tlp - news

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The monthly newsletter of The Long Partnership - www.thelongpartnership.co.uk

Quotes

"You must pay taxes. But there's no law that says you gotta leave a tip."

Morgan Stanley advert

"The difference between death and taxes is death doesn't get worse every time Congress meets."

Will Rogers

"For a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

Winston Churchill

"The hardest thing in the world to understand is the income tax."

Albert Einstein

"I'd like somebody to get rid of the death tax. That's what I want. I don't want to get taxed just because I died. I just don't think it's right. If I give something to my kid, I already paid the tax. Why should I have to pay it again because I died?"

Whoopi Goldberg

Cavemen, that's all we are. For hundreds of thousand of years our minds and bodies were optimised for some pretty basic things - finding food and shelter, finding an attractive mate, and staying alive long enough to produce children. We are not optimised for discounted cash flows, and all the other mental athletics we have to cope with these days. Surely it is the equivalent of running a new, memory hungry, computer program on the oldest of computers. We deserve some slack. We were not made to do this stuff. We are trying to lead complex lives with substandard equipment.

So, next time I get something wrong, remember I am optimised for a world that long ago ceased to exist. You have to make allowances.

We make our way through this "modern" world with the basic instincts and reactions of cavemen, We are only civilised on the surface. Underneath we are still optimised for basics.

It is hardly surprising that so many people find the demands of a "modern" world to be taxing and even the basic navigation through life is so difficult.

How do you market to cavemen? How do you close a sale to a caveman? Ever tried to explain accounts to a caveman? What has deferred tax or depreciation got to do with food, shelter and the need to reproduce?

So, don't beat yourself up because you struggle to understand the accounts we send you. Cavemen did not need to worry about tax mitigation, the benefits of incorporation, and the rest.

On the other hand, is it the caveman instinct that generally (not always) means that it is the man who cooks on the barbecue. Does it feed a basic instinct especially when the food is getting well flamed.

An interesting subject, but I do not think I'll ask my wife if she thinks I am a caveman. She'll just ask if cavemen snored!

Your brains still react like cavemen. There is a basic instinct for survival. When you find yourself in a difficult or strange situation, your instinct will be to flee (so you don't get eaten by some predator), to freeze (until the danger passes) or to fight, to protect yourself and the people and things around you. Think about the last time you found yourself in a strange and stressful situation. Did you have to fight some basic instinct to flee or fight?

What about the people you know? Are there situations when they have given in to these basic instincts to flee, freeze or fight. I can certainly name names of people who have displayed these characteristics in business, particularly when it has got tough, really tough.

So, how do you do business in the current world with people whose minds are more tuned to hunting and reproduction, with unsophisticated brains trying to do things they were never designed to accomplish?

Marketing and sales techniques have to take into account these caveman element in our characters. Marketers have to approach carefully, so as not to alarm us. They have to establish that they are not a threat, or we will run away. They have to answer a basic need in us for gratification, which at one time was expressed as food and shelter but now manifests as building a happy and safe environment in which we can live.

Our basic instincts taught us to be cautious when out hunting, in case we became the prey instead of the hunter. So it is with marketing. We are always suspicious when we see something new, in case there is something there that wants to eat us. Is it a trap? Are we going to get caught out?

We have a marketing plan! Any business wanting to develop in this complex and ever changing world would be wise to have a marketing plan. Is it optimised for cavemen? You judge.

Please don't think that all our clients are cavemen (and women) unless you like that idea. But any time you are looking to interact with other human beings you have to take into account the basic instincts that drive them and you cannot assume that they will react to you with logic and reason. Instinct may take over.

Techie Tools

From the desk of our very own techie, william@wallpapertrail.uk

According to a study by searchengineland.com in 2014, “nearly 9 in 10 consumers have read online reviews to determine the quality of a local business, and 39% do so on a regular basis”.

Did you know that Google aggregates customer reviews about your company from all over the internet, from sites such as Yelp, Yell, Facebook, Google Places, TripAdvisor and more.

They have become increasingly important in ensuring that your company gets found online, and those who don't actively encourage reviews may find themselves losing out on potential new customers in 2016. Let me show you why.

