

tlp - news

May 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.

Call us today!

Kirkwall 01856 878600

Thurso 01847 890304

Inverness 01463 710166

Elgin 01343 540388

Quotes

"Either write something worth reading or do something worth writing."

-- Benjamin Franklin,
Inventor

"Every successful man I have heard of has done the best he could with conditions as he found them, and not waited until the next year for better."

-- Edgar Howe

"Accept the challenges so that you may feel the exhilaration of victory."

-- George Patton, General

"Don't play for safety. It's the most dangerous thing in the world."

-- Hugh Walpole, Writer

Travelling on public transport can be a trial. You get on board and sitting next to you is "headphone boy". Either you can just hear the beat or, like this morning you could just about "name that tune".

Now, I suppose you thought an accountant would drive everywhere in their "rather nice" company car. Well, the "rather nice" company car is a Focus and it can't swim, so today I am on a ferry from one of the islands. Last time, I was on a train from Cambridge to Sheffield. People, and especially my music playing travelling companion, are the same wherever you go ... and so is the music.

Contrast this to the start of my day. Woke up, was treated to a nice cooked breakfast (scrambled egg, nothing fried of course) and then walked down the pier on a glorious spring morning, cold and fresh. I glanced back at the creel boats either moored at the pier or about to set off to start working. Then, "headphone boy", brings me back to reality and reminds me that, no matter where people choose to live, they still want lives (and loud music) just like anyone else.

Why was I on an island? I was giving a presentation to the AGM of a development trust. These are always great events for many reasons and it is why we have never, as a firm, charged for attending AGMs. We really like these type of presentations. No-one fell asleep so I could not have been that bad even though I was talking about accounts and tax.

The islands are on a roll just now. It is a credit to such organisations as Community Energy Scotland and HIE that so many of these islands are achieving financial independence through the development of community wind turbines, i.e. wind generated printing presses for money.

This is enabling the natural resourcefulness and entrepreneurial nature of these people to transform their local economies. It will change the islands for a generation and

depopulation and building vibrant communities.

Inevitably some of the character of these island will disappear but you cannot stand still or you will wither away, and anyway, the generations to come will decide on the character they want.

We like meeting people in a more natural setting (if an AGM can be described as natural). We also like the baking. So, if you want us to come along and give a talk to your group, whatever that might be, give us a call. And you don't need to be on an island, although that would be a bonus.

Are you wondering why we do this? It's quite simple really. Let's talk marketing. Where do you find clients or customers? Do you rely on them finding you or do you reach out to prospects in some way. We have many clients who have dealt with us or the firm for many years, some longer than any of us would care to remember. However, there are always clients retiring or selling up and so we, like most business owners, are always seeking introductions and new business.

If you are looking to grow your business or even just to stand still at the moment, you will have the same challenges as us. There is never anything new in business, just the technology.

So, we get to stand in front of a group of people that we may or may not have met before. We make a presentation, giving them insights either into their own accounts or business generally, or usually a bit of both, often with some simple tax planning thrown in. They get to hear what we have to say and how we say it and hopefully get something from it themselves. At the end of the meeting, they might decide that we are the sort of people they want to do business with, or not. **And we also really enjoy it.**

So, if you think that your board or group would benefit from a presentation, get in touch. We will both get something out of it, and we will enjoy the meeting.

By the way, it is now a year since we took over Graeme M Fraser & Co. It's been an interesting year in many ways. New people to meet and new challenges. What will this year bring?

Charities

Cost-sharing Exemption

The cost-sharing exemption provided for in EU Directive 2006/112/EC, art 132(1)(f) is to be implemented in the UK with effect from Royal Assent to Finance Bill 2012.

The measure will exempt from VAT the supply of services by a group which consists of persons engaged in exempt or non-taxable activities so long as the services are supplied to group members at cost and for the purposes of those activities.

Conditions may be imposed in connection with the application of the exemption.

This will help charities where staff are shared and costs recharged. VAT will not need to be charged to the service recipient.

New Gift Aid declarations

HMRC has published updated guidance on Gift Aid declarations and provided new model declarations.

It has always been the case that the donor must pay enough tax to cover all of their charitable donations and not just the donations made to that particular charity at that particular time.

The new mandatory information on the forms ensures that the donor is making an informed declaration, and understands the consequences if they have not paid enough tax to cover all the donations they make under Gift Aid, not just those to one charity or Community Amateur Sports Club.

By incorporating the required information set out in the guidance on the Gift Aid declaration form, charities can be certain that HMRC will not challenge the associated Gift Aid claim on the grounds that the donor did not give a valid declaration.

Incorporating the information on the form is the simplest way for charities to show they have explained the tax consequences to the donor and ensure that the donor's Gift Aid declaration is valid.

IR35 – there's life in this old dog it yet

If you work through your own personal company, you and everyone else has got used to ignoring the IR35 regulations. That could be about to change.

The amount of tax generated by IR35 has led many people to call for its abolition. This has not happened and instead, HMRC seem set to breathe life back into the little used piece of legislation by setting out new guidance that sets out some basic risk factors that in the view of HMRC will affect a contractor's chances of being investigated.

