

tlp - news

December 2010

The monthly newsletter of The Long Partnership — www.thelongpartnership.co.uk

Let's Get Real or **L**et'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 right now!

01856 878600
01847 890304
01463 732575

Quotes

"Trouble is only opportunity in work clothes."

-- Henry Kaiser, industrialist

"You are not beaten until you admit it."

-- George Patton, general

"We can learn from past failures and mistakes, but we shouldn't get stuck there. We can keep future goals in mind, but we shouldn't get stuck there, either. The only way to reach our potential is to focus on what we must do now - this moment, this day - to perform effectively and win."

-- Joe Torre

This is a funny time of year and I think that this year, what I can remember of it, has been very interesting, although not half as interesting as I think we will have next year. Bring it on!

It is a funny time of year because, just as everybody else goes into holiday mode, we are gearing up for January. The trouble is that we want to go into holiday mode as well and so we have a dilemma. What should we do? Party or do tax returns? If your return is among the hundreds of tax returns that we have already submitted then you would probably say that we should party. If, on the other hand, you were not so quick to put your details in to us, you would want us to do tax returns, and not just any tax returns, just yours. At the end of the day we compromise. We "tax return with a vengeance" to the very last minute before we close on 22 December, and then we party, bringing all our staff from the various locations together to eat and so on into the early hours and then send them home again to recover in time for Xmas.

Our offices will then be closed until Wednesday 5 January but, guess what, if you need us, just call, landline or mobiles, you'll probably get someone, because that's the way we work.

The time of year brings out some of the ways in which we do things differently. Small things for the most part, but nonetheless very important to us.

One of these is the fact that we send all our clients (and business acquaintances) a Xmas card and not just any old card, but one we have had printed using a local photographer. These cards are unique, if you see one it can only have come from us. So, why do we do it? It is very straightforward really, it is a small way at this time of year that we can say to all our clients how much we appreciate them. You could call it marketing and, at the end of the day, that is probably what it is, but we like to show our appreciation for the people upon

whom we depend for our livelihood.

There is also a personal element to this, because in dealing with so many peoples' personal financial information, we like to think that we build up a relationship and we want to reflect that as well, at this time of year. We think such touches are very important, just like our clients. Are we old fashioned? We don't think so.

A few years ago, I came across a business that had been sending out Xmas cards much like us, but this particular year decided that it was too expensive and that they would just put a notice in the local paper and make a donation to charity. Some time later I heard that the charity were still chasing for the contribution but that's another story. Were their clients not worth the effort? Were their clients not important to them?

Now some of you will be thinking that this other business had their priorities right and that we should be doing the same and putting money to charity. That is a perfectly valid point of view. However, if we want to support a charity we will do it. Charitable donations of this nature will not break the bank. But our priority is to send a clear message to all our clients (and other business contacts) that you / they are important to us.

How do you show your customers (and other business contacts) that they are important and that they matter to you? We send a Xmas card each year and our newsletter every month. What message are you sending? Food for thought.

Anyway, after the festivities, what will 2011 bring? It will be an interesting year with the economy and businesses generally, struggling to get on. We are seeing insolvencies on the rise and that is likely to continue. But, at the end of the day, these are all just temporary. Many of the most successful people have been through similar experiences and it makes them stronger and wiser. Remember, there are no failures, only experiences and so lets go into 2011 still willing to take chances, chase the work, make the sales and have some fun along the way.

We hope you have an enjoyable Xmas and New Year, eat to excess, drink in moderation and then let's make 2011 a year to remember.

Alan, Helen and everyone at TLP.

PAYE Changes

Just keeping pace with the never ending legislative change is the stuff of nightmares and sleepless nights.

The new government is looking at making PAYE data collection happen in 'real time'. A review and consultation was carried out examining how the system could be improved to reduce costs 'and make the system easier for employers and HMRC to administer'. Broadly, that means moves towards real-time data collection.

The current system was designed for a world of relatively stable employment patterns which clearly is no longer relevant and it is causing problems both for HMRC and employees.

The solution suggested is that employers should report payments of earnings and deductions each time a payment is made. It would mean that code changes could be made more promptly and be based on up-to-date information if there was regular electronic contact and processing of income data, reducing the likelihood of incorrect deductions.

