

tlp - news

August 2012

The monthly newsletter of The Long Partnership

www.thelongpartnership.co.uk

Let's Get Real or Let's Not Play.

We want you to succeed. We know our products and services have helped clients' success in the past. Our intent is always to find a solution that exactly meets your needs. This helps to ensure a good fit between what we do and what you need. If there is a good fit, let's work together.

Call us today!

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Quotes

"It is the nature of man to rise to greatness if greatness is expected of him."

-- John Steinbeck, author

"If you can dream it, you can do it. Always remember this whole thing was started by a mouse."

-- Walt Disney, Animator, Film Producer

"I teach something called The Law of Probabilities, which says the more things you try, the more likely one of them will work. The more books you read, the more likely one of them will have an answer to a question that could solve the major problems of your life.. make you wealthier, solve a health problem, whatever it might be."

-- Jack Canfield, Success Coach

Why do we do it? You know, the whole business thing, being your own boss and all that stuff. Just think, I could have been working from 9 to 5, have real weekends and enjoyed a nice regular salary paid into my bank account every month. I am not sure that I yet have the answer to that particular question, but I am working on it. As long as you promise to keep it to yourself, I'll let you into the secret as soon as I have worked it out for myself!

So, **tax avasion** is the new hot word. It spans that blurred line between evasion and avoidance. I even heard a discussion on the radio about whether it was morally wrong to pay someone in cash when you are pretty sure they have no intention of declaring it. Does that make you guilty of some form of conspiracy to defraud the Revenue? You have government ministers saying that it is abhorrent for anyone to practice avasion, avoidance or evasion, but **who designed the tax system that is too complicated for most people to understand and actually encourages dishonesty.** Anyway, where do you draw the line? Is incorporation a form of avasion? How many people would incorporate if it was not for the tax savings?

At the upper end of the tax planning spectrum people can engage in sophisticated schemes to reduce their tax liabilities. At the lower end of that same spectrum, we spend a lot of our time telling people how to reduce their National Insurance contributions and maximise their tax credits.

We are educators. We teach people the meaning of the tax rules that Ministers have put into place. We did not write the rules to this particular game so don't point any fingers at us. We have (legally) saved our clients many many thousands of pounds in tax and NICs and I am sure certain government ministers and some others would not understand what we do or why. Also, PAYE is a relatively harsh and inflexible tax regime

and people trapped within it will look enviously at anyone outside of that, who they see as having some say in how much tax they pay or when. Is the system unfair? Yes. Illegal? No.

Now, it has to be said that we do a lot of other things as well. We talk to people about how to improve profitability, but how many people really understand what a profit actually means. I would include within that, many self employed people and I hope that you are not one of them. If you are confused about what "profit" actually means, it is probably time you came in and had a chat.

If your business does not make profits, you will not be in business long. I do not necessarily mean what your accounts say because if you are one of those who "avoids" declaring your income, your accounts will not tell the whole story. Anyway, at its most basic level, losses are pound notes going out of the door. Profits are pound notes going into your bank account. Now, we regularly hear clients asking why they have no cash when we are telling them that they have been making good profits. The answer is that they have spent those profits as they were generated either on more stock, more equipment or more commonly at the moment, in repaying past debt built up when the business was not quite so profitable.

So, you absolutely must make profits. You have a duty to maximise your profits. You have a duty to your family, who rely on your income, a duty to your employees, whose whole livelihood and the wellbeing of their families is dependent upon how well you do, and you have a duty to yourself. We all have hills to climb. Yours might be a mountain or a molehill, it depends upon your own ambitions and the goals you have set yourself. Molehills are more manageable but most people have at least a small steep hill to deal with just now.

I have heard it said that **you can have anything in life that you want if you just help enough other people get what they want.** We help people to get to the top of their particular "mountain" and in doing so, they will help us get to the top of ours (unless we get blown off on the way).

We'll see **you** at the top.

Tax evasion hotline gets 300 calls every day

A tax evasion phone line set up by HMRC has received 412,111 reports over the last five years, according to data obtained by Bloomsbury Professional. That equates to 300 reports every working day during the most recent tax year.

