

# tlp - news

June 2015

The monthly newsletter of The Long Partnership - [www.thelongpartnership.co.uk](http://www.thelongpartnership.co.uk)

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### Quotes

**"The bad news is time flies. The good news is you're the pilot."**

-- Michael Altshuler

**"When nothing seems to help, I go and look at a stonemason hammering away at his rock perhaps a hundred times without as much as a crack showing in it. Yet at the hundred and first blow it will split in two, and I know it was not that blow that did it - but all that had gone before."**

-- Jacob Riis, Photographer and Journalist

**"Create a definite plan for carrying out your desire and begin at once, whether you're ready or not, to put this plan into action."**

-- Napoleon Hill, Motivational Writer

**"People do not decide to become extraordinary. They decide to accomplish extraordinary things. "**

-- Sir Edmund Hillary, First to reach the summit of Mount Everest

I had not realised! After I mentioned in last month's newsletter about FileVault, the company in Invergordon that archives your paper files, Ewan Calder got in touch. My first thought was that he was going to chastise me for something I had said about him. Not so. I need not have worried. It wasn't that.

But what he had to say really surprised me and made me think that FileVault will have a long future ahead of it.

Apparently, even some of the most progressive companies still want the assurance of having paper copies of things like P60s, payslips and the like. This really surprised me but obviously it is just human nature.

So, Ewan has himself the makings of a simple effective and successful business, collecting, storing and returning the bits of paper that people just cannot bring themselves to throw away. I wish we had thought of that. So simple but just so effective. It just goes to show that some of the best businesses are based on very simple ideas.

It also goes to show that it is not the idea that makes a successful business. The idea is the seed, but it is the implementation, marketing and sales effort that create the successful business.

I travel around our patch quite a bit. I also use Skype but sometimes there is just no substitute for meeting people face to face. So, this night I was travelling on a ferry and got chatting to a couple of German tourists. They had decided on a whim to head for the Northern Isles and wanted to see puffins and seals and other sea and bird life. Its funny because I take these things for granted. I see them all the time. But their enthusiasm and delight at seeing such mundane things even got me looking out the window and appreciating them with fresh eyes. It's a bit like when a small child finds amazement in something we think is so simple.

There is a lesson here! If you could look at

your own world with fresh eyes what would you see that you had previously taken for granted and no longer noticed. How are you going to do that? Sometimes it happens when you slow down and just take a moment to look around. Mind you, that can also be the time that you realise how untidy your office has become while you have been fighting the good fight!

On another tack, have you tried phoning your business bank manager recently. Do you have one or do you have a "Team". I had occasion to call a bank this morning on behalf of a client.

I received no response to my email requesting a short meeting. The branch is only a few hundred metres from our office. I phoned. The original contact was unavailable so I got another member of "the team" who was completely unfamiliar with the case. We then had a longer than necessary telephone conversation while I explained that my client was now an unlimited company. It was made even funnier because the name of the business was not changing which thoroughly confused them. Never mind, we got there and I think they eventually grasped the concept of an unlimited company.

However, these are the business banking managers and that concerns me. Knowing the value of a good business banking manager, of whom we have known many, it seems to me that there is now something lacking in terms of business support.

On the other side of the coin we are seeing the growth in Crowd Funding which is now spreading throughout the Highlands. Some forward thinking finance brokers have embraced this new way of working. We can point you in their direction. Others have not yet grasped the opportunities that this form of finance brings to developing businesses in our patch.

## Take our short survey

**Go to [www.thelongpartnership.co.uk](http://www.thelongpartnership.co.uk) and tell us about your biggest business challenges**

## HMRC recruitment drive

Over the last few years HMRC has shed thousands of jobs, but that seems to be about to change. There is evidence of a recruitment drive by HMRC amongst Tax Professionals for roles within the HMRC's "large business" unit.

The pay offered was £47,218 nationally, or £53,196 in London.

Some of these approaches have been by email directly to people working in tax. They appear to be from part of a new official Government team which helps identify external talent to help them bring the "right people" into the most important jobs. This campaign is seeking to recruit a large number of Tax Professionals "as part of an exciting and dynamic team" that works with the UK's largest businesses.

