Compass Accountants
TaxAngles
For Proactive Tax Planning

Newsletter January/February 2014

Quotation of the month

"The best years of your life are the ones in which you decide your problems are your own. You do not blame them on your mother, the ecology, or the president. You realise that you control your own destiny". - Albert Ellis, Psychologist 1913-2007.

So what are you going to do about it - your future? We can help! Contact Jeff Walton on 01329 844145.

Taxable benefits 2013/14

Where employees are provided with living accommodation, a car or a van, any private use is usually subject to specific scale charges or other rules. This article considers the provision of two further classes of assets provided for an employee's or director's personal use.

The cash equivalent of the asset provided is the annual value of the asset's use, plus expenses (other than costs of acquisition) incurred in connection with the asset that would not have been incurred without the provision of the benefit.

1. Land: the annual value of the asset's use is the greater of the gross rateable value when the property was last rated, and any rent paid by the provider.
2. Assets other than land: the annual value of the asset's use is equal to 20% of the asset's market value when it was first used to provide a benefit. If the provider paid rent for the asset that was more than the 20% calculation, then the higher figure is used.

If an asset is provided for part of a tax year the above cash equivalent figures would be adjusted accordingly.

For example:

A company buys a boat for a director's private use on 6 April 2013 for £25,000. It takes out a loan to buy the boat and interest charges are £4,500 in the year to 5 April 2014.

Running costs paid by the employer in the year are £2,400 and the director makes a contribution of £1,500.

The benefit would be £5,900 (20% of £25,000 plus expenses £2,400, less £1,500 made good by the director).

The bank interest charges are disregarded as they are part of the cost of acquisition.

Salaried members of LLP's

HMRC published the draft Finance Bill 2014 last month. Included were changes to the taxation of certain partnerships. This article discusses the introduction of a new type of partnership member for Limited Liability Partnerships (LLPs) that will commence 6 April 2014: the "salaried member".

The new status has been introduced to counter so-called "disguised employment" arrangements, where staff are elevated to the status of partners (also defined as members) of LLPs in order to benefit from self-employed tax status. The LLP employer also saves Class 1 NIC contributions.

HMRC have argued that the underlying relationship between the LLP and partners who fall into this category has not changed and that they remain, in essence, employees rather than partners – hence the description "disguised employment".

From April this year all LLP members/partners will have to pass a new test to determine if they are salaried members. Members who are reclassified in this way will be treated for Income Tax purposes as employees of the LLP and subject to PAYE in the normal way. Salaried members will also be subject to the employee-related benefit in kind rules.

The status test will consider three conditions which need to be met for a member to be considered a salaried member:

1. The member receives a fixed or variable sum that could be considered to be substantially (80% or more) disguised salary. Generally, this will cover arrangement where members' "salaries" seem to be paid without reference to the underlying profit or loss of the LLP – as a whole.
2. The member does not have, or cannot exert, "significant influence" over the management and affairs of the LLP as a whole, and
3. The member's capital contribution is less than 25% of the disguised salary in a year. This condition is further complicated if there are changes to capital contributions in the year.

From a planning perspective these definitions are uncertain in their application; particularly the second point: what constitutes "significant influence"?

LLPs with salaried members will be liable to employers' NIC contributions, and the combined cost of the salaried member's salary and employers' NIC will be an allowable deduction in the LLP's tax computation.

One thing is clear, all LLP partnerships should undertake a review of their members' tax status before 6 April next year.

Bogus emails from HMRC

Readers are reminded that HMRC do not send communications to tax payers by email. If you receive an email purporting to be from HMRC, it will be some sort of "scam" and should be ignored (deleted from your PC).

Do not under any circumstances open any attached files or disclose any personal information. Typically, the email will offer you a tax refund if you send your bank details, or some other inducement to part with similar information.

HMRC will either call you or send a letter if they need to communicate with you.

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END OF YEAR TAX PLANNING 5 APRIL 2014

Although we are now at the beginning of a new calendar year we are in the last quarter of the current tax year.

Whether you are a business person, property landlord or pay significant amounts of tax as an employed or retired person there is now a short window of opportunity to examine your likely earnings for the 2013-14 tax year and, more importantly, see what can be done to minimise those liabilities.

It is impossible to outline all of the possible tax planning issues that could be of benefit. We have listed below a few and would suggest that you give us a call to discuss your individual circumstances.

