

tlp - news

February 2013

The monthly newsletter of The Long Partnership and A A Mackenzie & Co.

www.thelongpartnership.co.uk

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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

"When one door closes, another door opens; but we often look so long and so regretfully upon the closed door that we do not see the ones which open for us."

– Alexander Graham Bell, inventor

"Do not be afraid. Do not be satisfied with mediocrity. Put out into the deep and let down your nets for a catch."

– John Paul II, pope

"The conventional view serves to protect us from the painful job of thinking."

– John Kenneth Galbraith, economist

"Fix the problem, not the blame."

– Japanese proverb

The New Tax Cycle is upon us. As of 1 February, there were **365 filing days** for your 2013 tax returns, and it will have been 364 days before some of you will have put in your tax records to us.

The impossible we do at once, miracles take a little longer.

Still, we had a reasonably successful tax return campaign but there will always be some room for improvement. We know that we can always do things better if we just set our minds to it, and we are!

Anyway, as you know, **the most important word in business is "next"** and so, we move on to the next stage in our annual tax cycle.

As an aside we are seeing the first signs of spring. In Inverness, the gulls are staking their claims to roof tops, there were ducks on the river and just the other day a seal appeared eating a fish it had caught. We see all manner of wild life in an accountants office. OK, its not in the office and we should not be looking out of the windows. The seal was pointed out by a client. It would have been impolite not to watch. Probably meant that what I was saying wasn't very interesting. There'll be a few people not at all surprised by that.

Anyway, we will know that spring is well and truly on the way when we see our first lawyer coming timidly out into the sunshine, blinking in the sunlight. It surely won't be long.

Have you seen the turbines sprouting. I counted 14 from our house. I think it must be the mild winter or do you think they breed? We have a number of large turbines close by, and the small ones came along later. Have they had babies? If so, I think it is time for a bit of turbine contraception, whatever form that takes. Conjures up an interesting picture, doesn't it? How do you tell the male and female ones apart? Is one noisier than the other? Is it the length of the blades, the curvature of the entrance steps? If anyone knows, please share the information. It could save some embarrassing moments in the future. I would not like to put my hand on a

hand rail inappropriately!

I do not know what you think about the quotes we include each month. I find it fascinating reading them and picking just a handful to publish. Many of them are quite unremarkable words but they carry messages which might be amusing and just bring a smile to your face or they can be thought provoking.

Take this one for example: **"You are younger today than you will ever be again. Make use of it for the sake of tomorrow."** Absolutely true. You will never be as young again as you are today (let's ignore the arguments about reincarnation for just now). It is telling you nothing you did not already know, but in the telling it makes you, for the briefest of moments, look up from the daily grind and fleetingly consider the bigger picture.

However, this one has a very important message: **"The will to win is not nearly as important as the will to prepare to win."** Combine this with: **"The secret of success in life is for a person to be ready for opportunity when it comes."**

That last one was Benjamin Disraeli. It makes you realise that "out there" people have been struggling with the same issues as you and me for generations. The environments were different, the tools and the threats may have been different but the underlying challenges to the human nature and the resolve required to overcome difficulties and succeed has never changed. It is a sobering thought to realise that your father or grandfather once had their first kiss, their first shave, etc. **Nothing really changes, just the stage on which we act out our respective parts.**

So, why in so many cases do we think we are the first to have these trials. We feel that we have to re-invent the wheel every time. Nothing could be further from the truth. Surely what we have to learn is that the people either around us now or who have gone before, have already found the answers we are seeking. So, why do we not just ask? We are all the same. We bang on and make all the same mistakes as them all over again ... apart from the clever ones who have asked the right questions of the right people and then built on from that. Isn't that mentoring? Don't think I can be one of the clever ones, what about you?

Foul Play!

Health secretary Jeremy Hunt has confirmed that the Westminster Government would abandon its election promise of a £1m inheritance tax threshold **for the whole of the UK** in order to pay for the extra costs of looking after the elderly **in England**.

Hunt signalled that the cap would be paid for by a freeze on the current IHT threshold of £325,000 until 2019. The inflation-related increases announced by the Chancellor in his Autumn Statement will be dropped.

