

tlp - news

October 2013

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

www.thelongpartnership.co.uk

Get in touch!

We like to provide you with information and strategies on current business and tax issues.

However, in these few short paragraphs we can only give you a summary or outline - a brief guide.

Many of these are introductions to otherwise quite complex issues and, if you are in any doubt, you should contact us so that we can advise you on your own particular circumstances.

Quotes

"The Chinese use two brush strokes to write the word "crisis." One brush stroke stands for danger, the other for opportunity.

In a crisis, be aware of danger - but recognize the opportunity."

-- John Kennedy, 35th President of the United States

"If you have accomplished all that you have planned for yourself, you have not planned enough."

-- Edward Everett Hale, Clergyman

"If you don't like something, change it. If you can't change it, change your attitude. Don't complain."

-- Maya Angelou, poet

"Within our dreams and aspirations we find our opportunities."

-- Sugar Ray Leonard, boxer

October already! Where do the days go? It does not seem that long since we were looking ahead to barbecues and long summer evenings. And then they are gone and we are seeing shops starting to put out the Christmas stock. Bah, humbug! Mind you, that does mean we get to look forward to having a little glass of something while sitting in front of a real coal fire on a cold Sunday evening. I can do that!

Never mind, spring is on the way. Anyway 2014 will be a new page on which to write something. Have you started planning yet? Have we? Needs to be done.

Am I getting ahead of myself here? We still have a quarter of 2013 to fill. Our year end is 31 December and with good reason. Nothing to do with tax. We're lazy. It means that when we prepare our management accounts, month "1" is January, month 2 is February and so on. It is just easier that way.

September was an interesting month for us. At the start was the CIOT Tax Conference held at Nottingham University. Always a good source of ideas. At the end of the month came Highland Business Week in Inverness.

I cannot help but feel that Stuart Nicol and his team at the Inverness Chamber of Commerce have got it about right and really understand the needs of its members. We always get something out of each event we attend, and they are generally good fun as well. You should try the members "Hustings". 3 minutes to pitch to a room full of hardened business owners and managers. I always thoroughly enjoy it, although it can also be a bit scary. Still, each time you pitch, you improve. So, not only do we get to pitch our services to a room full of business people but we (or is that I?) improve our presentation skills. I can tell you that 3 minutes is a long time to fill but also a very short time in which to fit your message. We'll be back again next year.

We did not get the chance to "do" many of the events put on at the Highland Business Week, but we did do the Highland Spotlight. A day

long exhibition where we took a stand and spent the day talking to prospects. It also gave us the chance to talk to the other businesses attending, and to explore whether they could be of help to us either in the way we deliver our services or with our presentation and marketing. So, a really good day. I would recommend you put it in your diary for next year.

Now, what about the other Chambers in our patch. Moray have something similar coming up. We'll be there. Caithness? Not heard of anything. Orkney, no Chamber - about time that changed.

Businesses need to work together and a Chamber is a perfect forum for doing just that, provided it is done properly. Just copy Inverness and we at least will be quite happy. Don't really care what you call it but don't spend years worrying about a name, just take action and get things moving. Action is the key here, not perfection.

Anyway, we have thrown some other bits and pieces in to your envelope this month.

As you may already know we have a single fee protection policy that covers ALL of our clients in case of an HMRC enquiry and we do not charge anything extra for it. It is part of our fee. So, if you are a **client of The Long Partnership** you can **fix your fees in advance, pay monthly** and in the event of an **HMRC enquiry, our fees will be paid for you**. Not bad eh? In the envelope is a leaflet from the company we use for our insurance. The full details of the policy are printed on the back of every invoice we issue.

We have also thrown in something that we used at Highland Spotlight just to show that not all accountants are (totally) boring. Feel free to put them up around the office, just for a laugh.

Finally, there were two comments that we heard repeatedly at Highland Spotlight. One was how well our little non glossy, no frills newsletter is received. The second was how much you missed the Sales Prevention Department column, so we have put it back. Plenty of examples to come! Businesses not performing as well as they would like, wonder why? Yes, I know **WE** do not get it right every time, but we try! You can **help us by filling in the questionnaires** we send you or just by getting in touch and telling us. We won't bite!

Universal Credit

The universal credit system, which replaces income support, housing benefit, etc with a single payment, is due to be in place by 2017 following a gradual roll out across the country. **Inverness is included in the latest pilots.**

Plans have been delayed due to IT problems and the National Audit Office says it is badly managed and poor value for money.

