tlp - news

March 2014

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 height of your accomplishments is determined by the depth of your convictions."

-- William F. Scolavino: Adventurer & Photographer

"If you don't fail now and again, it's a sign you're playing it safe."

-- Woody Allen, Director

"It does not matter how slowly you go up, so long as you don't stop."

-- Confucius, Philosopher

"Knowing is not enough; we must apply. Wishing is not enough; we must do."

-- Johann Wolfgang Von Goethe, Author

"You must do the things today that others will not do so that you can have the things tomorrow that others will not have."

-- Anonymous

Gate 9 Aberdeen Airport, 9.15 Monday 24 March 2014. I had been travelling up from a training event in Oxford, getting the train to Manchester where I stayed for the night before catching the early flight from Manchester to Aberdeen. That day my eventual destination was Kirkwall.

Gate 9 is not so much of a gate as a corridor with a door in it and the passengers all sit in chairs in a line along the wall. Everyone can see and hear everything.

Imagine my surprise when a certain gentleman who should most certainly have known better, started to speak on his mobile phone. Now, we all know that when we speak on our mobiles that no-one else can hear what we are saying and so the contents of the conversation cannot be overheard.

What's a PR17 and why does Lloyds and the MCA need to be informed? What is a "failure to notify"? Who is the "Alan" who was told that "the sh*t is going to hit the fan and it is not going to go away"? What is a 'compromised load line'? Are the skipper and crew really scared of the company they work for? I could also tell you the name of the ship but I am not going to because that is not the point but anyone in that corridor could have told you, because he told all of us.

The point here is that this guy is obviously something to do with marine safety. He is in a professional position. He has a duty to act professionally at all times and in my mind that means keeping matters confidential and only disclosing them at an appropriate time after proper investigation. However he was concerned with a process. There was a rule that had been broken. The ship had sailed twice without notifying an incident and he was going to make them pay. The doors were not on their seals because they had moved 5cm, according to him. It was irrelevant that he was now acting unprofessionally. It was irrelevant that, in his own words, he had yet to speak to the skipper to ascertain all the facts. If it was up to me I would not give him a PR17, it would be a P45. The process to him was all important. Strikes me that this process made him feel important. If it had been that important why was he on the flight to "The Orkneys" according to him, when the ship was not there?

Fast forward to 8.15 Wednesday 26 March, Kirkwall Airport, going through security. I set off the scanner. No idea why. I was wearing exactly the same clothes as last week (clean equivalents) when I had gone through scanners in Manchester and Inverness without any fuss. Shoes off, body search. They even got out the hand held gismo to check the bottom of my now shoeless feet. Having found nothing I was allowed on my way. I was feeling a little victimised and a small grain of anger. They had gone through a process. They had done what they had been told to do without any thought and found nothing. Pointless!

It was only when I had boarded the plane that I realised that I had inadvertently smuggled two 7cm long pieces of metal aboard. That was why the scanner beeped. I did not have them with me last week. The beeper was correct. But, nobody found them. Despite the body search and the hand held gismo used in a mindless process.

What were the pieces of metal? They were two collar stiffeners on my office shirt. The shirt I wore last week did not use removable collar stiffeners. So, if you want to smuggle something on to the morning flight to Inverness, hide it in your collar. They'll never find it.

So, are there things that you do each day because that is the way you have always done them. You never have to think. It is just a process or routine you go through without thinking. You do the process and then because you have completed the process, accept the results whatever they may be trying to tell you. Would you notice more if you varied your routine? Try driving a different way to work.

Think about all the times you have been in Tesco, Lidl, Morrisons, etc. and they have moved things around on the shelves and you can't find something which was always in the same place. The supermarket knows that this sells. It breaks up your regular unthinking routine. Think about it.

Seed Enterprise Investment Scheme (SEIS)

Tax relief under the Seed Enterprise Investment Scheme (SEIS) was due to end in April 2015 but has now been made permanent and presumably will be further developed over the next few years to make it more useful and targeted.

The SEIS is available for equity investment made after 5 April 2012 and principally provides income tax relief of 50% of the cost of the shares up to £100,000 and 100% CGT reinvestment relief for half of gains on disposals made around the same time.