Type into Google "Orkney pubs" and **above** the #1 search result, a.k.a the position every website owner dreams of achieving, you'll see a box featuring information on a handful of bars throughout the Islands with a link to view more. Google users don't need to scroll down the results page to see the website ranked #1, since they can now click on the box provided by Google and instantly read customer reviews about dozens of pubs in Orkney.

The businesses, all pubs in Orkney in this example, who manage to maintain a respectable average rating after receiving a sizeable number of reviews (50+) are the ones who will see an increase in trade.

The reason why should be obvious! Just ask yourself which pub you would choose to visit if you were a tourist here. Will it be one with zero customer reviews, or will it be the one rated 4 out of 5 after 50+ customer reviews?

You can make a start in building up your reviews by asking friends, family, staff and existing customers to help you out. Don't worry if you get a negative review, simply respond in a professional manner so that anyone else reading the reviews in future can see that you tried to assist the customer. You can't please everyone, and most people understand that.

William

Scottish Tax

SRIT will begin on 6 April next year.

From that date the income tax rates set by the UK will be reduced by 10p in the pound for Scottish taxpayers, and increased by the SRIT. The Scottish government is due to announce the SRIT in November 2015.

We will then have 2 tax regimes operating in the UK. There will be SRIT in Scotland the regime elsewhere in the UK will be known as rUK.

The basic, higher and additional earnings bands are to remain the same for both rUK and SRIT for the tax year 2016-17.

Are you a Scottish taxpayer?

A Scottish taxpayer is someone who is resident in the UK for tax purposes and who has his or her sole or main place of residence in Scotland for all or most of the tax year, rather than in another part of the UK. The employer’s location is of no relevance, it is the individual’s location that determines tax status so all employers will have to operate Scottish tax codes, irrespective of their location.

Employers cannot operate the SRIT until HMRC have assessed who is a Scottish taxpayer.

The first step in deciding if you are a Scottish taxpayer is to establish that you are a UK resident for tax purposes. Someone who is not UK tax resident can never be subject to the SRIT.

If the person has only one place of residence, and this is within Scotland, they will automatically be treated as a Scottish taxpayer.

Individuals with one or more homes, or who move home during the year, need to agree with HMRC in which one they have lived for the greatest number of days in the tax year. Where Scottish tax residency is determined it applies for the whole tax year.

It is perfectly possible to have two homes such as a weekday city flat and a weekend house, but both must be lived in by the individual not just owned by them and lived in by others. Homes can of course be rented as well as owner-occupied so it is pretty much going to be a matter of common sense and determining where you lived longest in the tax year.

Students may return to their parental home to work at weekends even during term time, others will remain away from “home” throughout the year, working there in the holidays. Where individuals have no main residence at all, HMRC will simply count the number of days spent in each country. A ‘day’ is broadly counted as where they are at midnight.

Employees with complex living and working patterns should already be considering the records or documentation required to support their assertion that they are or are not Scottish taxpayers.

Tax codes

Scottish taxpayers will have their tax codes prefixed with the letter ‘S’. HMRC systems will assess and assign the appropriate tax code after the first full payment submission (FPS) is received, using information they hold at that time. HMRC will then notify the employer of the correct tax code to use.

In-year notifications will be issued where an employee notifies HMRC of their change of address that changes their taxpayer status and tax code.

The current process for week 1/month 1 will continue and will not be impacted by SRIT. HMRC will advise employers which tax code to apply, and this should be applied to the employees’ income for the year to date. Any resulting under or over-payments will usually be corrected during the year using current processes or, if the tax year end has passed, corrections will made by HMRC as part of the normal year-end reconciliation process.

P60s/payslips

The SRIT element will not be shown separately on the P60s. However, the P60 will show a Scottish tax code, where appropriate.

HMRC will show the SRIT proportion separately on the individual’s annual tax summaries from the 2016-17 tax year onwards.

Payroll software will not be required to split and report SRIT amounts in full payment submissions (FPS). SRIT will be reported separately through internal HMRC PAYE processes on an individual level so there will be no impact or change on FPSs other than incorporating the new Scottish tax regime indicator.

