

#### Extension of Trading Loss Carry Back for Business

It is very much a sign of the times for the economy in general and the motor trade in particular when measures introduced to assist with the offset of losses take such prominence. This is however a welcome measure, and operates as follows:

For accounting periods ending between 24 November 2008 and 23 November 2009, companies as well as unincorporated businesses will be able to carry back trading losses against profits arising in the three previous years. This represents an extension to the current position which only allows profits to be carried back and offset against profits arising in the previous year.

The amount of losses that can be carried back to the preceding year will remain unlimited. However, it is only the excess loss that can be offset against the previous two years. There will also be a cap of £50,000 on these excess losses available for carry back, so depending on the tax rates payable at the time, the maximum tax rebates will fall somewhere between £10,000 and £15,000 (plus interest).

## Corporation Tax Small Companies' Rate

A natural segue to the previous section is the measure introduced that defers the planned increase of the small companies' rate of corporation tax from 21 per cent to 22 per cent, back to 1 April 2010. Although this measure is to be welcomed, the impact is going to be minimal, and of course applies only to businesses that are performing well enough to be in a position to pay tax on 2009 profits.

## Modernising Tax Relief for Expenditure on Cars

Back in the March Budget, announcements were made that would lead to the abolition of the current rules for "expensive cars" (i.e. those costing more than £12,000) and replacing them with an environmentally based pooling system. The rate of writing-down allowance would be based on the CO<sub>2</sub> emissions of the car. Further details were provided in the Pre Budget Report and the following is a summary of the main changes:

### Current law

Apart from cars with very low carbon dioxide emissions, which can qualify for 100 per cent first year allowances, expensive cars are dealt with separately, with expenditure on each car being allocated to a single asset pool. Writing down allowances are calculated in the normal way (at 20 per cent) and then restricted to an amount of £3,000 per annum. However, when the car is sold, any unrelieved expenditure is allowed by way of a balancing allowance, with excess allowances being recovered through a balancing charge.

### Changes

From April 2009, the special rules that restrict the amount of capital allowances for cars costing more than £12,000 will be abolished and replaced by new rules.

Qualifying expenditure incurred from April 2009 will be allocated to one of the two general plant and machinery pools (the main pool has a 20% writing down allowance with the new integral features pool carrying a writing down allowance of 10%), with the appropriate pool being determined by the car's CO<sub>2</sub> emissions. Expenditure on cars with CO<sub>2</sub> emissions exceeding 160g/km will be dealt with in the new integral features pool which attracts the lower rate of allowance.

Expenditure incurred prior to April 2009 will generally continue to be subject to the old "expensive car" rules for a period of around five years, at which point any balance will be transferred to the main capital allowances pool.

The principal tax advantage of the current system of expensive cars is the large balancing allowances that can be generated when an expensive car is sold, with no differentiation in treatment between both low and high emission cars. The new system deals with balancing adjustments and does to a limited degree offer some differentiation between the high and low emission cars, but only at the 160g/km level. In addition, although in the short term cars costing over £30,000 will obtain a higher annual writing down allowance than is currently available, in the long term there is a significant deferral of allowances when compared to the previous system.

## Allowances, Limits and National Insurance

A positive development for the lower and basic rate taxpayer has been the decision to make the increase in personal allowance by £600 permanent. A further £130 above indexation will be added to this for the tax year 2009/10 which means that basic rate taxpayers will pay £145 less in tax. However, from 2010/11, those with gross income in excess of £100,000 will lose some or all of their personal allowances, with those earning over £140,000 losing out on their personal allowance in full.

In addition, from the tax year 2011/12, a new higher rate of tax of 45% will be introduced for those earning in excess of £150,000 per year. Those earning over £150,000 who receive dividend income will see this extra 5% applied to these dividends. The main NIC rates will also increase by 0.5% for all taxpayers.

### And finally...

## Advisory Fuel Rates for Company Cars

To their credit, HM Revenue & Customs responded to this Summer's huge hike in oil price by increasing the advisory fuel rates for company cars. However, now that the oil price has come tumbling back down to earth, HM Revenue & Customs have responded equally by announcing new advisory fuel rates for company cars which take effect from 1 January 2009.

Engine size	Petrol	Diesel	LPG
Up to 1400cc	10p (12p)	11p (13p)	7p (7p)
1401 to 2000cc	12p (15p)	11p (13p)	9p (9p)
Over 2000cc	17p (21p)	14p (17p)	12p (13p)

Petrol hybrid cars are treated as petrol cars for this purpose and these fuel rates apply whether you claim mileage allowance for business use or repay the company for private mileage.

**If you have any queries on any of the subjects covered in this newsletter or on any tax or company secretarial matters please email us at [taxteam@trevorjones.uk.com](mailto:taxteam@trevorjones.uk.com) or call our helpline on 0161 475 4700.**

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