2013-14

YEAR END TAX REVIEW

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Mind the gap!

HM Revenue & Customs regularly calculate ‘the tax gap’ – the difference between the tax they believe they should collect, based on economic statistics, and the total they receive. Not surprisingly, it’s always a shortfall – this year, £35 billion. HMRC list the reasons for the difference as evasion, avoidance, error and taxpayer insolvency. They are taking action on all fronts to close the gap. They use ‘taskforces’ which look for undeclared income and fraudulent claims in business sectors identified as ‘high risk’. They challenge what they regard as unacceptable tax avoidance schemes. They check tax returns, and inspect business records. It’s worrying that HMRC reckon ‘most evasion is carried out by small and medium-sized enterprises’ – the businesses the Chancellor is relying on to improve the economy can also expect the closest attention from HMRC.

Whatever they say, no one is under any obligation to pay more tax than the law requires. The boundary between ‘aggressive tax avoidance’ and ‘sensible financial planning’ is a matter of personal judgement. Governments create tax reliefs to encourage people to take certain actions – invest in businesses, provide for their old age, give to charity. If you do these things, you are being a good citizen, not someone who should be scolded by politicians.

This newsletter sets out a number of plans that HMRC should not object to – they involve straightforward use of reliefs that the law provides, for the purpose the law intended. There are also warnings about the action HMRC will take when looking for the missing billions, and how you can avoid suffering the penalties and surcharges they may levy if they find something wrong.

We recommend an annual review of your financial affairs to see if you are paying more tax than you need to, and if what you have done in the past is still appropriate. Under self-assessment, last year’s return must be submitted and the tax liability settled by 31 January; between then and the end of the tax year (5 April) is a good time to assess whether you are as well defended against the taxman as you can be.

The best plans are not hurried – the last day of the tax year, when most plans ought already to have been implemented, is not the best moment to consider them for the first time. If you think ahead and act in good time, you can save money.

Tax law changes all the time, so some of the points in this newsletter are a little different from last year, and some are completely new. Of course, the precise circumstances of each individual have to be taken into account in deciding whether any particular plan is suitable or advantageous – but these suggestions may give you some ideas. We’ll be happy to discuss them with you in more detail. •

Timing is everything

The end of the accounting period for your business is a very sensitive time for tax planning. You can save or delay tax by moving income and expenditure between accounting periods.

For instance, it helps to review your plans for acquiring or disposing of high value assets, such as machinery or properties. If you accelerate capital purchases to fall just within the current period, this will advance the capital allowances associated with those purchases.

If you have acquired a commercial property within the last two years, you should check whether the value of any fixtures within that building have been formally agreed with the building's previous owner. Without this formal agreement you could lose the right to claim capital allowances on those fixtures.

If your current year profits are looking very healthy, you may want to advance the payment of bonuses and other significant expenses which are tax deductible.

For example, pension contributions must be paid within a company's accounting period to be deductible for that period. An accrued salary payment, such as a bonus voted before the year-end, can be deductible for the period if it is actually paid within nine months after that year-end. It's worth thinking about the opportunities and the possible problems around the business and tax year-ends. ●

ACTION POINT!

Review spending plans and likely profit levels before your year-end.

A matter of interest

Borrowing to invest in a business or to buy a property to let out can attract tax relief. The interest you pay on such loans can be deducted from the profits from the letting, or in the case of a business investment loan, from your other income.

However, from 6 April 2013 there is cap on the amount of interest that can be deducted – the greater of £50,000 and 25% of your income. The tax relief from some other sources, such as income losses, is combined with interest when applying the £50,000 limit.

If you don't get tax relief for the interest you pay in the year of payment, that relief will not be given in another tax year. So it's important to claim tax relief for interest before other income tax relief for losses, which can be used in other tax years.

If your business-related loans are so high you can't get tax relief for the interest you pay, you may need to consider selling some assets to restructure your borrowings.●

ACTION POINT!

Review your borrowings to see if tax relief can be obtained, or if it is capped.

For when I get old

As your birthdays turn into bigger numbers you need to ask yourself two questions:

- When am I going to retire?
- How big is my pension pot?

A 65-year old man retiring today needs a pension pot of £420,000 to provide an annual fixed pension of £25,000. More would be needed for an index-linked pension, or to provide a widow's pension. Your annual pension scheme statement should include an estimate of your projected pension at your chosen retirement date.

If this figure is lower than what you think you will require, you should consider whether you need to explore ways to save more for your retirement, for instance by contributing more to your pension scheme.

Pension contributions currently attract tax at your highest tax rate up to your gross annual earnings, capped at £50,000 per year. However, that cap will be cut to £40,000 from 6 April 2014, so if you want to maximise your pension contributions, act now. Any unused contributions cap from the previous three tax years can also be used up in the current tax year. You and your employer can both contribute, with the total subject to the overall limit.

