

tlp - news

June 2012

The monthly newsletter of The Long Partnership and Graeme M Fraser & Co.

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

"It's determination and commitment to an unrelenting pursuit of your goal that will enable you to attain the success you seek."

-- Mario Andretti, Race Car Driver

"Fix your eyes forward on what you can do, not back on what you cannot change."

-- Tom Clancy, Author

"Throughout the centuries, there were men who took first steps, down new roads, armed with nothing but their own vision."

-- Ayn Rand, Novelist

"Start where you are. Use what you have. Do what you can."

-- Arthur Ashe, Tennis Player

Have you met Mavis Beacon? She is a rather nice American with a soft and pleasant voice, always professionally dressed and very supportive of her students.

Are you too old to learn? Now, if it would take you a couple of years to learn something that would be valuable to you, and you have not done it, why not? In a couple of years, you will be a couple of years older anyway. Wouldn't it be good to have learnt another skill, whether that skill benefited your business or you personally.

We never tell people to do what we do not do ourselves and, being a little longer in the tooth than most people reading this, I can tell you that I am learning to type. We run our offices very lean and so do not have "secretaries" as such. We must quickly and efficiently prepare emails, letters and reports. After a couple of years getting more and more frustrated with Voice Recognition software, I decided to bite the bullet and, after looking over various reviews, bought the CD, Mavis Beacon Teaches Typing.

I thought that I was doing quite well at 9 words a minute on a good day. Well, I have only just started. I was put in my place this morning when meeting with someone who only does 50 words a minute "because they have got quite rusty".

Never mind, in a year or so I will be able to type at a reasonable speed, and get even more work done on my favourite ferry. At least I hope that will be the case. I can still type much faster with 2 and a half fingers than I can using 10 fingers but I am sure that, if I persevere, this will change.

We are never short of work to fill our days so why am I leaning to type? I set aside 20 to 30 minutes most mornings before most people have started work to practice. I believe that, as our business develops, my time will be more valuable so I am investing now, when it is less valuable and will hope to reap a good return

on my current investment in the years to come. However long in the tooth I may be (and you?) I believe that we should always be looking to improve our skills and whether you are in business or not.

Now, I usually say that if you are in business, you should avoid Breakfast Television because otherwise you start your day in such a negative frame of mind. However, sometimes, when I am away from home (and nobody is looking) I do watch it. This morning, after the announcement that the Government and Bank of England were injecting £100bn + into banks, one bank official at the Mansion House dinner was reported to have said that he doubted if his bank would be able to use the money because nobody was borrowing at the moment. **What planet are these people on? Bet he got a big bonus!**

What we see is banks cutting overdrafts, refusing credit, even refusing to allow a business to open a business account when they do not even want any credit. We see impossible conditions being imposed on approved lending and charges that have gone through the roof. Who benefits? Hmm.

Don't get me wrong. The people working with this on the ground, the ones that you and I get to meet, are generally fine people working rules that are imposed on them. But that is not the point. Businesses should be able to work with their banks towards a common purpose. You cannot help but feel at the moment that the bank is just another battle for business to fight. This is wrong!

If I had a pound for every time that I have been asked about changing banks in the last year, I would be well off. My usual response is to say that they are all the same. Now I know that is not strictly true and my friends at HSBC will no doubt be on at me again to point out that they are different, but you know what I mean.

Anyway, despite what Breakfast Television would have us think, there is business to be had out there and we are probably getting a little more than our share. We are therefore increasing our staff in **Thurso and Erica has joined the team.** Welcome aboard!

HMRC E-Marketplace Campaign

HMRC has issued notices to online auction sites, asking them to provide detailed information about the member registers they keep. The notices ask for the name, address and post code of each member, the date on which the member first registered and the member's username.

The campaign is targeting people who buy and sell goods online as a trade or business, but who have failed to make a full disclosure of their income.

HMRC Guidance on selling your Olympic torch

The Revenue explain that if the torch is worth less than £6,000 when you sell it, then you will not have to pay Capital Gains Tax (CGT) on your proceeds. If it is worth more than £6,000 then you will have a gain on which you may have to pay CGT, although it might be covered by your CGT Annual Exemption of £10,600.

