Tax Matters

Coates and Partners Limited

Chartered Accountants

The Old Vicarage, 51 St John Street, Ashbourne, Derbyshire, DE6 1GP
T 01335 301850 E enquiries@coatesandpartners.co.uk
www.coatesandpartners.co.uk

Beyond the threshold: reducing the inheritance tax bill

The inheritance tax (IHT) 'nil-rate band' has been frozen at £325,000 since 2009, and the Government has announced that it will remain at this level until at least April 2018. This is likely to mean that as wealth grows over the coming years, more estates will become liable to pay IHT and those already facing a tax charge could incur a larger bill.

Any proportion of the nil-rate band which is unused at the first death may be added to the nil-rate band on the death of a surviving spouse or civil partner, subject to certain rules. Lifetime gifts and gifts on death to your spouse or civil partner generally continue to be free of IHT.

IHT is charged at 40% on death, although a reduced rate of 36% applies to death estates where 10% or more of the net estate is left to charity. A 20% rate generally applies to lifetime transfers to discretionary trusts.

Freezing assets?

While reducing the market value of your home or investments simply to lower your IHT bill could be counterproductive, taking certain steps may help you to reduce that final tax bill.

Older people are often faced with a difficult decision when they are left with a large family home to maintain on a reducing income. Down-sizing can mean a move to accommodation more suited to their needs as they head into retirement, with the benefit of lower bills and a capital sum to invest.

Meanwhile, younger family members may need help to progress along the property ladder. Capital released from down-sizing will not only enable parents to aid (and enjoy) their children's progress, but as long as they survive seven years from the date the gifts are made, there is no IHT to pay. Gifts within seven years of death may be added back into your estate and the overall tax charge calculated accordingly. Some element of discount applies, but this should not be relied upon.

Small yet bountiful

Small gifts can be made free of any IHT liability, including:

- Regular gifts from surplus income – this might include life assurance premiums on a policy written into trust for your heirs, so on death the policy pays out free of IHT
- Smaller annual gifts – of up to £250 per recipient, and a one-off £3,000 limit per tax year (which can be carried forward to the following year)
- Certain gifts in contemplation of marriage.

Business breaks

For those in business, some key IHT reliefs are available, subject to certain conditions. Up to 100% relief may be due, but care must be taken that the business assets all qualify and, in some cases, continue to qualify. Lifetime gifts of business assets (including shares in the family company) should never be overlooked when you consider your own business succession plan.

Please contact us for advice on your succession, retirement and IHT planning strategies.

Inside this Issue...

Relaxed Real Time Information rules extended
Employer-supported childcare: are you up-to-date?
Running your business from home?
Timely advice: minimising the corporation tax bill
Tax Round-Up & Tax Tip
Reminders for your Autumn Diary

Relaxed Real Time Information rules extended

HM Revenue & Customs (HMRC) has announced that the temporary relaxation of its Real Time Information (RTI) reporting rules will be extended until April 2014.

Under the new RTI regime, from 6 April this year employers have been required to report the payments and deductions they have made under PAYE *on or before the time of payment*, rather than at the end of the year.

However, following concerns over the impact of the changes on smaller businesses, HMRC granted a temporary relaxation of the rules to businesses with fewer than 50 employees, allowing them to report via the new system but on a monthly basis, until 5 October 2013.

HMRC has now extended this deadline to April 2014, in order that smaller businesses do not need to change their approach midway through the tax year.

As with the original exception, employers must still use the new system, but may do so monthly (on the date of their regular payroll, providing it is no later than the fifth of the month), rather than on or before the time of payment.

Despite the extended deadline, small businesses are advised to take steps now to ensure they are fully prepared for the new regime. This is where we can help.

For further advice on RTI and meeting your payroll needs, please contact us.

RTI: a quick reminder

Q. What is RTI?

Reporting PAYE in real time means that you will send HMRC data about tax, national insurance contributions and other deductions when or before each payment is made, rather than at the end of the tax year.

Q. When is it being introduced?

The introduction of RTI began in April 2013, but there was a temporary relaxation of the rules until April 2014 for smaller businesses (see left).

Q. Will forms P35, P14 and P38A be needed using RTI?

No, RTI removes the need to submit end of year returns (P35 and P14) or a P38A supplementary return.

Q. How will I report using RTI?

The most common method will be to send HMRC a 'Full Payment Submission' (FPS). This contains details of all employee payments and deductions, together with details of any new employees and those who have left the business. An Employer Payment Summary (EPS) can be used where no payments are made or to show any amounts you are claiming, for example statutory payments.

Q. Have the reporting deadlines changed?

No, due dates for payment remain unchanged. Payment in full is:

- the total amount shown on your FPS for a tax month, including any corrections or adjustments submitted on or before the 19th of the following month;
- less the amount shown on any EPS submitted on or before the 19th of the following month.

