tlp - news

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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

"Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks."

-- Warren Buffett, Berkshire Hathaway, CEO

"In the absence of clearly defined goals, we become strangely loyal to performing daily trivia until ultimately we become enslaved by it."

-- Robert Heinlein, American Novelist

"If we did all the things we are capable of, we would literally astonish ourselves."

-- Thomas Edison, Inventor

"The recipe for perpetual ignorance is: Be satisfied with your opinions and content with your knowledge."

-- Elbert Hubbard

Do you find that every now and again you read something that stops you in your tracks and makes you think, even just for a moment. I came across this quote from the comedian Bill Cosby and it had that effect on me. Here it is:

"I don't know the key to success, but the key to failure is trying to please everybody. "

We all do it, or at least most of us try to do it. We all think we are reasonable and likable people who want to help others as best we can, right? So, when someone needs a hand, and we are able to help, we have a natural inclination to do just that. But should we?

The trouble, if that is the right word, is that we have been brought up to help others. But sometimes it is to our own detriment but we do not see it. If we have clear goals and measure every action against those goals, what would we do? If you have clearly defined goals then every, and I mean "every", action that you undertake will act either as an advance towards or a retreat away from your goal. Everything counts.

Now, I am not saying that you should not help others, but be clear what you are doing and why. Consider this - if you spend your whole time doing what others want you to do, there is no time to do the things that will advance you in the direction of your own personal or business goals.

This is one of the hardest but most fundamental lessons that you learn when you start a business.

Your role is one of delivering real value to your clients or customers and if you do that well, you will be financially rewarded with profits in your accounts and money in your bank. However, while everyone will want a slice of your time, or the items that your time produces, some people will value what you do more than others.

The most successful business owners are the ones who recognise this and only do business with the right customers. That is, the ones who truly value their services because what you are providing, advances them in the direction of their own goals, and that has a value to them.

Therefore, to be successful, you must be able to recognise the "best fit customer", the one for whom you can deliver real value, and that means not trying to please everyone … because that is just not possible any way.

Now, you can disagree with me if you wish, I do not mind. I have my own thoughts and ideas and I am also quite happy to be in a minority.

On a similar theme, I was in a meeting a little while ago. A very interesting meeting with a business coach. Amongst other things he took the idea of a "**To Do**" list and turned it around and we started to compile a "**Stop Doing List**". Have you been engaged in ***busyness*** rather than **business**, doing all the things that you thought you needed to do to keep everyone happy? Has this stopped you delivering real value to your "best fit" customers? Is this affecting profits? Then, this is a good time to compile a "**Stop Doing List"** of all the things you are now going to stop doing.

So, what things have you done today that advanced you towards your goals? What things did you do today that you could have got someone else to do? Compile a list - your **"Stop Doing List".**

You may not be able to stop doing these things immediately but by recognising what they are, you are setting goals to eliminate them from your day, freeing up your time to devote to delivering real value either directly to customers, who appreciate your value and are prepared to pay you for it, or for your business, so that you can become more efficient and develop the business in the ways you want.

If you are just in busyness, running around all day being busy on process without delivering value, your business will not develop. You may create a job for yourself but not a business and ultimately your business will not reach its potential and, at the end of the day will be worth less than you think you deserve.

Company Accounts ... are changing

There are going to be a lot of changes coming up in small company accounting and it all starts soon.

FRS 102

The Financial Reporting Standard applicable in the UK and Republic of Ireland, will apply to all companies with effect for accounting periods commencing on or after 1 January 2015. It is intended to be a "stable platform" setting out the appropriate disclosures and accounting conventions to be used in company accounts. The standard itself will be reviewed every three years. It will keep accountants busy for a couple of years while we all get to grips with the changes.

Charities SORP

The new Charities Statements of Recommended Practice (SORP) has now been approved and takes into account the forthcoming changes to accounting disclosures.

The FRSSE

There are plans to withdraw the Financial Reporting Standard for Small Entities (FRSSE) in light of the significant changes to the small companies' accounting regime now being introduced for very small companies. This is currently used by most small companies but will be replaced by the new micro-entity regime.

Micro-entities

This legislation applies for financial years ending on or after 30 September 2013 for accounts filed with Companies House on or after 1 December 2013.

