tlp - news

March 2015 **The monthly newsletter of The Long Partnership - www.thelongpartnership.co.uk**

Quotes

"Keep your fears to yourself, but share your inspiration with others."

-- Robert Louis Stevenson, writer

"Dreams do come true, if we only wish hard enough. You can have anything in life if you will sacrifice everything else for it."

-- J. M. Barrie, Dramatist

"Anyone who stops learning is old, whether at twenty or eighty. Anyone who keeps learning stays young. The greatest thing in life is to keep your mind young."

-- Henry Ford, Industrialist

"It is not the employer who pays wages -- he only handles the money. It is the product that pays wages."

-- Henry Ford, Industrialist

"Tears will get you sympathy. Sweat will get you results."

-- Anonymous

Smoke and mirrors? Or was there real substance in the budget? From our perspective there were some interesting proposals. However, my biggest concern is that these people who are elected to run UK Inc. can play politics and introduce measures knowing there is virtually no time for them to be properly debated and scrutinised in committee or by Parliament itself.

So, where does it all lead us? My view, for what it is worth, is that most of it was politicking but there were some useful developments.

Just think, sometime in the next 5 years, tax returns will be a thing of the past, or will they? How will HMRC know how much tax to collect from the self employed? How will you know that HMRC have calculated your tax correctly. Tax returns themselves had become a little irrelevant anyway, but the process of pulling all the strands of your tax together must still go on in one form or another. We will still need to push the "submit" button to upload your income information to HMRC. It will just be that it is done wholly online through a tax account. We'll probably still send you something to sign before we make the submission to HMRC.

I think this is a very positive step and one to be welcomed. Anything that streamlines the system and makes it more efficient must be welcomed. Reading the reaction of many accountants in the press, there is a lot of scepticism about whether HMRC can actually deliver the functioning system to fulfil George Osbourne's aspirations in this area.

Don't forget that HMRC will be collating your tax information from various sources. They'll put that in an electronic account and tax you on it without you signing anything. Will it work?

We will just have to wait and see. Whatever the outcome, it will be an interesting journey.

Anyway, I am just off to the Institute of Taxation Spring Conference so I will be reporting back to you next month, with what is being said in the tax profession about the budget.

Have you had a look at Kashflow yet? We are finding that more and more people are moving their bookkeeping on to Kashflow. If you would like a trial just let us know.

Online bookkeeping is going to be the norm in a very short time. The accessibility and automation that it brings cannot be replicated in any standalone system.

Bookkeeping technology is moving ahead at quite a pace and the facilities now available are almost mind blowing. What if I told you that you can input all your purchase invoices without keying in any of the information. The same applies to all your bank transactions. You can link it to online shopping sites and tills. Not bad for software starting at just £5 per month.

So, if you haven't checked it out, I would recommend that you have a look. Contact us if you need any help.

We are seeing similar rapid developments in other areas. I have just got a new mobile phone. Mind you, my phone is everything from an alarm clock to a means of accessing bank accounts, the internet generally and receiving and sending emails. W have just placed an order for 16 new computers each one costing a fraction of the cost of our original machines—remember the IBM PC or the Olivetti M24s?

Will the pace of change slow down? No, I do not believe that it will. I might slow down and not manage to keep up with all the changes. It gets a bit like that sometimes even now although I eventually do catch up. Where will we end up? Don't know, but it will be interesting and challenging.

If you are the sort of person who likes a challenge, this new world of technology is just what you want and need. We like it and will continue to embrace it and make use of it when delivering our services. Watch out for developments in the next couple of months. We are entering a brave new world where the services are much the same but delivery might be quite different. Next...

HMRC staff: under-paid and overworked?

A recent HMRC staff satisfaction survey shows that HMRC employees are becoming more disillusioned and feel increasingly undervalued and dissatisfied with their work.

Now, you may not feel much sympathy for them, particularly if you have been through an HMRC enquiry recently but they do perform an essential function. It's just that many times we do not like the way they do it. That's life.

The survey provides a worrying insight into an increasing culture of malaise at the Revenue. High turnover of staff could soon become a problem, with a growing proportion of HMRC staff saying they want to leave the organisation as soon as possible. 22% of staff say they plan to leave HMRC within the next 12 months or sooner, a 5% increase on last year.