- Have you maximised your ISA investments this year?
- Have you maximised your pension contributions?
- If possible have you utilised your Capital Gains Tax personal annual exemption? Currently £10,900 for 2013-14.
- If your employer still pays for the private fuel used in your company car you can effectively avoid the car fuel benefit charge if you repay your employer for the private fuel before the end of the tax year. It may be worth crunching the numbers as the tax on the benefit in kind is expensive and the private fuel refund may be less.
- For Inheritance Tax purposes each person can give £250 a year to any number of recipients, as well as £3,000 annually over and above that amount. They can also make regular gifts out of their income (not capital) that should fall to be exempt.
- If you are married or in a Civil Partnership and one partner/spouse has a much lower level of earned income, consider transferring income producing assets to the lower income earner. With Income Tax rates at a maximum 45% this current tax year, savings could be significant.
- If you or your partner/spouse are affected by the Child Benefit claw back for high income earners, have you considered equalising your income (if possible) to avoid the charge, or have you considered your obligation to file a Self Assessment tax return to disclose your liability?
- If your income is likely to exceed £100,000 this tax year have you considered the potential reduction or loss of your personal tax allowance?
- If you are a high income earner paying tax at the 45% additional rate could you take advantage of charitable donations reliefs or other planning opportunities to defer, reduce or eliminate the impact the 45% rate?
- Is it likely you will have business tax losses for 2013-14?

As indicated above every person's circumstances are different and the above list is by no means exhaustive. Please call if you would like to organise a review of your tax planning opportunities for 2013-14.

How do you pass wealth onto children without suffering tax?

Most parents want to be able to pass some of their wealth onto their offspring during your life time but watch out for the tax traps.

Income Tax Trap

You can pass cash onto your children which can accumulate for them until they are old enough to manage it. There is no tax implication until the income from their saved funds exceeds £100 per child in a tax year.

If the income exceeds £100 it will be added to your income and taxed accordingly. If you are a higher rate tax payer, this could be taxed at the higher rate.

Inheritance Tax Trap

In general when you make gifts to anyone (including your children) which add up to more than £3000 a year in value, the excess counts as a potentially exempt transfer (PET) for inheritance tax (IHT) purposes. This means that if you die within 7 years the excess each year can be added to your estate for IHT purposes meaning that up to 40% of the funds you set up for your children could be lost to HMRC.

Take care that this £3000 IHT annual exemption is an overall cap for gifts you make in any single tax year. This means that if you have three children and give them £1500 each (i.e. £4500 in a year) the excess of £1500 over the exemption (£4500-£3000) will form part of your IHT estate if you die within 7 years. Your spouse or unmarried partner also has an annual exemption of £3000.

How do you avoid the IHT Trap?

Some gifts are exempt from the PET rules such as where these gifts are made out of your or your spouse's unused income. i.e. where you give away money regularly without having a negative impact on our normal standard of living.

So you can achieve giving sizeable sums of money by combining the IHT annual exemption with that for gifts out of income.

But the income tax trap for income in excess of £100 per child remains!
How do we get around this?

Parents can invest in a registered pension plan for their children from the child's birth. The maximum allowed in a tax year per child is £2880. So a family with 3 children could invest £8640 (£2880 x 3) using their IHT annual exemptions of £6000 (£3000 x 2) leaving £2640 (£8640-£6000) using the gifts out of income exemption assuming they could demonstrate they had spare income of £2640 available.

One draw back of this suggestion is that, as current rules stand, your children won't be able to access their pension fund until they are 55 years old. This is your judgement call as investing in a pension is a long-term investment.

The icing on the cake is that for every £80 you invest in your children's pension, HMRC will add another £20 so boosting the amount in the fund, which is set to grow in a completely tax free wrapper!

Because the income growth in the pension fund is tax free, the £100 of income limit which savings outside the pension fund would have attracted, is irrelevant!

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PENSION CONTRIBUTIONS

All tax payers making pension contributions pay the pension provider 80% of the gross contributions and their fund automatically receives tax relief at the basic rate of 20%.

But if you pay income tax at higher rates of 40% or even 45% you are entitled to additional tax relief.

So if you want to contribute £10,000 into your pension and you contribute £8000 into your pension fund, you will automatically receive tax relief paid into your fund at 20% or £2000.

But you are also entitled to tax relief of another 20% or a further £2000. This means that it costs you £6000 to increase your pension pot by £10,000.

About 9 million tax payers are in the self assessment system and get the appropriate tax refund credited into their pension fund by entering their pension contributions on their self assessment tax return (SATR). But there are still about 21 million taxpayers outside the self assessment system. Anyone of these 21 million taxpayers who pay higher rate tax and who make pension contributions need to make a claim for this additional tax relief.

Claims for such tax relief can be made for the last four tax years. But 5th April 2014 is the cut-off date for claims relating to the tax year 2009/10.

Please contact Geoff Peach (01329 844145) if you need any help.

TAX DIARY JANUARY/FEBRUARY 2014

1 January 2014 - Due date for Corporation Tax payable for the year ended 31 March 2013.

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

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

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

31 January 2014 - Last day to file 2013 Self Assessment tax returns online.

31 January 2014 - Balance of self assessment tax owing for 2012-13 due to be settled today. Also first payment on account for 2013-14 due today.

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.

COMPASS ACCOUNTANTS

CHARTERED ACCOUNTANTS, REGISTERED AUDITORS AND BUSINESS ADVISORS

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