An entity qualifies for micro-entity status in a year in which it does not exceed two or more of the following criteria:

- Turnover £632,000
- Gross assets £316,000
- 10 employees

These conditions must be met for two consecutive years (with the exception of a newly incorporated company).

By the way, **charities cannot use the micro-entity provisions** and so will have to show more in their accounts than other companies.

Serious Farce Office fined for incorrect VAT claims

The Serious Fraud Office (SFO) has been fined more than half a million pounds for owing HMRC £4m in VAT.

HMRC assessed the SFO for incorrectly reclaiming vat on certain services. This amounted to £4.6m including a penalty of £564k and interest of £104k. This has all come to light in the SFO's annual report..

It shows that the £660,000 in penalties and interest were accounted for as programme costs and therefore part of the costs of pursuing wrongdoers.

The VAT bill was partly responsible for the SFO net operating costs rising from £38.1m in 2012-13 to £51.7m.

This is the government department **referred to in Private Eye** as the "Serious Farce Office". In February, the Financial Times reported that SFO director, David Green QC had asked for additional funding, presumably to pay their tax arrears and penalties.

Accountancy IS a people profession

A recent survey of accountants by Professional Publisher Wolters Kluwer and based upon 5000 responses has concluded that **sociable, outgoing individuals** dominate the accountancy profession. They say that the classic image of the numbers-obsessed loner has been eclipsed by those who fitted the "Personable Practitioner" profile.

The character types identified by the survey were as follows:

Personable Practitioners (49.2%) Sociable and outgoing, they are fun to be around and stimulate interesting conversations. Personable Practitioners work well on the phone and are smooth operators in networking situations where they can broaden the firm's horizons and open up new business relationships.

Technical Boffin (20.5%)The classic single-minded expert, who puts all else to the side when they focus on the job in hand. Boffins can be lone wolves who don't always fit with normal routines - timesheets could be an issue.

Efficiency Ninja (12.1%) Process driven: Ninjas like to work methodically and demonstrate good attention to detail. They know a successful firm needs robust processes to ensure consistency of client service.

Digital Commando (9.8%) Self-motivated, and results-driven: Confident in their own abilities and keen to exploit the latest tools and technologies. Resistant to bureaucratic restrictions.

Delegator (8.3%) The leader who sets the firm's agenda and focuses attention on collective objectives. They will be good at reviewing performance and giving feedback to colleagues.

The survey went on to speculate that many older practitioners steeped in accountancy's hierarchical traditions are reaching retirement age and in their place, firms are seeing the emergence of Digital Commandos, who are comfortable with the internet, social media and cloud computing and occasionally impatient to use these tools to improve efficiency.

While people-oriented accountants are more numerous, the profession will always have room for Technical Boffins. These are the people who keep compliance standards up to scratch and who can solve tricky financial and tax puzzles that can arise in non-standard situations.

While their friendly disposition and curiosity are assets, Personable Practitioners can sometimes be hampered by bouts of over-enthusiasm, or a tendency not to follow through with all their great contacts and ideas.

However, could it be that those accountants responding to the survey want to believe they are sociable and outgoing? Maybe there are just a lot of wannabe lion tamers out there (*Monty Python*).

If you are not sociable and outgoing does it mean that, sometimes at least, you are not fun to be around and capable of interesting conversation. A lot of the sociable outgoing people can come across as not that fun to be around, because their conversations revolve around themselves and their lives. And besides, what is interesting to one person won't necessarily be interesting to another.

However, could it be that the survey is flawed because only personable and outgoing accountants would be bothered to respond, or is the underlying character of the profession one that wants to be seen as something that it isn't, because the truth is too painful. I'll leave you to make up your own minds. **I want to be a lion tamer!**

Which Residence is Tax Exempt?

… do you have more than one?

Selling your home is exempt from tax under the Principal Private Residence rules. It is fully exempt if you have occupied the property as your home for all the years that you have owned the property. If you have only occupied the property for part of the time then a proportion of the gain will be covered by the exemption on a time apportioned basis with the balance being taxable.

You are always deemed to occupy the property as your main residence for the last 18 months of ownership no matter where you actually stayed.