The Conservatives came into government on a pledge by George Osborne in 2010 to reform inheritance tax - initially by increasing the threshold to £1m, but with a hint of more profound change to come.

Is this yet another example of ill thought out measures? Coming on the back of the tax on Child Benefit and the cumbersome, unfair and arbitrary rules that we all now have to work with, it is just another example of the same. It's not just this government. Remember the fiasco following the introduction of the zero rate of Corporation Tax. That was when someone who was self employed and earning around £15,000 could incorporate and reduce a tax liability of around £3,000 to nothing. It must have been those "clever accountants" according to Cameron who take advantage of these things and use the rules in a way that Parliament never intended. Not quite Dave! It was ministers advised by highly paid civil servants who could not see the noses in front of their faces.

So we have measures to pay for benefits in England, paid for from taxes levied in Scotland (and Wales). Hmm!

It has been announced that the health secretary "bargained with the Chancellor to agree a cap of £75,000". So, we have two supposedly intelligent men in public office coming up with a "cunning plan". Maybe I am wrong about the "intelligent" bit.

Anyway, it only applies to the personal care element so a big political fanfare, for what?

Dividends - Get The paperwork right or pay the tax!

If you use a small salary and dividend payment strategy you need to get the dividend paperwork right or you could risk losing the tax advantage that paying a dividend gives you.

For these purposes there are two types of dividend:

- final dividends, and
- interim dividends

For both you need to ensure there are sufficient reserves (accumulated profits) from which to pay any dividend and you should do this before paying the dividend.

If you make a payment and you cannot prove there were sufficient reserves at the time of the payment, you risk HMRC reclassifying it as salary, i.e. collecting tax and possibly also NIC as if it was a salary payment.

For interim dividends this can be tricky as management accounts may not be available but remember that reserves built up in earlier years can be used for this purpose so you can look at your last annual accounts. You need to be more careful if you are just starting up.

Final dividends are approved at the company's Annual General Meeting and as such, the distributable profits will always have been considered as the annual accounts will be approved at the AGM.

Interim dividends

The procedure for payment of an interim dividend can be summarised as follows:

- establish the distributable reserves
- determine the total amount to be distributed
- calculate the dividend per share
- hold a board meeting and prepare minutes approving payment
- make payment to the shareholders and prepare dividend vouchers

Final dividends

The procedure for payment of a final dividend is:

- establish the distributable reserves
- determine the total amount to be distributed
- calculate the dividend per share
- either:
 1. prepare Annual General Meeting or Extraordinary General Meeting documents recommending a dividend for the members to approve at the meeting, or
 2. prepare and circulate an elective resolution to the members approving the final dividend
- make payment to the shareholders and prepare dividend vouchers

Ultra vires dividends

A dividend that is illegal at the time of the declaration must be repaid. If not it could be treated as a loan which could have tax consequences for the company or director involved.

Payment of dividends

This is significant because it will determine the tax return in which the dividend is entered and could have an impact on the rate of tax paid. You may think you have paid dividends that nicely utilise your basic rate band each year, but if you get it wrong, you could end up with dividends being taxed at higher rates in one year and unused basic rate band in another. **So, if you are not sure, get in touch or better still, just let us take care of it for you.**

Dividends are treated as paid on the date they become due and payable.

Final dividends are "paid" on the date of the Board resolution as this is when the debt becomes "due and payable" from a shareholder perspective. Sometimes the resolution may state a later date e.g. AGM, in which case the dividend is not "paid" until that later date.

An interim dividend is not paid unless and until the shareholder receives the money or the distribution is otherwise unreservedly put at their disposal, perhaps by being credited to a loan account on which the shareholder has the power to draw.

Simplifying small business accounts for tax

The “more or less” final rules are now available. They will be included in the 2013 Finance Act. This is a new “Cash Based” system but not necessarily that simple.

Who cannot use the simplified accounting system?

