Compass Accountants

Newsletter October/ November 2014

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

TaxAngles - For proactive tax planning

HMRC delays RTI penalties

From 6 October 2014, HMRC was due to include smaller employers in the penalty regime for late filing of Real Time Information (RTI) payroll returns for 2015.
HMRC have announced that this penalty process will be delayed for a number of smaller employers. They will now start from:

- 6 October 2014 for employers with 50 or more employees

- 6 March 2015 for employers with fewer than 50 employees

The size of the late filing penalties depends on the number of employees within the PAYE Scheme.

No. Employees	Penalty per PAYE scheme
1 to 9	£100
10 to 49	£200
50 to 249	£300
250 or more	£400

HMRC will use the latest information available to determine the number of employees, and the size of the filing penalty for each period where a return is late.

Business rates

There are various reliefs available to owners or tenants of smaller business premises. Here are a number that can be claimed:

Small business rate relief:
You'll get 100% relief (doubled from the usual rate of 50%) until 31 March 2015 for properties with a rateable value of £6,000 or less. This means you won't pay business rates on properties with a rateable value of £6,000 or less.
The rate of relief will gradually decrease from 100% to 0% for properties with a rateable value between £6,001 and £12,000.

Retail relief:
Some local councils will give you up to £1,000 off your business rates if you occupy a retail property with a rateable value of £50,000 or less. To be eligible the property must mainly be used as a shop, restaurant, cafe or drinking establishment. You're usually not eligible if your business provides financial services, medical services or professional services like legal advice or accounting.

Empty properties re-occupation relief
You may get 50% off your business rates if you start occupying a retail premises that's been empty for one year or more.

Rural rate relief:
You may qualify for the rural rate relief if your business is in a rural area with a population below 3,000. The relief is between 50% and 100% off your business rates.
You can get rural rate relief if your business is:

- the only village shop or post office with a rateable value of up to £8,500
- the only public house or petrol station with a rateable value of up to £12,500

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Quote of the month…

"The future depends on what you do today" – Mahatma Gandhi."

Continued from page 1…

Local councils can also:

- top up the mandatory 50% relief to 100%
- give relief to other rural retail businesses of up to 100% (for properties with a rateable value under £16,500)

The availability of the various reliefs will depend where your business is based. If you think you may qualify for any of the rates relief, discuss your options with your local council.

Wear and tear allowance

If a property is let furnished - with sufficient furniture, furnishings and equipment for normal residential use -landlords can only claim tax relief for the furniture and equipment by way of the WTA. Prior to April 2013, landlords had the option of claiming the cost of replacement furniture instead.

The WTA is calculated as 10% of the gross rents less any tenant's costs (e.g. water rates and council tax) met by the landlord. WTA does not cover repairs, which continue to be tax deductible. The question is then raised- can replacement of an item be counted as a repair? In this respect, landlords that let furnished property need to distinguish between:

1. Replacement of items that are integral to the building,

2. Replacement of items that are not integral to the building. Needless to say there are grey areas!

Replacement of items that are integral to the building

Fixtures integral to the building are those that are not normally removed by either tenant or owner if the property is vacated or sold. Examples include:

- Baths
- Washbasins
- Toilets
- Immersion heaters
- Fitted kitchens and fitted white goods.

This list is not intended to be complete but gives an idea of the assets that are integral to the building and fall outside the wear and tear allowance. As these items are integral to the building, the cost of replacing these items is normally an allowable expense as a repair to the building.

Replacement of items that are not integral to the building.

Expenditure of this type will be covered by the WTA. Examples given on HMRC's website in this category include:

- Movable furniture or furnishings, such as beds or suites
- Televisions
- Fridges and freezers
- Carpets and floor-coverings
- Curtains
- Linen
- Crockery or cutlery
- Beds and other furniture

Unfortunately, these examples are not definitive: is a carpet glued to the floor a permanent fixture, or not part of the integral features?

Autumn Statement 2014

HM Treasury has announced that this year's Autumn Statement will be made on 3 December 2014. Historically, this has been used to showcase the Government's expected tax changes in the following year's Finance Act.

