

tlp - news

December 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.

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Quotes

"Making a decision usually means taking one of two roads. One is doing the right thing. To take the other road, you have to sit back and spin a story around the decision or action you are taking. If you find yourself thinking up an elaborate justification for what you are doing, you are not doing the right thing."

-- Wayne Sales

"One can choose to go back toward safety or forward toward growth. Growth must be chosen again and again; fear must be overcome again and again."

-- Abraham Maslow,
Psychologist

"It's not your position in life; it's the disposition you have which will change your position."

-- Dr. David McKinley

It is quite funny but at this time of year I am always inclined to look backwards instead of forwards. This comes from the fact that we put out our first newsletter along with our Christmas cards 5 years ago. It's an anniversary. Now, when I was sailing dinghies, I was told that you should never watch the boats behind you but instead should focus on the boats ahead of you. The focus needed to be on moving forward. I think this is as true in business as it is in sailing. You need to feel the wind on your face and be aware of your environment but you have to sail your own race and not react defensively to what other boats (or businesses) are doing.

Nevertheless, I went back in search of nuggets of gold in our first few editions. Here are some of the things that caught my eye.

If you try you may fail, but if you do not even try, then you cannot succeed.

However you express it, action is required in order to achieve anything. I have heard it said that you cannot be blamed for something going wrong if you did nothing. But, how many people have to live with the regret of not having tried. In my experience there are too many. Now, there are certainly things that I regret not having done but I made that call. In recent years we have charted our own course and taken action. We have moved in a different direction to the pack. If for any reason it does not work, that was our call, our decision and we gave it our best shot. We will also have had a lot of fun? doing it.

"Failure is the opportunity to begin again, more intelligently." Henry Ford, Founder of the Ford Motor Company

I do not believe there is anyone who has achieved anything worthwhile who has not had their fair share of failures along the way. I think it was the founder of IBM who was asked how a man could be more successful. "Have more failures" was the answer. Try, win or lose. Pick yourself up, dust yourself off, and start all over again (wasn't that a line from a song?). True nonetheless.

"To live through an impossible situation, you don't need the reflexes of a Grand Prix driver, the muscles of Hercules, the mind of an Einstein. You simply need to know what to do." Anthony Greenbank – The Book of Survival

With the passage of time I think I can now say that **we have survived the Jihad**. In 2008 a man from Sittingbourne in Kent was sentenced to two years' imprisonment for urging Moslems to launch terror attacks on accountants, a Jihad. Those paying attention will have worked out that he is now back on the streets. Will he catch up with us? Doubt it. Too cold this far north.

"We must look for the opportunity in every difficulty instead of being paralyzed at the thought of the difficulty in every opportunity."
- Walter E. Cole

With Christmas not far away I wonder how many tax returns will be filed this year on 25 December. In 2006, a total of 84 self assessment tax returns were filed online on Christmas Day. In 2007 it was 489. I guess we can tell who didn't get very good presents! But what do you buy an accountant for Christmas? If you want to test your hypotheses, please leave your gift wrapped ideas at one of our offices. We'll get back to you.

Finally, when we are speaking about action, making the best use of your time on this lump of rock hurtling through space, and what decisions you will make, remember that **Time is perishable**. This means that it cannot be saved. In fact, time can only be spent. Because time is perishable, the only thing you can do with it is to spend it differently, to reallocate your time away from activities of low value and toward activities of higher value. But once it is gone, it is gone forever.

So, you decide. When, what, where and who with. And if you feel the urge to file your tax return on Christmas day, remember there are some very good counselling services available these days.

Have a good Christmas. All the best to you and yours. We look forward to starting at the top of the next page in the calendar of life, the clean sheet on which you and we can write anything. Bring on 2013, we are ready!

Business Record Checks are back!

HMRC want their "Customers" to keep better records.

Whilst the need to keep proper records in order to comply with tax obligations is widely acknowledged, HMRC's random enquiry programme indicates that poor record keeping is a problem in around 40% of the total of about 5 million SME cases. Research by the OECD indicates that poor business record keeping generally leads to an underassessment of tax.

