tlp - news

November 2010 **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

"There's no great mystery to satisfying your customers. Build them a quality product and treat them with respect. It's that simple."

"I have found that being honest is the best technique I can use. Right upfront, tell people what you're trying to accomplish and what you're willing to sacrifice to accomplish it."

-- Lee Iacocca, executive

Something a bit different this month. A few days ago, an email arrived offering me "101 ways to beat the Taxman" and I thought "What a good idea", so I nicked it. Our whole November newsletter is a giveaway (very appropriate just before Christmas) of simple but effective tax planning ideas and I defy anyone not to find something that they can use. Please don't tell the authors but if you want to have sight of the original just send me an email at

advisers@thelongpartnership.co.uk

and I will forward the original (by Ian McTernan and Sarah Bradford from Tax Insider) to you by return. It has room for examples that we cannot fit in here and is well worth a read.

As always if there is anything here that interests you or that you think would be appropriate for you, just get in touch and we can get together and discuss it further.

Isn't it funny how we manage to give away so much good stuff (that other people charge a lot of money to tell you about), and yet we still manage to earn a crust. That's because anyone can regurgitate tax facts, rules and even tax law, but it takes a little bit more to apply it in practice and to temper the tax with practical business advice. Let me give you an example.

A little while ago I was speaking to the clients of another accountant (not unusual) and they said that they had been told that to avoid paying tax they should not make a profit. Every time they made some money they spent it on equipment or repairs or something else, to get rid of the profit. Recipe for disaster!

The answer to most business problems whether it be cash flow or something else is invariably to make profit and as much of it as you can. We will then minimise the tax on these profits but **profits are a must have** when it comes to business. Profits are good, no profits is bad, very, very bad. I don't care if that loss gets you a tax refund, you are haemorrhaging pound notes.

On another tack, have you noticed how many businesses are going to the wall, and it's going to get worse. One of the main culprits is HMRC. They are taking a hard line, or are they? We were recently told by one Inspector who was not quite "on message" that the courts were getting fed up with the constant stream of debt collection cases that HMRC were bringing to them.

I suspect that this is not a policy decision by HMRC as such, but a response of their staff to the pressures that they are currently under to process and clear cases. The quickest way to clear your desk is to pass the case on to the next stage in the process when it will be someone else's problem. In other words, the result of HMRC staff being put under so much pressure to perform, is to send debt cases to collection and recovery, even when this means that HMRC will recover less back taxes at the end of the day. The economy in general suffers because the employees are on the dole and the business which would have returned to profit in a few years time, will not be there to pay the taxes.

That is HMRC at the moment. They are in a bit of a mess just now. They are shedding staff and offices. Moral, by all accounts is at an all time low. Specialist offices and experienced staff are being replaced by call centres whose advice cannot be relied upon.

It will not be long until there is no tax office north of Inverness, and one inspector told me some time ago that ultimately, there may be no tax offices north of the Central Belt. If that happens most of Scotland will become bandit territory. When this happens, should we issue our own currency, bits of paper of appropriate denominations that HMRC cannot trace, or should we resort to barter. They will be 200 miles away! How will they know? Just don't use your card and they will never trace it. What about independence .....

Only joking. We are quite law abiding really and anyone who deals with us will know this perfectly well.

Anyway, the tax return season is now well and truly upon us. Cancel Christmas! Where's the next tax return. Spare a thought for us this Christmas; we don't relax till February!

CAPITAL GAINS & LOSSES

Utilise your Annual Exemption

If you have significant capital gains within your portfolio then it is important to utilise the annual capital gains tax allowance. For the 2010/11 tax year this is worth £10,100 per person, and is one of the most generous annual allowances in the world. Any disposals within this figure are exempt from capital gains tax. This means that you can use your tax-free allowance each year by selling off just enough shares (or other qualifying assets) to realise a gain equivalent to the annual exemption. This allowance does not carry forward. So this means that if it is not used in the tax year then it is lost!

Utilising Your Spouse's Annual CGT Exemption

By transferring assets into joint names prior to sale, you can utilise your spouse's annual exemption as well as your own which means that a couple can make gains of up to £20,200 before paying any capital gains tax. Transfers between spouses are treated as a no gain/no loss transaction and hence the spouse steps into the shoes of the other holder, taking over their base cost and length of ownership.