## HMRC paying for information

The tax authorities are increasingly rewarding tip-offs in an attempt to recoup the tens of billions lost annually to tax fraud. **The amount of money** paid to informants has leapt by more than 50% in a year to a record high of £605,000.

There is speculation that the pay outs have risen through greater public awareness of the potential rewards, with those working in financial or professional services increasingly joining the ranks of ex-spouses or disgruntled former employees in providing tip-offs, for cash.

## British Retail Consortium – apocalypse!

The BRC is speculating that **more than 80,000 shops** across the UK could close within the next two years. They have based this upon the number of retailers who have leases expiring in the next two years and what would happen if 60% did not choose to renew. They are arguing for a reform of business rates. Otherwise they believe that almost two out of three town centre shops to close by 2017 leading to the loss of 800,000 jobs.

## Change of Pre Registration VAT Rules

A welcome opportunity for a newly registered business is to be able to claim input tax on certain pre-registration expenses:

- **Goods** – which have been purchased within the four year period before the date of registration, which have been used in the business during that time, and are still owned by the business on its first day in the VAT club. The definition of 'goods' includes both stock and fixed assets.
- **Services** – the time window is capped at six months before registration, and the service cannot relate to a sale that has been invoiced before registration.

### What's changed?

It seems that HMRC have re-interpreted the rules on claiming VAT incurred on goods, stock and equipment acquired pre-registration for VAT. Not only that but they do not seem to have told anyone. It is proving to be a controversial change and we understand that a test case is being prepared to have the matter decided in court. On the one hand this is an interesting consideration but on the other leads to considerable confusion. How much VAT can a business claim from pre-registration purchases.

### The background

When an established business registers for VAT it will already hold some stock and assets which will be used after the registration date.

For the last 43 years, the trader has been able to reclaim all the input VAT paid on those goods, in his first VAT return, as long as these conditions are met:

- the goods were acquired in the four years before the date of registration
- the items are still held at the date of registration.

HMRC now says the input VAT should be reduced to take into account the use that has been made of the goods before the VAT registration date. That is the vat reclaimed needs to take account of the reduction in the remaining useful life of the assets.

There has been no change in practice for VAT reclaims on services, which must be provided in the six months before registration.

HMRC apparently changed their practice from 1 January 2011, but no-one seems to have noticed and they have not been telling many people.

Having said that, there is a logic to the new rules in that it is consistent with what happens for capital allowances so it could be argued that the old VAT rules were too generous. The problem is that anyone registering for VAT in the last 4 years may now find that they have claimed too much vat and might have to pay some back.

## OSCR consults on charity accounts changes

Charities in Scotland are being invited to contribute views on proposed changes to the charities SORPS, the statements of recommended practice in preparing charity accounts.

The Office of the Scottish Charity Regulator (OSCR), with its counterpart the Charity Commission for England & Wales, is consulting on changes to reflect changes to UK-Irish accounting practice due to take effect from January 2016, following proposals by the Financial Reporting Council (FRC).

Expected changes will mean that the charities SORP known as FRSSE will not apply for reporting periods (financial years) beginning on or after 1 January 2016, and changes are needed to the charities SORP known as FRS 102 effective for reporting periods beginning on or after that date.

The consultation documents and draft schedule of changes can be viewed via the dedicated SORP micro-site [www.charitySORP.org](http://www.charitySORP.org). The consultation runs for three months until 18 September 2015.

## New Starting Tax Rate on Savings

The new rate is 0% and the band is £5000. This will benefit anyone on low incomes (perhaps a small pension) made up with savings income. It could be worth up to £1000 a year. If you think this affects you, get in touch.

## Pension Freedom or Pension Bonanza?

According to the Guardian, more than £1bn has been transferred out of pension funds over the last two months as a result of the government's new freedoms,

In the face of growing criticism that the policy had failed to live up to expectations, the chancellor told MPs that so far 60,000 people have made use of the pension freedoms that came into force.

They are the first official figures released since 6 April, what has come to be known as Pension Freedoms Day. On that day, those aged 55 and over were given access to their pension savings for the first time without incurring huge charges.