Apart from the 18 months rule above, you can only ever have one principal private residence at any one time. So if you have a main home and a holiday home you may have two residences but you will only get principal private residence exemption on one of them at any one time. The facts will decide which of the properties is your main residence and consequently covered by the relief.

You can override the facts and nominate which of your residences is your main principal private residence for exemption purposes. This nomination must be made by written notice to an HMRC officer within two years of acquiring the second residence. If you acquire a third residence the two year clock would start again.

You have the right to vary a nomination notice by a further written notice to an HMRC officer – the variation can be backdated up to two years.

In the case of a man and his wife living with him or of civil partners, there can only be one residence or main residence for both, so long as 'living together' and, where a notice specifying the main residence affects both spouses or civil partners, it must be given by both. If, when a couple marry, they each have a residence and they continue to use both, the two-year period for jointly nominating the main residence begins on the date of marriage.

The choice is not between two or more properties but between two or more *residences*. A property never occupied by the taxpayer cannot be a residence for these purposes. However, a nomination will be treated as on time even if made more than two years after acquisition, if made within two years of beginning to be occupied as a residence e.g. it may have been rented out previously.

How long must you stay in a property to make it your main residence? This is a question that we hear frequently. The answer is "long enough to establish the permanent nature of your occupation".

In a recent case, a taxpayer sold his home and moved in to a flat previously rented out, but only stayed there for 25 days before that flat was sold. He lost his claim for Principal Private Residence Relief on the flat in front of the Tribunal because of the lack of permanence to the occupation.

Scottish Snowballs are Cakes (Zero Rated for VAT)

A first tier tax tribunal in Edinburgh has ruled 'snowballs' should be classed as cakes and therefore be zero-rated for VAT. The tribunal found that a snowball does not have all of the characteristics of a cake but displays "enough of the characteristics of a cake that it should be classified as such".

The tribunal then had to decide whether a Scottish snowball had the characteristics that ordinary people would consider to be a cake, including the ingredients used, its manufacture, unpackaged appearance, taste and texture, circumstances of consumption, packaging and marketing.

The tribunal concluded - "A snowball looks like a cake. It is not out of place on a plate full of cakes. A snowball has the mouth feel of a cake. Most people would want to enjoy a beverage of some sort whilst consuming it. It would often be eaten in a similar way to cakes; for example to celebrate a birthday in an office. We are wholly agreed that a snowball is a confection to be savoured but not whilst walking around or, for example, in the street." Most people would prefer to be sitting when eating a snowball and possibly, or preferably, depending on background, age, sex etc with a plate, a napkin or a piece of paper or even just a bare table so that the pieces of coconut which fly off do not create a great deal of mess."

So this is the technical vat analysis, it looks like a cake, so it is.

Gifts to Charity

… and you may get tax relief.

If you are **in business,** you may provide a charity with:

- trading stock free or at a reduced price.
- plant or machinery the disposal of which would otherwise give rise to a balancing charge.
- services free or at a reduced price. The salary of an employee temporarily seconded to a charity may be deductible as a trading expense. Services provided free do not give rise to a VAT charge on their actual value.

The gift of trading stock may give rise to a value added tax (VAT) charge as if the assets had been sold at a price equal to the cost of purchasing identical assets but only where it is a gift and so this can be avoided by arranging a sale at a nominal consideration. Such arrangements can be challenged by HMRC where the donor is 'connected' with the charity.

Gift of a non-cash asset to charity

The gift of an asset to charity will qualify for CGT relief so that no CGT arises on a gift to charity, or on a sale at a price which does not exceed cost. There is, however, no income tax relief. You may be better off selling an asset and giving the cash proceeds to charity. The benefit of Gift Aid on the gift would normally outweigh the CGT charge on the sale.

IHT 10% charity legacy relief

The `10% charity legacy relief' reduces the rate of IHT on estates to 36% rather than 40%.

The details of the relief are complicated but broadly if 10% or more of the estate after taking off the Nil Rate Band is left to Charity, you get a 4% reduction in the IHT rate.

So, it may be better for a surviving spouse to give twice as much and there be no charitable gift on the first death.

Otherwise, the relief may be lost because either the balance of the estate passes to the surviving spouse free of IHT anyway, or the surviving spouse gifts less than 10% of the combined estate.