HMRC warn that you should bear in mind the possibility that selling your torch might be, or might be part of, a trade, in which case any profit would be charged to income tax rather than CGT.

If you intend to sell your torch and give the proceeds to charity through Gift Aid, HMRC explain that depending on the amount received, you may incur a CGT charge. There is no exemption from CGT even if you donate the money you receive on selling the torch to charity.

If you donate the sale proceeds after CGT to a charity you will be able to make the donation of money under Gift Aid. For every £100 you donate, the charity will reclaim £25 from HMRC. In order for the donation to be valid under Gift Aid you will need to pay enough income tax or CGT in the tax year to cover the amount of tax the charity will reclaim on your gift.

Finally, HMRC add that if you give the torch to a charity for them to keep or sell themselves there will be no charge to CGT.

Scotland Act 2012

The Act gives the Scottish Parliament the power to set a Scottish rate of Income Tax. This will still be administered by HMRC and is expected to apply from April 2016.

In practice the act reduces the rate of income tax by 10% for Scottish taxpayers and this element of the tax will be replaced by a Scottish Tax that can be more or less than the 10% reduction.

The HMRC website explains how it is envisaged that the detailed process will work. For employees and pensioners the income tax change will be applied through PAYE and HMRC will be issuing tax codes to employers in the months before April 2016 and these will identify those employees who are Scottish taxpayers. Employers will deduct tax at the appropriate rates so people working alongside each other doing the same or similar jobs could find themselves being taxed at different rates.

The definition of a Scottish taxpayer is based on the location of an individual's main place of residence and HMRC will be issuing further guidance on this in due course.

The act also fully devolves the powers to raise taxes on land transaction and the waste disposal to landfill. It is expected that this will take effect in April 2015 at which point the existing SDLT and landfill tax will not apply in Scotland.

The act provides powers for new taxes to be created in Scotland and for additional taxes to be devolved.

It should be noted that there are no plans as yet to allow the Scottish Government to vary the Corporation Tax rates so, if you don't like the Income Tax rate they set, this could be a further reason to incorporate.

There are a number of powers that are still reserves to the UK government including defence and foreign affairs and other taxes.

It's going to be confusing for all of us but can HMRC cope with the changes?

P11Ds and Class1A National Insurance - Deadline 6 July

It's that time of year again. If your business provides cars, fuel, living accommodation, or a raft of other benefits ("perks") to your staff, you may need to submit a return in the form of a P11D for each employee, to HMRC by **6 July 2012**.

Cars, child care, mobile phones and online access can produce particular P11D issues.

If you are not sure, then get in touch and we can help to calculate the benefit, prepare and submit the forms and tell you how much National Insurance is due on the benefits.

Dispensations – Avoid the P11D Blues

Dispensations provide a very useful reduction in the reporting of benefits and expenses. It is worth remembering that they need to be checked to ensure that they remain valid and provide the protection that they are designed to achieve.

After a dispensation has been granted, the extent of checking undertaken by the employer will depend upon the scale of the business. You will need to demonstrate that someone other than the employee incurring the expense is responsible for ensuring that the claim made relates to qualifying travel in the case of travel and subsistence expenses, does not include disallowable items and is not excessive.

The Business Tax Dashboard - New from HMRC

If you run a business, the new business tax dashboard from HMRC will give you a useful insight into your tax liabilities by showing you the overall picture including payments you have made and amounts you still owe. The new service was launched on 12 April 2012 but only for taxpayers who have a business.

When you login to the HMRC website you will be asked if you would like to use the business tax dashboard. Once activated the tax dashboard appears as an option in the main menu on the left of the welcome screen. If you click on this, the dashboard appears. It provides a summary of your tax position over the range of taxes covered by that particular login. You can use a dashboard to view Corporation Tax, Self-Assessment (Income Tax), PAYE and VAT.

The online service can also be used to make changes to some business contact details including addresses, telephone numbers and e-mail addresses.

HMRC have not made the dashboard available to agents but you can give us access to your dashboard and, if this is of interest, please get in touch and we will explain how. HMRC is looking to provide an agent dashboard and access to PAYE and VAT tax positions at a later date. Income tax and Corporation tax can already be viewed by Agents through the existing online services.