However, you also need to guard against amassing a pension pot which is too big. The current limit on a tax-favoured pot at retirement is £1.5 million, but this will reduce to £1.25 million on 6 April 2014. If the value of your pension pot is more than or close to £1.25 million you should take advice on electing for 'fixed protection' of your pension funds. This election generally needs to be made by 5 April 2014.

After that date that will be another type of protection available for your pension pot, called 'individual protection'. You need to take advice as to which type of protection will be best for you. ●

ACTION POINT!

Do you need to take advice about your pension investments?

Shuffle your money

Do you know your 'marginal rate of tax' – the tax you pay on the next pound of income? The published tax rates don't change between 2013/14 and 2014/15, but there are changes to some of the thresholds at which higher rates apply. If your income in either year is around one of these thresholds, and you are able to move income or deductions from one year to the other, you can save money.

For example, if you are a 20% taxpayer in 2013/14 but expect that a pay rise will take you into 40% tax next year, you could advance the receipt of some income before 5 April. You'll pay tax earlier, but you'll pay half as much.

The main thresholds are (2013/14 figure first, then 2014/15):

- Basic personal allowance: £9,440 rises to £10,000 – basic rate tax starts
- Higher age allowance starts to be withdrawn: £26,100 rises to £27,000
- Basic rate band: £32,010 falls to £31,865 (after deducting personal allowance – 20% rises to 40%)
- Child benefit clawback: no change – between £50,000 and £60,000, ignoring personal allowance
- Withdrawal of personal allowance: starts at £100,000; finishes at £118,880, rising to £120,000
- Additional rate: no change – income above £150,000 – 40% rises to 45%.

The rate is particularly high if your income falls in the bands in which child benefit is withdrawn – depending on the number of children you have – or in which personal allowances are withdrawn, where the income tax rate is effectively 60%. The benefit of shifting the tax charge is that much bigger.

If your net taxable income is likely to be on one of these borderlines, or to exceed it next year, it will be worth moving some income or deductions. Income that can easily be moved from year to year includes:

- bonus or salary from your own company
- dividends from your company
- distributions from discretionary trusts
- proceeds from single-premium life insurance policies

It's also possible to adjust the timing of deductions for charity donations or pension contributions from year to year, as these are taken into account in determining these rate thresholds. ●

ACTION POINT!

Consider moving income or deductions around 5 April 2014.

Give and save

Giving to charity can result in a win/win for both the donor and the charity where the gift is made under Gift Aid.

A Gift Aid donation will reduce the tax payable for the year in which the gift is made, but it is possible to shift that tax benefit back a year. This can only apply if the gift precedes the filing of the tax return for that earlier year. For example, a gift made on 31 December 2013 can reduce the 2012/13 tax liability which is due on 31 January 2014, if the 2012/13 tax return is submitted in January 2014.

If your top rate of tax in 2012/13 was 50%, and your highest rate in 2013/14 is 45%, you may want to carry back Gift Aid relief from gifts made in 2013/14 to 2012/13.

Gift Aid can also reduce your income used to calculate the clawback of child benefit (income over £50,000) and the reduction in personal allowances (income over £100,000). Gift Aid doesn't affect the cap on setting losses against other income (income over £200,000). To avoid the loss relief cap, advancing a pension contribution may be a better option.

Giving quoted shares or land produces both income tax and capital gains tax (CGT) reliefs. Say you give shares worth £10,000. This generates an income tax reduction of £4,000 (for a 40% taxpayer). If the shares would otherwise produce a taxable gain of £6,000 on disposal, you can save CGT at 28%, that's £1,680. So the charity receives £10,000 for a cost to you of only about £4,320. ●

ACTION POINT!
Do you want to make charitable donations before you complete your tax return?

Cars and vans

A company car is a necessity for some jobs, but it comes with a big tax bill, so you need to be sure the car is worth its tax cost. When deciding on which car to accept as part of your package it's sensible to look ahead, as the cost will rise every year.

Say you choose a petrol car with a list price of £25,000 and a CO_2 emissions rating of 157g/km. In 2013/14 you will be taxed on £5,750 (23% x £25,000), which rises to £6,000 (24% x £25,000) in 2014/15. This taxable benefit increases each year to £7,000 (28% x £25,000) in 2016/17. If you are a 40% taxpayer, the tax on that will be £2,800.

Even if you don't change your company car, and in spite of the fact that the vehicle loses value over time, you are taxed on a higher amount each year. Electric cars which emit no CO_2 have been tax-free for several years, but they will be taxed on 5% of the list price from 2015/16.

At these costings it could be cheaper for you to lease a car in your own name than take a company car. Some companies pick up the employee's car-leasing expenses on their behalf, but from 6 April 2014 this won't save anything, as the employee will be treated as if the company had provided the car.

The taxable benefit of receiving fuel for private journeys in your company car is calculated using the same CO_2-based percentage applied to a fixed figure (£21,100 in 2013/14 rising to £21,700 for 2014/15). For a powerful car you may pay more in tax on the fuel benefit than you would pay for fuel if you bought it yourself. Ask us to check the sums.