Starters and leavers

Form P45 will allow the Scottish tax code prefix to be displayed. Scottish taxpayer status applies for a full tax year so, depending on when an individual moves, their taxpayer status may not change until the end of the tax year in question.

If an individual changes employment during the tax year, employers should continue to operate the tax code shown on the P45.

If there is any doubt about the code and rate to apply, you use the UK code and rates.

There are no changes to the employee declaration, or starter's checklist, (previously form P46) for SRIT. As HMRC will determine taxpayer status, there are no plans to amend or add a question to the declaration specifically for Scottish taxpayers.

There are also no changes to leaver processes as a result of SRIT. Payments after leaving for Scottish taxpayers will be processed using the tax code S0T on a week 1/ month 1 basis. This will also apply where the payment after leaving is in the following tax year.

Pension schemes operating the net pay arrangement

HMRC will have told employers which of their employees are Scottish taxpayers in order to collect the correct PAYE on earnings.

Where contributions are paid to a pension scheme that operates the net pay arrangement, HMRC would expect the Registered Pension Scheme Administrators to tell their members in advance that the amount they have to pay is changing due to the appropriate rate of Scottish tax in place at that time.

Pension schemes operating relief at source

The government has agreed that Registered Pension Scheme Administrators/Pension Providers can continue to claim relief at source at the UK basic rate for all members from April 2016, irrespective of any difference between the Scottish & UK basic rates.

HMRC will make any adjustment (based on the rate set by the Scottish government) to the relief given directly with scheme members who are Scottish taxpayers through the self assessment process or through PAYE coding.

Is SRIT a temporary tax?

The SRIT may not be around for long in its current incarnation. The recommendations of the Smith Commission, that the Government has agreed to, go much further than the SRIT, allowing the Scottish Government to decide tax bands, individual tax rates and for the block grant to be totally abolished. It's going to be an interesting year.

Expenses consultation: Travel and subsistence

HMRC's intention is to make working through an intermediary as non- tax beneficial as possible. The consultation document concentrates on the claim for tax deduction of travel and subsistence made by workers working via 'a company, a partnership, or an individual or entity that sits between "a worker" and the "engager", as part of an arrangement for the worker to provide their personal services to that "engager".

In particular HMRC is looking at 'umbrella' service companies and personal service companies.

Claiming all travel and subsistence expenses in such work situations gives an unfair tax advantage compared to workers on PAYE.

HMRC has seen a marked increase in the number of 'umbrella companies' being formed and confirm that it is currently undertaking several investigations into companies running what it terms as 'non-compliant business models'.

Whatever you think of the proposals, one man service companies and anyone whose labour is supplied through an umbrella company are now firmly in the HMRC radar.

Dragon Slayers

We are members of BNI in Inverness. Someone asked me a few days ago why there is not one further North. Personally, I do not think it would work but, please prove me wrong.
BNI Highland officially launched on 20 August 2015 with 25 members and 55 guests attending the launch event.
Each member gave a 60 second address to the assembled gathering. I thought I would share our pitch with you. See what you think.

"I am Alan Long from The Long Partnership and ….. We are … dragon slayers.

Our dragon hunters operate from bases in Elgin, Inverness and Dingwall and to the far north in Thurso and the wild, remote and mysterious islands of Orkney where our team is headed up by 2 fearless female dragon slayers.

Who are these dragons? tax inspectors.

We have seen business owners mauled and whole businesses devoured by these hungry and merciless creatures.

Our mission is to guard and protect our clients.

Most of the time we are mild mannered, hard working accountants helping and advising our clients run their businesses more efficiently in these dragon infested lands.

But when one of these dragons rears its ugly head, we put on our armour and we fight the good fight to help our clients keep more of what they have built up and which is rightfully theirs.

Alan Long
Chief Dragon Slayer
At The Long Partnership
Accountants and Business Advisers
Fighting your dragons and "Making life less taxing"

So, meet the dragon slayers of The Long Partnership defending you from the tax dragons and keeping you safe.

And you thought we were just accountants.

The peedie bits ...