HMRC carried out a BRC pilot. These found that 28% of businesses had some issue with their record-keeping, and an additional 11% had issues serious enough to warrant a follow-up visit. This accords with the view of the OECD that 40% of small businesses have poor records.

The re-launch

HMRC will now be sending out letters to SMEs that it believes may be at risk of keeping inadequate records, advising them that it will be in touch by phone.

The call will take you through a set of questions designed to assess your record keeping. At this stage you should refer HMRC to your accountant, as giving HMRC information that is wrong or is capable of a different interpretation will not help your cause.

Depending on the outcome of the phone call, HMRC will decide whether the business would benefit from "tailored educational support" and whether a visit is necessary. Read into that what you will.

If businesses are keeping inadequate records they will receive "guidance" on what to do. HMRC will then set up another visit after three months to check that the necessary improvements have been made. If you still do not comply, you will be liable to a penalty.

The BRC programme will begin in Scotland on 14 January 2013.

How good are your records? Give us a call if you want to discuss this.

RTI - The exceptions

Under RTI you must notify HMRC online **before or at the time of payment** to your employee. These are now some accepted exceptions;

1. Ad hoc payments made outside of the regular payroll.

These would include:

- A new starter is notified late to the person running the payroll.
- An overtime payment is missed off the payroll run by mistake, despite the employer taking reasonable care to ensure these are reported.
- An ad hoc payment on account of earnings.

Ad hoc payments need to be reported the next time the regular payroll is run.

2. Payments to employees for whom employers do not have to maintain a Deductions Working Sheet (P11).

This would include payments to:

- Casual employees who work for less than a week and do not provide a P45.
- Permanent employees who do not present a P45 to the employer and who are paid below the Lower Earnings Limit (£107 per week in 2012/13).

These must be reported by the earliest of:

- the next 'regular' return the employer is required to send; or
- seven days following the day on which the payment is made.

3. Payments which vary according to the work done on the day, where it is impractical to report on or before.

Payments which meet **all** of the following conditions:

- made to employees for work done on the day of payment; **and**
- made non-electronically (e.g. cash or cheque); **and**
- made at a time or place where it would be impractical for it to be reported 'on or before' the time of payment; **and**
- where the employer cannot know how much the payment will be in time to report the information in advance of the payment being made.

This includes, for example, where someone is employed on piece work and they are paid in cash based on productivity, or catering staff paid by the hour at the end of their shift.

These payments must be reported by the earliest of:

- the next 'regular' return the employer is required to send; or
- seven days following the day on which the payment is made.

4. Benefits and expenses that are not subject to tax under PAYE, but are subject to Class 1 National Insurance Contributions.

For example, where an employee claims expenses from their employer for the employee's private phone bill.

These payments must be reported by the earliest of:

- the time that the employer calculates the NICs that are due on the payment, or otherwise runs their payroll; or
- 14 days after the end of the tax month in which the payment was made.

5. Notional payments

This covers certain types of payment where there is no transfer of money from the employer to the employee. For example, when an employer awards shares to an employee for less than their market value, this may be a notional payment.

These payments must be reported by the earliest of:

- the time that the employer operates PAYE on the payment; or
- 14 days after the end of the of the tax month in which the payment was made.

6. Earnings and notional payments delivered by overseas employers and third parties to employees for duties performed on assignment in the UK or overseas AND employment income paid in respect of employment-related securities (for example, on the exercise of share options).

HMRC will apply a common sense approach in-year where employers in these situations have a reasonable excuse for not reporting the information by the end of the pay period or 19th of the following month. HMRC expect that the late reporting would normally be no later than the next regular payroll date.

RTI is coming - we have the software, we have the trained staff and we can help you.

Just give us a call and let us take the strain!

Directors - lets look at some tax breaks.

We cannot hope to cover this subject fully on this page, but here are some ideas to get you started. They don't refer only to directors.

Earnings over £100,000

Once your earnings exceed £100,000, you will start to lose the benefit of your personal tax free allowance. The effect of this is that your marginal rate of tax goes up to 60%. In this band of income, which extends from £100,000 to approximately £116,000, any additional personal pension payments will attract tax relief at 60%. Seems like a good investment.