Clearly, this can only work if the technology is up to it. The new National Insurance and PAYE Service (NPS) enables the creation of a single tax account for each individual that includes employment, earnings and contact history and the National Insurance record.

The scarier part of the discussion document relates to a radical option called 'centralised deductions'. This would see HMRC calculating the PAYE, National Insurance and student loan deductions concerned.

HMRC's computers would hold all the pay details in a real-time tax account for each taxpayer. HMRC's computer would then calculate the correct deductions and advise the payers electronically how much to withhold.

In this part of the world where computers can be less reliable, this could be a difficulty. What if your broadband goes down just before pay day?

Employment Nightmares

Cautionary tales of things that may keep an employer awake into the early hours.

Employment status

The magicians at Weight Watchers can make their members gradually disappear but they could not magic this problem away. In a recent case brought by HMRC against Weight Watchers (UK) the status of class leaders, who had always believed themselves to be self employed, was considered and it was found that they were indeed employees of the Weight Watchers organisation. The contractual terms of the engagement were sufficient to demonstrate a mutuality of obligation between the parties. This was despite the existence of a contractual clause that permitted the class leader to send a substitute. This case is under appeal and it demonstrates that the subject of employment status has not gone away and thus its potential to cause a nightmare is up there with strong cheese and scary films.

Salary Sacrifice

The employee gives up or sacrifices salary in return for a tax free or low taxed benefit. The nightmare scenario happens when tax is due, not only on the benefit received but also on the original salary as well.

Salary sacrifice is a legal process, which requires the employee to make an irrevocable change to the terms and conditions of their employment which has to be effective before the right to receive the original amount crystallises. An annual review is acceptable and will not prejudice the "irrevocable" condition.

New restrictions affect salary sacrifice and pension contributions and you can also no longer sacrifice salary in return for free or subsidised meals. An employee may not make a salary sacrifice which reduces the salary below the national minimum wage (currently £5.93 per hour for workers over 21 years of age).

Reducing gross salary by entering into a salary sacrifice may have a knock on effect on income-related state benefits and on mortgage or loan applications. An added complication arises during maternity or adoption leave, where the employer is now legally obliged to continue to pay non-cash benefits although there may be no salary from which to offset the cost for the employer.

In summary then, salary sacrifice requires careful handling but can still be very useful to the sensible employer.

Claiming Expenses

The general rule is that a deduction from earnings is allowed if:

- (a) the employee is obliged to incur and pay it as holder of the employment; and
- (b) the amount is incurred wholly, exclusively and necessarily in the performance of the duties of the employment.'

The expenses have to be inherent in the employment itself. A contractual obligation to incur the expenses is not enough because the incurring of the expenses must be intrinsic to the actual carrying out of the employment duties. Therefore training may not be allowable as it does not always meet this test.

So, what about clothing for the job? Sian Williams, the BBC1 anchorwoman recently argued that she should be able to claim a deduction for the clothes and hair styling costs required to be on national TV amounting to about £4,500 annually. The tribunal dismissed her claim on the basis that she wore clothes that, although smart, were not that dissimilar to those that she would wear when 'off-duty'.

Ms Williams argued that: 'She does not need the clothes for warmth as it is warm inside the studios, and that she would be prepared to read the news without clothes and only wears the clothes because her employer requires it.' The tribunal remained unconvinced and her claim failed.

PAYE: Real Time Information to Start in 2012

The draft of the Finance Bill 2011 sets out new proposals for improving the operation of PAYE, including the collection of real time information reports. The material published on 9 December indicates how the proposals will be taken forward. The proposals for the collection of real time information (RTI) were broadly well received, and the government has decided to proceed with the implementation of this system as soon as possible. The changes will commence in April 2012.

VAT - All Change on 4 Januaryagain! A Quick Reminder of the Rules.

Tax Points - The Basics

VAT is due when a customer receives goods or services – The Basic Tax Point.

This is superseded if either money is received or a sales invoice raised as long as this happens within 14 days of the goods or services being supplied – The Actual Tax Point.

The actual tax point also applies for advance invoices raised or payments received before goods or services are supplied.

In the case of an increase in the rate of VAT, the VAT charge can be based on the basic tax point date. So, invoices raised in January for goods delivered to a customer in December can still benefit from a 17.5% rate of VAT.