The private use of a company van has been valued as a benefit worth £3,000 for many years, but that will rise to £3,090 from 6 April 2014. The benefit of having fuel for private journeys in the van also rises from £564 in 2013/14 to £581 in 2014/15. ●

ACTION POINT!
Are you paying more in tax than your car or van benefits are worth?

Too much NIC?

If you have more than one employment, or an employment and a self-employment, you could end up paying too much in National Insurance Contributions (NICs).

Everyone has a zero rate band where no NICs are paid. This is up to £7,755 for 2013/14 (£7,956 for 2014/15). So if your second job or self-employment produces income within that zero band, you don't really have a NIC problem.

However, if you are self-employed as well as employed, you may have to pay Class 2 NICs at £2.70 per week (rising to £2.75 in 2014/15). The zero threshold for Class 2 NICs is £5,725 (£5,885 for 2014/15). If your profits are below that threshold, you have to apply for exemption from paying Class 2 NICs. You don't get the exemption automatically.

Big overpayments of NICs can occur if each of your jobs brings in income over the zero band. In that case, you could be paying the higher rate of NICs (12% for employees, 9% for self-employed) on income from both jobs. To avoid these excess NICs, you can apply to 'defer' NICs on one job, and pay the correct NICs on your combined income after the end of the tax year. The zero threshold may already be applied correctly, but it's worth checking.

Your deferment application for 2014/15 needs to be sent to HMRC by 5 April 2014. It's always easier not to pay NIC than to get it back after overpaying! ●

ACTION POINT!
Does your multi-tasking increase your NICs?

Limits on Losses

Tax relief for personal tax losses has been abused in the past, so for losses arising after 6 April 2013 the relief any individual can claim in one year is capped at the higher of:

- £50,000; and
- 25% of their total income

This cap does not apply if the losses are set against future profits of the same trade in which the loss arose.

'Total income' is adjusted for some other tax reliefs claimed such as pension contributions. If you have losses in excess of £50,000 arising in 2013/14, you need to review how any other payments you make before 6 April 2014 will affect the total income used to calculate the loss relief cap.

Tax-deductible interest paid in 2013/14 will also restrict the amount of loss relief you can claim.

Please talk to us to clarify how the loss relief restrictions will affect your business and personal investments. ●

ACTION POINT!
Check your loss position before making further pension contributions.

Serious deadlines

The 'Hitchhiker's Guide' author Douglas Adams said, 'I love deadlines. I like the whooshing sound they make as they fly by.' Sadly, tax deadlines make a crunching sound on your wallet if you miss them.

For example: if you miss the deadline for filing your self-assessment tax return (31 October for paper filing; 31 January for online filing) you will be charged a £100 penalty. Where the tax return is for a partnership, each and every partner pays £100.

If the return is filed more than 3 months late an additional £10 per day is charged, and after 6 months another penalty is imposed of £300 or 5% of the tax due. Those penalties will stand even if the tax return shows no tax is payable.

A similar £100 penalty applies for a late corporation tax return, which is due a year after the end of the accounting period. If you make a habit of submitting late company returns, the penalties rise to £500 each time.

Separate penalties apply for paying tax late. These are normally a percentage of the overdue tax. For VAT this can be up to 15%, where there have been six or more late payments.

You should receive a notice or letter from the taxman about penalties due for late payment, so pay attention to any warning notices you receive.

A 'reasonable excuse' will get you out of penalties, but the taxman is not sympathetic. Fire, flood, plague and death may be accepted; 'the dog ate my tax return' will not. ●

ACTION POINT!

Are you up to date with your tax returns and payments?

Should VAT be flat?

A simplified 'flat rate VAT scheme' (FRS) is available for businesses with turnover up to £150,000. You charge VAT to your customers, but you don't pay all the output tax to HMRC – you keep some of it instead of claiming input tax on most expenses. That gets rid of a whole lot of reasons to fall foul of the VATman.

The FRS VAT payable depends on the type of business – some sectors are likely to save more than their lost input tax, and others may not. If your business qualifies, it's at least worth doing the maths to see if it might save you money, time, or both.

There are pitfalls and opportunities for businesses which have more than one activity, or which are associated with other trades. It's supposed to be 'simpler', but it's not always simple. If you are in any doubt whether the FRS is for you – whether you are currently using it or not – we'll be happy to check. ●

ACTION POINT!

Could you save under the flat rate scheme?

Foreign escapes

Just because you move abroad doesn't mean you escape the UK tax net. You need to become 'not resident' in the UK for tax purposes, which is not as easy as merely living in another country. You can be treated as resident for tax purposes in two or more countries at the same time.

From 6 April 2013 a statutory residence test (SRT) applies to determine if you will be treated as resident or not resident in the UK for a particular tax year.

