

Payroll headaches banished



PAYE-wise

If you run a small to medium enterprise (SME), handling your own payroll is like cutting your own hair; it seems like a good idea at the time but the results can be disastrous.

Many SME owners say that doing the payroll is the most time-consuming and frustrating chore they have to face each month; making a mistake means facing the ire of employees and the Inland Revenue.

The Government are eager to implement social policies through the payroll and the more complex the rules become, the more pitfalls there are for unwary employers. Plus the Inland Revenue is increasing the pressure on smaller businesses with a huge increase in the number of payroll investigations carried out each year. In fact, the average small company can now expect a visit from the taxman every three years.

One solution for coping with the headache of payroll regulations is through outsourcing. **Paye-wise**, is another of the companies

within the Bryden Johnson group, which continues to grow steadily.

Paye-wise can be your solution for coping with the headache of payroll regulations, they can take the worry and inconvenience of handling your monthly payroll off your hands. The company is currently celebrating 45 years in business and as their director, Gordon Bull says, "a company doesn't stay in business for that length of time unless it is supplying a needed and professional service."

In today's highly competitive environment, professionalism is increasingly in demand; customers are not prepared to accept second best. Since their inception, excellence has been the cornerstone of **Paye-wise's** philosophy.

A key feature of the service that **Paye-wise** offers its clients is total flexibility. Although the company employs some of the most up-to-date IT systems available, they are still very hands-on in their approach, and provide a personal service tailored to their clients' individual needs.

By letting **Paye-wise** handle their monthly payroll, an SME owner frees-up valuable time to concentrate on things they are probably better at, such as running the company,



Members of the **Paye-wise** team: l to r: **Gordon Bull, Director; Becky Gilbert; Caroline Baines and Jenny Denvir, team leader.**

developing contacts and generating growth.

Cost-effective

Paye-wise recognises that some clients may be concerned about the costs involved in using an independent payroll bureau.

Because of their expertise and specialisation in a single discipline, **Paye-wise** are able to offer their services at a low cost that could show measurable savings against the cost of doing it yourself or of employing part-time assistance.

Always available

Paye-wise is available when needed. By telephoning, faxing or e-mailing them you can have the answers to your queries on the spot. There is no longer any need to wait until the end of the month when the 'wages lady' comes in before you can resolve your problems over such matters as maternity leave and

statutory sickness pay.

Paye-wise can advise you then and there.

Confidentiality

Understandably, some clients may be worried about confidentiality when outsourcing their payroll. By using the services of **Paye-wise** they are guaranteed that they, and their employees', affairs are handled with discretion and absolute confidentiality.

Paye-wise payroll service provides:

- Total confidentiality
- Cost-effectiveness
- Full flexibility
- Complete reliability
- Personal service
- Advice on employment
- Legislation

Jenny Denvir, who heads up the **Paye-wise** team has a wealth of experience of handling all types of payroll practices from small retail outlets to large construction combines.

She will be delighted to discuss any queries you may have.

You can contact Jenny and other members of her team on 020 8680 4500

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tax ISSUES

IHT - simple prevention methods

As Inheritance Tax (IHT) is payable at 40% when someone dies owning assets worth about £250,000 including the value of their home, the tax is now a reality rather than just a worry for many families.

You may think that planning to reduce this tax burden will require a complicated scheme involving trusts and lots of professional fees, but there are some very simple remedies that you can use today.

Marriage

Get married. Any value left to a spouse is exempt from IHT, as long as the spouse was born in the UK. However you must be legally married. The tax law does not recognise a live-in partner even if the arrangement has existed for many years.

The Will

Update your Will regularly. The old document may name executors or beneficiaries

that have already died. If there is no one living who can inherit under your Will the whole of your estate will go to the Crown. Any Will you made before you married is invalid, unless the Will stated otherwise.

Consider how much income your spouse will need to live on and leave up to £250,000 of the excess assets directly to the next generation. This gift will use up what is called the nil rate band, and will be free of IHT.

Gifts out of income

Make regular gifts out of your annual income to whoever you choose. As long as you establish a pattern of gifts that can be shown to be satisfied from your income without diminishing your capital assets, the gifts are completely free of IHT.

Annual gifts

Make gifts of up to £3,000 per tax year. In addition to the gifts out of your income, gifts totalling £3,000 per year are free of IHT.

What tax credits mean for employers

As an employer you may have been paying Working Families Tax Credit (WFTC) or Disabled Persons Tax Credit (DPTC) through the payroll to some of your employees.

Just when you got used to that system, it's all changed to Working Tax Credit (WTC) and Child Tax Credit (CTC).

The good news is that you don't have to worry about CTC as that will be paid directly by the Revenue to the parent, or whoever cares for the child. The WTC will work pretty much like WFTC, but there are some differences that should make the system a little easier to operate.