A very useful relief and one well worth exploring if you are struggling to obtain finance from your bank.

This is a way that family and friends can help you out, and get some useful hand-outs from the Exchequer.

A higher rate taxpayer could see their effective rate of tax drop to 22.5% of their investments and that does not include the relief they could also obtain on Capital Gains at the same time.

You need to be careful as the conditions for the relief are complicated and it is easy to make mistakes. For example, make sure you actually pay for the shares and do not leave the debt outstanding.

Construction Industry Scheme

The Chancellor has announced that the government will consult in summer 2014 on options to improve the operation of the CIS for smaller businesses, the introduction of mandatory on-line filing for contractors, revision to reporting obligations and improvements in registration for joint ventures. .

Other Simplifications

The government has announced that it will also be implementing the Office of Tax Simplification's recommendations to simplify the taxation of employee benefits and expenses, employee share schemes and partnerships.

The Budget ...

George Osborne Budget for "the makers, the doers and the savers" contains a few giveaways but underneath contains some powerful revenue-raising measures.

Many of the budget announcements were aimed at individuals rather than businesses. You could take a cynical view, but I am sure that none of the measures to benefit lower income families have anything to do with the general election next year. Shame on you for even thinking such a thing.

We also have the abolition of National Insurance for those under 21 from April 2015. Whose vote are they after?

Taxpayers who have lower incomes and some savings will benefit from the 0% tax rate on savings income if it is below £5,000 with effect from April 2015. From that date, if your savings income is below the £5000 limit, you will effectively get £15,500 of tax free income in the year. Not bad.

In 2 years' time, **National Insurance Class 2 for the self-employed** will be collected through self-assessment. We will need to see how HMRC intend to administer this but presumably, it will form part of your Income Tax Return. For the self-employed, this will simplify their administration and for those new to self-employment this reduces their opportunity to get it wrong.

The **decrease of up to £2,000 in employer National Insurance Contributions** will start to make a difference to businesses from this April. This will be a useful relief particularly for the small employer, which combined with the reduction in NIC for under 21s could help to encourage more small business owners to take on staff.

The increase to the **Annual Investment Allowance (AIA)** will not necessarily help smaller businesses. When was the last time you spent £500,000 on equipment in one year? Not even some of my favourite farming clients would spend that much on a tractor. The rate was due to go back down to £25,000 in December but instead, it is being doubled and will continue for another year. It may benefit some larger businesses on our patch but it is likely that they had already planned their major expenditure to take advantage of the £250,000 allowance in order to utilise it before it disappeared. Surely most businesses who can afford to spend that much will have already organised their budget and will not be able to utilise the new relief.

Since April 2008 when the FYA's were replaced by a paltry £50,000 Annual Investment Allowance, the AIA has changed almost yearly. The increased AIA will mean that up to 4.9 million firms in the UK will receive 100% up-front relief on their qualifying investment in plant and machinery. Will this help to stimulate the economy?

It was disappointing that there was no mention of an increase to the income tax relief cap - currently being the greater of £50,000 or 25% adjusted income, which can limit loss relief claims. The thrust of this budget seems to be to help lower income families and this "cap" will primarily impact on higher rate taxpayers.

Onshore Employment Intermediaries

These proposals will force many agencies and other similar intermediaries to put more of their workers on to the payroll. The government published a response document before the Budget and provided detailed guidance of its intentions and when the changes are to be introduced.

Tax Avoidance

Accelerated payments will be demanded in disputed tax cases which are covered by the "disclosure of aggressive tax schemes rules" (DOTAS) as well as the catch-all general anti-abuse rule (GAAR) and overall is expecting to raise £4bn from 63,000 cases over five years. New rules will allow unpaid tax to be taken directly from the taxpayer's bank account. This is unlikely to impact any of you!

The war on tax avoidance continues. A raft of further measures were proposed, some new and others following earlier consultation. The Chancellor will proceed with the measures against the designers and users of tax avoidance schemes.

HMRC are also being given further resources to focus its compliance work and there will be further consultation on how tax debts can be collected from those who owe tax but have not paid it. They are nice like that.