Advance Invoices and Payments

Under normal circumstances, where it is normal practice to raise invoices in advance of a service, invoices raised in December 2010 for services to be completed in January can be raised with VAT charged at 17.5% unless:

- The value of the sale (and any related sales) is more than £100,000 (excluding VAT).
- The customer and supplier are connected to each other.
- In the case of an advance invoice (but not an advance payment), the payment is due more than six months after the invoice is issued.
- In the case of a prepayment arrangement, the supplier, or anyone connected to the supplier, is financing the prepayment.

Sale of Goods

Where a deposit is paid in December for goods to be delivered in January, the deposit will include VAT at 17.5%. If the balance of the price is paid after 4 January 2011 the balance will attract 20% VAT. If the balance is paid before 4 January 2011, then the lower rate of 17.5% applies.

Continuous Supply of Services

A tax point is created when an invoice is raised or payment received, whichever happens first. A concession allows the measured work carried out up to 31 December to be charged at 17.5% VAT and all work after this date at 20%.

Slow Invoicing

If you sell goods and services in December but do not get round to raising invoices until January you can either charge 20% VAT based on the invoice date in January or the lower rate of 17.5% on the basis that the goods were supplied or work was performed before the rate of VAT increased.

Flat Rate Scheme

The flat rate percentages will be revised to coincide with the rate increase on 4 January so make sure that you apply the new rate after December. The challenge will be to make two flat rate calculations if a VAT period overlaps 4 January.

Cash Accounting

The key point with the cash accounting scheme is that it does not change the tax point as far as VAT is concerned. You will account for the VAT at the rate originally charged on the invoice, but only when you get paid. You must therefore identify 17.5% VAT invoices paid in January of later.

Credit Notes

A credit note must be based on the same rate of VAT as the original sale.

Construction Services - Stage Payment Contracts

The tax point is normally the time you issue a VAT invoice; or receive a payment, whichever happens first. If the stage payment invoices relate to work completed before 4 January 2011 the special change of rate rules can be used to apply the 17.5% rate of VAT.

If you are continuing to carry out work under a stage payment contract on 4 January 2011, this will normally attract VAT at 20%. However, the special change of rate rules can be applied if you issue a VAT invoice or receive a payment (including retention or final account payments) which cover work actually performed up to 4 January 2011. Where necessary you should apportion the amount involved (based on measurable work or normal costing or pricing structures) and apply 17.5%.

The Sales Prevention Department

More stories from our own experiences of organisations that want to profit in one way or another, have goods, services or ideas to sell, but fall short when it came to fulfilling our expectations, just did not deliver the value required and who will lose out at the end of the day.

I don't like to point the figure at local small businesses who generally are having a rough time just now, but I cannot help but think that a lot of small shops are doing themselves a considerable disservice in their dealings with existing customers. Let me give you an example.

During the cold spell, I was suffering from dry and cracking lips and so went out to a local chemist (not a national chain) to buy something to help. Now, the shop that I went into had a number of staff, but no-one was at hand to point me in the direction of an appropriate product and having found it for myself, there was no-one on the till that could take my money. After several minutes when staff in the pharmacy watched me "from afar" I put the product back on the shelf and went elsewhere, thinking that this particular shop would not be my first port of call next time.

I imagine that the proprietors of this shop will be working hard to build up the custom by marketing, reviewing product lines and managing the shop layout. When was the last time that they put their staff through any sort of training? "Shop Assistants" are some of the most important people in any retail organisation. I know that they are "just" dealing with customers in the shop, stacking shelves and taking money but they are also in the front line in the battle to ensure this particular customer comes back again and again. They can help to encourage return custom or discourage it by being rude, inattentive or ignorant about the shops products.

Say what you will about chains like Tesco, but this is something which their staff seem to do instinctively. I am sure they must go on courses on how to smile, say hello and all that but at the end of a hard day at the coal face it is really nice to feel that you are appreciated as a customer, whether or not that is actually the case.

Tax Tips and Tricks

Company Cars

With relentless changes and a squeeze on how tax effective a car can be, the frequent question for an employer is around how a vehicle may be provided in a way that is beneficial for both the employer and employee.