It does not give you much confidence that it will deliver the predicted benefits in the planned timetable. The Department for Work and Pensions has already written off £34m to date on IT systems. There have been five senior officials in charge of the universal credit project since it started. Does this worry you?

However, a spokesman has said that it will be delivered by 2017 and "the bigger picture is a good one". It is only expected to cut benefit fraud by just £200m pa.

HMRC Cash

HMRC's tax receipts from investigations into small and medium-sized businesses have increased by 31% in the last year. "Compliance" investigations into SMEs raised £565m for HMRC in 2012-13, up from £434m.

HMRC's tax taskforces have raised more than £80m since 2011. It expects to bring in more than £90m per year from new taskforces launched over the next three years. Who is next?

We have been aware for a very long time that there have been too many stories going around of how someone had got away with this, that or the other. In many cases it is just that it was under the HMRC radar. In future, the use of taskforces to target particular sectors will change that and I wonder if **pubs and clubs and other places (rigs?)** will be filled, instead, with stories of the penalties charged to business owners for failing to declare income, putting inappropriate expenditure through the business or just getting basic procedures wrong, e.g. dividends. **Remember, not all accountants are the same when it comes to keeping you right.**

Tax break for married couples

The PM's proposal for some married couples to get tax breaks worth up to £200 a year was one of the main new policies at the recent Conservative Party conference in Manchester.

Around four million couples, including 15,000 couples in civil partnerships, would benefit from a £1,000 transferable tax allowance from 2015.

The tax break will apply if couples are both basic rate tax payers with one spouse earning less than the personal allowance, which will be just over £10,000 in 2015.

Is it worth getting married for £200 or is this just a gimmick, adding additional complexity to an already complicated system?

Cameron has been dubbed "the champion of marriage" but it further erodes the principal of separate taxation – remember when women hardly existed for tax purposes and the tax returns were completed by the husband and contained details of earnings for both of them. They were also only signed by the husband. How far will Cameron go? By the way, all spare personal allowances were transferrable back then. £1,000 seems a bit pitiful for losing your tax independence.

It has been estimated that it will only benefit about a third of married couples and will do nothing for people who are separated, widowed or divorced. Will people get married for £3.85 a week? Don't think so.

Is VAT online filing discriminatory?

The Low Income Tax Reform Group (LITRG) has supported three small business people to appeal a decision forcing them to file VAT returns online. The First Tier Tribunal judge held that the regulations which required online filing of VAT returns without providing exemptions for older people, those with disabilities or who lived in parts of the country which were too remote, were in **breach of the appellants' human rights and were unlawful under the EU law.**

Two of the business people suffered from some form of disability and the other was located remotely where broadband access was absent or unreliable. None of them were spring chickens which added to the difficulty of learning to use a computer. However, before it became mandatory to file VAT returns online, they had also all filed their VAT returns promptly and accurately on paper, and for many years.

Anthony Thomas, chairman of the LITRG, said: "We now know that digital mandation is a policy that contravenes the rule of law when it fails to make provision for the needs of older or disabled people or those who cannot access broadband easily because of where they live.

It is expected that HMRC will appeal the decision as the digital agenda is rolling on at an increasing pace and the associated cost savings could be put in jeopardy.

I wonder how "remote" you have to be to be "too remote"? On our patch there are certainly some remote locations and broadband services can be very patchy and unreliable.

While it may be that those insisting on "digital by default" have to think a bit, it is unlikely to halt the digital process. However, maybe there will be some concessions for those who do not use a computer or who cannot access the internet, or ... maybe not.

If the ruling was allowed to stand, what would be the implications for RTI. The Government has too much at stake to allow anything to derail this train. But you do wonder what these highly paid civil servants in Westminster and their lawyers were doing when they put in place the legislation without considering the current laws and regulations. If we do that, they come down on us like a ton of bricks. I guess they'll just change the law or withdraw from the EU Human Rights regulations?

Governments have legislated for, and follow the principles of equal opportunities and great care is supposed to be taken in ensuring that government policy is fair for all. There was something missing here. You do wonder what the people in Westminster think they know about the Scottish Highlands and Islands and the difficulties that businesses face in our patch. Having said that, I think it is a fact that there are more entrepreneurs (legal or otherwise) per square kilometre here than in the cosier well connected parts of the UK. What do you think?

New “Employee Shareholder” status

Employee shareholders have different employment rights to employees. They can renounce certain employee rights in exchange for between £2,000 and £50,000 shares in their employer. Businesses wishing to offer an employee shareholder contracts must obtain HMRC approval.