12 business entity tests have been set out by HMRC and these try to score the risk that IR35 may be applicable in any situation.

The tests and their scores include:

- **Business premises test** - Does the business own or rent business premises separately from the contractor's home or end client's premises? (10 points if yes)
 - **PII test** - Does the contractor need professional indemnity insurance? (2 points if yes)
 - **Efficiency test** - Has the business had the opportunity in the past two years to increase its revenue by working more efficiently? (10 points if yes)
 - **Assistance test** - Does the business employ any workers who bring in at least 25% of the yearly turnover? (35 points if yes)
 - **Advertising test** - Has the business spent over £1,200 on advertising in the past year; entertainment does not count as advertising (2 points if yes)
 - **Previous PAYE test** - During the past year, has the end client engaged you with no major changes to your working arrangements (Minus 35 points if yes)
 - **Business plan test** - Does your business have a business plan with a regularly updated cash flow forecast, and does it have a business bank account, identified by the bank as such and separate from your personal account? (1 point if yes to both parts of the question)
 - **Repair at own expense test** - Would the business have to bear the cost of rectifying any mistakes? (4 points if yes)
 - **Client risk test** - During the past two years, has the business been unable to recover payment amounting to more than 10% of yearly turnover? (10 points if yes)
 - **Billing test** - Does the business invoice for work carried out before being paid and negotiate payment terms? (2 points if yes)
 - **Right of substitution test** - Does the business have the right to send a substitute? (2 points if yes)
- Actual substitution test** - Has the business hired anyone in the previous two years to do the work it has taken on? (20 points if yes)

The scores used to assess contractors' risk profiles are as follows:

Less than 10 points	High risk
10-20 points	Medium risk
More than 20 points	Low risk

This is all part of the Governments stated intention in the budget to bring forward a package of measures to tighten up on avoidance through the use of these personal service companies, and to make the existing IR35 legislation easier to understand.

This will include HMRC strengthening specialist compliance teams, simplifying the way IR35 is administered, and consulting on proposals which would require office holders and controlling persons, who are integral to the running of an organisation, to have PAYE and NICs deducted at source. Could it also mean that all personnel working in or for Government have to be on PAYE, hmm.

The specialist IR35 teams will be at offices in Salford, Edinburgh and Croydon and they will pilot the new approach to investigations in relation to IR35. If you have any doubts about whether you might be at risk from HMRC's new approach, get in touch and we can discuss it.

PAYE – Compulsory Real Time Information (RTI) from 2013

The biggest change in the PAYE system almost since its introduction is just around the corner and it will affect everyone who operates a PAYE scheme for their employees, almost without exception.

The new Real Time information system will commence testing during 2012, with implementation due from April 2013. Real Time Information (RTI) is a priority Government programme aimed at improving the operation of Pay As You Earn (PAYE).

Currently, employers and pension providers send information about tax, National Insurance Contributions (NICs) and other payroll deductions to HMRC after the end of each tax year. The result is that HMRC cannot correct mistakes until the employer sends this information.

However, under RTI, employers and pension providers will send this information to HMRC online when or before the payments are made.

Timetable

HMRC currently envisage that **all employers and pension providers will have joined the RTI system by October 2013.**

HMRC envisage that most employers and pension providers that haven't joined the RTI system during 2012-13 will do so in April 2013, and that RTI will be routinely operating by no later than October 2013. HMRC will notify all employers and pension providers about their obligations in due course.

RTI will

- make PAYE more accurate for individuals, over time reducing the number of bills and repayments sent after the end of the tax year
- enable HMRC to pursue late payments more effectively
- support the payment of Universal Credits
- reduce Tax Credits error and fraud

RTI will support Universal Credits by providing the Department for Work and Pensions (DWP) with up to date information about claimants' employment income, enabling them to calculate Universal Credits payments without the need for claimants to supply employment or pension income information.

RTI reporting will become an integral part of an employer's normal payroll activity. When employers run their payroll, the payroll software will gather the information required and send it to HMRC. This will be done using the internet through the Government Gateway on or before the date payment is made.

For HMRC it will mean that there are fewer individual customer records needing an end of year recalculation to determine what underpayments or overpayments have arisen with adjustments being coded out in later years.

Employers will no longer have to complete a form P46 and send it to HMRC. But they will need to obtain the P46 information from the employee and use it to complete the starter information which will be sent as part of the RTI payment submission, with details of the employee's first payment, when the payroll is run.

At the year end employers will:

- indicate on their last payment submission on or before the 5 April that this is the final submission for the tax year
- provide each employee and pensioner with a form P60
- complete and file any forms P11D and P11D(b) due under the existing PAYE arrangements

Can we help?

If you find the thought of this a bit daunting, give us a call. We can help you to fulfil your statutory obligations on time and take the stress out of the whole process, leaving you to concentrate on your business.

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.

Picture this. Breakfast in a hotel we like and frequent quite regularly. Next table were four people who appeared to be on business. Now, their employer we believe, is a well known regulatory body who we shall just refer to as APES.

