tlp - news

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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.

Call us today!

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Inverness 01463 710166

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Quotes

"The first great gift we can bestow on others is a good example."

-- Thomas Morell, Librettist

"It is a peculiarity of man that he can only live by looking to the future. And this is his salvation in the most difficult moments of his existence, although he sometimes has to force his mind to the task."

-- Viktor Frankl, Austrian Neurologist

"Success is always temporary. When all is said and done, the only thing you'll have left is your character"

-- Vince Gill, Musician

"The history of the world is full of men who rose to leadership by sheer force of self-confidence, bravery, and tenacity."

-- Mahatma Gandhi, Statesman

On the whole it has been an interesting few weeks for us for various reasons, which I will not go into just now. However, by the time that you receive this, we will have made a significant change to our **Elgin Office** which until now has continued to trade as Graeme M Fraser & Co. From the beginning of October it will trade under the name of The Long Partnership. The name changes as does the stationery and the style of presentation of accounts but not much else. Cathel, Anthony, Lizanne, Allison, Ben and Lilian will be carrying on doing what they have been doing. You will probably not have noticed the new computers, the new software or new phone system, but these are just the tools of our trade. It is the people that count. The "tools" just make it easier for Cathel and his team to deliver our service to you.

So, next time you phone our office in Elgin, don't be surprised when Lilian answers the phone and says "The Long Partnership". It will not be a wrong number.

In Kirkwall we have been joined by Emily Smith, whose parents live in Hoy. Emily escaped from Milton Keynes and has found sanctuary in the quiet backwater that is our Kirkwall office. It might not be quiet much longer as January is getting ever closer.

In Inverness, Andrew Sinclair has moved down to pastures new. I say down because anyone who knows our Inverness office will be aware that ICR Solutions (EPOS) Limited occupy the ground floor and Andrew has joined them as Finance Director. We wish him well in his new role. To replace him, we are in the process of recruiting, and have the grey hairs and wrinkles to prove it, but we think we have a good replacement for Andrew (if indeed he could ever be replaced!).

September is Tax Conference month for us and usually the next issue of this newsletter is full of the latest tax tips that we have picked up. We needed to publish the results of our bank survey and so we are a month late with our the tax tips. Hope you don't mind.

While we are on the subject, what did you think of the survey and the results? We are still getting responses. It was fascinating to see the range of views and experiences.

Banks are obviously doing some lending but half of all those responding said they had considered changing banks in the last year, some banks were much higher. Surely this must point to the demise of the present style of banker. Time will tell, but see page 3 for an alternative approach.

We may well run another bank survey again next year and then we can compare the results and look for the changes, good or bad. Someone suggested we should run some more surveys but, who should be the target? It was suggested that we do one on lawyers but then again, maybe not.

Anyway, let's change the subject. Let me ask you a question. **Should you care about the wider economy?** Should you even pay attention to what is pumped out everyday in the media. Generally speaking you cannot do anything about it. The only things you need to worry about are the things within your own sphere of influence and that you can control. Everything else is just the backdrop to the stage on which you play out your own particular dramas. So, if you are managing to get by, or even expand, and your own particular niche is doing well, then carry on and ignore the negative pulp from the media. Many people will be deterred from action by the media and that leaves the field more open for the rest of you. It is a chance to get ahead of the pack. I recently came across someone who refuses to read the newspapers or listen to the news but just gets on with making money, and plenty of it.

There is certainly money to be made at the moment, but you need to be light footed and flexible and ready to operate out of your comfort zone. After all, the answer to the question, **"Where are most of the opportunities, inside or outside of your comfort zone?",** must be "outside". In that case you know where you must go. Remember that most other people will not take that step. We have, so follow us up that hill and we'll see **you** at the top.

The Forgotten IHT relief

Making use of the Normal Expenditure out of Income Relief can be one of the most useful IHT reliefs because it has virtually no limits.

The legislation says that a transfer is exempt from IHT to the extent that:

(a) it was made as part of the normal expenditure of the transferor,

(b) that taking one year with another, it was made out of income, and

(c) the transferor was left with sufficient income to maintain their usual standard of living.

Therefore, the expenditure must be part of the normal expenditure of the donor, made out of income and leave the donor with sufficient income to maintain their usual standard of living.