Any business can use the business tax dashboard but it will need to have enrolled for HMRC online services beforehand.

The dashboard is designed for small businesses and is not suitable for groups.

“Cash Flowing” Your Vat Return

When submitting his quarterly VAT returns, a taxpayer deliberately paid more VAT than was due to avoid the risk of underpayment. His accountant carried out a reconciliation at the end of the year and adjustments were made in subsequent returns to reflect the correct figures. By 1 March 2006, he was in credit for overpaid VAT of £5,648.83. He decided to reclaim the amount by under declaring the VAT in the returns submitted after that date.

During a VAT inspection in early 2010, HMRC said that the adjustments were unauthorised and that only over or underpayments that were 'discovered' by the taxable person could be corrected via the VAT return. A deliberate error could not be discovered.

The First-tier Tribunal noted that the taxpayer had 'knowingly submitted false VAT returns', and had signed the declaration on the returns saying that they were 'true and complete', when he knew they were not. Manipulating the VAT figures to manage cash flow had no basis in law, and deliberate errors could not be corrected by means of a voluntary disclosure.

The taxpayer's appeal was dismissed and he failed to recover the overpaid tax.

Deliberate under or overpayments of VAT on past returns cannot be treated as errors and corrected on a future VAT return even if the amounts involved are less than the error notification limit of £10000.

Only genuine errors that are discovered after the returns have been submitted can be adjusted in this way.

So be warned, and do not adjust your vat returns to fit your cash flow!

Woman who claimed Input tax on a plane

A woman registered for VAT and submitted a return claiming a repayment of £60,038. When HMRC queried the claim, she stated that she had purchased an aeroplane, a car and a piano. However she failed to produce any invoices in support of her claim. HMRC formed the opinion that the claim was fictitious, and imposed a penalty which she appealed.

The First-tier Tribunal dismissed the woman's appeal, finding that 'the purchases never occurred' and that the repayment claim was dishonest. In addition to the penalty, the woman found herself having to pay the costs of HMRC.

It is difficult sometimes to comprehend just how stupid some people can be.

HMRC workers vote for strike

More than half of HMRC staff polled have voted for industrial action in a dispute over jobs and privatisation, which is expected to affect a range of services from tax advice to call centre support.

HMRC said that just 33.3% turned out for the vote, but that it was “disappointed” with the decision to strike and would do everything it could to maintain services during industrial action: "We are seeking dialogue with the PCS to address their concerns and will work to minimise any disruption to customers”.

The union is fighting plans to cut a further 10,000 jobs from the department by 2014/15. Since 2005, 30,000 posts have been cut and the union says this means there are not enough resources to collect all the taxes that are due. It is also opposing a trial using private companies to handle tax credit inquiries.

The PCS union is considering whether its members should join doctors in holding industrial action on 21 June.

The Sales Prevention Dept.

More stories from our own experiences of organisations that want to profit from us, have goods, services or ideas to sell, but fall short when it came to fulfilling our expectations, just did not deliver the value we were expecting and who will inevitably fail to maximise their profits.

Do you employ staff who have direct contact with your customers? Think of them like the tyres on your car. They are the point of contact with the road you have chosen to travel. If the tyres are not fit for the job, your journey will not be as smooth as you would like and could be cut short.

Picture this. I go to buy a cup of tea. Something I do with reasonable regularity. Miss Unsmiling comes to take my money. She has been out back for a fag (she smells). She takes my money and then hands me my change, including notes and coins, along with the receipt all into my one hand. She immediately walks away from the till without a word leaving me to sort out the mass of paper and coins that she has left me with along with my purchase.

She did what she was paid to do. She took my money. But, and it is a big but, she did not lay the foundation for the next sale. She has obviously forgotten that it is the customers who buy the tea that ultimately pay her wages.

If you employ people like this, have you been keeping an eye on how your staff treat your future customers. Have you got your friends to test out your staff undercover?

In my book, there was only one thing she could have done that would have made the situation worse and that was to be chewing gum.

You have to keep in mind that every sale is a chance to sell the next one. Very few people seem to get this.

Let me add another observation about shops, cafes and restaurants. Let your kitchen staff smoke outside where I can see them and you are making sure that I never eat in your restaurant or buy from your shop.