Pensions

The Chancellor intends to sweep away the existing restrictive rules that require you to purchase an annuity or use income drawdown or face a 55% tax charge on unauthorised withdrawals.

Instead, you will be able to draw from your pension but any amounts withdrawn will be taxable at marginal rates, although you will still get your tax-free lump sum as now.

Pensioners will be able to take what they want when they want from their pension savings. Does this mean more pensioners going on cruises while they are still fit enough to enjoy them, and leaving the state to foot the bill later?

However, the measure will apparently increase tax receipts by £5bn over the next five years. The message is clear – we will make it easier for you to access your pension, but you will have to pay income tax on any amounts withdrawn.

"Trust the people," says the chancellor, but only from 6 April 2015. The fact that they cannot be trusted before then suggests that this measure has been conjured up quite recently and may not have been properly thought through.

So, from 2015/16 pensioners are to be given greater control of their pension pots and rather than being discouraged from withdrawing money early, they will be encouraged to do so, based upon their own needs and wants. Their choice.

Pensioners will have the ability to draw down on their pension funds at a much quicker rate and many will appreciate the quicker access to their savings. However, such a dramatic change to the pension system could leave those who are not well informed without sufficient funds in very elderly years, or with no provision for a surviving spouse.

Key points:

- Tax restrictions on pensioners' pension pots (those not in a defined benefit scheme) will be removed, ending the need to buy annuities.
- The amount of pension savings allowed to be taken as a lump sum (called a 'trivial commutation') has been raised to £30,000, up from £18,000.
- When pensioners reach 55, they can draw out as much as they like per year.
- Small pension scheme savings may be taken as a lump sum—increased from £2,000 to £10,000 as of 27 March 2014. The number of schemes that can be taken like this will be increased from two to three.
- 25% of pensioners' pension pots can be taken out tax-free, the rest will be taxed at the normal income tax rate.
- £20m is being put aside over two years to offer pensioners free face-to-face advice about what their options are.
- New Pensioner Bond issued by the National Savings Institute will be open to everyone over 65 from January 2015. A maximum of £10,000 can be saved in each bond, and up to £10bn of bonds will be issued. Rates will be set in the autumn and are expected to be 2.8% for a one-year bond and 4% for a three-year bond
- Caps on pensions lifted from £30,000 to £40,000 this June and £50,000 in 2015.
- Income requirement for flexible drawdown reduced from £20,000 to £12,000

More money is likely to pour into pension schemes, especially in years coming up to retirement. This flexibility will have its drawbacks for some people. The current rules ensure that, generally, people leave sufficient in their pension pots to pay for their later years of retirement.

Inevitably there will be more cases in the future where people have used up their savings and rely on the state to look after them in later years or just plain get things wrong and run out of money.

Savings

ISAs

From 1 July 2014 the Individual Savings Account (ISA) regulations will be greatly simplified and re-launched under the new name of New ISA (NISA).

All existing ISAs will become NISAs on that date.

Until now you could invest up to the ISA limit (£11,520 for 2013/14) in stocks and shares although up to half this total could be invested in a cash ISA deposit account instead (£5,760 for 2013/14). Many people utilise just the cash savings total and do not purchase any shares or unit trusts.

From 1 July 2014 you will be able to invest in any combination of cash or shares up to a total of £15,000. This means that for the first time you can use the annual maximum wholly for a cash account.

You will also have the new right of transferring your investment of shares into cash.

In addition NISAs will be able to invest in a wider range of securities.

The Chancellor's Autumn Statement in December 2013 had announced that the 2014/15 ISA annual limits would be £11,880 of which £5,940 could be in a cash deposit.

These limits will apply between 6 April 2014 and 30 June 2014. Again this suggests a bit of last minute planning to make the budget proposals more targeted.

Finally, from 1 July 2014 the annual limit for investment in a Junior ISA or Child Trust Fund will be increased from £3,720 for 2013/14 to £3,840 from 6 April 2014 and to £4,000 from 1 July 2014.

Premium bonds

From 1 August 2014 the £30,000 maximum holding will be increased to £40,000 and a second £1m top prize introduced. The maximum holding will be increased again to £50,000 in 2015/16.