Employer-supported childcare: are you up-to-date?

The existing system of employer-supported childcare (ESC) is set to be replaced with a new Tax-Free Childcare (TFC) scheme from 2015.

Under current arrangements, employers can choose to support employees with their childcare needs. This may be via a workplace scheme, or through the provision of childcare vouchers which may be exempt from tax and national insurance contributions (NICs).

However, from Autumn 2015, a new TFC system will apply to families not in receipt of tax credits/Universal Credit, where all parents (including lone parents) are in work and earning no more than £150,000 a year.

The new scheme will offer parents the opportunity to open an online account with a childcare voucher provider. For childcare costs of up to £6,000 per year, per child, support of 20% will be available worth up to £1,200.

The payments are converted into vouchers which can be used to pay for registered or approved childcare.

Example

Mr Harvey and his wife set up an online account with a childcare voucher provider to cover their daughter's nursery fees of £450 a month. They pay in £360 a month and the Government tops this up with £90, benefitting Mr & Mrs Harvey by a total of £1,080 over the course of a year.

The scheme will initially apply to children under five, and will be expanded over time to eventually apply to those under 12. Some exemptions from these age limits will apply, including families with disabled children who will be able to claim the support until the age of 16.

ESC will be closed to new entrants from Autumn 2015. Employees who are in an existing scheme will be able to choose whether to remain in that scheme or to move to the new system.

Alternative options

While employees stand to benefit from greater savings under the new system, employers who offer ESC to their employees under salary sacrifice arrangements could stand to lose key NIC savings.

Employers who provide workplace nurseries will still be able to do so, and the existing tax and NIC reliefs will remain the same. However, it may be worth considering some alternative tax-efficient staff benefits, which might include flexible working, a cycle to work scheme, an employer-provided mobile phone, or a gym membership.

For further advice on employment-related tax issues, please contact us.

Running your business from home?

Many people running a small business operate wholly or partly from their home. Where this is the case, a percentage of fixed and running costs may be deducted when calculating the business's profit for tax purposes.

To be deductible, the expense must be revenue (rather than capital) in nature and must have been incurred 'wholly and exclusively' for the purposes of the business.

Fixed costs versus running costs

The expenses typically incurred in running and maintaining a home fall into two categories – fixed costs and running costs. Fixed costs do not vary with use and are incurred regardless of whether the home is used for business. Items such as rent, mortgage interest, council tax and repairs and maintenance fall into this category.

By contrast, running costs are the variable costs associated with using the home and the cost will depend on the level of use. Examples include the cost of heating and lighting the home, metered water, telephone and broadband bills, cleaning etc.

Deduction for business use based on actual costs

Where the business is run fully or partially from the proprietor's home, a proportion of the fixed costs of running the home may be deducted in computing the profits of the business. The amount that is attributable to the business must be a just and reasonable amount.

The apportionment can be made by reference to what is appropriate in the circumstance, for example by reference to floor area and the number of rooms or hours used for business purposes.

Example

Olivia runs her business from home. She sets aside one room as an office. The room accounts for 10% of the floor area of her home.

Her mortgage interest, house insurance and council tax cost £5,000 a year. She claims a deduction of 10% (£500) in computing the profits of her business pro-rata for the time spent using it.

It may be possible to identify separately personal and business costs, for example from an itemised telephone bill. If this is not possible, a proportion of the costs can be claimed on a just and reasonable basis.

Statutory deduction

As an alternative to claiming a deduction based on actual costs, for 2013/14 and later years, all unincorporated businesses can claim a statutory fixed rate deduction in respect of business use of the home.

This removes the need to keep records of actual costs and make an appropriate apportionment, although it is necessary to keep a record of the hours worked.

The deduction is specified in terms of a monthly amount, which is dependent on the number of hours worked in the home on the business in that month. The hours worked include those worked by any employees as well as by the proprietor or partner. This fixed rate deduction is only available where the home is used for business purposes for at least 25 hours per month.

The monthly deduction is shown in the table below:

Hours worked on the business from home per month	Monthly deduction
25 to 50	£10
51 to 100	£18
101 or more	£26

If a deduction based on actual costs would be significantly higher than the fixed rate deduction, it may be beneficial to keep the necessary records and then claim a deduction based on actual costs.

We can advise on the most appropriate method for your business, so please contact us to find out more.

Timely advice: minimising the corporation tax bill

The main rate of corporation tax, which generally applies to companies with profits over £1.5 million, is reducing from 23% to 21% from April 2014.

However, not only the largest companies are affected, as where profits exceed £300,000 the marginal rate of corporation tax gradually increases the total tax take from 20% until an effective 23% applies.