The group seemed to behave as though no-one else was in the room. We now know the names of who can and cannot write reports, their standard of time keeping and, of course, that no-one ever gets fired unless they have either fiddled their expenses or their time sheets, certainly not for incompetence. If it was up to me I would have fired this four on the spot.

Do you talk business in situations where you can be overheard? It is easily done. But, if this group had been this indiscreet with your information, what would you have thought? Most of us do not have the choice of whether we "buy" from this organisation or not, but I would be very reluctant to let them have information that I did not want to get into the public domain.

Now, don't get me wrong. I am not saying that they would be this indiscreet with "client" information but it makes you reluctant to take the chance. I am sure they have rules about things like that. But, discussing their own organisations operations and particularly its weaknesses, is just as bad. Someone might overhear and pass it on.

Have you had conversations with friends or colleagues about your business? Could it be overheard? Could bits of that conversation be picked up out of context and passed on, costing you sales in the future?

Do your staff talk about the business in public? The perception of your customers and prospects is important and so your staff need to understand that what they say anywhere about the business is critical.

Tax Tips and Tricks

Mileage Allowances

The statutory mileage rates for use of own car on business journeys were updated in April 2011.

Up to 10,000 miles pa	45p (formerly 40p)
Over 10,000 miles pa	25p

Where employers have not increased the rate that they pay for mileage, employees will be able to claim additional deductions for tax purposes.

So, if you drive 10000 miles pa on business and only get paid £4000 by your employer, you can claim the other £500 as a tax deduction against your earnings and get a refund of at least £100.

If your employer pays less, the refund is greater.

How to Defer Income and Tax

Do you own your own limited company? You can:

- Delay declaring or paying a dividend until after 5 April.
- Use loans from company to give cash flow in the current year and repay next. If the loan is paid back within 9 months of the company year end, there is no tax charge.

Don't forget to concentrate on getting the dividend procedure right because of the recent decision in PA Holdings Limited v HMRC where dividends were reclassified as employment. You might want us to help with dividend planning and paperwork.

Individuals can:

- Maximise pension contributions remembering to take account of any unused relief which is carried forward from earlier years, subject to the pensions annual allowance charge
- Consider investments in the Seed Enterprise Investment Scheme or the Enterprise Investment Scheme or Venture Capital Trusts
- Use trading losses against income before 2013/14
- Accelerate qualifying capital expenditure for capital allowances
- Delay the receipt of bonuses until after 6 April

Low Salary + Dividends?

If you were being paid £589 per month by your company as part of a low salary + dividend strategy before April, you should now be receiving:

£624 per month

If you were getting less than £589 before April, there could be a reason, so speak to us about it.

Subject to your circumstances, the limit for dividend in 2012/13 will be:

£30,900

But, remember that **dividend must be properly documented and paid correctly** or there is a risk that HMRC could designate them as salary and come looking for the PAYE and NIC (ees + ers).

Avoid the risk, speak to us about properly documenting your dividends.

If you pay weekly or monthly flat rate dividends - you have a problem! Contact us before HMRC contact you.

Management and service charges

Management charges between related businesses are relatively common, and are sometimes used in a tax planning context. For example, if companies are 'associated' for small profits marginal relief purposes, management charges can be used to minimise tax liabilities by moving profits between companies and ensuring that more profits are subject to a lower rate of corporation tax overall.

HMRC accept commercial levels of management charges in some cases, such as a "reasonable recharge regime" involving group service companies.

In addition, HMRC acknowledges the use of service companies by partnerships, where the service company provides office accommodation and clerical services, although the management charges to the partnership should not be more than their cost plus a "modest" uplift. However, difficulties can arise if, for example, management charges appear excessive or non-commercial, or if the charges are intermittent or vary widely.

To qualify as an allowable deduction for the paying business, the "wholly and exclusively" test must be satisfied. In addition, it should not be overlooked that the management charge must satisfy normal principles of commercial accounting.

So, use them to your advantage but avoid blatant profit shift-

Equitable Life

The Government has begun to make compensation payments to pensioners and policyholders who suffered financial loss as a result of Government Maladministration in the regulation of Equitable Life.

Have you recently received payments under the scheme?

Payments under the scheme are not liable to UK Income Tax, CGT or Corporation Tax and so do not need to be declared on any tax return. Also, the funds retain their tax free status when paid to beneficiaries via trustees. They will also not count for IHT purposes.

National Minimum Wage

The new rates which will be effective from October 2012 are as follows:

Adult rate - up by 11p to **£6.19**

18 - 20 year olds - unchanged at £4.98

16-17 year olds - unchanged at £3.68

Apprentices - up by 5p to £2.65

Self Employed Teachers and NIC

The rules have changed from April 2012 and self employed teachers and lecturers will no longer be subject to Class 1 National Insurance contributions. This was a bit of an anomaly whereby they had to be treated as employees for NIC even though genuinely self employed. They were not subject to Class 4 NIC.

Now they must register to pay Class 2 NIC and will be subject to Class 4 NIC on their profits. Class 1 contributions should no longer be deducted at source.