Action needed on old share options

If you have ever sold shares that you acquired through a share option you could be in line for a big tax give-away.

The bounty is in the form of a capital loss which can be used to set against your capital gains and reduce the total capital gains tax you pay. The loss has materialised because, following an important case, the Revenue has changed its mind about the correct way to calculate a gain in the following situation:

Your employer granted you an option to buy shares at a discount as a reward for your good



The start notices for WTC give you 42 days warning to start paying the amount due, even if you run a weekly payroll. This means a WTC award that became due on the first possible day, 6 April 2003, will not actually start to be paid until mid May.

The award will also run for a full tax year, so there is no messing about with starting and stopping every six months as there was with WFTC. However, the amount of the award

can be altered during the year if the claimant informs the Tax Credit Office of changed circumstances.

You can apply for funding for WTC if the other deductions from the payroll will not cover the amount due, but beware of abusing this facility. If the Revenue find the funding was not needed and has not been repaid by the company, they can come after you personally for the money.

work. You were taxed on the discount as if it was part of your salary. You then had to exercise the option and sell the shares to pay the tax due. You paid no more tax on the sale of the shares as the discount in the share value you have already paid tax on was taken into account. Now the Revenue say you may have made a loss on that sale as when you exercised the option you should have been treated as acquiring the shares for their market value not the actual discounted price you paid.

What to do?

You can ask the Revenue to recognise the capital loss you made by making a

claim under section 16 Taxation of Capital Gains Act 1992 by 31 January following the 5th anniversary of the end of the tax year when the shares were sold (i.e. 5 years and 10 months after the end of the tax year).

If you would have already used that capital loss against a gain in the intervening years if you knew it had existed, you can submit a claim that an error or mistake was made in the tax calculation under section 33 Taxes Management Act 1970.

Ask us before submitting any claim as each situation is different and must be considered carefully.



business MATTERS

Sorting out expenses

Unless you have roots in the USA 4 July is probably not marked out in your diary, but this year it should be.

Friday 4 July is the last working day for submitting the returns of employees' expenses: forms P11D. If you are set up to submit these forms electronically you will have a couple of extra days, but you still need to get a copy of the details returned to your employees by 6 July.

These deadlines may seem a long way off, but the P11D completion process always takes longer than you expect, so the best policy is to get organised now. Check the agreement you have with the Revenue not to return certain

expenses, known as a dispensation. Is it still valid and up to date? The dispensation may not cover all the expenses you pay out or all your employees. Any expense payment that is not covered by the dispensation or a Payroll Settlement Agreement must be returned on the form P11D. It is not up to you to decide what expenses are or are not taxable.

All the expense amounts on the P11D must include VAT so you need to work from the original receipts, credit card bills and expense claims when completing the form. Do not rely on pulling information out of your accounts system, as if the VAT element has been

claimed back only the net expenditure will be recorded.

If an employee has reimbursed the company for private expenses paid, those amounts can be netted off the total reported on the P11D, but remember the employee must actually refund costs to the company, not just promise to.



Green travel - what's it all about?

Do your employees frequently get stuck in traffic trying to get to work?

Such delays can seriously affect your business through lost time and the reduced efficiency of the stressed commuters. Although you cannot provide a solution to the town's traffic problems, there are measures you can take that may improve the travel situation for your workers, help save the environment and save some tax.

Bicycles

The company can buy bicycles and safety equipment to loan to employees so they can cycle to work. No tax arises on the provision of the equipment and the employees save money on petrol or fares. The cost of the cycles and safety equipment is also tax deductible for the company, although the outlay will have to be spread over several years through the system of capital allowances. To encourage people to cycle, you can provide shower facilities and a free breakfast up to six times a year on special designated 'cycle to work' days.

Buses

More people may take the bus to work if it picked them up closer to their homes and dropped them at the office door. Your company can arrange for its own bus to do just this with no tax charge for the employees. The vehicle used does not have to be a full sized bus, as long as

it can carry at least nine passengers it will qualify. If you don't have enough workers to make a company owned bus economic, perhaps you could share the cost with a neighbouring business.

Alternatively you could work with the local bus company and local authority to arrange some more convenient bus routes and bus stops. Any subsidy you pay to the bus company to help your employees get to work is totally tax deductible, and the employees are not taxed even if they get a reduced bus fare.

However, the bus route really must be a local one covering no more than 15 miles between stops, and charging per passenger. If you charter a coach to bring your employees from Oxford to London every day those employees will be taxed on the cost of the coach trip.

Car sharing

If buses are few and far between where your employees live, you can encourage them to car share by organising a central register and providing other administrative support. You can underwrite the car share system by promising to pay for a taxi when any car sharing arrangements break down through unforeseen circumstances. As long as you do not pay for more than 60 taxi journeys per year for any single employee the cost will not be taxed on the employee.

