tlp - news

September 2014 **The monthly newsletter of The Long Partnership - 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 future belongs to those who believe in the beauty of their dreams."
-- Eleanor Roosevelt, Former First Lady

"You may not realize it when it happens, but a kick in the teeth may be the best thing in the world for you."
-- Walt Disney, Animator, Film Producer

"This is as true in everyday life as it is in battle: We are given one life, and the decision is ours whether to wait for circumstances to make up our mind or whether to act and, in acting, to live."
-- Omar Bradley, General

"A journey of a thousand miles begins with a single step."
-- Chinese Proverb

"Just as iron rusts from disuse, even so does inaction spoil the intellect."
-- Leonardo da Vinci, Artist

Interesting is just one word for what we have this month. It's September and so, amongst other things, it is tax conference season. But this time we managed to pack two events into the same trip. Combine that with The Inverness Chamber of Commerce Hustings, Highland Spotlight (where we had a stand) and a very interesting presentation by HIBFL (more later) and we have some really good suggestions to help anyone running a small business, and they are not all about tax.

On top of all that, we are introducing new facilities that we think you will find useful. These will be rolled out gradually over the next few months; so, more later.

Oh yes, there was something else in September, but you have probably heard enough about the **Referendum** and so we will not dwell further on that.

The **Chamber Hustings** in Inverness is a great piece of fun but with two very serious facets. The first is that we all pitch to all the other business owners in the room, network and hope to gain new business. However, the other is the experience that it gives of speaking in front of an audience. However, the audience is friendly and sympathetic and so it is a perfect training ground. Given that the pitches are only 3 minutes, you have to prepare and limit your content to fit the time allocation, which is strictly controlled. Planning, content and timing are the essential elements.

Highland & Islands Business Finance is a new "not for profit" company lending to small businesses that need funding but that cannot access normal bank facilities. It cannot be used to re-finance but start-ups and expansions, including business acquisitions can all attract the finance. One example given was of a son buying a business from his parents who were retiring. If you think this might be useful for you, contact Alison Sturrock on 07780 459414. This is long overdue and likely to prove very popular.

At the Chamber Hustings we launched our **"£100 pound tax challenge"**. Now, if you are already a client, we have already done everything we can to get your tax down, so with apologies, this is not for you.

So, if you are not yet a client and want to join our challenge, be quick. It is only open till the end of October.

The challenge—spend an hour or two with us with your accounts and tax computations discussing your business and if, at the end of it, we cannot suggest ways to reduce your tax by at least £100, we will give you £100 in cash. That's the challenge.

The advice may even result in much larger savings and the meeting is absolutely free to you. So, its very simple, if :

- You are self employed or have your own company, and
- You file self assessment income tax returns or corporation tax returns, and
- You have a history of paying tax to HMRC,

Then ring us on 0800 180 4401 and we will register you for the challenge.

Highland Spotlight was in a new venue (Kingsmills Hotel, Inverness) and there seemed to be plenty of visitors, and plenty came to our stand, where we had Tom Hext from KashFlow demonstrating online accounting software. We will shortly be organising seminars around our patch where you can find out more about KashFlow and some new amazing features and how it can save you both time and money. Trust me, you will be amazed. If you are impatient to find out how it might help you, just get in touch and we'll see what we can arrange.

Finally, here is a new way of looking at every event or experience in your life. Everything that happens to you can only be one or more of the following:

- A test
- A lesson
- An opportunity

And nothing else, think about it.

KashFlow

Over the last few years we have seen significant changes to bookkeeping. In the 1980s we were setting clients up with analysed cash books on 24 or 32 column analysis paper and we all thought that this was terribly organized.

In the 1990s and later we saw the introduction and development of accounting software and the most common ones that we have seen over the last few years have been Sage and QuickBooks.

The next stage in the evolution of bookkeeping is the use of cloud-based accounting software and there are currently three principal providers being KashFlow, Xero and QuickBooks Online.

This is a rapidly developing marketplace and is likely that whichever one you choose now will have been developed significantly over the next few years.