The proportion of staff that think that their pay adequately reflects their performance is down from 25% to 20%.

Overall, staff satisfaction fell to just 43%, a 2% drop from last year, and 45% of staff now feel overworked – up by 10% from last year, highlighting the potential for an under-par service from an increasingly overstretched and disillusioned staff.

47% of HMRC staff admitted they do not feel they have the tools necessary to do their job effectively.

HMRC is under increasing political pressure to deliver higher yields from its compliance work, while still operating under extremely tight budget constraints.

Despite these budget cuts, HMRC has regularly managed to increase its revenue from tax investigations over the past few years but pressure from political parties is mounting on HMRC to keep delivering more and more.

ISA allowances

Each taxpayer is entitled to invest up to £15,000 into an Individual Savings Account ("ISA") for the 2014/15 tax year.

The entire ISA balance can be held in cash if required.

Any income and capital gains on ISA investments are tax-free.

Personal Taxation—Pre 5 April checklist

With yet another tax year drawing to a close, here are some things to consider. Time is short but there are still things that you can do. However, most of these ideas are quite simple and not restricted to this tax year. You can utilise them at any time subject to any new changes.

Are you and your family utilising your personal tax allowances and basic rate tax bands?

By careful planning it may be possible to transfer income producing assets between family members to ensure that tax free allowances and basic rate bands are fully utilised and tax liabilities are minimised.

Are you and your family utilising your capital gains tax annual exemptions?

Individuals do not pay any tax on the first £11,000 of capital gains each year. By acquiring investments in joint names with your spouse and children you can maximise the allowances available.

Are you and your family maximising your pension allowances?

Contributions of up to £3,600 can be made for each taxpayer, including children, irrespective of their earnings. Additional contributions can be made of up to £40,000 in total, or the amount of your earned income if lower.

Prior to 5 April 2014 the annual allowance was £50,000 and unused allowances can be carried forward up to three tax years.

Are you maximising tax relief for your charitable donations?

Charitable donations should be made under the gift aid scheme whenever possible. By doing this, the charity can reclaim tax of £25 for every £100 you donate and you can also claim additional tax relief worth up to £31.25 depending on your top rate of tax.

You should sign a Gift Aid Declaration for each charity you support and keep detailed records of your donations.

Are you maximising your gifts for Inheritance Tax?

When you die, your estate will pay Inheritance Tax at 40% on the value of your estate (including your home) above the nil-rate band of £325,000. For these purposes your estate will also include most gifts you have made in the seven years prior to your death.

Gifts of up to £3,000 per year can be disregarded, as can certain gifts made on marriage and most importantly regular gifts out of income. The £3,000 annual exemption can be carried forward for one year if not used.

If you have income in excess of your normal living expenses you can gift the excess to your children, or anyone else, completely free of Inheritance Tax. It is important that any such gifts are documented so that your executors will be able to minimise the Inheritance Tax payable on your estate.

Are you subject to the "High Income Child Benefit Charge"?

Taxpayers with income in excess of £50,000 who receive child benefit (or have a lower earning partner receiving child benefit) are required to pay back some or all of the money they receive and affected taxpayers are required to register for self-assessment.

The £50,000 income cap is calculated after the deduction of pension contributions and charitable donations, so in some cases you can avoid the tax charge by making an additional pension contribution.

If your income (after pensions and donations) is in excess of £60,000 you may wish to elect to not receive the benefit in the first place.

It is important that you register for Child Benefit even if you subsequently elect not to be paid it to ensure that you benefit from National Insurance Credits which can give an entitlement to State Pension for non-working parents.

Can you benefit from EIS and VCT investments?

By investing in these types of company, you can obtain income tax relief of up to 50% of the amount invested and any capital gains eventually realised on the disposal of the investments are usually tax free.

In addition capital gains on any other assets made up to three years previously can be reinvested into EIS shares and deferred until the disposal of the EIS investment, or in some cases completely exempt from tax.

Business Taxation—Pre 5 April Checklist

Are you claiming the maximum business expenses allowable?