The tax rules will be quite attractive to some employees but not for all. In brief:

- gains on up to £50,000 of shares acquired by employee shareholders will be exempt from Capital Gains Tax, and
- the **first £2,000** of share value that employees receive under the new status will be **free from income tax and NIC** when they acquire the shares, ie they can be given to the employee without any tax or NIC paid on the value received.

A potential employee shareholder must receive advice from an independent adviser and the company is required to meet reasonable costs for that advice, whether the individual accepts the employee shareholder position or not.

The company must provide prospective employee shareholders with a written statement of particulars of the status of employee shareholder and of the rights that attach to their new shares. There is published guidance explaining in detail what this written statement must include.

There are special tax rules for shares received under an employee shareholder agreement, which apply from the launch of the new employment status on 1 September 2013.

Income Tax and National Insurance is not usually chargeable on the first £2,000 of share value received by an employee shareholder. This is because the employee shareholder is deemed to have made a payment of £2,000 for the shares. Any shares provided at less than market value over the £2,000 limit are taxable on the discount given by the company.

There will usually be a Capital Gains Tax exemption for gains on the disposal of up to £50,000 worth of shares received by the employee shareholder. This is subject to the employee shareholder not having a ‘material interest’ in the company.

Businesses awarding employee shareholder shares may propose a share valuation for tax purposes to HMRC and where possible, HMRC will agree this valuation, and this agreement will be effective for 60 days.

Employers who have awarded employee shareholder shares will need to provide details on HMRC Form 42 (Employment-related securities) at the end of the relevant tax year. The form will be amended to include a new section relating to these share awards.

Corporation Tax deductions may be claimed by the company:

- on the acquisition of shares by employee shareholders (subject to the normal qualifying rules)
- where a company meets the costs of advice provided to an individual considering an employee shareholder offer (providing these costs are incurred by the company wholly and exclusively for the purposes of its trade)

The amount of relief available on the acquisition of employee shares is usually the market value of the shares acquired by the employee, less any consideration given. The relief is due when the shares are acquired.

HMRC - Targeting PAYE Dispensations

HMRC are currently targeting the P11D dispensation renewals (those wanting to be renewed after 5 years). They write a letter to an employer saying that they would love to renew the dispensation but to do so want to see the last 3 months of expenses and for the employer to explain how the company's expense system works. Could you answer this question satisfactorily?

More ex-Tenon partners decamp to Mazars

A further **nine former RSM Tenon partners** have jumped ship to Mazars, this time in Edinburgh and Glasgow, following the firm's pre-pack deal with Baker Tilly. This is the second group to join Mazars and follows the **recruitment of another six former Tenon partners** to its East Midlands office back in May. We haven't heard of anything further north but Phil Verity, UK senior partner at **Mazars**, is reported as saying “**We are keen to grow our presence in Scotland**”.

The Sales Prevention Department

This is where we share our experiences of poor customer service leading to poor business performance and lost sales. These are businesses who blame the recession but should be looking much closer to home.

Our first example comes from a Fire Equipment supplier and installer operating over most of the Highland and Islands.

Now, we have multiple offices and so need a supplier who can take the hassle away from us. We need someone we can trust to supply what fits our needs and not what achieves a sales target. Are we unusual?

On this occasion, the supplier's representative visited one of our offices and spoke to someone who does not usually deal with this sort of stuff, going away with an order which we just did not need. We already had two others and this was number 3.

However, the point here is that once we, i.e. “the management” pointed this out to the company, it should all have been reversed. Not a bit of it! They had a signed order form and that was all they needed. The goods had been properly supplied and should be paid for immediately. We persisted and here comes the cruncher. They offered us a 10% discount because we were unhappy, but we still had to take the goods.

Now, I dare say you might be thinking that this was a satisfactory outcome to the whole issue. Let me at this stage, point out that the item in question was a log book costing around £30. We have 5 offices. We spend serious money on fire equipment. If that had been you, would you not have said, “sorry, we'll delete the order”. We have persisted and they are finally going to issue a credit note but they want the book back! Given that their representative filled in the log so it cannot be used by anyone else, what is the point in that? It's just annoying.

Isn't it when things do go awry that you learn most about a company. We all know that things cannot be perfect the whole time. It is not that something has gone wrong that matters, but how we all deal with that situation that tells you most about us. Would you agree?

The peedie bits ...