The exempt donation can be to anyone, even a Trust and so the planning possibilities are considerable especially as it leaves your lifetime exemption intact and able to be used to give away capital.

It will be easier to persuade HMRC that the exemption applies if the payments are regular, i.e. every year. Income accumulated for a time will lose its character as income and appear to be capital. Bearing in mind that the arguments with HMRC may be after you have "gained your wings", you want to give your ground crew the best chance of winning this argument. That can be difficult if your income fluctuates from year to year but a pattern of giving in good years and giving less in poor years should be sufficient.

Consider standing orders, deeds of covenant and other ways of providing evidence of regular giving but always bearing in mind that after the gift you must clearly still have surplus income, i.e. your savings and investments are still accumulating.

As always, you should consider taking advice if you are at all unsure whether this exemption will work for you.

The most important word in business is ...... "Next"

Company cars - HMRC calculator

If you want the company to buy your new toy, you can check out the tax costs both for the company and for you as an individual, i.e. the benefit in kind. HMRC provides an online calculator which will work out the taxable benefits where the company provides a car. However, this only works for 2012/13 and earlier tax years back to 2006/07. For later years, it is sufficient to know that the reducing CO2 emissions threshold will result in the cost increasing steadily over the years.

hmrc.gov.uk/calcs/cars.htm

VAT registration trap

The present registration threshold is £77,000. You test your cumulative twelve month turnover at the end of each calendar month and if you exceed this limit, even for just one month, you have an obligation to tell HMRC and you then have the opportunity to request not be VAT registered but this is in the hands of HMRC.

HMRC can grant exemption from VAT registration but will only do so where the business mainly makes zero rated supplies and so would be in a net repayment position, or where the compulsory registration limit has been breached by a one-off sale or unusual circumstances.

You do not want to be in a position where HMRC discover that you have exceeded the limit sometime in the past and seek to recover the VAT on all your sales after that time. You may be able to go back to your customer and raise appropriate invoices but there may be too many customers, or you may find that your principal customer has gone bust and is no longer there to pay you the VAT.

However, you still need to pay HMRC, as bad debt relief will not be available as the customer will have paid the net invoice and so for VAT purposes there is no bad debt.

RTI is Coming - Whether you like it or not!

Beginning in April 2013, RTI will replace the usual end-of-year PAYE efiling process with electronic submission of data to HMRC whenever a payroll is run. The exercise will help HMRC process tax codes more efficiently and will pave the way for the tax department to exchange data with the Department for Work and Pensions to support the introduction of the universal credit.

The crucial area for all concerned - and one of the underlying reasons for the move to RTI - is the need for employers to "align" their data with that held by HMRC. It appears that the department's data is unreliable, and the wording surrounding RTI suggests that it is being used as an opportunity to get employers to help cleanse the HMRC database. This is likely to be the most demanding element of RTI.

Where your systems and processes may need to change

Your employees' payroll records will need to be checked against the records HMRC hold.

You will need to collect new information to submit via RTI, including contracted hours (selected from various ranges, not actual hours worked), and giving an indicator of irregular employment, to prevent occasional employees being dropped from HMRC's database if no payment is made for three months. Collecting and submitting employee passport numbers is an optional extra HMRC would appreciate to help it match records in the last resort.

RTI submissions will need to be made when (or before) payments are made. If you use BACS to pay employees, you will need to include the RTI cross-reference ("hash" number) against each payment.

The P46 new employee tax code forms are being abandoned, but two-part P45 forms are being retained for employees and new employers. Employees will still be able to turn up at their new jobs with their portion of the form, but under RTI, the pay and tax to date for the year will be obtained when you report your PAYE information.

Its all going to take a bit of patience so **allow more time fo the payroll process after April** .

When to Stop Paying National Insurance

You no longer need to pay NICs when you reach the state pension age. If you are self-employed, you stop paying class 2 contributions are soon as you reach State pension age and class 4 contributions from the start of the tax year after the one in which you reach State pension age.

Crowd Funding... What?

Access to funding is not getting any easier. In the present environment where bank loans and overdrafts are becoming scarce, many businesses are either unwilling or unsuited to raising traditional bank finance. We have all seen the increasing prominence of asset-based lenders including the very same banks that will not provide loans or overdrafts. These providers will provide finance as HP, leasing or invoice finance. In addition, tax incentivised business angel activity is increasing using EIS, SEIS, etc.