We have opted for KashFlow because of its functionality and also its integration with our IRIS practice software.

Anyone visiting the Highland Spotlight Exhibition at the end of August in Inverness and visiting our stand will have seen a demonstration of the Kashflow software.

The software has some truly incredible features including the ability to directly download your bank transactions. This will be particularly relevant for businesses that have a lot of credit card receipts such as shops and hotels.

If you are impatient to find out more then just get in touch and we'll arrange a sneak preview.

Remember that with this type of system, you can log in and do the processing you want to do, and we can log in to the same software to do the rest and run VAT Returns, Annual Accounts etc.

We currently have a block of licenses to allocate for a small monthly charge although if you are already on a Fixed Price Agreement with us, you will see no change until your next renewal.

The £100 Tax Challenge

Done the ice bucket challenge?
Done the 30 day cold shower challenge?
Now, join the £100 Tax Challenge!

Exit Routes for Owner Managed Companies

If you are the controlling shareholder or even the only shareholder in the company, there are a number of potential exit routes open to you. These include:

1. **Handing over to the next generation** - you must be prepared to let go of the reins and trust in the next generation to achieve their own success. It requires great faith in the next generation that they will not ruin the business which you have fought to build up over so many years.

2. **Trade sale** - this can either be to a competitor or to someone breaking into the market for the first time.

3. **Sale to existing staff or manager** - you may already have someone in the company just itching to take it on.

4. **Partial exit** - selling or transferring a minority interest in the company.

5. **Liquidation** - Running a business down and liquidating it is a surprisingly common exit route. Generally it is a measure of last resort and can arise where there is no clear succession and planning has been ignored. It is likely to be the worst outcome with the least value obtained for the company or its assets.

When is the best time to transfer shares, lifetime or at death?

This is a complex area and one that requires careful consideration and professional advice. However, in general terms, the following factors need be taken into account:

1. Provided that the company qualifies for business property relief for inheritance tax, the exemption from IHT and the CGT rebasing to valuation on the proceeds is a persuasive argument for proprietors to hold onto their shares and only to pass them on at death.

2. However, it may be necessary to transfer shares to the next generation to provide a smooth succession path and an element of management motivation. In this case, it may be appropriate to transfer a minority holding in the company. If the transfer is made by way of gift or sale at less than market value, holdover relief is available so that the gain is taken on by the new owner of the shares and only subject to tax when they make a disposal. For IHT purposes, the gift of the shares will be exempt from tax provided the donor survives seven years.

3. In either of these two cases, the company must be a trading company which means that no more than 20% of the company's business can be devoted to non-trading activities such as the holding of investment.

4. Transferring shares on death is effectively treated as the individual's final transfer equal to the value of their chargeable estate before death (including the company shares) but also taking into account the total chargeable transfers made within the previous seven years and this can include the transfer minority holding to the next generation.

Provided certain conditions are met, business property relief of 100% should be available both for the shares still held at death and also for the minority shares transferred in the seven years prior to death.

Purchase of own shares

This is where the company buys back its own shares which are immediately cancelled. This means that the other shareholders now become the only shareholders and what was a minority holding can now be a majority or 100% holding. This is not a difficult route but it does require professional assistance. Broadly:

1. The company must be an unquoted trading company or the holding company of a training group.

2. The purchase of the shares must be for the benefits of the companies trade. HMRC expect that the outgoing shareholder will sell their entire holding back to the company although they will permit a 5% sentimental stake.

3. The Seller must have held the shares for at least five years

The disposal of shares in this way will be subject to capital gains tax and qualify for entrepreneurs relief. It also means that the company finances the deal and the other shareholders do not need to buy you out.

If the company does not have the cash available, then by using multiple completion contracts you can get paid out over a period of time. We have done this before!

What is deductible for a property business?

Where a property is altered, improved and upgraded from its original condition, such costs are normally capital and not deductible. You can ignore unintentional improvements such as where the original single glazing is replaced by the modern equivalent i.e. double glazing.

