tlp - news

Nov/Dec 2014 **The monthly newsletter of The Long Partnership - www.thelongpartnership.co.uk**

£100 Tax Challenge

The 2014 tax challenge is now closed. Don't worry, it'll be back.

<<<The Challenge>>>

Bring us your last 3 years accounts and tax computations and if we cannot recommend ways for you to reduce your tax by at least £100, we'll give you £100 in cash.

Visit our website for more details

Quotes

Carpe Diem

"carpe diem, quam minimum credula postero"

Quintus Horatius Flaccus

(December 65 BC – 27 November 8 BC)

Seize the day … put very little trust in tomorrow ...

Do not trust that everything is going to fall into place for you. Shape your own future by taking action today.

"Do not fear going forward slowly; fear only to stand still."

-- Chinese Proverb

"If you have no confidence in self, you are twice defeated in the race of life. With confidence, you have won even before you have started."

-- Marcus Tullius Cicero, Roman Philosopher

Carpe Diem! What is he on about this time? Well, let me tell you. I find it fascinating to look at old school photos (except my own) and old wedding pictures. You see people at the start of a great journey, one full of hope, fascination and potential. Nothing ever really changes. I know that technology moves on apace and peoples' material wants grow ever greater, but deep down, the people are just the same. Did someone starting school in 1914 really feel any different from someone starting today. What were the hopes and dreams of couples getting married in 1924, 1934, 1944 etc.

So, where am I going with this? Carpe Diem! "Seize the Day". We all have a finite time. If you could speak to the people in those old photos now, what would they say? Some would no doubt have been happy with an ordinary life, but there will be others who "died with the music still in them". So, what's the answer? Its very simple. Carpe Diem!

You have hopes and dreams, unfulfilled goals.

Are you going to end your time here, with the music still in you. There is never any time like the present, because the present is all we have. We cannot change the past, whether that past be good or bad. We can plan our futures but we can only act in the present. So, what actions have you been putting off? What business did you want to start? Pick up the phone and make that call that you have been avoiding.

You can only be sure of one run at this life. It's not the dress rehearsal, but the one and only real thing. So, carpe diem, seize this day and make something happen. Decide what it is that you want to achieve and plan big; don't set limits on yourself, that is for others to try to do. Write out your goals, be specific. Then carpe diem! Take action and "just do it". If you plan big, you will achieve big things.

One last thing on this topic. Ever wondered why so many of the top achievers were the ones who sat at the back of the class at school? Why is it that so many really successful business owners are challenged in some way by dyslexia or whatever? These are not the ones who excelled at school, who worked hard and passed all their exams. There is a place for that. These people set their goals big and went for it. Carpe diem! If they can do that, think what you could achieve, but you have to start today with whatever you have now, don't wait for the right time, it will never be right.

On another topic, did you wonder what happened in our **£100 tax change**. What did it cost us? How many times did we fail to come up with tax advice worth at least £100? The answer is none, **£nil paid** and lots of good advice provided free of charge.

The reason is that for many businesses, there are very simple tax strategies that can be implemented easily and quickly that are not avoidance or evasion. Simply following the rules laid down by our elected representatives and implemented by HMRC.

Now, if you are one of our existing clients, you know that we pay attention to this sort of simple tax stuff because it saves you money. If you are not one of our clients yet, perhaps you should come along and have that chat. Carpe diem!

I find it quite funny that the two most important criteria in accountancy are price and tax. Many small business owners see accountants as a commodity, so you just pick the cheapest off the shelf. Many accountants are solely focused on tax and how to reduce their clients tax to a minimum. That's easy, just spend all your money on things you don't need (that includes that big shiny new tractor) and you will not only have no tax to pay, but have no business left either.

Surely our role as accountants is much broader. We need to work with you to help and educate, to enable you to build your business, keeping you on the right side of HMRC. It is about helping you achieve your business and personal goals. You decide how high you want to go and we'll bring the ladder. Don't reinvent the wheel. Business never changes, so tap into other peoples experiences, like ours. Carpe diem!

Monthly dividends?

There is nothing in the Companies Act to prevent monthly dividends. We have actually seen weekly dividends.