If you have any suggestions the Government is seeking your views on what you would like to see in the Statement. According to the GOV.UK website:
"In the interest of open and transparent policy-making, the Government welcomes original and innovative ideas, which will be considered by HM Treasury as part of the policy-making process. Businesses, charities and members of the public can submit these views via email to:
autumnstatementrepresentations@hmtreasury.gsi.gov.uk

For information on the correct procedure for submitting your representation, please view the guidance.
To allow for full consideration in advance of the Autumn Statement, any submission should be sent to HM Treasury by 17 October. The clock is ticking!

Zombie companies

Is the economic recovery the kiss of life or the kiss of death?

There are literally thousands of companies which have survived the recession – but they have only barely survived. They would NOT have survived if it hadn't been for an environment of:

- Low interest rates
- Accommodating bankers – being less prone to foreclose
- HMRC exercising restraint in time to pay arrangements
- Stronger firms of suppliers providing their weaker customers with more generous credit terms.

The Association of Business Recovery Professionals estimates that more than a million people are employed by business showing acute signs of distress and characteristic symptoms of "zombie" firms.

Recovery in the economy means that the growth in activity results in growth in competition;

- For increasing business levels and
- Demand for working capital.

This means the weak "zombie" businesses fall behind finding it difficult to raise working capital finance to meet any up-turn in activity and, this is when they fall over!

Compass Accountants have extensive experience in helping business owners to develop strategies and action plans to help their business recover. Call Jeff Walton for help on 01329 844145.

"Wife's wages" –avoid the traps

Most taxpayers have heard of the idea of paying a wage to a spouse (or civil partner) to reward them for work they do in their partner's business. A business can be a trade or professional activity, but did you know that this also includes a property letting business?

Care is needed here to ensure the wages will qualify for tax relief. The wage has to be commercially justified so you should not pay excessive wages, just what you'd expect to pay a stranger at the going rate. And your partner must actually do the work, of course!

You should also ensure the wage is physically paid during your accounting period (not treated as a loan back to your business) and preferably that it is paid out to your partner's own bank or building society account. Then there can be no suggestion by HMRC that it was a drawing you made from the business.

What your partner does with the money then, is up to them. This is a well trodden path of Tax Inspectors when examining the tax return records of businesses and landlords. Consider also PAYE (Pay as You Earn) and the system of notifying HMRC online about this before or on the day of payment, called RTI (Real Time Information).

Make sure you are not paying your partner below the National Minimum Wage as there are penalties for this.

Furthermore, the level at which you remunerate determines not only if any payroll deductions are due but also whether your partner gets a credit towards contribution based benefits entitlement.

For example a husband aged 60 working for his wife's business receiving £111 to £152.99 a week will not cause any NIC to be payable, yet this is credited towards his "NIC history"- and could therefore help with benefits including protecting his entitlement to State Pension depending on his contribution history. Tax and NIC- free payroll only works, however, if NIC earnings levels are not breached and the employee has enough allowances in their tax code.

It can be a balancing act and if there are others on the payroll this could mean that you must include your partner in RTI, regardless of what you pay them.

Pensions Update- The Defined Contribution Pension system

Under the pre 2014 Budget rules there were tight controls over the amounts available for withdrawal from pension funds for those over 55.

Most of the new rules will apply from April 2015 but for those over 60 there are some changes already effective for 2014/15. Savers whose total pensions savings amount to up to £30,000 (it used to be £18,000) will be able to take the entire sum as cash but this will be taxed at their effective marginal income tax rate. This is referred to as “trivial commutation”. For larger amounts, up to three pensions worth up to £10,000 each, can be taken as cash and taxed accordingly.

In April 2015 “Capped drawdown” will disappear and “flexible drawdown” will become available to all. “Capped drawdown” is where regular drawings were permitted but this was subject to regular review. Pensioners can now opt for capped drawdown on 150% of the equivalent annuity instead of 120%, prior to the 2014 Budget changes.

From April 2015 savers can access their entire pension fund(s) any time after age 55 subject to income tax at marginal rates on 75% of the fund. So for example, a fund of £80,000 will pay out £20,000 tax free with the remaining £60,000 subject to the marginal tax rate for that year.