The first stage is to test if you are automatically resident overseas. This test is passed if any of the following apply:

- You were resident in the UK for one or more of the previous 3 tax years, and in the UK for fewer than 16 days in this tax year
- You were not resident for any of the previous 3 tax years, and in the UK for fewer than 46 days in this; or
- You worked full-time abroad and were in the UK in this tax year for fewer than 91 days, with no more than 30 days working in the UK

You'll need to know your residence position for earlier years before you can determine which of the first two situations applies to you. A day usually counts as 'in the UK' if you were here at midnight.

If you are not automatically treated as resident overseas, there are further hoops to jump through. These involve counting days present in the UK, and also depend on where your 'home' is. We can guide you through these new rules if you're planning to leave the country.

If you have already left the UK, you may need to limit your return visits to ensure you are treated as resident overseas. ●

ACTION POINT!
Keep good records of your travel arrangements to prove you are resident overseas.

Good company?

Operating your business through a company (rather than as a sole trader or partnership) can cost less in tax. Stand-alone companies with profits of up to £300,000 pay tax at 20%; profits above £1.5m are taxed at 23%, reducing to 21% from April 2014. In the band between these lower and upper limits, the effective rate is a little higher than the headline rate of 23% or 21%.

These rates are much lower than the top income tax rates of 40% and 45%. In addition sole traders and partners pay national insurance (NICs) at 9% or 2% on all the profits the business makes above a low starting threshold, whether those profits are left within the business or not.

Company owners may pay additional tax and possibly NICs when the company's profits are paid out to them. Just how much tax and NICs are due depends on how the profits are extracted. For example, dividends are not subject to NICs, but salary and bonuses are.

Sole traders and partnerships can reduce the NICs they pay by operating through a company and taking out profits as dividends on top of a small salary. Incorporating a business is a complex decision, which should not be taken on tax grounds alone. There are more forms to file every year when running a company than an unincorporated business, but the tax savings may outweigh that.

The alternative ways of taking money out of a company can't all be used in the same circumstances. Dividends can only be paid where there are accumulated profits in the company. A salary can be paid even if the company is making a loss, but a salary over the NI threshold of £7,696 (2013/14) will carry NICs for the individual and the company.

The best course of action can change from year to year. From 6 April 2014 there is an employment allowance available of up to £2,000 which will reduce the company's liability to NICs, but not that of the individual.

To maximise the amount you can take out from your company and minimise the tax charges, take some expert advice before the tax year end. ●

ACTION POINT!
What's the best way to get profit out of your company?

RTI messages

Have you received any messages from HMRC about Real Time Information (RTI) reports arriving late, or unpaid PAYE? If so, all may not be well with your RTI filings.

Because RTI was introduced for most employers for the tax year 2013/14 and everyone – including HMRC – has been getting used to the system, the penalty rules have been relaxed up to now. However, penalties will apply if the final RTI reports for the tax year are submitted late.

The relaxed regime changes from 6 April 2014. Penalties may be charged for:

- filing a full payment submission (FPS) after the date of payment stated in that report
- failing to file an employer payment summary (EPS) showing a nil payment when required; and
- failing to pay the PAYE due in full and on time for a particular tax month

If you have fewer than 50 employees, you are currently permitted to file a single FPS at the time of your last payroll run in the tax month (instead of filing on or before each day the workers are paid). This concession is removed from 6 April 2014. However, a new concession will apply to current employers who have fewer than 10 employees: they will be permitted to make their RTI reports by the last payday in each tax month until 5 April 2016.

If you haven't paid anyone in the month, HMRC expect to receive an EPS showing 'nil' PAYE due, unless your PAYE scheme is registered as 'annual'. If you pay employees quarterly, you must submit a 'nil' EPS for those months in which no payment is made.

The penalty for late reports varies from £100 to £400 per month, according to the number of employees on the payroll. One late return incurs no charge, but penalties will apply for the second and subsequent months for which a report is late or not filed at all. Only one fixed penalty will be charged for any month.

Late payment penalties will be charged at 1% to 4% of the PAYE paid late for the tax month. The penalty rate rises as the number of late payments mounts up in the tax year.

Any messages coming through your payroll software are there to warn you about these penalties. Letters about unpaid PAYE do the same. Although many of the warnings issued so far won't result in penalties, if you are receiving them, we need to discuss the reasons before the new tax year starts. ●

ACTION POINT!
Are you aware of any warning messages about late RTI returns?

Investing for the future

When investing, there is always a trade-off between risk and return. The higher the risk you are prepared to take, the greater the return you could make, but equally there is a greater chance of losing your money.

The Government encourages certain high-risk investments in small trading companies by providing income tax relief for investors in these schemes:

- Enterprise Investment Scheme (EIS): 30% relief on up to £1 million
- Venture Capital Trust (VCT): 30% relief on up to £200,000
- Seed Enterprise Investment Scheme (SEIS): 50% on up to £100,000

These limits apply for the 2013/14 tax year. For EIS and SEIS, the amounts invested can be treated as made in the previous tax year, if the limit for the earlier year has not been reached.