Registering Your Capital Losses

If you bought an asset and sold it at a loss then it is possible that you made a capital loss. In order to preserve this loss for use against gains in future years, you must return the loss within your Tax Return within six years, or amend an already filed Return to claim the loss. Note, that if gains were incurred during the year that the loss was made, the loss will first be set against the other gains for the year before being carried forward. This is regardless of whether the gains are below the annual CGT exemption. Remember, any size loss if realised in isolation can be used in this way, and could save you 28% tax on the amount of the loss in future years.

BUSINESS

Capital Allowances: Annual Investment Allowance

These allowances give 100% deduction against profits up to the amount of the allowance (£100,000 from April 2010). The allowance limit is to be reduced to £25,000 from April 2011, so it makes sense to advance high value purchases to before this date to take advantage of the higher level of the allowance.

Timing Your Capital Expenditure

If your cash flow allows it, consider carefully the date on which you invest in new items of plant and machinery or other items qualifying for capital allowances. A purchase in the last few days of an accounting period can advance the tax saving by twelve months. The same applies to revenue expenditure such as equipment repairs.

Employ Your Family

If a member of your family has no income, you could employ them in your business or take them into partnership, and save a significant amount of tax. Care must be taken to ensure that the arrangement is commercial and the level of pay is commensurate with the duties performed to avoid an attack from HMRC. The National Minimum Wage rules also need to be considered, although the National Minimum Wage does not apply to directors.

Pre-Trading Expenditure

Many people are not aware that you can claim expenses incurred in the seven years before commencement of trading against your first year's trading profits. The expenses are treated as having been occurred on the first day of trading. Make sure you keep all receipts for expenses incurred in this way.

Dividends & Bonuses

Simply by timing the payment of dividends and bonuses from your own company you can save a considerable amount of tax or delay tax payments by up to a year.

By watching the dates carefully, you can keep yourself out of higher rates of Income tax or avoid losing your personal allowances if the dividend or bonus takes your income over £100,000 (and subject to 60% tax!).

You can leave funds to build up in your company and take them out another time.

Choosing Your Accounting Date

When commencing self-employment, choosing an accounting date (the choice of year-end) can be crucial in determining whether low profits are taxed twice or high profits are taxed twice. It will also determine the level of overlap relief carried forward and utilised on a future change of date or on cessation. When determining an accounting date, it may be considered easiest if accounts are made up to 31 March or 5 April in the first tax year so as to eliminate any chance of an overlap profit. Alternatively, 30 April will maximise the period between the year-end date and the filing deadline for the Tax Return for the year.

AVERAGING

Farmers' Averaging

Farmers are permitted by election to average their profits over two years of assessment on a rolling basis. This can be especially useful where one year is particularly good followed by a particularly bad one.

Authors, Composers and Other Creative Artists

The same concept as for farmers averaging also applies for authors, composers and other creative artists to help them improve their tax position.

HOME & PROPERTY

Registering Your Rental Losses

If you rent out property then you have an obligation to report the property income and expenses to HMRC, even if you make a loss. Many people do not realise this and only start reporting the income when they break into profit. Without reporting the rental losses, you are losing out on being able to set these losses against future income from property, meaning that you will pay more tax than you should. So, if you register these losses now then you will be able to take them forward and offset them in future years.

Utilise Rent a Room Relief

If you rent out a room within your own property then you can claim the rent a room relief of £4,250. This can be claimed against the rental income as an alternative to claiming the expenses incurred in letting the room out. In many cases this eliminates the tax charge entirely, just for ticking a box on the Tax Return form.

Claim Your 10% Wear and Tear Allowance

If you let a property furnished, not only does the property normally generate more income, but you can claim the 10% wear and tear deduction from the gross rentals received. Many non-represented taxpayers regularly miss out on this very easy relief.

Principal Private Residence Relief (PPR)

The disposal of your only or main residence is exempt from capital gains tax provided you have lived in for the entire time of ownership. This is known as Principal Private Residence Relief. There are many rules associated with this relief, but remember to make use of this exemption, as for the majority of people this is the biggest investment they ever make.