Alternatively there will be an annual flexible drawdown facility from the £60,000 and this could avoid higher marginal tax rates compared to drawing the full £60,000 when the £20,000 tax free payment is made. Also remaining as an option is the ability to use the £60,000 sum to purchase an annuity for the life of the pensioner. The difference now is that this annuity route will be amongst a wider range of choices although there is speculation that annuities will become more expensive.

There is scope for tax planning if an appropriate “small pension pot” is purchased or already exists. In this case a “small pension pot” -a fund not exceeding £10,000. Subject to sufficient earnings, the fund investment is grossed up for tax at 20% and the fund can then be withdrawn subject to the new 2015 rule changes above. Thus a fund investment of £8,000 supported with appropriate earnings levels, becomes £10,000 with tax credits, available for withdrawal.

This principle also works for stakeholder pensions: a pension fund of this type up to £2,880 can be invested by a person with no earnings or with just investment income (grossing up with 20% tax credit, to £3,600) for withdrawal after age 55: of the £3,600, £900 is taken as a tax free lump sum and £2,700 is subject to the provisions shown above. This procedure for a £3,600 stakeholder fund can be followed three times in all (as can any other small <£10,000 pension pot qualified from earnings).

Alternatively you can combine “earnings based” with stakeholder as long as the number of funds used in this way does not exceed three.

It is important to note that none of these changes noted above will affect the pensions applicable to workplace “final salary schemes”.

Directors Pensions

As long as the structure is correct and commerciality is in place, the concept of a Director and sole shareholder taking a small salary but with larger drawings of dividends, is not regarded as controversial by HMRC. For a Director on current year gross earnings of at least £40,000 per annum, pension investment is achieved through a Director’s payment of £32,000. This carries a grossed up tax credit of £8,000 (25% of £32,000) giving a total fund value of £40,000. The approved fund receives £32,000 from the Director and £8,000 from HM Government.

The small salary (for example £7,800) creates a difficulty for direct investment to a pension scheme as it is far less than the current maximum contribution permitted of £40,000. If the Director’s company has cash surpluses, the alternative and better option may be for a company contribution. If the Director makes no personal in-year contribution, the company may pay in up to £40,000. Company payments are not “grossed up”. If the payment is made wholly and exclusively for the purposes of the trade, the company will obtain a corporation tax deduction. Paying into a Director or staff pension fund would be part of a remuneration package, thus for trade purposes, (Continued on next page)

(Continued from page 4)
before the reduction of earnings levels, very large company contributions might have been challenged if the payment was not commensurate with the duties of the Director. In cases exceeding certain limits, the company had to (for tax purposes) spread the contribution over more than one tax year. With a now fairly modest earnings cap of £40,000 it is highly unlikely that a corporation tax deduction will be challenged by HMRC but extra care is required when contributions for family members employed by the company, are contemplated. In all cases you should seek specific advice in relation to your own circumstances.

If you would like to discuss any of these items in further detail in relation to your own business please speak initially to your usual Compass contact.

Tax Diary- October - November

1 October 2014 - Due date for Corporation Tax due for the year ended 31 December 2013.
19 October 2014 - PAYE and NIC deductions due for month ended 5 October 2014. (If you pay your tax electronically the due date is 22 October 2014.)
19 October 2014 - Filing deadline for the CIS300 monthly return for the month ended 5 October 2014.
19 October 2014 - CIS tax deducted for the month ended 5 October 2014 is payable by today.
31 October 2014 – Latest date you can file a paper version of your 2014 Self Assessment tax return.

1 November 2014 - Due date for Corporation Tax due for the year ended 31 January 2014.
19 November 2014 - PAYE and NIC deductions due for month ended 5 November 2014. (If you pay your tax electronically the due date is 22 November 2014.)
19 November 2014 - Filing deadline for the CIS300 monthly return for the month ended 5 November 2014.
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Stay connected!

Don't forget, if you are a partner, associate, client or simply a business that would like to make contact, you can visit our Twitter account and LinkedIn company page for more news and updates. We are hoping to enlighten and inform our followers and contacts with news, announcements, tips and guidance on how to plan for better profits and create a more valuable business. Our Twitter feed is @CompassAcc and our LinkedIn company page can be found by clicking here.

Contact us

For further information on any of the stories in this month's newsletter, or for any other matter that Compass Accountants can assist you with, please contact Jeff Walton on 01329 844145.

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