Crowdfunding is a process by which people pool their resources to support a cause. In the past this has been associated with some form of disaster relief , but now increasingly adopted by businesses seeking working capital finance, loans or even equity.

The business crowdfunding bandwagon is only just starting to roll. Much of the activity has been driven by the internet, which enables campaigns to be spread far and wide but often promoted within well defined online communities.

In 2012 Pebble technology, a US Smart watch company used a US based crowdfunding platform "kickstart.com" to raise funds against forward sales of its Pebble watch. The offer closed on 18 May 2012 by which time the company had raised over $10 million from more than 68,000 backers.

Crowdfunding - Reward, debt or equity

Crowdfunding comes in three main formats being either reward, loan or equity-based. Pebble is the most successful example of the reward-based model so far, where the crowd agrees to donate to a business or project in exchange for tangible, non-monetary rewards such as watches.

Simon Dickson in the UK is launching a crowdfunding site "banktothefuture.com."

Debt and equity-based crowdfunding models are emerging in the UK and some of these are quite sophisticated.

At the more sophisticated end, "marketinvoice" has developed a new and innovative funding platform were businesses can selectively auction individual invoices to a network of high net worth individuals and institutional buyers to raise flexible working capital, which so far has raised over £13.5 million for 90 businesses.

"Funding Circle" is a more traditional debt-based operation. Businesses borrow from multiple lenders and lenders can lend to multiple businesses, thereby spreading their risk. The site claims average gross yields of 8.4% for investors and easy access to the money. Businesses benefit from quick and convenient 1, 3 or 5 year loans between £5,000 and £250,000.

Equity-based crowdfunding models are also emerging and these offer investors the chance to get involved in start-ups or early stage businesses carrying high risk but the potential for high reward. This type of investment is not for the fainthearted and investors need to understand that the vast majority of early stage investments either fail completely or fail to deliver positive returns to investors.

"Crowdcube" is an equity based crowdfunder which imposes strict barriers to entry, insisting that businesses seeking funding must pass rigorous checks. It describes itself as a new way to fund start-ups and business expansion by giving entrepreneurs a platform to connect with ordinary people and thereby raise venture capital.

What next?

Does this mean that the days of the traditional bank are numbered. I suspect not. However, maybe this is the re-birth of traditional banking and the traditional banks will follow this new trend back to their own roots, borrowing from savers and lending to businesses and home owners. That is, good, old fashioned banking free from the straightjacket of investment and insurance sales targets.

Could it be that we will see a growth in local crowdfunders confining their activities to a small geographical area, perhaps seeded by a local Development Trust.

Where will this all lead? The answer, as always will be for you to decide.

"SRIT" - The Scottish Rate of Income

Who is a Scottish taxpayer

The starting point is that only UK resident taxpayers can be Scottish taxpayers. A UK resident taxpayer who has a close connection with Scotland, i.e. that their sole or main residence is in Scotland, is a Scottish taxpayer.

If the individual has more than one place of residence, there is a need to identify their main residence, which comes down to where they spend the most time in the tax year. If they spend more time in Scotland than in the rest of the UK, they are Scottish taxpayer and will be for the whole of the tax year. The day count is broadly determined by where that person is at the end of the day with special rules for transit passengers.

As regards partnerships, there are no special rules so it is down to the residence of the individual partners as to how their individual incomes are taxed.

Foreign entertainers and sportsmen and non-resident landlords continue to be subject to withholding tax at the UK basic rate.

As regards the Construction industry scheme, the existing deduction rates paid to the UK Treasury remain so the contractors who operate throughout the UK do not have to administer separate rates.

What income is affected:

The SRIT applies to the non-savings income of Scottish taxpayers. It therefore includes earnings from employment and self-employment but it does not include interest and dividends. Rental income is subject to SRIT, and trusts are a nightmare.

The Scottish Rate of Tax

There is the ability to amend the basic, higher and additional rates by 10 percentage points.

Scottish Independence

Will we need a Double Tax Treaty with the rest of the UK, or for that matter, with the rest of the world.

At the moment, the UK has double tax treaties with most developed countries. Could be interesting.

Tax Tips and Tricks .....

Corporation Tax Rates

The small company rate remains at 20% but the top rate has been reduced to 24% (23% after next April). That means that when your profits rise above £300,000, you will pay 25% tax on the excess.