Good reasons to avoid monthly or weekly dividends:

1. there is more chance of errors, likely to be more expensive to administer and likely that the director may "forget" to properly declare them at the relevant time.

2. Monthly (and weekly) dividends always have the possibility of HMRC attack where they try to prove that the payments are, in effect, salary payments, and then collect the National Insurance.

Quarterly dividends are better and they should preferably take into account the company's performance in the period.

Are dividend counterfoils necessary?

Dividend vouchers are not in themselves a legal document. There is no mention of vouchers in the Companies Act but they are often required for tax purposes. However, you can issue a single voucher to cover all payments in the period. Generally shareholders receive a hard copy but may 'opt in' to receive e-counterfoils.

Brora—"Electric City"

The name *Brora* is derived from ancient Norse, meaning "river with a bridge". It was a small industrial village having at one time a coal pit, boat building, salt pans, fish curing, lemonade factory, the new Clynelish Distillery (as well as the old Clynelish distillery which is now called the Brora distillery), wool mill, bricks and a stone quarry.

The white sandstone in the Clynelish quarry belongs to the Brora Formation, of the Mid-Late Jurassic. Stone from the quarry was used in the construction of **London Bridge, Liverpool Cathedral and Dunrobin Castle.**

When in operation, the coalmine was the most northerly coalmine in the UK.

Brora was the first place in the north of Scotland to have electricity thanks to its wool industry. This distinction gave rise to the local nickname of **"Electric City"** at the time.

Labour will penalise tax abuse

A Labour government would bring in tough penalties for people caught by the general anti-abuse rule (GAAR). We have not seen any activity on the general anti abuse rule so presumably this is just political rhetoric. Or is it?

Is it the excuse to hammer anyone liable to penalties for any perceived underpayment of tax. Given that even in Scotland the percentage of people with businesses is under 5%, there is perhaps more political capital appealing to the lower paid employees on PAYE who think that anyone with a business is well off and avoiding tax one way or another. Are we in for some good old fashioned business bashing.

Writing on his blog, Ed Balls noted that Labour had supported the introduction of the GAAR in Finance Act 2013.

"Those who set up abusive schemes should run the risk of being caught by such a rule," Balls said. But, at the end of the day, what is abusive?

He added: "The public want us to be tough on the small minority of people who cheat the benefits system. They want us to be just as tough on companies and individuals who evade or aggressively avoid the taxes they should rightly pay."

Is incorporation to reduce your tax liabilities, aggressive tax planning?

Company cars – is it the end of the road?

The company car is being taxed out of existence, whether you're going for a low emissions or high emissions vehicle.

Tax on company cars is set to rise quite markedly over the next few years and the ones who will feel this most will be the people who have gone for a low emissions car."

A car emitting 82 grams CO_2 per kilometre is currently taxed at 11.5% of list price. By the end of the period we've got figures for - that will be taxed at 19% of list. So the benefit in kind for being green is almost going to double. An electric car at the moment would be a zero benefit in kind, and by that same date, it will shoot up to 11%.

The only people who are not seeing huge rises in their tax bills for having a company car are those people who have got a big car, such as a Range Rover. Maybe that is because they are already paying a lot of tax. They are already off the top of the scale so they probably could not be made to pay more.

The solution:

The solution that we have advocated for some time is to give up your company car and charge 45p a mile for your personal car. That has been the only sensible solution for a while for drivers generally.

If you do a huge amount of miles, there is no perfect solution. If you buy your own car to do the miles, you are going to lose money hand over fist. But to have a company car you will pay so much tax. In these circumstances, consider a van (or a double cab pickup) where the benefit in kind is only £3000 per annum.

We know that some accountants have been telling clients to consider double cab pickups for years. Fuel consumption is reasonable depending how you drive and it is pretty handy when the roads are very wet or icy, and you have quite an advantage over other drivers when it snows.

Some of the top of the range models have all the executive car comforts, so are quite comfortable on long journeys and plenty of room to carry the shopping.

Scottish rate of income tax

The Scottish rate of income tax will be introduced from **6 April 2016**.

It will be administered by HMRC as part of the UK-wide income tax system and applied to the non-savings income of those defined as Scottish taxpayers.

