



Class 4 NIC and trading losses – check the software

Have your farming clients overpaid Class 4 NIC? Or more importantly, have they not obtained a repayment they may be due?

Class 4 NIC rates increased in 2011 and this helps highlight the tax planning opportunity of the offset of trading losses against the Class 4 NIC liability. This can be of particular importance with regard to the farming industry.

The current rates of Class 4 NIC are as follows:

	2010/11
2011/12	
Class 4 lower profits limit	£5,715 per year
£7,225 per year	
Class 4 upper profits limit	£43,875 per year
£42,475 per year	
Class 4 rate between lower profits limit and upper profits limit	8%
	9%

It should be noted that the Class 4 NIC is based on trading loss if the interaction is something that not all software packages which produce tax returns identify. It is therefore worthwhile checking all loss making clients with Class 4 liability.

Repayments

A repayment can arise when the taxpayer has claimed loss relief against non-trading income or capital gains. Losses not used for Class 4 NIC purposes are carried forward and used against the first available profits liable to Class 4 from the same trade as mirrored in the loss provision for income tax.

Tax return: Self-employment

The losses available to set off for Class 4 purposes only are deducted on the Tax Return self-employment (full) pages at box 101. Those taxpayers who would otherwise complete the self-employment (short) pages are unable to do so if they wish to claim this relief as there is no similar box on the short self employment pages.

Loss memorandum

A loss memorandum must be kept for unused losses to be carried forward against future farming profits and also how losses have been used against Class 4 liabilities. Many advisers find it difficult controlling how farm losses have been utilised for farm income tax purposes, let alone Class 4 NIC.

A note of how Class 4 losses have been utilised should be made in the additional information box on the Tax Return to keep HMRC informed.

The increased cost of Class 4 NIC may encourage many diversified farming activities into a limited liability company - where the profits are taken by way of a dividend. This is now even more attractive following the reduction in the small companies rate of corporation tax from 21% to 20%.

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