Told you it was complicated.

The peedie bits ...

Auto enrolment

1. 1.2 million businesses are approaching their staging dates and most of them will be setting up their first pension scheme. The capacity of providers is going to be severely tested. Get in the queue early.

2. Selecting the pension provider is a huge responsibility and many do not know where to turn – if this is you, we can point you in the right direction.

3. Once an employer has chosen a provider they must then set the default investment strategy and the right combination of funds to deliver that strategy and best returns.

4. Cost control - Different strategies will have very different impacts on employer and employee costs.

Auto enrolment is here and will be controlled in part by the imposition of hefty fines for employers who get it wrong. **Our advice** – talk to an **IFA, NOW**! We can point you to an IFA that we trust.

Benefits in Kind – Potential Changes

The Office of Tax Simplification (OTS) has been looking at the taxation of benefits and made some recommendations. The Government is therefore issuing consultation documents with a view to adopting some or all of the following:

The core package consists of the following changes:

- Introducing a system of voluntary payrolling for benefits in kind.
- Introducing a statutory exemption for trivial benefits.
- Abolishing the threshold for the taxation of benefits in kind for employees who earn at a rate of less than £8,500 a year ('lower paid' employments), with action to mitigate the effects on any vulnerable groups disadvantaged by the reforms.
- Replacing the expenses dispensation regime with an exemption for paid and reimbursed expenses.

We'll just have to wait and see what they decide to do. Hopefully it will be simpler!

Overdrawn Directors' Loan Accounts

If a director's loan account with his company is overdrawn and he therefore owes money to the company, this can have certain tax consequences. Declaring dividends may be a way to repay the loan but in some cases it is better to write off the loan.

This is particularly useful if the company cannot pay a dividend to the director to enable him to clear the loan, for example if there are insufficient distributable profits.

The write-off of the loan is to be regarded as a deemed dividend. As it is not a real dividend, you do not need distributable reserves.

However, the write off may be subject to National Insurance. If you want to use this strategy, come and speak to us about the tax and NIC position.

More about Directors' loans

Directors loans (including overdrawn directors' loan accounts) can be subject to 2 completely separate tax charges. The first is the charge on the company, which has to pay 25% of the loan balance to HMRC.

The second arises if interest is either not charged, or the rate is below the HMRC official rate which is currently 4%. In these circumstances a benefit in kind may arise in respect of the interest benefit.

However the director will be outside the beneficial loan rules if the loan balance does not exceed £10,000 at any stage during the tax year. (£5,000 prior to 6 April 2014.) If this is exceeded then a benefit has to be calculated on the total balance outstanding.

The benefit can be calculated using the 'average method' (which uses an average of the opening and closing loan balances during the tax year), or the 'strict' method (based on balance outstanding at the end of each day).

Either way it needs to be reported on a P11D in the normal way, and the company will be liable to Class 1A National Insurance equivalent to the rate of Employers National Insurance Contributions.

Succession and Capital Allowances

Succession is a word used to describe where one person takes over a qualifying activity from someone else e.g. on incorporation or sale.

There are effectively three possibilities for dealing with the expenditure on which capital allowances has not been claimed:

- Where equipment is transferred at cessation of a business and subsequently used for the purposes of a completely new activity without being sold. In this case, the assets are treated as transferring across at market value
- Where equipment is actually sold and this value is then used as the disposal proceeds in the capital allowances computation. You can sell the equipment at any value and so, in certain circumstances you may want to sell the equipment to your new company for say, £1. This can be very tax efficient (but speak to us about this first)
- Where the predecessor and successor are connected (e.g. you and your new company) and you elect for the assets to transfer at tax written down value, regardless of the actual consideration paid. Such an election must be made within two years of the date of the succession

There are also rules governing the transfer of stock and there is a similar election to avoid the predecessor paying tax on the stock transferred to the successor . This is a complex area so come and speak to us if this could apply to you.

Green Fees are Exempt from VAT

HMRC now accepts that supplies of sporting services to both members and non-members of non-profit making sports clubs qualify to be treated as exempt from VAT. You do not need to charge VAT to non members using the clubs sporting facilities. This is provided that the services are closely linked and essential to sport and are made to persons taking part in sport.