If you run your business partly or wholly from home you are entitled to claim a proportion of the running costs of your home as a business expense without jeopardising the capital gains tax exemption on the property but you should take professional advice first.

In addition, many other expenses are often overlooked and you should regularly review your business expenditure with your accountant to ensure that all allowable expenses are being claimed.

Are you maximising your capital allowances?

Capital allowances can be claimed on the purchase of fixed assets used within your business. At present you can claim a 100% deduction for up to £500,000 of capital expenditure on assets other than cars with annual allowances of 18% or 8% on expenditure in excess of this limit dependent upon the type of asset.

Allowances for cars are generally at the lower rate of 18% or 8% depending on the level of CO2 emissions, however there are two exceptions to this general rule.

Firstly, new cars with CO2 emissions of less than 95g/km are entitled to a 100% allowance. Secondly, expenditure on vans can be included within the £500,000 annual limit on which 100% allowances can be claimed. The tax definition of vans means that many vehicles suitable for use as family cars, such as double cab pickups, are entitled to allowances at the higher rate.

The annual investment allowance will reduce 1 January 2016.

Do you have a company car, or do you provide them to your employees?

Employees pay income tax on the value of the benefits in kind they receive and in the case of company cars the value of the benefit is calculate based on the CO2 emissions of the car and its list price when new. In addition, employers pay National Insurance contributions at 13.8% on the value of the benefit.

By choosing low emissions cars you can significantly reduce the tax impact of company cars.

If fuel is provided for private motoring additional tax and National Insurance liabilities will arise. It is almost always more tax efficient for employees to pay for the cost of the fuel themselves and to claim a mileage allowance in respect of business use.

Do you have family members working for you?

You can employ family members to work in your business and pay them a reasonable salary in relation to the work they do for you, which your business can claim as a tax deductible expense. By working part time for your business you can ensure that your children's tax allowances are not wasted, whilst reducing your own tax liabilities.

Could you benefit from incorporation?

Sole traders and partners pay tax, at up to 45%, and national insurance contributions, at up to 9%, based on the profits they generate each year. Most companies pay tax at just 20% on their annual profits and directors only pay tax on the income they draw from the company.

If you are currently operating as a sole trader or partnership, it may be beneficial to transfer your business to a limited company. You should regularly review the tax position of your business with your accountant to ascertain whether incorporation would be beneficial.

Are you registered for VAT?

There are a number of schemes available to simplify the administration of VAT for smaller businesses including the flat rate scheme (which can also reduce your VAT liability), the cash accounting scheme and the annual accounting scheme.

They each have a limit on the amount of taxable supplies you can make to be eligible to use the scheme. You should review the level of your taxable supplies to see whether you qualify to use one of these schemes, or cease to qualify as your business grows.

The Sales Prevention Department

More stories from our own experiences of organisations that want to profit from us in one way or another, have goods, services or ideas to sell, but fall short when it came to fulfilling our expectations, just did not deliver the value we were expecting and who will inevitably fail to maximise their potential at the end of the day.

My story today is a little different. I was recently away at a training event at East Midlands Airport. I was staying at a Premier Inn.

Arrived late evening after travelling down from Edinburgh. It had been a long day of meetings and then catching the evening flight to East Midlands. After the usual catch up of emails I thought I would head down to the bar for a hot meal.

The meal was ordered at around 9.30pm. I sat for a while and then a bit longer. Nothing arrived. At 10.15 my meal arrived and I was pointed to where I could get cutlery. At this stage I was less than impressed.

The main meal was barely warm. The side order was hot. Presumably the kitchen had cooked the main and then it sat waiting for the side. I was too tired to complain, but as you can imagine, I was not impressed.

Next morning at check out I was asked if everything had been alright with my stay. Being the helpful kind of guy that I am, I thought I would pass on my experiences of the previous night, just so they could pass it on to whoever was in charge so it did not happen again.

They could have left it at that. Instead the receptionist immediately went to speak to the duty manager, took my mobile details and said someone would be in touch. I was taken aback by their concern.

Later that day I got a phone call and full and genuine apology and a refund of the full cost of my meal (including the Guinness).