NMW rates from 1 October 2013

National minimum wage rates change on 1 October:

- The main (adult) rate of the national minimum wage rises from £6.19 to £6.31 per hour
- The youth rate (for workers who are aged 18 but under 21) increases from £4.98 to £5.03 per hour
- The rate for workers aged 16 to 17 increases from £3.68 to £3.72 per hour
- The apprentice rate increases from £2.65 to £2.68 per hour

The accommodation offset increases from £4.82 to £4.91 per day as of the same date. The accommodation offset applies if an employer provides an employee with accommodation.

HMRC target company directors

Company directors are being warned by HMRC that they may face penalties if they have failed to notify chargeability to tax within six months of the end of the relevant tax year.

HMRC have launched a 'routine review' of company directors. The aim is to ensure they are submitting their personal tax returns properly. Most company directors can expect to need to submit a tax return every year. If they find you before you tell them, it could be both stressful and difficult to answer all the questions appropriately, particularly if they go back over a number of years and even if there is no tax to pay.

Recipients of the HMRC letter are asked to provide details of any full or part-time employments from **6 April 2006 to 5 April 2012** and also particulars of any self-employment. It also seeks details of all company directorships, the relevant company registration details and dividends taken as well as any other sources of taxable income.

Voluntary disclosure opportunity - Health and Wellbeing professions

This is open to physiotherapists, chiropractors, chiropodists, speech therapists and those involved in alternative medicine like homeopathy and acupuncture. It is **only open to 6 April 2014**. The implication is that, if you do not "come clean", HMRC will use their considerable information gathering powers and access to various records and other sources, to find you and come calling.

If you make disclosure and payment by 6 April 2014 you will be able to tell HMRC how much penalty you believe you should pay and may be able to spread your payments if circumstances warrant it. If you have simply made a careless mistake, you will only have to pay tax on your illicit earnings for a maximum of 6 years - no matter how many years you have been behind with your tax affairs. Those who cooperate fully can also avoid having their personal details published. Penalties, if any, under voluntary disclosure, are likely to be much less than otherwise.

The disclosure can be personal; a disclosure on behalf of a company or trust; or a disclosure as a personal representative of a deceased person.

Chancellor's Autumn Statement

The date for your diary is **4 December 2013**.

IR35 - A SOLUTION

HMRC announced that they intended to focus much more closely on those contractors and consultants operating through a Limited Company and increase the number of reviews and compliance checks for the IR35 legislation from 2012/13 onwards, clamping down on National Insurance Contribution avoidance.

We know that individuals are finding themselves increasingly unable to navigate IR35 without some form of professional help. This places an increased burden on accountants and tax advisers to provide definitive answers.

Taxwise Services Limited, the company that provides our fee protection insurance, is able to offer a number of specialist IR35 services to highlight the pitfalls and to enable you to be in the correct tax position, including an IR35 Contract Review and a review of any existing IR35 enquiry with a view to providing authoritative and tactical advice on advancing the case with HMRC.

Let us know if you would like to access these services.

Simplifying the National Insurance processes for the self-employed

HMRC have published a consultation document to consider whether collecting Class 2 NICs alongside income tax and Class 4 NICs would be simpler and reduce the administrative burden on the self-employed community. Consultation closed earlier this month so no doubt we will hear more in due course and possibly in the forthcoming Autumn Statement.

Class 2 NICs are currently collected through a stand-alone process using six monthly bills or direct debit. Given that nearly all self-employed people need to complete an SA return, the Office of Tax Simplification recommends that the calculation of Class 2 NICs becomes part of the Self Assessment process, which currently assesses liability to pay Income Tax and Class 4 NICs after the end of the tax year.

Individuals would inform HMRC of the start and end date of their self-employment on their SA return and whether they wish to apply for Small Earnings Exemption, if they qualify. The SA system could then calculate the amount of Class 2 NICs due based on the number of weeks the individual has been self-employed. This will then be added to the individual's total tax liability.

Voluntary disclosure opportunity for landlords of residential properties

Yet another amnesty. HMRC are offering landlords who rent out residential property and who have failed to tell HMRC, an opportunity to come forward voluntarily and be dealt with more leniently. The Let Property Campaign, which will run for at least 18 months, is aimed at residential property landlords and will include everything from holiday lets to landlords with multiple properties.

After the campaign, HMRC will use information they hold about property rental in the UK, along with information already held on their digital intelligence system, to identify those to visit. Those that fail to come forward will face higher penalties or even criminal prosecution.