It is possible that by moving the date of revenue or qualifying capital expenditure forward by a short time, from April to March for example, your business could benefit from additional tax relief of up to 9.52%.

Significant amounts of capital expenditure are the simplest items to identify, but any costs or deductions you can bring forward will attract the higher rate of tax relief.

There will be a further opportunity to achieve a similar (albeit smaller) tax advantage from 2015, when the main rate is due to fall from 21% to 20% and a single unified rate of corporation tax will apply for non-ring fence profits.

Care needs to be taken, so talk to us in good time so we can make sure you get the maximum benefit from the changes.

Tax Round-Up

British territories sign landmark tax disclosure deals

With tax avoidance under the spotlight in recent months, the Government has intensified its efforts to tackle individuals and companies that seek to shelter money in so-called offshore 'tax havens'.

Following the clamp down, British Overseas Territories and Crown Dependencies have agreed to join the Multilateral Convention on the sharing of tax information. Led by the Organisation for Economic Cooperation and Development (OECD), the Multilateral Convention will allow more countries to benefit from greater levels of tax information exchange.

Those included in the agreement are Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Anguilla, Montserrat, the Turks and Caicos Islands, Jersey, Guernsey and the Isle of Man.

The Government has also outlined plans to create a UK register of beneficial ownership, which would require the owners of offshore shell companies to register their ownership with Companies House.

In May, the Government revealed that all Overseas Territories and Crown Dependencies had agreed to pilot the automatic exchange of information bilaterally with the UK and multilaterally with the G5 – the UK, France, Germany, Italy and Spain.

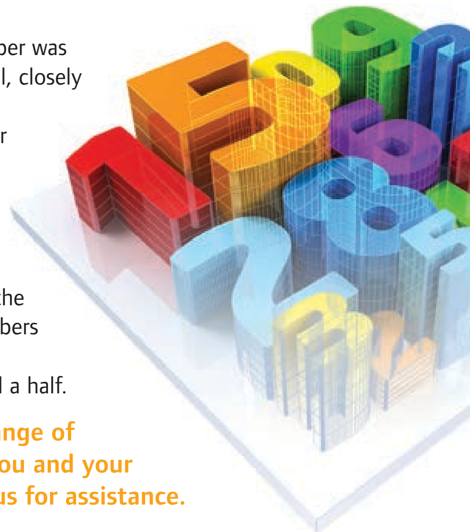
As a result of the agreements, the Government will receive detailed information about bank accounts held in those jurisdictions, including the names and personal details of account holders, as well as data relating to account balances and payments.

New HMRC phone numbers rolled out

HMRC has begun to switch its premium rate 0845 phone numbers to a cheaper alternative with an 03 prefix.

Taxpayers can pay up to 41p per minute when contacting HMRC, and with some individuals left waiting for more than 10 minutes, the final bill can be costly. A recent report by the National Audit Office found that unanswered calls and lengthy waiting times cost customers £33m in call charges.

Chair of the Commons Public Accounts Committee, Margaret Hodge MP, said it was 'unacceptable' that a public service uses 0845 numbers.



The Child Benefit Helpline number was changed to the 03 prefix in April, closely followed by the Online Services Helpdesk, Billpay Plus, Employer Helpline and New Employer Helpline.

According to HMRC, all customer calls will be switched to the 03 prefix by the 'end of the summer', but the old 0845 numbers will also be available for use for approximately the next year and a half.

We can advise on a wide range of tax issues affecting both you and your business – please contact us for assistance.

Tax Tip

Recording all income and expenses plays a vital role, not only in enabling you to calculate your VAT and prove the amount of net profit to HMRC, but in ensuring your own knowledge of the profits earned by your business, including which areas are profitable and which may require re-pricing or further reconsideration.

Full records will also enable us to identify items of expenditure which, although entirely justifiable and correct, are not tax-deductible, and allow us to prepare alternative claims for deductions and reliefs on your behalf.

Reminders for your Autumn Diary

September

30 End of CT61 quarterly period.

Last day for UK businesses to reclaim EC VAT chargeable in 2012.

October

1 Due date for payment of Corporation Tax for period ended 31 December 2012.

5 Individuals/trustees must notify HMRC of new sources of income/ chargeability in 2012/13 if a Tax Return has not been received.

14 Due date for income tax for the CT61 quarter to 30 September 2013.

19/22 Quarter 2 2013/14 PAYE remittance due.

31 Deadline for paper submission of 2013 Tax Return without incurring penalties.

November

1 £100 penalty if 2013 paper Tax Return not yet filed. Additional penalties may apply for further delay.

2 Submission date of P46 (Car) for quarter to 5 October.