1. Limited companies
2. Partnerships with a company or trust as a partner.
3. LLPs
4. **Farmers or authors with a profits averaging claim in place**
5. **Farmers using the herd basis**
6. Lloyd’s underwriters

There are some disadvantages:

1. Very restricted loss relief against other income.
2. The election must include all businesses undertaken by a person.
3. The election applies to a tax year and the relevant accounting period is then dictated, so your normal year end arrangements may have been missed.
4. The “accounts” will tell you very little about your performance and whether the business is prospering or not.
5. It is unlikely to reduce professional fees where you need to employ an accountant to help with your tax return but it might make it easier for some people to prepare their own accounts for submission to HMRC.
6. If you currently pay more than £500 in interest, your tax relief will be capped at £500.
7. If the car is leased there is no tax relief on rental payments.
8. Farmers cannot use averaging to smooth out profits.

Main features:

1. Voluntary cash basis for annual receipts of less than the VAT registration level of £77,000. You can stay in the system until your turnover reaches twice the VAT registration level, i.e. £154,000).
2. If the individual carries on more than one business it is the combined receipts which need to be considered. An election for the cash basis then applies to all of the businesses.
3. No claims for Capital allowances but a full deduction for plant and machinery.
4. Flat rate claim for business use of the home and flat rate adjustment for personal use of business premises.
5. Motor expenses - The fixed deduction is 45p per business mile, reducing to 25p beyond 10,000 business miles in the year. Deduction of 24p per mile for a motorcycle.
6. Estimates acceptable for stationery and related items, based on unit costs such as, per letter.
7. Claim allowed for costs of borrowing, including interest and any arrangement fees, limited to £500 per annum.
8. Any loss can only be carried forward.
9. Use of home for business - A fixed deduction can be claimed. The deduction is on a monthly basis according to the number of hours spent wholly and exclusively on work done by the individual or any employee (25+ £10, 51+ £18, 101+ £26). This gives a maximum claim of £312 per annum (£6 per week).
10. Where business premises are also occupied as a home, e.g. a hotel business, there are flat rate restrictions to be applied to the claim for business premises expenses. This is based upon the number of occupants – 1 occupant £350 per month, 2 £500 per month, 3+ £650 per month.

Accounting dates

For the cash basis the accounting period must end on the chosen date which can be any date from 31 March to 30 April. If no date is chosen there is a default date of 5 April. In the first year of not using the cash basis, the end of the basis period is 5 April. In the next tax year the basis period is 12 months following the end of the basis period for the year of the switch. That results in a business stopping the cash basis having to remain on fiscal accounting for a further two periods.

The Sales Prevention Department

Let’s talk retail. You know, the sector that is blaming the economic situation, the internet or even the weather for poor performance.

My sample today is drawn from a walk around a well known local shopping centre.

Shop 1 (a card shop in February!):

3 young female shop assistants in the middle of the shop getting on with their work but talking between themselves about the times they had so much to drink that they could not remember what they had been doing the night before. It is a card shop!

Shop 2 (a stall): not sure what the girl was selling. She was standing talking to an unsavoury looking guy, old enough to be her father, wearing a shabby jacket with trousers that were far too long and chewing gum. Didn’t bother investigating the stall further.

Shop 3 (a stall): A woman was sitting alongside the stall talking on the phone and clearly fully engaged in her conversation.

Needless to say that on this occasion I bought nothing. Worse than that, I did not even go back to some interesting shops I had visited earlier. I had lost the urge to shop, thinking that I could go “online”.

Now, has anyone ever explained to these shop assistants the reason why they are getting paid. They are surely there to fulfil a commercial need and should be doing it to the best of their ability. The shop owners or management are obviously not much better because they are allowing their “sales” staff to behave in this way. I will volunteer that, in my opinion none of them, should be involved in sales.

Sales and selling is too important for any business to leave to chance and if the staff do not know how to behave, it is presumably because the management do not know how they should behave either.

My guess is that we will see some more casualties of the recession and everyone will feel sorry for the staff made redundant...

The Peedie Bits.....

Using Your Annual CGT Allowance

Each year you (and your spouse or partner) can make capital gains of £10,600 and pay no Capital Gains Tax. This is your Annual Exemption for CGT and like your personal allowance for Income Tax cannot be carried forward. If you do not use it, you lose it.