The definition of a Scottish taxpayer depends on where an individual resides, not where he works. Individuals who move around the UK without having an identifiable main place of residence for most of the tax year will need to count the number of days they spend in Scotland compared with the rest of the UK.

But there are more changes on the way after the Smith Commission Report.

Holiday Pay

Workers have won an important case at the Employment Appeal Tribunal, that overtime should count when calculating holiday pay. Most (but not all) people work out holiday pay based solely on basic pay but that could be about to change.

However a final decision on these matters could be a number of years away if the ruling is referred to the Court of Appeal.

The tribunal appeal judge said that he was guided by a number of European cases. In particular, he referred to the principal laid down by the CJEU that pay to be received during a holiday "is a natural continuation of the pay which has been received before the holiday began."

"'Normal pay' is that which is normally received and therefore requires the inclusion of non-guaranteed overtime, which then becomes part of what is to be paid during annual leave."

This will make payrolls even harder for ordinary businesses to undertake on their own. It could become a bit of a nightmare and put struggling businesses under more pressure. One-sixth of the 30.8m people in work, around five million workers, get paid overtime.

There are many questions still to answer including just what exactly constitutes regular overtime? What does this mean for commission-based salaries?

There is going to be a period of uncertainty, which is just what hard pressed businesses do not need.

The new Pension Regime - Your options

1. If aged at least 55 (or, if later, 10 years' before the normal date of entitlement to the state pension) take the funds as an income for life, by purchasing an annuity or taking a scheme pension,

2. Flexible access by way of:

- putting the funds into a drawdown fund known as a ***flexi-access drawdown fund*** from which you can draw any amount over any period (subject to possible restrictions or cost issues imposed by the pension provider) as if the pension fund was a bank account: or
- taking a single lump sum, or a series, from uncrystallised funds known as ***uncrystallised funds pension lump sum***; or
- using a combination of the above

The tax position on flexible access options

- payments from a ***flexi-access drawdown fund*** are taxed as a pension, but when funds are placed into such a fund you can take up to 25% of the fund tax-free as a ***pension commencement lump sum***
- any payment of an ***uncrystallised funds pension lump sum*** is 25% tax free with the balance taxed as if it were a pension
- this means that you can still obtain a tax free 25% of the whole fund in one go if desired, at the time the funds are placed into a ***flexi-access drawdown fund***, or if preferred you can take 25% tax free on each drawdown

The current 10-year restriction on the maximum guarantee period for paying the income from a lifetime annuity is to be removed. A lifetime annuity can therefore continue to be paid after the member's death for any period that is set out in the annuity contract.

There are rules to deter anyone from taking advantage of the new flexibilities to save tax. The rules are intended to provide people with greater access to their retirement savings, and not to avoid tax on their current earnings by diverting them into their pension fund with tax relief due, and then immediately withdrawing 25% tax-free.

If in doubt, ask an IFA.

Furnished lets – 10% Wear & Tear

Prior to April 2013, the landlord of a furnished residential property could claim the renewals allowance, or he could claim a "wear and tear" allowance calculated as 10% of the rent he receives. Wherever possible the 10% wear and tear allowance was generally claimed. From that date the renewal basis is no longer available.

The 10% wear and tear allowance is given to cover the sort of machinery and plant assets that would normally be provided in furnished accommodation. These are things like:

- movable furniture or furnishings, such as beds or suites,
- televisions,
- fridges and freezers,
- carpets and floor-coverings,
- curtains,
- linen,
- crockery or cutlery,

In other words, the sort of equipment etc. that in unfurnished accommodation, a tenant would normally provide thenselves.

If the property was not fully furnished (e.g. kitchen appliances only), then the wear and tear allowance is not available.

Furnished Lets— Carpets & Curtains

If the property is furnished and the wear and tear allowance is being claimed, no deduction is available for the repair or replacement of carpets and curtains.

If the wear and tear allowance is not being claimed e.g. partly furnished property, then the repair of carpets and curtains would be deductible. Generally their replacement would not be deductible unless their replacement constituted a repair!

So, if a carpet in reasonable condition was damaged it might be very difficult to repair it so it is replaced in order to repair it. The replacement is arguably deductible as a repair as that was the primary purpose of the spend. If however the carpet was being replaced because it was old and frail then the replacement would not be deductible.