If you want to boost the number of customers and especially repeat customers, you have to stop turning off ones like me that find such things unpleasant. Stop shutting out a large part of the potential market.

Tax Tips and Tricks

Tax relief on loans to invest in your company

You can borrow money and pay this in to your company and get tax relief personally against your other personal income.

The loan must be to enable you to:

- (a) buy shares in a close company, other than via the Enterprise Investment Scheme, or Seed EIS, or under a CGT reinvestment relief claim; or
- (b) to provide funds to lend to the company.

There are restrictions on what you can get paid back from your company and you must also meet either the full-time working conditions test or the material interest conditions.

If the funds borrowed are lent on to the company they must be used wholly and exclusively for the purposes of the business of the company, or of an associated company provided the latter is also a close company.

The full-time working conditions mean that you must own some of the ordinary share capital, with no minimum requirement, and spend the greater part of your time on the actual management or conduct of the company or an associated company. The time test is from the date when the loan was used up to the payment of the interest claimed as tax deductible.

The material interest conditions are that you are either:

- (a) the beneficial owner of, or able to control over 5% of the ordinary share capital, or
- (b) entitled to acquire such rights as in the event of a winding up would give entitlement to over 5% of the assets available for distribution.

VAT: Subcontractors travel and subsistence

Take the example of a building business that uses a combination of subcontractors and employees to carry out various jobs. The subcontractors use their own vehicles but you agreed to pay their petrol bills as well as their meal and hotel costs for jobs that are away from the local area.

In such a case, input tax can be claimed on the subsistence costs relevant to the subcontractors as long as they get the same treatment in terms of expenses as employees on the same job but there is no scope to make a claim for any of their travel expenses. And in this case it would be their road fuel.

HMRC Task Forces Operating Here, Now!

If you are involved in any of the following trades, HMRC may well come knocking on your door. They may already have you in their radar.

Tutors & coaches

Electricians

Scrap metal dealers

Fast food outlets

Get in touch as soon as you hear from HMRC so that we can help you through the enquires. Remember that all our clients are covered by fee protection insurance so that, subject to approval by our insurers, it should not cost you a penny to get us involved.

VAT Annual Accounting

If you struggle to pay large VAT payments quarterly or your VAT fluctuates throughout the year, consider the VAT annual accounting scheme to help your cash flow.

The annual accounting scheme enables qualifying businesses with taxable turnover up to £1.35m to submit one VAT return each year. The business will need to pay its annual VAT liability via monthly instalments followed by a balancing payment two months after the year end.

The scheme has many advantages including:

1. budgeted cash flow as the business knows what VAT needs to be paid via instalments during the tax year
2. only one VAT return needs to be submitted each year.
3. reduced exposure to penalties especially tax point errors
4. reduced exposure to default surcharge penalties
5. businesses have 2 months at the end of the tax year to submit the VAT return and balancing payment rather than one
6. the VAT return stagger can be aligned to the financial year end in order to simplify year end accounting requirements / obligations

Under annual accounting, a business can choose to either pay three quarterly instalments or nine monthly instalments during the year. The payments must be made by either direct debit, standing order or another form of electronic payment and businesses do not get a 7 day extension to submit the payment which would be allowed for businesses using the normal VAT accounting rules

The nine instalments should each total around 10% of the prior year liability – or 10% of the current year estimate if lower. The quarterly instalments will be around 25% of the previous years liability or 25% of the current year estimate if lower.

Incorporate and Defer CGT

Are you about to sell a business property which will result in a large CGT payment. Consider incorporation. Potentially this can defer the tax indefinitely.

Capital Gains Tax (CGT) relief applies upon the incorporation of a business, where a person who is not a company transfers to a company **a business as a going concern**, together with the whole assets of the business, or together with the whole of those assets other than cash, and the business is transferred wholly or partly in exchange for shares issued by the company to the person transferring the business.

What you are doing is rolling the gain into the new company's shares which you are not selling while uplifting the base cost of the asset you want to sell to the price you expect to get, i.e. market value. So there is no gain on the sale.

As always there are other considerations when considering any incorporation, but if you were thinking of incorporating anyway, this method could mean the illumination of a significant hole in your bank account, i.e. the Capital Gains tax you no longer need to pay.