However, some of Britain's biggest pension companies have been criticised in recent days for refusing to let retirees withdraw cash from their retirement pots, leading some observers in the media to brand the policy a fiasco. It's been claimed the policy was rushed into the market in time for the election, and that the pensions industry was not given sufficient time to prepare.

Against that background, George Osborne declared that the freedoms were a success.

"So far, in the few weeks since they came into effect, 60,000 people have made use of them. More than £1bn has been transferred out of people's pension funds as a result. It is a sign that this is a real success, but we have to make sure that people get the best advice, that the market responds, and that companies up their game in helping customers make use of these freedoms. We will be watching these things very carefully," he told the Commons.

Last week, the Association of British Insurers (ABI) responded to concerns that pension providers were making it hard for people to access their cash. Yvonne Braun, the ABI's director of long-term savings policy, said insurers are committed to making the pension reforms a success.

Osborne's figures suggest the early adopters may be cashing in relatively small pension funds, with the average pot around £16,600 in size.

The secretary of state for work and pensions, Iain Duncan Smith, has warned providers not to drag their feet, and said new pensions minister Baroness Altmann would be meeting some of them in the coming weeks.

Tom McPhail, head of pensions research at financial advisers Hargreaves Lansdown, said the magnitude of the change should not be underestimated.

"While the number of people taking money from their pensions has not significantly increased, the way they are doing so has, with less than one in 10 people currently choosing to buy an annuity, compared to eight or nine in 10 only a couple of years ago.

"This is a reform of equal magnitude to the Right to Buy council house sales revolution of the 1980s; in the same way that Margaret Thatcher introduced millions of people to home ownership, George Osborne is now introducing millions of people to pension ownership."

## Taxable and exempt state benefits

Pensions are often paid together with other benefits e.g. Attendance Allowance, but many state benefits, including Attendance Allowance are tax-free. If working from bank statements, the split may not show up so you will need to get the breakdown issued by DWP

Other Tax free benefits include:

Housing Benefit

Free TV licence for over-75s

Income Support

Working Tax Credit and Child Tax Credit -

Disability Living Allowance

Child Benefit (if income < £50,000)

Guardian's Allowance

Attendance Allowance

Pension Credit

Employment and Support Allowance

Lump-sum bereavement payments

Maternity Allowance

Industrial Injuries Benefit

Severe Disablement Allowance

Universal Credit

War Widow's Pension

Young Person's Bridging Allowance

## The Sales Prevention Department

Once in a while, something happens which appears to be so ridiculous that you have to have sympathy for the business affected and especially for the poor employees who have to work there.

I was recently asked by clients to telephone their local bank (conveniently located 110 miles away) to make sure that the arrangements for their new business account were all in place and correct.

The person that I needed to speak to was located in Harbour Road in Inverness which, as many of you will realise, is very close to our Inverness office.

I rang the contact number and I was asked what I wanted. I gave the name of the person I wanted to speak to and expected to be put through to them immediately.

The next few minutes left me almost speechless. I do not know where the person was located that answered my telephone call, but they could not locate the person that I wanted to speak to. I said that they were in Inverness, and at that point I was asked for the address including postcode of the office where they were located.

It became clear to me that I had telephoned a call centre. Given that it was a call centre serving branches of this bank over a significant area, I would have expected them to have contact details of all their staff. I do not think that I should need to give them the name and address (including postcode) of the branch where my contact was located.

It reminds me of the "coffee stain audit" spoken about by the chairman of the airline SAS. This is where a passenger folds down their table and finds that there is a coffee stain which has not been cleaned. The significance for the chairman was that, if the coffee stain had not been cleaned away, have the engines been properly serviced.

In the context of my telephone call to this particular bank, I wonder if they are looking after people's money and have records showing where it is and how much. After all, they do not seem to know where the staff are located.

# The peedie bits ...

## Expenditure on R&D

In computing their taxable profits, small and medium-sized companies are able to claim a special enhanced deduction for qualifying R&D expenditure. With effect from 1 April 2015, the allowable deduction (often referred to as a 'super-deduction') has been increased to 230% of the relevant expenditure. For a company paying corporation tax at 20%, this represents an effective tax relief of 46%.