Capital Gains Tax relief can also apply for gains reinvested in SEIS shares in 2012/13 and 2013/14. But the gain must be reinvested in the same tax year in which it is realised.

These various tax reliefs won't turn a bad investment into a good one, but they will make a good one better and will reduce the risk involved in investing. If you are a higher rate taxpayer who reinvests a capital gain of £100,000 in 2013/14 into SEIS shares, that £100,000 will cost you just £36,000 after income tax relief of 50% and CGT relief of 14%.

Of course, you need to take proper advice on where to put your money, as well as understanding how it will reduce your tax bill. If you are thinking of investing in one of these schemes, you may want to do so before 5 April to maximise the benefit – the CGT break for SEIS only applies up to 5 April 2014. ●

ACTION POINT!
Are tax-favoured investments worth discussing with your advisers?

Saving for a rainy day

Most people need to save for something: university fees, retirement, house repairs, or just an emergency fund. For a long-term goal such as retirement, a pension scheme may be the best vehicle. Individual Savings Accounts (ISAs) give shorter-term access to your money as well as tax breaks.

Each UK resident adult can deposit up to £11,520 in ISAs in 2013/14 (£11,880 in 2014/15). Up to half can go into a cash ISA; the rest, or the whole lot, can be invested in a stocks and shares ISA. Income and capital gains arising in any kind of ISA are tax-free.

A person aged 16 or 17 can open a cash ISA, but beware of making significant contributions to your child's ISA if they are still under 18. If you provided the fund and the interest exceeds £100, that will count as your taxable income, not your child's tax-free income.

A 'Junior ISA' can be opened for any UK resident child aged under 18 if they don't have a Child Trust Fund account. Anyone, even the parents, can deposit up to £3,720 into the child's junior ISA in 2013/14 (£3,840 in 2014/15) without tax charges.

You can switch from one investment to another within the ISA and keep the tax advantages. You can also switch your savings between different ISA providers, if you ask the manager to do this for you. If you take the money out of your ISA to spend it or move it, you have to start again with investments of no more than the annual limit each year. ●

ACTION POINT!
Does your savings strategy match your goals?

A good start for VAT

You don't usually have to register a new business for VAT until sales reach £79,000. If you register early, you have to account for VAT on sales that could have been VAT-free. If you register late, you can suffer a penalty.

Unregistered traders are supposed to check the sales limit at each month-end, and act within 30 days if they go over. If you only prepare accounts once a year, still watch out for increasing sales – if you're suddenly very busy, it's possible you might need to tell the VATman.

You might benefit from registering before you are legally required to, in order to claim back VAT on start-up costs. If you incur VAT too long before the date you apply to register from, you can't get that VAT back. You also can't change the date once you've submitted your choice – so it's crucial to plan for when you might want to, or might have to, register for VAT.

ACTION POINT!
Are you running a business that isn't registered for VAT?

Splitting gains

Most people have an annual exemption for capital gains tax (CGT) of £10,900. This is wasted if you don't make a gain on a disposal in the tax year. You can't transfer any part of your unused exemption to a different tax year or pass the benefit of it to another person.

Say you pay income tax at 40% and you make a gain of £60,900. After your annual exemption is deducted you will pay CGT of £14,000 (28% x £50,000). If you can split that gain into separate chunks, each less than £10,900, and realise them in a series of sales over six tax years, you will pay no CGT at all.

Portfolio managers often sell one holding and buy something else near the end of the tax year to trigger gains and losses. The tax saving almost always outweighs transaction costs.

It's important to make sure your investment manager knows if you have realised gains on other assets. If you've used up your annual exemption elsewhere, the switching plan won't save you any tax. ●

ACTION POINT!
Are you taking full advantage of the CGT exemption?

It's got to be… PERFECT?

The taxman likes tax returns to be right. If you make a mistake, or miss something off your return, you can 'amend' it within a year of the filing deadline. 2011/12 returns can be corrected up until 31 January 2014.

If the taxman discovers a mistake on your return before you do, you need to pay any extra tax due as soon as possible to stop interest accruing at 3%. If you can convince the taxman you took reasonable care, but still made a mistake, he will not impose a penalty. But there's a danger he may argue that you couldn't have been careful enough – if you had, it wouldn't be wrong, would it?

Penalties are imposed for careless or deliberate errors. However, if you confess to your error quickly, explain how it happened, and provide a full correction, the penalty can be reduced, perhaps to zero. If the error was careless rather than deliberate, and you agree to certain conditions, any penalty can be suspended for up to two years. This means you can avoid paying the penalty altogether if you don't make the same mistake again in that time.

