Compass Accountants

TaxAngles

For Proactive Tax Planning

Newsletter February/March 2014

Quotation of the month

"We celebrate the past to awaken the future" - John F Kennedy (President of the USA in 1960)

Contact Jeff Walton on 01329-844145.

Why should you elect to pay tax?

There is a situation where you might be advised to make an election to pay tax. It arises if you sell your company and accept payment in the form of shares (or certain types of loan notes) from the buying company.

Let's say that you own all of the shares in your company X Ltd and the original cost of the shares five years ago was £1,000. You are approached by Z Ltd who offers to purchase your shares for £1m and offers you shares in Z Ltd as consideration for the transaction.

What are the tax consequences?

Basically, the share swap is not a chargeable event for Capital Gains Tax purposes. Your holding in Z Ltd will be deemed to have a base cost of £1,000 (the original cost of the X Ltd shares). This tax treatment is automatic. No election needs to be made. No tax is payable.

Why might you want to elect to pay tax now?

The issue that might encourage you to elect to pay Capital Gains Tax when the share swap is completed is Entrepreneurs' relief (ER). To qualify for ER certain criteria need to be met. For example:

- You will need to be a director or employee
- Hold at least 5% of the ordinary share capital and voting rights
- Have held the shares for at least a year, and
- The company must be a trading company or the holding company of a trading group

The possible benefit arises if you are uncertain that your new holding in Z ltd will qualify for ER when you dispose of the shares at some future date. Any gains that qualify for ER, either now or in the future, would be taxable at 10%; gains that do not qualify would be subject to tax at 28% (based on present rules).

In order to work out the best way forward you should consider your options before completing the sale.

Helping you to shape your future….
…..not just accounting for your past!

Best to be informed

If you are self-employed, as a sole trader or in partnership, and if we assume that your business year end is 31 March, then the profits you earn in the year to 31 March 2014 will form the basis of your tax payments on account for the tax year 2014-15 (unless the year to 31 March 2014 was your final year of trading).

Problems may arise if profits, year on year, fluctuate significantly; either up or down.

Your tax payments as a self-employed person consist of two payments on account and a final settlement on the 31 January following the end of the relevant tax year. For example you will make equal payments on account for the tax year 2013-14 in January and in July 2014. If this is insufficient to cover the total tax and Class 4 NIC due then you will have a top up payment to make in 31 January 2015.

Payments on account are initially based on your Self Assessment liability for the previous tax year – in the above example, the January and July 2014 payments will be based on your actual taxes due for 2012-13.

If your trading profits have not increased or reduced significantly, the payments on account will usually cover tax due and there will be perhaps a small difference, under or overpaid, that will need to be sorted out in the following January.

However, if your profits have significantly increased or reduced, then cash flow considerations need to be taken into account.
If your profits for the year to 31 March 2014 are likely to be higher than the previous year:

In this case any payments on account you make January and July 2014 are unlikely to cover taxes due for 2013-14 and a balancing payment will arise on 31 January 2015.

If your profits for the year to 31 March 2014 are likely to be lower than the previous year:

In this case any payments on account you make in January and in July 2014 are likely to be more than you need to make to cover taxes due for 2013-14 and a balancing overpayment will arise on 31 January 2015. This can be addressed by making an election to reduce the payments on account to a more appropriate amount.

If either of these scenarios is likely to apply to your self-employed business profits, we advise you to have your accounts drawn up as soon as possible after your year end. The tax advantages can be summarised as:

- If your profits have been increasing, you will have the maximum period to create a cash reserve to cover any shortfall in taxes due on 31 January 2015.
- If your profits have been reducing, you can make an election to reduce the second payment on account for 2013-14, due on 31 July 2014.

Electric bill that won't cause tax problems

Employers who provide a company car and pay for the employees' private fuel create tax, NIC and administrative issues for both parties.

1. Employers will be liable for Class 1A National Insurance charges on the taxable benefit created by the provision of the car and payment of private fuel; unless the employee fully reimburses the private fuel costs, and
2. Employees will suffer a benefit in kind charge for the use of the car and the private fuel provided. The car fuel charge can be reduced, or eliminated, if the private fuel costs are reimbursed.

But what happens if the fuel provided by the employer for private use is electricity?

Electricity does not count as fuel for this purpose. So, for example, where an employer enables an employee to recharge his car at work, or at home, and the employer pays the bill, there is no taxable benefit even if the car is available for private use.

Make sure your record keeping is up to scratch

In a recent tax tribunal case a tax payer was denied Capital Gains Tax relief for the cost of improvements to a property as he could provide no evidence of his expenditure to the court.