The tax payable personally by the employee for the provision of the car is based on the original list price (ignoring any discounts currently available). The tax relief gained by the company for buying it is based on the actual sales price (after any discounts). The tax payable by the employee can be substantial each year and it could well be the case that an alternative strategy would have been beneficial, i.e. paying the employee a bonus (on PAYE) or dividend and letting the employee buy their own car. That way, the employee only pays tax once on the lump sum income, and not every year.

The facts are crucial and you need to look at the CO2 emissions to see the best route forward. For those looking at much 'greener' cars (under 110g/km emissions) the car benefit can still be very reasonable and 100% first year allowances are available.

Changes to Class 2 NIC Payment Dates from April 2011

From April 2011, payments become due on 31 July and 31 January, the same as for tax under Self Assessment.

If you pay by internet/telephone banking, CHAPS, Bank Giro, Post Office or post, you will receive just two bill reminders from HMRC in the year in October and April, showing payments due by 31 January and 31 July respectively.

If you pay by Direct Debit, collection of monthly Direct Debit payments will be delayed by HMRC to bring the payment dates into line. This means that:

- for the first year only, monthly Direct Debits will stop for a short period and then start again
- Class 2 contributions due for April 2011 will be requested from your bank in August 2011
- payments thereafter will be monthly unless you choose to pay six monthly from April 2011

A new option to pay by six monthly Direct Debits, collected in January and July each year, will be available from April 2011 for those who do not wish to spread their payments.

Change in VAT Rate - Overlapping Building Services

What happens if a builder starts a big job for a customer in December but does not finish it until January?

The builder should encourage his customer to pay for the job in full before 31 December (to create a tax point that means the entire job will be due at 17.5% VAT).

Failing that, the builder can raise an advance sales invoice up to 31 December, again creating a 17.5% VAT liability.

If the builder raises an invoice or receives payment when he has finished the job, there is still scope to produce a partial VAT gain. This is because he can charge 17.5% VAT on measured work completed up to 31 December, and 20% thereafter, i.e. show the two component separately on his invoice.

However, be aware that HMRC will be a bit suspicious if the apportionment is done on a simple time basis because not many builders work in the last week of December.

VAT on Business Entertainment of Overseas Customers

In the light of recent ECJ judgments HMRC has concluded that the UK's block on the recovery of input tax on the business entertainment of overseas clients is inconsistent with EU law.

The Government intends to amend UK law shortly. In the meantime HMRC will consider claims for previously restricted VAT in respect of the entertainment of overseas customers, as a direct effect of EU law.

The block on recovering input tax on entertainment provided to anyone other than an overseas customer, for example, UK customers and non-UK business contacts who are not customers, remains effective and any VAT incurred on the costs of such entertainment cannot be recovered.

You may make claims in respect of input tax on the costs of entertaining overseas business customers, subject to the normal four year cap.

Student Christmas Workers Should Complete P38(S)

HMRC have reminded full-time students who are intending to work over the festive season that they will be entitled to receive their money tax-free providing they expect to earn less than £6,475 in the tax year to 5 April 2011 and complete a form P38(S) at the beginning of employment.

Directors of Small Companies Pay Rise from 5 April 2011

If you presently take a small salary and top this up periodically with dividends, then from 5 April 2011 your monthly salary is **going up from £476 to £602 per month**. This is the level of salary that you can earn and pay no tax or NIC but still qualify for benefits and state pension.

Disallowable Business Costs

1. Business' Capital Restructuring

Legal and professional fees incurred in connection with changes in how the ownership of a business is structured are generally regarded as capital for tax purposes and not allowable as a revenue deduction. Examples might include:

- forming, varying or dissolving a partnership
- the incorporation of a sole trader's or a partnership's business
- a partnership becoming a limited liability partnership
- defending a petition by shareholders to wind up a company

2. Recruitment of Additional Partners

Costs incurred by a partnership on recruiting new partners will normally be allowable as revenue expenditure. However, there are some circumstances in which these costs may be viewed as capital expenditure for tax purposes and so would not be allowable as a revenue deduction.

Examples of where it may be necessary to consider whether the recruitment costs are capital expenditure include:

- Where the admission of the partner has a fundamental impact on the structure of the firm's business. However this must involve more than a mere expansion of the business.
- Where the partner is recruited as part of the acquisition of a business.
- Where the new partner's capital contribution is a material factor in the recruitment.