Failing to deal with an error is likely to increase the penalty if HMRC find out about it later. It's a bad idea to brush things under the carpet – if you think something may have gone wrong, it's best to take advice on how to put things right. We can only help if we have all the available information, so it's important to put us in the picture. ●

ACTION POINT!
Are you satisfied your tax returns are accurate?

A family view

In the UK everyone is taxed as an individual, but social security benefits are awarded on the basis of the family's income. This is contradictory and confusing, but we have to live with the law as it is.

The result is that married couples or registered civil partners with an unequal distribution of income will often pay more tax than couples who earn enough each to cover their basic personal allowance (£9,440 for 2013/14) and basic rate band (£32,010 for 2013/14).

Take the Browns and Smiths, who each claim child benefit of £1,752 in 2013/14. Mr and Mrs Brown each earn £40,000. They pay about £9,981 in tax and NICs each, leaving the family with £60,038 net income plus the child benefit of £1,752.

George Smith earns £80,000, and Sally Smith has no income. George pays about £26,636 in tax and NIC, leaving the family with net income of £53,364. They cannot enjoy the child benefit: either Sally has to disclaim it, or she will receive it and George will pay it back as a tax charge.

These examples show that it makes sense to transfer some income from the high earner to the lower earner in order to take advantage of the tax-free and lower-taxed slices of income. This is not always easy to do, but the following methods are possible:

- an outright gift of savings and investments which produce taxable income
- putting savings and investments into joint names and sharing the income
- employing the spouse or partner in a business
- taking the spouse or partner into partnership

HMRC can challenge some of these if they think the transfer is not genuine – it's important to take advice to be sure that the plan will work.

Capital gains are easier to pass on for tax. If you are likely to realise a gain above your annual exemption (£10,900), you could transfer the asset into joint ownership with your spouse or partner first and save up to £1,962 (if you are a basic rate taxpayer) or £3,052 (if you pay income tax at 40% or 45%).

Any transfers should be done before the beginning of the new tax year to achieve the maximum benefit for that year. But beware, if the individuals are not married to each other or in a civil partnership, transferring assets between them can create a capital gains tax charge. ●

ACTION POINT!
Can you transfer income to reduce your family's tax, and save your child benefit?

How much??

January is the worst month of the year for the self-employed. No one has any money to pay you, and the taxman wants his pound of flesh.

Tax on your self-employed profits for 2013/14 is paid in two payments on account (POAs) on 31 January 2014 and 31 July 2014. These amounts are based on the tax liability reported in your 2012/13 self-assessment tax return.

If your final income tax liability for 2012/13 tax is more than the total of POAs paid in January and July 2013, you pay the rest on 31 January 2014, plus any capital gains tax you owe for the year. So the amount due on 31 January 2014 is half your normal tax bill as a POA, plus your CGT, plus any balance due for 2012/13 – ouch!

If your tax liability for 2013/14 drops compared to 2012/13, you'll get some of your POAs back when you send in your 2013/14 return (due by 31 January 2015) – but you'll be out of pocket in the meantime.

It's possible to claim to reduce the POAs for 2013/14 to half your estimated income tax bill for that year before you send in your tax return. You don't need a precise calculation, but you can usually tell when POA will be much too large.

Say your business has had a bad year in 2013/14, or you've taken a job that's taxed under PAYE and so reduced your self-employed income. These factors could mean the tax due under self-assessment for 2013/14 will be lower than for 2012/13. It's worth reducing your POAs so the money is in your bank account rather than theirs. ●

ACTION POINT!
Is your tax bill for 2013/14 likely to be less than last year's?

Auto pensions

Over the next four years all employers, including one-man companies and individuals who employ domestic staff, will be required to enrol their eligible employees into a qualifying pension scheme. This is called pension auto-enrolment.

It will affect your business sooner or later, so you should start planning for the associated costs now. Doing nothing is not an option as there are penalties for that – including jail terms.

You will be given a 'staging date' which is your compulsory start date for auto-enrolment. For many small businesses this will be in 2016 or 2017, but you can start the process earlier, which will help spread the costs so you don't get a big hit in 2017/18.

Every employee who meets all of these criteria must be auto-enrolled:

- aged 22 or more, but under State pension age
- earning more than the basic personal allowance (£9,440 for 2013/14)
- working in the UK; and
- not already in a suitable workplace pension

This excludes very low paid workers, but those who pay at least some national insurance on their earnings will be able to opt in to the pension scheme, as will workers aged up to 75.

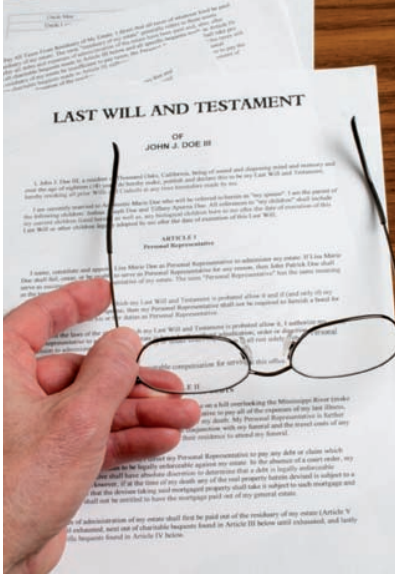
All employees will be able to opt out, but the employer must not encourage this, or do anything to discourage membership of the pension scheme – on pain of penalties of up to £10,000 per day for the largest employers.