Private Lettings Relief

If you rent out a property, which was at one time your PPR, you will qualify for the lettings relief. This can be worth up to £40,000 against the gain realised on the disposal of a property. Note that this relief is per person, so if property is held jointly it can attract up to £80,000 relief. Unrepresented taxpayers frequently miss this relief from their calculation of the chargeable gain on a property where they can have claimed it.

The 36 Month Rule

If a property was once at some point your PPR then the last 36 months are exempt from tax. This means that if you have a second property that you now live in, then you are still entitled to PPR for the last 36 months on the other property.

Choosing your PPR

Where you have more than one property it is possible to choose which one is your PPR at any given time, provided the property is or has been used as a home. However, a person can only have one PPR at any one time. By `flipping' the properties, it is possible to maximise relief and ensure that the last 36 months for each PPR qualify for relief.

TAX RELIEF ON INTEREST

Interest Relief

Tax relief is available for borrowing to fund a buy-to-let property to the value of the property when first let. Crucially, the loan does not need to be secured on the let property. Funds can be raised by borrowing against the main residence and using the money released to fund the purchase of the buy-to-let.

Interest Relief on Borrowings to Fund Businesses

With the exception of funds borrowed to fund certain Enterprise Investment Scheme shares, interest on borrowings to fund family businesses or partnerships is allowable against your income. This point is often overlooked as funding may have been raised by way of increasing the mortgage on the family home. It is the purpose to which the funds are put which is important here. Investing in index-linked Government stocks, British Government stocks or gild-edged securities (gilts) are exempt from capital gains tax. Index linked gilts can therefore be attractive, particularly to those paying capital gains at the new higher rate of 28%.

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 it, just did not deliver the expected value required to make the "sale".

This month, a slight departure. It is not about selling goods or services but about values and credibility.

Event 1:

Let me share (most of) a car registration number with you.

SY5* CE*

Proceeding south in my "unmarked car" on Saturday 30 October at approximately 8am, I turned east and settled in behind a car cruising through the village. To my alarm I found I was doing 40 in a 30 as was the car in front, and of course I immediately slowed down. The car in front did not. A few minutes later, following the same car on a country road and again, to my alarm, found that I was doing 70, as was the car in front. Of course I slowed down but the car in front did not.

Event 2:

Proceeding north on the A9 from Inverness on Friday 5 November in mid afternoon, in another "unmarked car", so that I was not spotted, I came across two police speed camera vans just a couple of miles apart, pointing their cameras at the cars heading south to Inverness for the weekend. Did they perhaps think that this could be a good source of targets as people who have been working hard all week and possibly contributing more to the society in which they live, seek to get back home for the weekend?

What is the connection between these two events, I hear you ask. They were all "Peelers" - look it up!

But, more importantly what is the lesson to anyone running a business? I put it to you that by ignoring their own message and by the apparent cynical targeting of people going home for the weekend, the messenger is not onboard with the message and that as soon as you realise that fact, the message loses impact as a result.

Answer me this. Would you buy goods or services , would you pay for advice from someone who lacks credibility? Think about buying online.

INCOME TAX RELIEFS & RATES

Pensions

Payments into an approved pension scheme attract tax relief at your highest rate of tax and are deemed to be paid net of basic rate tax. Special restrictions apply if your earnings exceed £130,000.

Relief for pension contributions means that a contribution of £80 makes £100 into the fund and you get a higher rate tax relief (to take you up to 40%) of £20. So, for every £60 net cost you have £100 into your pension scheme. It is even better if you are a 50% taxpayer or are caught in the Personal Allowance trap at £100,000 of income.

Age-related Tax Allowances

Anyone over the age of 65 needs to be aware of the £22,900 income limit (for 2010/11), above which the age-related tax allowances start to become restricted by £1 for every £2 of income above this limit, resulting in a very high effective tax rate on income just above the limit. Care should be taken to ensure income producing assets are held in the most tax efficient manner, i.e. by your spouse.