The tax evasion hotline was set up in 2005 to allow businesses and members of the public to report suspected tax evasion via a telephone hotline or HMRC's website.

Bloomsbury Professional, which said that it obtained the information through the Freedom of Information Act, said that the sheer volume of calls underscores how widespread concerns over tax evasion have become over the last few years.

There is a concern, however, that many of the calls could be malicious and that too few lead to formal enquiries, Bloomsbury said.

HMRC was unable to disclose how many of these reports had led to investigations and how much additional tax was collected, Bloomsbury said.

The number of calls is still more than double the number HMRC anticipated, and the return on this kind of intelligence is likely to be quite disappointing.

An HMRC spokesperson said: "HMRC has a responsibility to ensure everyone pays the tax that they owe, and clamping down on those who try to cheat the system is a key priority.

"We value the information we receive from the public through the tax evasion hotline, and all information is analysed and a decision made on the most appropriate course of action."

A report published in 2008 by the National Audit Office found that in 2006/07, HMRC collected just £2.6m in tax based on calls to its tax-evasion phone line, Bloomsbury said.

Source: Accountingweb.co.uk

Employed and Working from Home

Expenses not reimbursed by your employer

Expenses incurred but not reimbursed by your employer are allowed if you are obliged to pay them and the amount is incurred 'wholly, exclusively and necessarily in the performance of the duties of your employment.' It is not enough for the expense to be just relevant to the employment, or incurred in connection with the work - it must be wholly and totally relevant and necessary.

The home being designated a 'main workplace' needs to be modified accordingly, and the duties of employment must be 'substantive' and unable to be undertaken elsewhere.

In these circumstances you can claim:

- Metered utility costs (NOT standing charges)
- Business rates if charged (NOT council tax)
- Additional insurance
- Telephone calls (NOT line rental)
- Internet access (providing not already in place)
- Cleaning
- Possibly travel costs to main company premises.

You cannot claim any deduction for rent or mortgage, although if additional borrowing is incurred to finance creation of your workspace, interest may be allowed.

You can claim deductions on your tax return but in place of keeping detailed calculations, HMRC will permit a claim of £4 per week and you do not need to keep detailed records.

Expenses reimbursed by your employer

The amount you receive is negotiable with your employer although 'unreasonable' claims can be challenged by HMRC. Payment is tax and NI free.

Included within the claim can be anything needed for work although NOT for workplace building/construction nor fixed costs such as council tax. Supply of furniture, computers, etc are allowed and do not attract benefit in kind charge. However, travel costs from home base to main company premises are not allowed.

Your claim is to your employer for reimbursement based on actual costs or the company scale rate if this has previously been agreed with HMRC. Alternatively you can claim the HMRC scale rate of £4 per week and do not need to keep detailed records.

Alternative – company pays you rent for the non exclusive use of your home.

This is a formal agreement or licence between the company and you in which the company pays rent for the non-exclusive use of an office in your home. Providing the property is used by the company for its business, the rent paid is an expense of the company.

The rental income is declared on your personal tax return with a proportion of the household expenses offset. Remember: Rent a room relief is not relevant where a room is rented to a business.

You should be exempt from business rates provided that the room is not exclusively used for business; and the room was not built or specially adapted for the business.

This is usually the better way for directors of their own personal companies to obtain an element of tax relief on their household costs because they use their home for work.

Another Form Bites the Dust - Student form P38(S)

From 6 April 2013, employers must treat students in the same way as all other employees for income tax and national insurance contributions (NICs) purposes.

However, if a P38(s) student works outside the holidays they always needed to fill in a P46 and be taxed normally anyway.

If a student joins on a P46 in July having not worked in that tax year they will get a full 810L tax code and can earn up to £4000 without paying tax by the end of September. So it will not make much of a difference.

Here's Something a bit different! - *Interface*.

We recently met with David Chapman from Interface and we were so impressed with what he was telling us that we asked him if he would like to put something in our newsletter.