The auto-enrolment process requires a good deal of record keeping – to prove you have given each employee the correct information at the right time. Again penalties apply if your compliance is not up to scratch.

Employers will be required to make contributions to the pension scheme of at least 1% of a defined range of earnings, rising to 3% by October 2018. However, this amount must be supplemented by contributions from the employee or employer, so the minimum total contribution is 8% by the same date.

The band of earnings on which this percentage contribution is based can vary according to definitions within the employee's employment contracts, and the options chosen by the employer. We can help you work out the financial cost for each option, and whether a salary sacrifice in favour of pension contributions would help bring down the total. ●

ACTION POINT!
Start planning for auto-enrolment now to spread the costs.



Season of good Will

You can't take it with you, as the saying goes. When your time is up your relatives need to sort out your affairs. This is a very stressful time, but you can make it easier for those you leave behind by having a clear and up-to-date Will, which has been drafted with tax in mind.

This is particularly important if the total value of your assets, including your home and any insurance policies that pay out on your death, will exceed £325,000, which is the current starting point for inheritance tax (IHT).

There are a number of standard measures you can take to save very significant amounts of IHT. For example:

- check who will receive proceeds from your life assurance and pension policies – if your executors are entitled to the money on your death, there will be unnecessary IHT to pay
- give away surplus assets as early as possible – those gifts will fall out of the IHT calculation completely if you survive seven years after the date of the gift
- make regular gifts out of your surplus income rather than accumulating income to make a big legacy on your death – the small lifetime gifts often do not attract IHT, while the big legacy is likely to cost 40% in tax

You can also leave at least 10% of your chargeable estate to charities and reduce the IHT rate charged on the balance of your estate from 40% to 36%. This reduction in the tax rate means that you can leave nearly as much to your beneficiaries as if they received the whole estate, while making a generous bequest to good causes. The 10% threshold is based on your taxable estate, not the whole of your assets, so you can reduce your IHT rate for a surprisingly small charitable bequest – but you may need a special clause in the Will to make sure your estate meets this threshold. ●

ACTION POINT!
Have you considered how much IHT you might pay?

Perks of the job

It would be simpler for the taxman if everyone was paid under PAYE, with no extra perks or benefits. But there are quite a few benefits that are tax and NI-free by law, so if your employer provides them, that's cheaper than paying you salary (with tax) for you to buy the goods or services yourself. There is a long list of possibilities, but here's a selection:

- pension contributions up to £50,000pa (£40,000pa from April 2014)
- childcare vouchers up to £55pw (£28pw for higher rate taxpayers)
- loan of one mobile telephone and payment for calls
- loan of a bicycle and safety equipment for commuting
- health checks for employees or members of the household
- eye test and lenses where work involves using a computer
- use of a van if private journeys are limited to home-to-work travel; and
- (from April 2014) up to £500 of medical treatment to help a sick employee get back to work ●

ACTION POINT!
Can you benefit from these?

Home Tax Home

When you sell your home, any gain you make on that sale is generally free of capital gains tax (CGT), if you have lived in the property for the entire period you owned it.

If you can't sell your old home immediately, there may be a period when you have two properties at once. To prevent chargeable gains arising on such an overlap, the gain attributed to the last 36 months of ownership is free of CGT, if the property was treated as your main home for some of the time you owned it. This still applies even if you are not trying to sell the property – if you have moved out of the home due to job relocation, divorce, or to let it out. This can produce a big CGT saving where someone lets out their former main residence, when compared to a fully taxable gain on a buy-to-let property.

The Government believes this 36-month rule is too generous, so it is cutting this tax-free period to 18 months for homes disposed of after 5 April 2014. This could cut the amount of tax-free gains you can enjoy on the sale of your property, particularly if it has been let out for a number of years.

When your period of occupation of the property is quite short, or you also had another home available at the same time, the taxman will ask for proof that you intended to live in the property as your main home on a permanent basis. HMRC will not grant tax exemption for a property which is acquired with the intention to resell at a profit. ●

ACTION POINT!
Do you need to bring forward the sale of your property?

Put it to sleep

There are two ways to eliminate a company:

a) a formal liquidation – which can incur significant fees; or
b) informal dissolution ('striking off') under the Companies Act

Under a) all the surplus funds and share capital returned to shareholders are treated as capital in their hands. Those individuals will pay Capital Gains Tax (CGT) on the profits, which may be at only 10% if they qualify for entrepreneurs' relief.