If such a company has been making losses, it is able instead to claim a repayable R&D tax credit amounting to 14.5% of the lower of:

- its trading loss for the accounting period in question; or
- 230% of its qualifying R&D expenditure incurred in that period.

The repayable tax credit rate remains at 14.5% for the current financial year. However, because of the increase in the super-deduction, loss-making companies will now be entitled to a maximum cash rebate equal to 33.35% of their original expenditure.

The increases detailed above are being partially funded by a new measure which is applicable to all R&D schemes. With effect from 1 April 2015, expenditure will be excluded from a company's R&D claim if it relates to consumable items incorporated into products which are subsequently sold (S28 FA 2015).

## Beneficial Loans

Where an employer provides an employee with a loan which is either interest-free or subject to a low rate of interest, there is no taxable benefit if the aggregate of all such loans does not exceed £10,000 in the tax year – see S180 ITEPA 2003. Nor is there a Class 1A NIC charge.

When considering whether the limit of £10,000 has been exceeded, any employer-provided loans which would attract income tax relief (i.e. because they were made for a qualifying purpose) are ignored.

The official rate of interest for beneficial loans has been reduced to 3% for 2015/16.

## New Corporation Tax Return

HMRC has introduced a new version of the Company Tax Return form and its supplementary pages. The new version of the Company Tax Return form (form CT600 version 3) must be used for accounting periods that start on or after 1 April 2015. In addition, a new computation taxonomy has been introduced for computations that accompany the new CT600 form.

The old version of the CT600 form (version 2) and computation taxonomy must still be used for accounting periods that start before 1 April 2015, including accounting periods that span 1 April 2015.

Commercial software developers are aware of these changes and are updating their online filing products. HMRC's free downloadable filing software has also been updated. Please ensure that you are using software capable of producing the new version of the CT600 form and XBRL tagged computation for accounting periods that start on or after 1 April 2015. Our systems have already been updated.

## VAT Flat Rate Scheme

There are a number of planning points with the scheme:

- A business can claim a 1% discount on its relevant flat rate percentage in the first year of VAT registration.
- A business using the scheme for its first VAT period can claim pre-registration input tax on this return in the same way as a non-scheme user i.e. four years for goods and six months for services as considered above. This is the only time a scheme user can claim input tax other than when it buys capital goods costing more than £2,000 including VAT.

There is sometimes a misunderstanding that the 1% discount can be claimed by a business in its first year of using the scheme. This is incorrect – it is only in the first year of VAT registration. And if a business joins the scheme part way through its first year of being vat registered, then it gets the 1% discount for the balance of the first year period that remains.

## Voluntary VAT Registration

A business that has never needed to register on a compulsory basis has the right to choose its date of VAT registration going back up to four years.

So if today is 1 July 2015, I can ask for a date as far back as 1 July 2011. This can potentially allow a trade to claim back input tax for all 4 years, albeit that they will need to raise VAT invoices or otherwise account for output tax on sales. However, there could be circumstances when this could be beneficial.

This can also be useful when services have been incurred e.g. building work more than 6 months ago or equipment was acquired more than 4 years earlier. By backdating the date of registration the time limits for reclaiming pre-registration input tax are adjusted in the taxpayer's favour.

## Recovering VAT on Rented Property

If you have a VAT registered business and also rental properties, can you claim VAT back on your property expenses. Normally the VAT on property expenses is not recoverable but in certain circumstances you can reclaim the VAT, even though there is no VAT on the rent.

This happens when:

- The property vat incurred is less than £625 per month, and,
- The property vat incurred is less than 50% of the whole vat recoverable.

This can be a complex matter so if you think you qualify, get in touch.

## Does HMRC Owe You £2000?

If:

- You have employees
- You paid over PAYE and NIC to HMRC in 2014/15

Then, I have a question for you. Did you claim your employment allowance for 2014/15? We are coming across a number of employers who do their own payroll who have not claimed the allowance.

This could be worth up to £2000 to you so it is worth checking. You cannot assume that just because you are using payroll software that it actually does the calculation.