Some of the examples that he gave really struck a chord with us. For example, Interface have been instrumental in finding solutions for waste disposal problems including the development of new products and hence revenue streams from waste products.

If you think that Interface could help solve a problem for your business, give David a ring or look out for the Interface Team as they travel around the country.

This is what he wanted to say.....

Have you got a business challenge?

Businesses across the Highlands & Islands are being urged to consider tapping into the world class expertise and funding opportunities available on their doorstep to help overcome the challenges they face in the current economic climate.

Interface – The knowledge connection for business, matches businesses across all sectors quickly and easily to knowledge, expertise and research facilities available in all of Scotland's Universities and Research Institutes.

There is a vast diversity of expertise within Universities and Research Institutions from which both small and large companies can benefit. Interface provides a **free**, impartial and bespoke brokerage service to the specialist expertise available to give you the best possible solution to your business needs.

To find out more about Interface and the opportunities available please contact the **Interface Highlands & Islands team on 01463 244274**, visit our website **www.interface-online.org.uk** or meet the team at the upcoming Business Support Roadshow taking place on the Isle of Benbecula on the 5 September and the Isle of Lewis on the 6 September and other locations still to be confirmed.

If in doubt just pick up the phone!

The TLP Bank Survey - Keep your forms coming in!

Here is a selection of the written comments we have received so far:

"Change from local bank manager to faceless clones in Glasgow has been disastrous. They are unhelpful, clueless...." - KW15

"It took two months for a new account meeting, another two months to open an account and a further three months to get a credit card" - KW1

"Charges are very costly for small turnover businesses that have no way out" - KW14

"Have found it easier to use finance outside the bank - have not bothered to approach bank for business loan. Too impersonal - we have to deal with unknown faces in Glasgow" - IV40

"There is no business manager in my hometown" - KW17

"Lost all faith in what used to be a good local bank" - KW16

"The only time we hear from our bank is when the overdraft is due for renewal" - EH28

"Don't know who the bank manager is" - KW17

"Transferring my account to Glasgow is not very helpful" - KW17

"I had the same bank manager for over 10 years, then I was transferred to somebody in Aberdeen, no more dealing with the bank since then." - KW15

"Why are they so unhelpful? Why can't they keep one manager in the branch long enough for him to understand his clients and trust their business ideas?" - IV2

Never met my bank manager - KW14

Never seen bank manager. No idea who to contact." - KW16

"When does Co-op Bank open?" - KW16

"Decisions cannot be made locally by someone who has a better idea of how your business operates." - KW15

"Too scared to lend money. Very keen to sell their insurance and financial products." - AB38

The Sales Prevention Dept.

The initial feedback that we have received from our bank survey has been very interesting. Many people feel very strongly that the present banking system is not working for them and there is a deep resentment towards banks and bankers. The reports that we have been getting are not all bad but the picture seems to be one of some good local managers who are being thwarted by faceless, nameless individuals making decisions about businesses that they do not know and probably do not understand. This level of deep-seated resentment is bound to affect these banking businesses in the future and will favour any new entrants into the banking market.

I would hazard a guess that the only reason that these business banks continue to exist is the lack of choice presently available and the difficulty of transferring between banks.

Otherwise, the high charges and the lack of customer care would surely have driven these commercial operations, who rely on the support of their customers, into decline.

What other service provider would be able to operate in this way and stay in business?

It is not only banks that behave in this way, because some other producers also forget that they are reliant upon customers buying their products.

I was particularly reminded of this recently when driving in thick fog. Firstly, on a narrow country lane, out of the fog came a farm loadall with no lights and I was forced to brake hard to avoid a collision. A few miles further on I sat in a convoy of buses, trucks and cars following a tractor for many miles in the fog. There were plenty of opportunities for this tractor to pull off the road and let the traffic clear but this did not happen.

Now, you will be wondering about the relevance of this. The relevance is that we are all being encouraged to buy local and in this case it would be locally produced meat, milk and cheese.

But they were not paying attention to their customers needs!

Tax Tips and Tricks

Business Sponsorship

Following the success of the Olympics, you may be tempted to sponsor a local team or sporting event but you need to be aware that there are some pitfalls to be avoided.