If b) is used, and the distributions total more than £25,000, the whole amount is deemed a dividend subject to income tax. Shareholders who pay tax at the basic rate will have no further tax liability, but higher rate taxpayers will owe 25% or 30.5% of the amounts received. Where the total distribution is no more than £25,000, it will be taxed as capital subject to CGT.

You may want the shareholders to carry on the trade in their own hands. In that case, the whole business including all assets and goodwill must be transferred to the shareholders. This can create a tax liability within the company, particularly where land or goodwill is transferred.

To solve this problem the company and shareholders can elect for disincorporation relief. This rolls over any gains made on the property and goodwill into the values of those assets as acquired by the shareholders. This relief can only apply if the election is made before the company is dissolved and where the value of the assets concerned doesn't exceed £100,000.

It's important to take advice on all aspects of dissolving a company, and there are several alternative plans to minimise the tax charges that arise. ●

ACTION POINT!
Do you own a company that wants putting down?

Count the miles

If you need to use your own car for a business journey, perhaps to travel to a customer, another office of your employer, or to a training course, you can claim mileage expenses for that journey. Many employers pay the full tax-free amount of 45p per mile, dropping to 25p for miles in excess of 10,000 in one tax year.

If your employer doesn't pay the full rate, you can claim tax relief on the extra, either on your tax return, or on form P87. You need to submit your claim within four years of the end of the tax year when you made the journey. Claims for 2009/10 need to be at the tax office by 5 April 2014.

Once the taxman has accepted your mileage claim for one tax year, subsequent claims for up to £1,000 per year can be made by phoning the tax office. ●

ACTION POINT!
Are you due a tax refund for business journeys?

Selling abroad?

In difficult times, it makes sense to look for new markets. If you are VAT-registered, new markets may come with new complications in the paperwork, and it's worth making sure that you are up to speed on the rules.

If you sell goods to business customers elsewhere in the EU, you are usually allowed to zero-rate the sale – you charge no VAT, but you can still recover any input tax on related costs. But you need to be able to show that the customer was registered abroad and the goods left the country. HMRC have suffered from a large number of fraudulent claims in relation to EU trade – typically, but not exclusively, in relation to mobile phones and computer chips – and they are understandably suspicious if the papers are not in order.

If you buy goods from businesses elsewhere in the EU, you have to give them your VAT number to obtain the purchase free of foreign VAT, and then you account for UK VAT in Box 2 of your VAT return.

International purchases and sales of services are subject to different rules again – the result may be similar to the above, but the procedure and the detailed requirements are different.

If you are selling goods or services to businesses in the EU, you will need to complete an EC Sales List every quarter (or monthly, if you sell £35,000 of goods a quarter) giving the customers' VAT numbers and the value of sales. If you exceed higher limits for purchases or sales of goods, you'll need to complete supplementary statistical declarations (intrastats).

Imports and exports are different again. Anyone putting their toes into a foreign market-place needs to be able to deal with a host of problems, and HMRC's requirements are probably not the worst of them – but they're not the least either.

There's some general information on the HMRC website, but it's important to consider exactly what your business needs to do to comply with these rules. We can help. ●

ACTION POINT!
Do you sell any goods or services to customers outside the UK?

Earlier years

There are many elections and claims you can include in tax returns, but sometimes you don't know enough to make the claim before the filing date for the return. The law allows you an extra year in which make the claim, and sometimes longer.

Claims and elections you may need to make by 31 January 2014 for the 2011/12 tax year include:

- wear and tear allowance for furnished lettings
- treating a property as continuing to qualify for furnished holiday letting treatment if it qualified in 2010/11
- averaging of profits for farmers or authors; and
- trading losses to be set against your other income

Some tax reliefs, eg. for investment in EIS, have longer claims periods. Corporate tax claims generally need to be made within two years of the end of the accounting period. We can help you check what claims you need to make. ●

ACTION POINT!
Have you made all the necessary tax claims?

Cash basis choice

When you complete your tax return for 2013/14 you may be asked to choose between using the cash basis or the accruals basis for your self-employed business profits.

You can only use the cash basis if your turnover (total sales) for the year is less than £79,000 – which is also the trigger threshold for registering for VAT.

Using the cash basis can simplify the way you pay tax on your business transactions. You record sales when you receive the money, and expenses when you actually make the payment. You don't have to worry about recording sales made which you haven't been paid for, or including the value of debts you owe.

If you use the traditional accruals basis of accounting, you need to make adjustments at the end of your accounting period for debts owing to your business, and bills you owe to your suppliers. You may also have to value your stock and claim capital allowances.

There are disadvantages to using the cash basis: you can't deduct more than £500 per year for loan interest, and any losses made can only be set against future profits.

If you run your business through a company or LLP you can't use the cash basis. Also if your business becomes VAT registered you will be required to prepare VAT returns using the timing rules of that tax, which can be different in some cases. ●

ACTION POINT!
Ask us to help you decide if the cash basis will suit you.