Traps on terminating employment

Sometimes there is just no alternative but to let an employee go - how you go about it could have huge legal and tax consequences.

The first trap to avoid is unfair dismissal. Any employee who has more than one year's continuous service can bring a claim of unfair dismissal if they have been sacked or selected for redundancy on grounds that are not considered fair or which are automatically unfair, such as for joining a trade union. The maximum compensation that can currently be awarded for

unfair dismissal is £53,500. However, under the Employment Act 2002 any dismissal (except collective redundancy) which has not followed an internal dispute resolution process will automatically be regarded as unfair. This rule will not come into effect until April 2004, but it is good practice to have a standard procedure in place.

If you make a termination payment that is due under the employee's contract of employment, it should be subject to PAYE just like normal salary. When a payment is made that is

not anticipated in the contract, it can be tax and NI free up to £30,000 if there is no established practice of making such payments and the contract terms do not mention a payment in lieu of notice.

Be particularly careful when making a termination payment to someone who is close to retirement as the Revenue may argue that it amounts to an unapproved pension payment. You should consult the PAYE office for your business in advance if this is likely to be a problem.



Selling online

If you have a website, whether you use it just to advertise your business or to sell through, the new e-commerce regulations will apply to you.

Even if your website is very basic, you must at least tell your customers who you are by stating the full name of your business and how to contact you by giving both geographical postal and email addresses. If you are registered with a trade organisation or a professional body the website should show how

you can be identified as a member, by giving your membership number or your professional title.

When your site allows customers to place orders, you come within the distance selling regulations. These require you to provide a description of your goods or services, details of any after sales services, guarantees offered, and how the customer can cancel his order. Do be careful how you refer to prices on your website. Any price information you give must be clear and set out any

associated taxes such as VAT and delivery costs. If you don't want to give away sensitive price information to your competitors, it might be best to ask customers to email you for a specific quote.

If your website does not comply with the regulations, and the failure harms the collective interest of consumers, a Trading Standards Officer can apply for a Stop Now Order against your business. Ignoring such an order can land you with a fine or even imprisonment.

Challenging the status-quo

In April 1997 many businesses were given a 'last chance' to decide whether or not to put their workers on the payroll.

Since that cut-off date the Revenue has come down hard on companies that pay individuals as self-employed sub-contractors when they are actually disguised employees.

Unfortunately there is no clear-cut definition of a self-employed individual. To decide if a particular worker is truly self-employed, you have to look at how that person works and his relationship with the company that supplies the work.

It is useful to know what questions the Inspector is likely to ask and have the facts ready. For instance does the worker provide their own materials, tools, equipment or protective clothing? Are they obliged to correct faulty work at extra charge? You may also have to find out if they work for other companies or have arrangements to supply a substitute in the case of their absence.

The more detail you have to support the position of each individual worker, the less evidence the Inspector will have to argue the worker should be treated as an employee.



New advertising code of practice



A new Code of Advertising Practice (CAP) was launched in March.

name of the CAP Code: 'The British Code of Advertising, Sales Promotion and Direct Marketing'.

The 11th edition of the CAP Code is issued by the Advertising Standards Authority (ASA). Not only are all rules merged for the first time into one Code, but the increasing importance of direct marketing is acknowledged in the new full

The Code has been updated to take account of new media and has been substantially redrafted to clarify many sections so that marketers have a better idea of the rules they need to follow to ensure that their marketing is legal, decent, honest and truthful.

As of 6 April 2003 employees who have been continuously employed for six months and who have children under the age of six, or disabled children under eighteen, will have the right to request flexible working arrangements.

Employers do not have to accept the request but they must consider it. If the employer agrees to the request they must provide a written note of the agreed variation of the

contract of employment. This must be done within 14 days of the application and state the date when the contract variation takes place.

If the employer intends to refuse the request then they must hold a meeting with the employee to discuss the application within 28 days of receiving the request and put the reasons for refusal in writing within 14 days of the meeting. Failure to hold a meeting with the

employee or to notify them of the decision will carry a penalty of up to eight week's pay. The statutory cap on a week's pay will apply.

Employees will have a right of appeal and the written notice of refusal must set out the appeal procedure. The notice of appeal must be given within 14 days of the decision.

Please contact us for further information on this issue.

Repackaging of goods and exports

A recent case Glaxo Group Ltd v Dowelhurst has clarified the law on repackaging of goods.

Dowelhurst bought Glaxo pharmaceutical products abroad and imported them into the UK. They

repackaged them to make them suitable for the UK market. The High Court held that parallel importers are not always allowed to repackage goods they are importing. Even if the repackaging did not adversely affect the quality

of the goods or the function of the trade mark (which is to indicate its origin), it may not be allowed. However, if the parallel importer had just relabelled rather than repackaged, then that was permitted and no breach of rights would occur.