The married couple's allowance is available to married couples and civil partners where at least one partner was born before 6 April 1935. Relief for the allowance (£9,695 for 2010/11) is given at a rate of 10%. Unused allowances can be transferred between spouses.

Equalising Marginal Rates of Tax

For 2010/11 there are 4 effective rates of income tax – the basic rate of 20%, the higher rate of 40% and then the 50% ands 60% rates. By transferring income or income producing assets to a lower earning spouse or civil partner it is possible to save tax at the higher rates.

Use Rounding in Your Tax Return

If you have income that includes 'pence', round down these figures. For expenses always round them up. This may not save you a lot of tax but every little bit helps!

NATIONAL INSURANCE

Deferring National Insurance Contributions

National Insurance contributions are worked out separately for each employment and self-employment, without taking account of any other earnings on which NICs are payable. This means that where a person has more than one job or has income from both employment and self-employment, they may end up paying National Insurance contributions in excess of the annual maximum for the year. If this applies to you, then you can defer payments.

Small Earnings Exemption for Class 2 NIC

If you earn less than £5,075 (2010/11 figures) a year from your self-employment you are entitled to claim the small earnings exemption and not pay any Class 2 NIC for the year. Remember that you can also claim this for any year in which you have a loss.

Stop Paying National Insurance

Once you have reached retirement age, you are no longer liable to pay employee's National Insurance Contributions (NIC) (although liability to employer's contributions continues). For the self employed, you do not pay NIC after the 5th April following your attainment of the state retirement age.

PENSIONS, TAX FREE BENEFITS and VAT

Pension Funding By Companies

Most payments into a pension scheme for a director are a tax-deductible in the company and not classed as a benefit for the director. This can be a useful way of extracting surplus funds from a company or avoiding higher rate tax on further dividends or salary payments.

Pay a Small Salary (and top up with dividends)

Where a person's earnings fall between the lower earnings limit for Class 1 National Insurance purposes (£97 per week for 2010/11) and the earnings threshold (£110 per week for 2010/11) they are deemed to have paid National Insurance contributions at a notional zero rate.

The benefit of this is that it preserves your contribution record and entitlement to the state pension and certain contributory benefits, without actually costing them anything. Therefore where profits are extracted in the form of dividends, it is beneficial to also pay a small salary. For 2010/11 the salary should be between £421 to £476 per month.

It will also ensure that you are entitled to statutory sick pay and also, where relevant, statutory maternity pay, statutory paternity pay and statutory adoption pay.

Paying a Bonus to Increase SMP

Statutory maternity pay is paid at a rate of 90% of average weekly earnings for the first six weeks and at the standard rate (£124.88 for 2010/11) for the remainder (or 90% of average weekly earnings) if less. Paying a bonus in the period over which average weekly earnings are calculated will increase the employee's average weekly earnings and therefore the SMP payable in the first six weeks.

Small employers (total annual NIC bill of £45,000 or less) can recover 104.5% of any SMP paid, so the additional SMP paid to the employee does not cost the employer extra.

State Pension Entitlement

When you receive your notice of entitlement, it will also be possible to purchase additional years if the last few years of your working life have not made sufficient contributions to entitle you to the full pension. Good idea!

Putting Your Mobile Phone through The Company

An employee can be provided with a mobile phone tax free but the contract for the provision of the phone must be between the mobile phone provider and the company.

Working Abroad — Tax-Free Trips for your family

If you are sent to work abroad for a continuous period of at least 60 days, then your employer can pay for two trips abroad per tax year for your spouse or civil partner and children without any charge to tax on the costs arising on you.

The VAT Cash Accounting Scheme

If your VAT exclusive turnover is £1.35m or less, then you may account for and pay VAT on the basis of cash paid and received. You can join this scheme at any time. Once you are in the scheme you can continue to use it until your taxable turnover exceeds £1.35m per annum.

Should I Register for VAT?

If your taxable turnover is below the VAT threshold then you may not have considered whether registering for VAT could be advantageous for you. If you incur VAT on supplies and the majority of your customers are registered for VAT, then it may be beneficial to register for VAT on a voluntary basis. This will allow you to recover the input tax paid on the supplies and also allow you to charge VAT on your invoices.