Equalisation of spouse earnings

Gifting assets between husband and wife has long been an efficient way of mitigating inheritance tax and capital gains tax liabilities. However, there are now a number of reasons why you should also consider gifting income generating assets to your spouse if they are lower rate taxpayers. If you are in receipt of child benefit and one of you has an income in excess of £50,000, equalising your earnings could avoid the taxation on child benefit. In addition, where only one of you is a higher rate taxpayer, you would avoid higher rate tax on a portion of your income. If you have your own business, it may also be appropriate to fund contributions to your spouse's pension scheme.

Delivering capital instead of income

It can be significantly more efficient to receive rewards in the form of capital gains rather than income. It may be possible to create performance shares which have minimal tax implications on issue but which grow in value as the company is successful and can then be sold with the increase in value being taxed as a capital gain at 18% or 28% after deducting the annual CGT allowance.

Deductible expenses

Whether you are employed by your own company or another, there are certain expenses that you can deduct from your income when completing a tax return. These include professional subscriptions and, where your employer does not pay mileage at the rate of 45p per mile, the difference between 45p and the amounts actually paid.

Payments of directors bonus

In order to be tax deductible the obligation to pay a bonus must be recorded before the year end and the bonus and tax and National Insurance be paid within 9 months from the end of the accounting period. Bonus payments in the form of contributions to the directors pension scheme or other non-cash benefits may be more efficient.

Loans to directors

As a source of inexpensive short term finance, a loan from the company is still relatively cheap. There will however be a benefit in kind for the interest element avoided and so you would pay tax on the equivalence of 4%. The company also pays Class IA National Insurance on the value of this benefit.

If the loan is still outstanding 9 months after your company's year end then the company has to pay over 25% of the balance to the taxman but this is repayable once the loan is repaid. It is more efficient than taking a bonus to cover your cash shortfall because this would be subject to a significant National Insurance charge as well, as basic and possibly higher rate tax.

Office in your home

Many people have an office at home. You may be able to charge your company rent for the facilities. Make sure that the company does not have exclusive use of part of the property because not only could you become liable for business rates but you jeopardise your exemption from CGT as your home. Dual use (e.g. spare bedroom) of limited use (restricted to certain hours) should be fine but you may need to set this "licence" to use the facilities in writing. The rent you receive will itself be taxable but you will be able to offset some of your household costs, e.g. electricity.

Don't forget that this can apply to storing goods or records in your garage!

Machine Games Duty - Bars, Clubs & Hotels

Machine Games Duty replaces the current taxation regime for ALL gaming machines (Amusement Machine Licence Duty and VAT) from **1 February 2013** if the machine offers a cash prize in excess of the stake. Tickets or vouchers paid from machines that are redeemable for cash are also classed as cash prizes.

This will result in machines becoming VAT exempt and this could potentially have implications for the amount of input tax that can be recovered overall by the business. However, this is unlikely to have an impact on bars and hotels who only have a couple of machines because there is a de minimus below which you can ignore the exempt supplies.

The tax on net cashbox will be:

20% rate – machines with a stake over 10p and prize over £8 (in effect Category C 'fruit' machines and Skill with Prize machines – note SWPs are now liable for MGD despite not currently being liable for AMLD).

5% rate – machines with a stake 10p or less, and prize £8 or less (in effect Category D machines).

Where a machine offers a game with both cash and non-cash prizes, it is the size of the cash prize alone which will determine whether or not there was a liability to MGD.

Companies/operators will need to be registered for MGD ahead of implementation - **registration opened on 1 November 2012 and runs until 1 January 2013**. Otherwise you need to register for MGD at least **14 days prior to making the machine available for play**.

In most cases, it will be the pub owner or, in the case of tenanted pubs, the lessee who will be liable to register and account for MGD. If you think that this might apply to you and you have gaming machines on your premises, it is likely that you will have to register by 1 January 2013.

MGD returns will be submitted quarterly either online or paper with variable payment methods including direct debits.

Tips and Tricks

AIA increased to £250K

The AIA has been increased from £25,000 to £250,000 for a two year period starting from 1 January 2013. So, don't buy anything substantial till the new year.

2013 could be a good time to undertake those capital intensive projects because of the up-front tax relief.