Your business needs to be able to show that it expects to benefit from the sponsorship and you should document the reasons why you decided to sponsor that particular team event and how you expect your business to benefit.

You should also be aware that there are dangers in sponsoring anything in which you or your family are personally involved as HMRC may take the view that you are using your business to pay for your own pleasures, which are personal and therefore not tax deductible.

You may receive free tickets as a result of your sponsorship. If these are given to members of staff, they will be classed as employee entertaining which is tax deductible or, if the free tickets are given to suppliers or customers, the cost becomes a disallowable entertaining expense.

There are also dangers in sponsoring a charity and particularly where you do not expect your business to benefit in any way from the sponsorship. In this situation, it is better for your business to make a gift aid payment to the charity because this will be a more efficient way both for you and the charity.

Car benefit - Think Again

The government does not seem to like larger cars provided by your company but there can be a real tax advantage for smaller cars. Take this example.

Mother runs a small company and decides to provide her 2 children with a company car each – Nissan Pixo 1.0 Vistia. They do not work for the company, and all mileage will be private. She is a 40% taxpayer. The tax position is as follows:

Income tax on mother per car:

- List price £6,995 @ 10% = £699 @ 40% = £279 pa

Company's position per car:

- 100% FYA on £6,995 @ 20% = £1,399
- Class 1A NIC on £699 @ 13.8% = £96 pa, reducing to £77 after small company tax relief.
- Full VAT reclaim on input tax on car servicing etc (unless registered for the VAT flat rate scheme). Corporation tax relief will be obtained at 20% or more on the running costs.

Could this be a tax efficient way of providing cars to your family. But, how many sons would want to be seen driving a Pixo!

VAT Simplification - Take Away Food

Following the budget, the headlines seem to be focused on pasties and whether these would be standard or zero rated. In what appeared to be one of a succession of embarrassing U-turns the government conceded that a pasty that was in the process of cooling, was not "hot" for VAT purposes and would therefore be zero rated. Only hot food that was intended to be sold hot would be standard rated, e.g. Fish and chips.

The lesser known provision which came into force was the extension of the definition of premises. Food consumed on the premises is always standard rated but cold takeaway food is zero rated. However, the definition of premises has now been extended to include all common seating areas used by a range of food outlets in, for example, shopping centres, railway stations, airports, etc. So, you need to be careful when next ordering sandwiches where you might be expected to sit in a common area, whether you have been charged VAT or not. If your intention is to take the sandwiches away with you and not eat in the vicinity of the outlets, you should not be charged VAT.

New Residence rules from 6 April 2013

The planned statutory definition was due to take effect from 6 April 2012 but has been delayed until 6 April 2013. In the meantime a 124 page document has been issued by HMRC. Included in the document is draft legislation.

The stated aim is for the residency test to be transparent, objective and simple to use. 124 pages of simple?

Paper Tax Return - Late!

A woman submitted her 2009/10 tax return, on paper, on 17 January 2011. HMRC imposed a penalty and she appealed, contending that the penalty was unreasonable because she had not realised that she was required to submit a return until she received a letter from HMRC on 10 January informing her of this.

She had telephoned HMRC on the same day and had received a paper return in response to that telephone call.

The First-tier Tribunal held that, by sending the appellant a paper return on 10 January, HMRC had waived the normal requirement for a return submitted after 31 October to be filed online.

We wonder if anyone else have just gone ahead and paid the penalty? These are slightly special circumstances but nevertheless, there will be some people who have paid a penalty unnecessarily.

We Want More! - The TLP 2012 Bank Survey

Have you faxed or emailed your response yet? If not, we are giving you a further chance, so please take a few moments to let us have your views as the more replies we get, the more representative will be the results. More replies are coming in to us every day. Please make sure we have yours.

Read some of the comments that we have received so far. They are printed inside this month's newsletter.

By the way, only a few bank managers have been named as worthy of recommendation and these represent various banks. We could do with a few more! Which banks? You'll have to wait till next month and then we'll spill the beans!