The peedie bits ...

Xmas Cards for HMRC

Royal Mail has created a new special address for taxpayers writing to HMRC about self-assessment:

HM Revenue and Customs
BX9 1AS
UK.

Higher Rate Pensioners

A person approaching or in retirement could perhaps consider creating taxable income just short of the 40% tax band (£31,865 after personal allowances, £41865 in total). Any additional cash requirement might result in 40% tax being suffered.

There are ways to obtain income without falling into the 40% tax rate or higher. Consider the following:

- Investment bonds with a 5% annual tax-free withdrawal facility (so if need £50,000 and are taking £42,000, roughly equivalent to the higher rate threshold, the extra £8,000 could be achieved by investing £160,000 in a bond and drawing 5% each year)
- Investing for capital growth rather than income, and realising some capital at the required time
- Sale of chargeable assets each year to create a gain within the CGT annual exemption, retaining funds equal to the gain and reinvesting the balance
- A working shareholder could consider extracting available funds in retirement by way of dividends over a number of years, rather than closing the company down and paying CGT on distributions. By keeping total income to within the basic rate band, the extraction would involve no tax to pay.

Avoiding the personal allowance trap

There is a gradual withdrawal of the personal allowance if taxable income exceeds £100,000 via a reduction of £1 of allowance for every £2 of excess taxable income. **This makes the marginal income tax rate 60%.**

The marginal rate of tax between £100,000 and £121,000 is in fact 60%. Not something the Government mention, is it?

For 2015/16 the trap is widening as a result of the increase in personal allowance (the range is twice the personal allowance).

If taxable income is ordinarily in the 60% marginal band, consider pension contributions to reduce the income to £100,000 but only of course if the individual has earnings to cover. Other methods of avoiding the charge, depending on individual circumstances, include:

- Shifting income to a spouse or civil partner, via a transfer of assets
- Deferring income
- Gift Aid contributions
- Changing the accounting date for a sole trader or partnership
- Careful selection of the cessation date on retirement of a sole trader or partner
- Pension payments

A Tax on Christmas Cheer!

A guide to the taxation of Christmas parties and gifts.

Just when you thought you could let your hair down and forget about tax, reality strikes! You might forget about tax for a while, but it <u>never</u> forgets about you.

Social functions for employees:

There is a tax exemption for employee entertaining, but terms and conditions apply. The relief only applies to 'annual parties' available to all staff and is set at £150 per head. This figure is inclusive of VAT.

If the cost of qualifying parties goes over £150 per head then unfortunately all the costs (not just those above £150 per head) are taxable as a benefit in kind. It is important to note that the cost of the party is the whole cost of the event, from the start to the end. This includes taxis home and any overnight accommodation.

If the limit is exceeded the benefit must be reported on each employee's P11D.

Alternatively, the grossed up tax can be paid by the employer through a PAYE settlement agreement (PSA). However, this could mean that a total event cost per head of £160 could lead to an additional tax and national insurance bill of a further £140 per person.

It's important to note that the amount of £150 per head applies to all those attending the function not just employees. This will come into play if employees are allowed to bring guests.

Tax Reliefs:

Client entertaining isn't allowable for tax purposes. The cost of employee entertaining is allowed. If you invite clients and customers as well as staff, you must apportion the costs so that client entertaining is disallowed.

Gifts to employees:

Christmas presents paid in cash to employees will always be taxable along with other earnings. The same treatment also extends to vouchers. The employee pays tax on the full value of the voucher.

Seasonal presents, such as a turkey, an 'ordinary' bottle of wine or a box of chocolates, will generally be safe from tax as long as the value per person is less than £50.

If the value of the gift is more than £50, it will be taxable and should be included on the employee's P11D, or on the PSA, as above.

'Small' gifts from third parties:

Gifts received by employees from third parties, perhaps arising out of business relationships built up throughout the year, are tax free provided that such gifts do not exceed £250 in cost.

VAT

You cannot reclaim VAT on entertaining unless it is for employees. Partners and former employees do not count. In these circumstances costs must be apportioned and only VAT on the relevant part reclaimed.

VAT on entertainment solely for directors, partners or sole proprietors, cannot be reclaimed. So, take some employees with you and you might reclaim the vat in full.