Now we all know that things go wrong in any business. It is not that they go wrong that matters, but the way you react and deal with the fact that it went wrong.

I was impressed.

The peedie bits ...

Auto enrolment – Crunch Time

In 2016, more than half a million companies will need to start a pension. However, 2015 will be a real crunch point for small businesses.

There is likely to be a last minute scramble to comply, placing a strain on advisers and providers alike.

The penalty regime should get you attention. The basic penalty for missing your staging deadline is £400. However, The Pensions Regulator will insist a business backdates the employer and employee contributions for those who are late and that could be painful. In addition, businesses with more than four employees could be fined £500 per day.

In addition, if a business is seen as not doing the right thing by their employees, it could find itself at the centre of headlines on social media and in the press. No business wants that kind of publicity..

Let us know if you need help to cope with your PAYE obligations or speak to your IFA (we can suggest someone if you do not have one).

EIS – Neat new rules

Until 3 December 2014, a capital gain which was subject to an ER claim could not also be deferred, as it had already been taxed in full. You had to choose between claiming ER and pay tax on the net gain at 10%, or defer the taxation of that gain. You could not do both.

From 3 December 2014 you can choose to defer (using EIS or SITR) an ER-qualifying gain, and then claim ER when that deferral mechanism comes to an end. So, defer the gain, then take advantage of the 10% rate of CGT by claiming ER when the deferred gain falls back into charge.

Pensions - from 5 April

From April 2015 anybody over the age of 55 can drawdown from their pension fund in any way they please.

If they wanted to draw the whole of their defined contribution pension pot the day after their 55th birthday they would be free to do so.

There would obviously be tax considerations for such drawdowns but it is the taxpayer's choice as to when and how they draw down their defined contribution pension.

Annuities would still be an option for retiring taxpayers and might well be the preferred option for those who are not prepared to take the investment risk of pension drawdown.

Pensions and salaries

If you or your spouse only take a director's salary around £8,000 plus dividends the company could pay only pension contributions equal to this salary.

However, if the company is not utilising their £2,000 employers NIC holiday each year then it may be worth increasing his directors salary to the personal allowance i.e. 10000, so as to increase the ability to make higher pension contributions.

Trivial Benefits not Taxable

Under new rules effective from 6 April 2015, benefits provided by an employer to an employee (or to his family or household) will not be chargeable to income tax where four conditions are satisfied.

The four specified conditions are as follows:

(i) The benefit must not be cash or a cash voucher.

(ii) The cost of providing the benefit must not exceed £50 per person.

(iii) The benefit is not provided as part of a salary sacrifice arrangement.

(iv) The benefit must not be provided in recognition of services performed by the employee in the course of the employment or in anticipation of such services.

The benefit also does not need to be reported to HMRC.

PAYE late filing penalties

Employers with fewer than 50 employees are reminded that PAYE late filing penalties will apply to them from 6 March 2015.

Claim any capital losses

The deadline for claiming any capital losses is four years after the end of the tax year in which the loss occurred. So any losses arising in the 2010/11 tax year need to be reported by 5 April 2015 – or they will be lost.

If an individual owns shares or other assets that have become worthless, it is possible to make a negligible value claim to crystallise the loss. The claim must be made within two years of the end of the tax year in which the deemed disposal/reacquisition takes place. Any claims dealing with the 2012/13 tax year must be made by 5 April.

The end of the P9D

From 5 April 2016 P9Ds are abolished so any employees (save for ministers of religion and carers who have tax free accommodation but low earnings) who receive benefits in kind will be taxable on them regardless of their level of earnings.

So, the £8500 low earnings limit for benefits in kind will disappear and everyone will be taxed in the same way on all benefits they receive.

Dispensations to go

Dispensations will cease to be effective on 5 April 2016. Current dispensations not to report qualifying businesses expenses on the P11D will cease to be valid and employers will be required to make their own judgment as to which items need not be reported and be able to defend this to HMRC if questioned.

HMRC promises guidance and reporting templates in good time before the abolition so that employers can carry out a full audit of their expenses policies and processes before they go it alone on this area of PAYE compliance.