However, always bear in mind that this is just timing. You still get the same amount of tax relief, but just a bit quicker. Its a bit of an illusion.

Corporation Tax Rates

As already announced, the main CT rate for financial year 2013 (commencing 1 April 2013) is 23%. The small profit rate is 20%.

The main corporation tax rate for the financial year 2014 (commencing 1 April 2014) will be reduced by a further 1% to 21%

So, if the top rate is to be 21% and the small company rate is 20%, why not go further and have one rate of corporation tax?

Will a unified rate be at 20% or 21%. Who knows?

Who needs an accountant?

The government has heralded the introduction of a "simpler" income tax scheme for small unincorporated businesses for the tax year 2013/14, i.e. from 6 April 2013. .

It will allow:

- eligible self-employed individuals and partnerships to calculate their profits on the basis of the cash that passes through their business, and
- all unincorporated businesses will be able to choose to deduct certain expenses on a flat rate basis.

The new voluntary cash basis for calculating tax for small self-employed businesses, will apply to self-employed businesses with receipts of up to £77,000.

It is inevitable that some people will want to try to do their own tax. However, you still need to know how the system works, how and when to move to or from the new basis, how to deal with the balance of capital expenditure on which allowances have not yet been claimed and all the other myriad rules that will apply. You also need to keep **very good records for HMRC** to substantiate the figures on your return.

Remember there is no plans to permit the calculation of PAYE on a cash basis.

Reduced Tax Relief for Pensions

From 2014-15 the annual allowance for pensions tax relief will drop from £50,000 to £40,000. This measure will not affect many people but there will be a few. It will mean that you cannot load your pension in quite the same way as previously.

For those looking to invest more modest sums in their pensions, the limits for tax relief are the greater of £3,600 and your total income. No change here.

Rates and thresholds

Personal allowances will rise to £9,440 in 2013-14 within touching distance of the £10,000 personal allowance promised in the coalition government's 2010 agreement. The basic rate limit will be set at £32,010.

Higher rate taxpayers will also benefit from the increase next year, but increases in the higher rate threshold will be capped at 1% in 2014-15 and 2015-16.

The 1% increases will be maintained in other areas, including inheritance tax and capital gains tax thresholds during the same period.

As previously announced, the higher personal allowances for people aged 65+ or 75 and over, will no longer be available to those reaching their 65th birthday in 2013-14.

For 2013-14, there are no changes to the rate of contribution for Class 1 and Class 4 National Insurance contributions (NICs) but there are changes to the thresholds and limits.

But, what does this really mean?

More people will find themselves liable to 40% tax on the top slice of their earnings.

The maximum dividend that you can take in 2013/14, if you are on a small salary regime, will be £28,809. It is getting less each year, so that in order to be able to take meaningful amounts out of your company, more people are going to find themselves suffering higher rate tax on earnings or dividends.

Don't forget that paying money into your personal pension can effectively increase your basic rate band and give you 40% tax relief or more on the premiums.

SEIS - Could you use this?

A new Seed Enterprise Investment Scheme investment will give you:

Firstly, Income tax relief is at a fixed rate of 50%, provided the amount of tax relief is covered by the income tax payable in the tax year of the investment (or in the preceding tax year as from 2013/14, any part of an SEIS investment can be carried back one year.)

Secondly, the CGT payable on the disposal of ANY chargeable asset in the tax year 2012/13 is eliminated if the individual buys shares under SEIS in the same year (or in 2013/14 and then carried back to 2012/13) via a subscription in cash, fully paid at the time of issue and holds the shares for the usual 3 years - and **you only need to invest the gain element**.

How this works is illustrated below:

- To obtain full SEIS reinvestment relief only requires reinvestment of an amount equal to the gain, not the proceeds.
- e.g. A gain of £50,000 in 2012/13 on a sale for £80,000 is fully exempt if the reinvestment is just £50,000.
- If the CGT annual exemption has not been used the optimum reinvestment in 2012/13 in this case would be of £39,400 with the non-exempt gain of £10,600 being covered by the annual exemption.
- You get your original investment, i.e. cost out of the asset and "lose" the Capital Gain on the balance.
Another cunning plan!