The court came to the conclusion that the taxpayer had made improvements and were somewhat dismayed by his inability to provide evidence.

This is a timely reminder that it is not only trading businesses that need to keep documentary evidence. Property owners should also ensure that they keep records of property purchases and sales together with copy invoices or other evidence of expenditure to improve their property .

Can you save money with a director's loan?

Is borrowing from your company more tax and cost effective than borrowing the money from elsewhere?

When you borrow money from your company you will pay tax on a Benefit in Kind (BiK) on an assumed interest rate of 4% (at current rates reducing to 3.25% from 6 April 2014) of the average balance of the loan, unless the loan never exceeds £5,000 (£10,000 from 6 April 2014) in the tax year, which would not give rise to a Benefit in Kind.

In addition the company pays tax of 25% on the loan made, regardless of the amount of loan. This payment is due 9 months after the companys year end. This payment is refunded when the loan is repaid. Naturally the company foregoes interest it would have received on the cash if it had been deposited in any interest-earning account.

If your company doesn't have the cash to lend you, you will have to look at other sources such as adding to your mortgage which could cost you say 5% p.a. or by seeking an unsecured loan which could cost you anything from 10-20%! In addition there are likely to be arrangement fees, valuation fees, etc.

So the loan from the company could be attractive and this increases in attraction if commercial rates of interest rise.

It is important to review the situation every time there is a change in tax or interest rates.

Contact Geoff Peach at Compass Accountants on 01329 844145.

Helping you to shape your future….

…..not just accounting for your past!

How to save National Insurance on Benefits in Kind with your company

Historically although National Insurance (NI) was applied to salaries and payments, Benefits in Kind (BiK) escaped NI completely. Now however most BiKs are subject to Class 1A NI.

This Class 1A contribution of 13.8% is payable by the employer and not by the employee.

So by giving directors and employees BiKs instead of salaries, they could pay less NI – meaning they are better off because this increases the net remuneration they receive.

But you need to be careful because some BiKS are subject to NI in the same way as salaries. As a director in your company you should take advice and see how you can arrange the most efficient BiKs for yourself.

For example if you arrange **your own medical insurance** but the company pays the bill, this would count as a BiKs for tax purposes but for NI it would count as extra salary liable to Class 1 NI and not Class 1A. The company would deduct the employee's NI on the value of the bills paid.

If you draw little or no salary from your company of which you are a director, but take BiKs, you can reduce the NI if the contract with the supplier is in your name but the company pays the bill.

This is because Class 1A applies to every £ of BiK. Class 1 NI only kicks in once your salary plus BiKs which count as salary reach the annual NI threshold.

So if you draw **all** your income as dividends except for say medical insurance of £5000, this would count as a BiK on which Class 1A NI is due or 13.8% (£690).

But you would pay no NI if your remuneration and BiKs are less than £7693 for 2013/14 if the contract for the BiKs is in your name but where the company pays the bill. This can save your company NI of up to 13.8% compared with the contracts for BiKs in the name of the company.

TAX DIARY FEBRUARY/MARCH 2014

1 February 2014 - Due date for Corporation Tax payable for the year ended 30 April 2013.

19 February 2014 - PAYE and NIC deductions due for month ended 5 February 2014. (If you pay your tax electronically the due date is 22 February 2014.)

19 February 2014 - Filing deadline for the CIS300 monthly return for the month ended 5 February 2014.

19 February 2014 - CIS tax deducted for the month ended 5 February 2014 is payable by today.

1 March 2014 - Self Assessment tax for 2012/13 paid after this date will incur a 5% surcharge.

1 March 2014 - Due date for Corporation Tax due for the year ended 31 May 2013.

19 March 2014 - PAYE and NIC deductions due for month ended 5 March 2014. (If you pay your tax electronically the due date is 22 March 2014.)

19 March 2014 - Filing deadline for the CIS300 monthly return for the month ended 5 March 2014

COMPASS ACCOUNTANTS

CHARTERED ACCOUNTANTS, REGISTERED AUDITORS AND BUSINESS ADVISORS

Venture House, The Tanneries
East Street, Titchfield Hampshire PO14 4AR

For more information on these or any taxation or accountancy matters contact Jeff Walton, Greg Harmer or David Lewis
Tel: 01329 844145
Fax: 01329 844148
Website: www.compassaccountants.co.uk
e-mail: jeff@compassaccountants.co.uk

Helping you to shape your future….

…..not just accounting for your past!