Examples of items that generally qualify as repairs, and deductible are:

1. exterior and interior painting and decorating
2. damp and rot treatment
3. mending broken windows, doors, furniture and equipment such as cookers
4. replacing a bathroom suite with a similar standard bathroom suite
5. replacing kitchen units with some standard kitchen units
6. replacing lead piping with copper piping

Where there is an element of improvements e.g. a bathroom or kitchen, the whole expenses is disallowed. You cannot apportion the costs and disallow the improvement.

Bringing a property up to standard to let will generally be non deductible.

Capital Allowances & The 10% Wear and Tear Allowance

The availability of capital allowances depends on the type of letting. Unless it is furnished holiday letting, capital allowances are not available in respect of residential property. So, for long lets, equipment installed in the kitchen such as cookers and washing machines do not qualify for capital allowances.

The "renewals basis" whereby the cost of replacement asset was allowable has been withdrawn. However, furnished long lets do qualify for a deduction of 10% of the turnover by way of a wear and tear allowance. This wear and tear allowance is given to cover all the equipment that would normally be provided in furnished accommodation such as furniture, televisions, fridges, carpets, curtains, linen and crockery.

One interesting twist is where equipment is built into the fabric of the building and therefore becomes a fixture just like a bathroom or fitted kitchen. Therefore a fridge or cooker that is fitted, e.g. a fridge that is plumbed in, will qualify for tax relief in the same way as when you replace other kitchen units.

Travelling expenses

The cost of travelling between different rental properties solely for the purpose of property business is an allowable deduction. However, if you travel from home to visit a let property, the cost of travelling is wholly deductible if the purpose of making a journey is exclusively business use but not where a journey is combined with a private element such as shopping.

Interest payable on rental business loans

Interest payable on a loan to buy land or property which is used in your property business including home loans is deducible in computer profits or losses of your rental business. Relief is also available for re-mortgaging when you use the remortgage amounts to withdraw your original capital.

You can increase your own mortgage to invest in your property business provided that the funds have been used for your property business.

Legal and professional fees

The expenses incurred in connection with first letting or subletting a property for more than one year are treated as capital and therefore not deductible. Normal legal and professional fees incurred on the renewal of the lease are deductible provided that the lease is for a period of less than 50 years.

The Sales Prevention Department

This is where we share stories with you either of poor service or, sometimes, where an organisation's message is undermined by their actions.

Let's talk political rhetoric. Let's leave aside all the Referendum promises that may or may not be honoured. We all have our own views on that matter. By the way, how did you vote. We did!

The point that I actually want to raise is the headline grabbing stuff coming from David Cameron recently that is supposed to make you think he is passionate. I am immune to salesmen of any description and so I listen to the message, not the messenger.

He is proposing to help hard working men and women by raising the Personal Allowance from £10,500 to £12,000 and the threshold above which we pay higher rate taxes from £42,285 to £50,000. Wow!

But then I realised there did not appear to be a timescale to this commitment, therefore I will assume that this is over the life of the next parliament. The increases to both the Personal Allowance and the higher rate threshold will therefore only be going up annually by a figure that looks suspiciously like the rate of inflation.

Remember the promises about devolution fired from the hip by the 3 party leaders and which they started to squabble over on the day after the referendum?

Well, I cannot help but think that these fiscal promises delivered so passionately in "call me Dave's" style are a bit of the same. They are for the digestion of the "chattering classes" who he thinks will be impressed. Judging by the reaction of the Tory faithful at the party conference, I think he was right.

For me the lack of anything really substantial and the style of delivery detracted from any credibility in the message or confidence in the person delivering it. What did you think?

By the way, when are we going to launch our own currency? What shall we call it? Ah, the "Pund Scots". Google it!

The peedie bits ...

Seed enterprise investment scheme (SEIS)

This temporary scheme has now been made permanent as has the ability to reinvest gains made on the disposal of assets into the cost of SEIS shares, thereby deferring the capital gain.

SEIS is designed to help small early-stage companies raise equity finance by offering a range of tax reliefs to individual investors who subscribe for shares but have a stake in no more than 30%. The investment is limited to £100,000.

