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## Newsletter July 2010

Our newsletter this month is the first since the changes announced by George Osborne in his Emergency Budget, 22 June 2010. We have included an article that points out two significant tax changes, a reminder of a number of critical filing and payment deadlines this month, an explanation of National Insurance Contribution terminology and clarification of additional tax payable by higher rate tax payers on dividend income.

Our next newsletter will be published on 5 August 2010.

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## Budget issues

### Capital Gains Tax

The following changes affect chargeable gains on or after 23 June 2010.

1. If your income, less all allowable deductions and reliefs, plus your net chargeable gains are less than the upper limit of the basic rate income tax band, £37,400 for 2010-11, Capital Gains will still be subject to a flat rate of 18%. If higher, a flat rate of 28% will apply to gains, or the part of the gains that cause you to be a higher rate tax payer.
2. If you dispose of qualifying assets on or after 23 June 2010 two aspects of CGT Entrepreneurs' Relief have changed:
  - o There is a technical change to the way in which the relief is calculated, although effectively a flat rate of 10% will continue to apply, and
  - o The lifetime gains that can benefit from the relief are increased from £2m to £5m.

### Furnished Holiday Lettings

It would appear that the threatened withdrawal of the tax benefits for owners of Furnished Holiday Lettings has been cancelled!

For the tax year 2010-11 it is back to business as usual - letting activity is treated as a trade, CGT rollover and Entrepreneurs' Relief is available, rental losses can be set off against other income and so on.

However, later this Summer the Government will be publishing a public consultation with a view to changing the tax treatment of Furnished Holiday Let property from 6 April 2011. Changes may include:

- An increase in the number of days qualifying properties have to be made available for letting and actually let. A change in the way loss relief is given.

We will advise when as and when the results of the consultation are published.

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## Critical filing deadlines July 2010

Apart from the requirement to keep up-to-date with PAYE, Self Assessment, Corporation Tax and VAT filing and payment, there are two deadlines exclusive to the month of July. They are:

1. Tax Credits - If it is likely that you are going to be eligible for Tax Credits in 2010-11 you must have your application filed by the 6 July 2010 to qualify for a complete year. If you have missed the deadline all is not lost. You can file an application after this date, but you will lose some of the benefits to which you may have been entitled. The reason for the loss of benefits is the rule that applications can only be backdated for 3 months. If you have missed the deadline file your application asap.
2. P11Ds - You should have completed and filed these returns by 6 July 2010 and be sure to pay any Class 1A National Insurance Contributions due on benefits declared by 19 July 2010.

A summarised list of payment and filing deadlines for July and August are set out in the Tax Diary below.

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## National Insurance and State Pension credits

Lower Earnings Limit (LEL) - For 2010-11 the amount you can earn without involving National Insurance is £97 per week. However, at this rate you will not qualify for credits towards your State Pension.

Primary and Secondary threshold - For 2010-11 you will not pay Class 1 contributions until your earnings exceed £110 per week. However, earnings over £97 and up to £110 per week will qualify as credits towards your State Pension.

Consequently, you can clock up contributions towards your State Pension without actually paying National Insurance!

Note: Coincidentally £97.65 a week is the current, basic State Pension.

When you do actually pay Class 1 contributions you will accumulate credits towards a basic State Pension and the additional State Pension.

The above comments apply to employed persons. If you are self-employed and pay Class 2 and possibly Class 4 contributions you will accumulate credits towards the basic State Pension but not the additional State Pension.

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## Higher rate tax due on dividends received

We are often asked to clarify the amount of tax payable by shareholders when dividends are paid, particularly, by private companies.

Dividends are distributions of company retained profits, after any corporation tax due has been deducted. To acknowledge the corporation tax deduction dividends paid are treated as if a tax credit of 10% has been deducted prior to payment. This 10% tax credit clears any standard rate income due but cannot be refunded. Accordingly, if your total, taxable income, after all allowances and reliefs have been deducted, is less than £37,400 for the tax year 2010-11, there is no further income tax to pay on dividends received.

Because the tax credit of 10% only covers your basic rate income tax liability, higher rate tax payers will have to pay additional tax. The amount applied to the notional gross dividend (cash dividend plus the notional tax credit) is as follows:

- If you are a higher rate tax payer but your income does not exceed £150,000 then the additional tax due is 22.5% of the notional gross dividend;
- If your income exceeds £150,000 the additional tax due is 32.5% of the notional gross dividend.

This produces marginal rates of tax on the actual cash dividends received of 25% and 36.1%! If your dividend income causes you to cross tax bands, then the dividends will be taxed partly at each tax rate.

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## Tax Diary July/August 2010

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

**6 July 2010** - Complete and submit forms P11D return of benefits and expenses and P11D(b) return of Class 1A NICs.

**6 July 2010** - Deadline for submission of new Tax Credit application for 2010-2011, if you want to secure a full year's claim.

**6 July 2010** - Deadline for submitting form 42 (reporting of transactions in employment related securities).

**19 July 2010** - Pay Class 1A NICs (by the 22 July 2010 if paid electronically).

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

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

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

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

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

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

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

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Stephenson Coates,

West 2, Asama Court, Newcastle Business Park, Amethyst Road, Newcastle upon Tyne, NE4 7YD.

Tel: 0191 256 7766

Web: [www.stephensoncoates.co.uk](http://www.stephensoncoates.co.uk).

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