VAT - flat rate scheme bad debts

Even if you have not included the initial sale on a VAT return because you complete your vat return on the basis of money received you can still claim a reduction in your vat for a bad debt.

Now, I hear you ask, if we have not paid over vat on the sale how can we claim it back? *Read on.*

Cash basis

Say you use the flat rate scheme and raise an invoice for £6000 gross (£5000 + vat) and your flat rate scheme percentage is 10.5%.

You "reclaim" the vat of £370 on your next vat return. This is the difference between the vat shown on your invoice i.e. £1000 and the vat that you would have paid to HMRC if the debt had not gone bad.

Are you on the FRS and account for vat on the basis of money received? Have you incurred any bad debts in the last 4 years? Did you claim bad debt relief? If not, it is not too late.

The debt must have been more than 6 months old and written off in your own accounts.

See HMRC Notice 733, section 14

Basic turnover method

If you account for VAT on the basis of invoices raised (relatively unusual) you can actually claim bad debt relief on the full amount of vat shown on your invoice, which in the example above would be £1000. Given that you only accounted for £630 on your vat return, the windfall to you is again £370.

This is not the case where you have had zero rated or exempt income on which you had to account for flat rate vat.

Dividends and Interest

The £5,000 dividend tax allowance is not an allowance. It's a zero-rate of income tax applied to dividend income only, but it will apply to all taxpayers whatever their marginal tax rate. There are going to be a lot of small companies paying out dividends of exactly £5000 next year, after all it is tax free, even if you are a higher rate taxpayer.

Dividends are currently taxed as the highest slice of income, so they are always subject to the taxpayer's highest marginal tax rate. This will continue to apply, but the first £5,000 of that dividend income will be taxed at zero rate.

Dividends in excess of £5,000 will be taxed at:

7.5% within the basic rate band

32.5% within the higher rate band

38.1% in the additional rate band.

A personal savings allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers is due to apply from 6 April 2016. From the same date all interest paid by banks and building societies will be paid gross without tax deducted.

However, the legislation for the personal savings allowance was not included in the Summer Finance Bill.

Goodwill - Rushed Legislation with unwanted side effects

In a recent article, our old friend, Pete Miller of The Miller Partnership, has highlighted circumstances when Entrepreneurs Relief would be denied. If you find yourself in any of these circumstances, come and speak to us.

Broadly, the recent announcement by young George denied Entrepreneurs' Relief where after 4 December 2014, there is a disposal of goodwill (i.e. a business), by a trader or partners in a trading partnership to a close company (i.e. most small companies) in which they are participators (i.e. directors or shareholders) or associates of a participator.

We could write a book about all the ins and outs and the various conditions in the current tax legislation but suffice to say that you will not get the ER and the benefit of the 10% tax rate where:

1. Where a partner wants to retire and the remaining partners want to incorporate, the retiring partner will not get ER on the sale of his share of goodwill to the company if he is associated with a continuing partner/shareholder e.g. father and son.

2. Where a sole trader wants to sell his business to his son, ER would be denied.

3. Where a trading company buys a partnership's business and the partners take a stake, however small, in the trading company. So this would include the situation where part of the consideration is shares.

The new legislation was brought in to stop people getting an "unfair" tax break on incorporating their own business. However, as usual, the legislation has not been well considered and it will penalise perfectly ordinary business transfers.

Sports Clubs - Register as a CASC

Community Amateur Sports Clubs (CASC) came into being in 2002 with the intention to simplify the administrative burden on these clubs and encourage greater participation in sport.

So, what are the advantages:

1. Exemption from Corporation Tax on trading profits and the first £30000 of rental income, interest, chargeable gains and donations from individuals under gift aid.

2. Non domestic rates relief.

3. Gift Aid - claiming back tax on donations from individuals.

To qualify, a club must:

1. Be open to the whole community.

2. Be amateur status.

3. Have the promotion or participation in one or more sports as its main purpose.

4. Not earn more than £100K PA from non member trading or rentals.

5. Various other rules which we do not have room to detail.

So, if you are a successful amateur sports club but paying tax or would like to benefit from Gift Aid, consider becoming a CASC.