For the 2012/13 tax year this is worth £10,600 per person. If you have shares or other readily disposable assets, you can use your tax-free allowance each year by selling off just enough shares (or other assets) to realise a gain equivalent to the annual exemption. You can then re-invest the money.

By transferring assets into joint names prior to sale, you can utilise your spouse's or civil partner's annual Capital Gains Tax exemption. This does not work if you are not a legal "couple".

By this means, a couple can make gains of up to £21,200 before paying any Capital Gains Tax. **Given the proximity to the end of the tax year**, by utilising the Annual Exemptions for 2012 and 2013 this becomes **£42,400 tax free**.

However, remember that not all assets are subject to CGT and there are some other very useful exemptions available if they are. Come along and speak to us before you make detailed plans to utilise your Annual Exemption by selling off assets not subject to tax!

You also have to be careful if the asset attracts Entrepreneurs Relief. In this case, a last minute transfer between spouses can cost you money. Speak to us about the pitfalls to avoid.

Investments for Your Kids' Future

Junior ISAs are long-term savings accounts for children under 18, living in the UK and do not have a child trust fund account.

The money belongs to the child, although anyone can put money in. There are two types of Junior ISA – cash Junior ISA and a stocks and shares Junior ISA. A child can have one or both.

The maximum amount that can be paid into a Junior ISA is £3,600 a year. Income and gains are tax-free but generally speaking the money cannot be withdrawn until the child is 18.

Consider Junior ISAs when planning future funding for university.

What about a pension?

Pension contributions are generally limited to earnings but the Government allows contributions of up to £3,600 gross (£2,880 net of basic rate tax) into a pension scheme regardless of your level of income or age. You can contribute into a pension scheme for your non-working spouse or children, and they are treated as having made the contribution net of basic rate tax even if they are non-taxpayers.

Spouse's Personal Allowances

If one or other of a couple has little or no taxable income, it is worthwhile considering transferring income producing investments to their name in order to utilise their personal allowance. This will save tax on the income and will increase the overall return from these investments.

VAT do you know?

If your turnover is less than £1.6M you can opt for Cash accounting and /or Annual Accounting for VAT.

If your turnover is less than £150K you can apply to join the Flat Rate Scheme.

For EU B2B sales of goods to be zero rated, are customer VAT numbers obtained and quoted? Are EC Sales Lists properly completed?

Where sales of goods to other EU countries are B2C, are normal UK VAT rates applied to the sale?

If you generally get VAT refunded, you could use monthly VAT returns to get the tax back quicker.

Does the turnover on your VAT returns agree to your accounts. If you do not check it, HMRC will! As all returns are filed electronically, they could get the computer to do it.

Do you use:

- A retail VAT scheme,
- A second hand goods scheme, of
- The Tour operators margin scheme.

If not, could one of these save you tax. Remember that TOMS (the Tour Operators Margin Scheme) can be used by anyone who packages together transport, accommodation and catering. Could this be you?

Make sure you do not reclaim VAT on any of the following:

- Goods or services for private use
- Invoices made out to another person
- Goods or services used in a non business activity
- Purchase of motor cars
- Business entertainment expenses except staff
- Expenditure on certain items installed in new buildings
- Goods received under second hand schemes
- The purchase cost of a business where transferred as a going concern for VAT purposes.
- Goods or services from a non-registered trader
- Director's living accommodation

Fee Protection

Are you aware that many HMRC enquires are covered by our Fee Protection Insurance provided at no extra charge to all our clients. So, don't struggle on alone against HMRC. Our help is effectively free of charge in many of these situations.

Flat Rate Expenses

The flat rate expenses are mandatory if you are on the cash basis, i.e. the new simplified accounting system for small traders.

However, they can also be used by any business and are not restricted to the new simplified accounting system for tax. It may be the case that overall the business will get the optimum tax deal by not going for the cash basis but nevertheless electing to claim the flat rate expenses.

Where the cash basis is not opted for or is unavailable because of the turnover level, you can still apply any or all of the same flat rate expenses - see page 3.