Premium bonds have been used by many investors as one element of their savings strategy.

The peedie bits ...

Personal Tax Changes

The standard income tax personal allowance for 2015/16 will increase to £10,500 (2014/15 £10,000). The income tax basic rate band for 2015/16 will be £31,785 (2014/15 £31,865).
One change that is due to start from April 2015 is the (re-) introduction of the transferrable Married Couple's Allowance, where £1,000 can be transferred to the spouse.

Remember when ALL of the personal allowance was transferrable from the husband to the wife. This time the amount that can be transferred is much less (10% of the personal allowance) but at least it can go in either direction.

The allowance can only be transferred where the transferor is not liable to income tax or not liable above the basic rate for the tax year, and the recipient is not liable to income tax above the basic rate. It will not help you if you pay tax at higher rates.

There was little giveaway for those with higher incomes with only a small, but nevertheless, welcome increase in the threshold at which higher rate tax is paid.

This, combined with the increases in personal allowances for this year will provide some small advantages for those with incomes up to £100,000.

Savers

At the moment there is a 10% starting rate of income tax rate which applies to savings income which falls within the savings starting rate tax band (which for 2014/15 is £2,880).

In a move designed to help savers, the Chancellor announced that for 2015/16 the starting rate for savings income will reduce from 10% to 0%, and the maximum amount of an individual's savings income that can qualify for this starting rate will increase to £5,000.

The reductions in tax on savers will leave more money in the pocket and will benefit those who have endured low interest rates for many years.

For those who are able to save, there are many new and attractive incentives, such as the New Individual Savings Account (NISA) which provides a more flexible savings opportunity.

VAT

The new registration VAT threshold from April will be £81,000.

If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £81,000 but HMRC is satisfied that it will not exceed £79,000 in the next 12 months, that person will not have to be registered.

Prompt payment discounts and VAT - Where a prompt payment discount is offered, VAT has always been chargeable on the discounted price. This will be changed, so that VAT will be accounted for on the actual price paid for goods and services where prompt payment discounts are offered. The change will come into effect on 1 May 2014 for supplies of telecommunication and broadcasting services to consumers and 1 April 2015 for other goods and services.

Other taxes

The Annual Exempt amount for Capital Gains Tax is £11,100 from 6 April.

The individual inheritance allowance is unchanged at £325,000.

Companies

There was not much for companies but the level of capital expenditure for which companies get 100% tax allowances in the year of expenditure was doubled to £500,000 and the Corporation Tax rate is going down as expected to 21% from April 2014 and 20% from April 2015. At that point there will only be one rate of Corporation Tax for all companies whatever their size or number of companies in a group.

Theatre tax relief

The government is introducing a new Corporation Tax theatre tax relief at 25% for qualifying touring productions and 20% for other qualifying productions, with effect from 1 September 2014.

Film tax relief

The government will make Corporation Tax relief available at 25% on the first £20m of qualifying production expenditure, and 20% thereafter, for small and large budget films from April 2014. It will also reduce the minimum UK expenditure requirement from 25% to 10% and will modernise the cultural test.

Video games/ high-end TV tax relief

Video games tax relief will be extended to goods and services provided from within the European Economic Area, with a cap on subcontracting of £1m per game, subject to state aid clearance. The legislation will also be clarified so that only those games and television programmes qualifying for relief will be treated as separate trades.

Scottish rate of income tax

A number of technical issues were identified by HMRC in connection with the Scottish rate of income tax that impact upon the application to the non-savings income of Scottish taxpayers from April 2016 onwards.

The technical issues concern the mechanics of gift aid, tax relief for payments into occupational pension schemes and the taxation of income from trusts.

There are going to be new provisions in Finance Bill 2014 to amend the structure of the income tax legislation to ensure that the calculation of tax payable in relation to the above issues is clear and can be amended easily if required in the future.

There will also be new legislation to require the National Audit Office (NAO) to report directly to the Scottish Parliament on revenues collected as well as commenting on the adequacy of processes for operating the Scottish rate and confirmation that the processes have been complied with.