The tax relief is given by reduction of your tax for the year by an amount equivalent to 50% of your investment in the shares. So, if you invest the full £100000, your tax liability could be reduced by £50000.

VAT and prompt payment discounts

There is to be a change in the treatment of prompt payment discounts with effect from 1 April 2015. At the present time, the VAT invoice is calculated on the basis that any prompt payment discount will be taken and a lesser amount of VAT is charged accordingly.

In future, the VAT will need to be charged on the selling price. We have used this method to reduce the VAT invoices for many years to an effective rate of 18%, (where everyone else was charging 20%) and so we will need to change the way we operate VAT from April next year and our VAT rate will then be 20%, just like everyone else..

Pensions

Significant changes are taking place to the pension regime and the main headlines are as follows:

1. Full access to money purchase funds as income from age 55 with income taxed at marginal tax rates
2. The 25% tax-free element is to be retained for the time being
3. Annuities will be much more flexible and so, for example, could be calculated on the basis of reducing income.
4. Taxes on funds on death are to be reduced
5. New annual allowance rules

The annual allowance which is the amount that could be paid into a pension is £40,000 in a year. However, the year in question is the pension input period and this will not necessarily coincide with a tax year. It is therefore possible to make more than one payment of £40,000 in the same tax year and get tax relief on the whole amount.

This is a complex area and you should take advice from an IFA before making significant payments into your pension.

"Google Tax"

The Financial Times has noted that "many internet companies pay little tax in Britain because they put their main profit-generating activities in lower tax countries like Ireland and ascribe little value to their UK sales and marketing operations".

The paper's analysis of seven US technology giants found they paid "just £54m" in UK corporate tax. "Their UK turnover was just £1.7bn in 2012, even though their overall sales to British customers totalled $15bn."

Osborne has signalled that he has them in his sights. How good a shot will he be and will the new rules unwittingly affect you and me. It wouldn't be the first time.

VAT and buying an existing business

We have recently come across a number of interesting issues relating to the purchase of either part or the whole of an existing business. The main points are as follows:

1. If the previous business was VAT registered and above the VAT threshold, the new business must be VAT registered from the first day of trading.
2. If an existing business is taken over as a going concern, consideration of the VAT threshold at each month end must take into account the monthly turnover of the previous business in determining when you need to register for VAT. It is only a completely new business that can start its VAT threshold clock at zero on day one.
3. Provided that the previous business and the successor business are both VAT registered and that it is the whole or part of an existing business being transferred, no VAT is charged on the transfer of any assets between the two businesses. If VAT is charged, it is not reclaimable by the successor and has to be reclaimed from the seller.

Scottish Taxes

The Scottish Parliament has the power to vary, from 2016, the key income tax rates; reducing the 20, 40 and 45 per cent bands by up to 10p in the pound and, interestingly, with no upper limit on any increase.

It will be up to the Scottish Parliament to decide whether it wishes to stick with the UK rates or how to apply them.

The Strathclyde Commission, for the Conservatives, recommended revising the Scotland Act 2012 to allow the Scottish Parliament freedom to set rates and bands as it wished, but with the other scope of control and administrative provisions unchanged.

Scottish Labour also propose building on the existing legislation, but extending the rate variability of 10 to 15 per cent, and granting the powers to introduce a new, higher rate (such as the 50p rate) if it wished.

The Scottish Liberal Democrats propose a process of greater federalism and devolution of tax powers, whilst not being specific as to income tax rates and bands.

Some key stumbling blocks to full income tax devolution still have to be overcome such as the integration of the tax and the benefits system, through Universal Credit.

With a majority having decided against independence, the next step on the devolution path is that you will have the opportunity to pay additional income taxes to fund additional spending choices, if that's what you choose to do.

So, what's it going to be, more or less tax? A guess would be that structural changes to rates and bands will be implemented, and rates start to change about 2018 at the earliest.

VAT Threshold

The threshold is now £81000 and you must check to see if you have exceeded it in the 12 months ended at the end of each month on a rolling 12 month basis.