If you are thinking this will not affect you, consider this. How many active trading companies do you have, however small. Now, divide the £300,000 by the total number of companies. That is the limit for you for each individual company above which you pay 25% and not 20% Corporation Tax.

If you think this might affect you and want to know how to deal with it, get in touch.

Personal Allowances

Personal allowances in this year are £8,105, rising to £9,205 after April 2013. However, the point at which you pay higher rate tax on your earnings is not changing so don't get too excited.

It just means that the basic rate band is narrower, principally benefiting the lower paid.

Directors' Salaries (and dividends)

If you operate through your own company and can operate a low salary regime plus dividends, we currently recommend that **your director's salary should be £624 per month** with payment of a quarterly dividend calculated roughly to reflect profits in the previous quarter.

The result should be that your company pays 20% Corporation Tax and you pay no tax or NIC but still qualify for a state pension. However, your salary must go through a PAYE scheme even though there are no deductions and the dividends must be paid and documented correctly. We can help with this.

Guess what I get paid?

This strategy does not work for everyone, so come and speak to us if you are not sure.

Static Caravans - Change in the VAT rules

From 6 April 2013 zero rating is restricted to caravans which exceed the limits of size of a trailer for the time being permitted to be towed on roads by a motor vehicle having a maximum gross weight of 3,500 kilogrammes and which—

(a) were manufactured to standard BS 3632:2005 approved by the British Standards Institution, or

(b) are second hand, were manufactured to a previous version of standard BS 3632 approved by that Institution and were occupied before 6 April 2013.

Many holiday static caravans will exceed the weight limits but will not meet the British Standard condition and will therefore fall outside of the zero rating provisions from 6 April 2013. From the same date **a new 5% reduced rate** of VAT will apply to those larger caravans which no longer qualify for zero rating.

If you are VAT registered and have caravans needing to be replaced, you may want to get the older caravans sold off before 6 April next year, particularly if you normally sell off your older models privately, i.e. to non VAT registered individuals.

Cost Sharing VAT Exemption - Charities etc

This new measure will exempt from VAT, the supply of services by an independent group of persons (which includes companies) where each of the following conditions is satisfied:

(a) each of them is carrying on an activity which would be exempt from VAT or in relation to which they are not a taxable person, i.e. not otherwise liable to be registered for VAT. Re-charging (i.e. Sharing) of wages costs is a good example.

(b) the supply of services is made for the purpose of rendering to the members of the group, the services directly necessary for the exercise of an exempt activity .

(c) the group merely claims from its members exact reimbursement of their share of the joint expenses.

This exemption is mandatory by virtue of the Principal VAT Directive but had not previously been introduced into the UK VAT legislation because it was not clear how it should be implemented. The exemption can be used by, amongst others, organisations such as charities, universities, higher education colleges and housing associations that seek to make efficiency savings by working together to achieve economies of scale.

Prior to the introduction of this legislation, VAT could be a barrier to the sharing of services as it was necessary for one business to recharge a share of costs to another and to add VAT to the recharge. This could also push some organisations over the VAT threshold.

High Income Child Benefit Charge

The phased withdrawal of the child benefit where either of a couple has earnings above £50,000 is a **penal rate of tax**. It will mean that marginal rates of tax between £50,000 and £60,000 **can be over 70%** if you are in receipt of child benefit for 4 children.

This starts in January 2013. This would be **a good time to equalise you income**. You and your spouse can each earn up to £50,000 before this affects you . You do not want a situation where one of you earns £60,000 while the other is below £50,000 unless you cannot avoid it.

Could be a good time to consider taking your spouse into partnership or for them to take shares in your company to spread the earnings, profits or dividends.

Remember that if your earnings reach £60,000, you will have to pay back <u>all</u> the child benefit your spouse or partner have received!

This simple and yet draconian measure has a number of complexities and so, if you think this measure will adversely affect you, come and speak to us and lets plan the best way to deal with it. Also, bear in mind that making changes to your business can have consequences for other taxes (VAT, CGT, etc) so you cannot look at this problem in isolation.

National Minimum Wage increased

The main rate of National Minimum Wage for workers aged 21 and over, increased 11p on Monday 1 October to **£6.19 per hour.** For 18-20 year olds it is now £4.98, and 16-17 year olds is now £3.68. The apprentice rate is £2.65.