Coulthards Mackenzie

CHARTERED ACCOUNTANTS

www.coulthards.co.uk

journal

WINTER 2013

Protect your pension before April

No doubt you have heard about the pension changes coming in next April, but you are probably not aware that you need to act before then if you want to safeguard your current level of lifetime allowance.

The lifetime allowance is currently £1.5 million, and represents the maximum amount of pension saving you can build up over your lifetime benefiting from tax relief. From 6 April 2014 it will decrease to £1.25 million, but it can be fixed at the current £1.5 million limit by applying for fixed protection 2014 (FP2014). Application for FP2014 has been available since 12 August 2013 and can be applied for either electronically or on paper up to 5 April 2014.

This can get confusing as there have been previous opportunities to fix the level of lifetime allowance, and the current protection will not be available if any of these already apply:

- **Primary protection** and **enhanced protection** were available when the lifetime allowance was introduced in April 2006.
- **Fixed protection** 2012 was available when the lifetime allowance was reduced from £1.8 million to £1.5 million in April 2012.

Although FP2014 will fix your lifetime allowance at £1.5 million, it means that no further pension savings can be made by you or on your behalf. New benefits in any defined benefit scheme will be restricted.

Furthermore, the Government is also proposing to introduce an alternative in the form of individual protection 2014. This cannot be applied for until 6 April 2014, although a three-year application window is proposed. Individual protection will only be available if you have already built up pension savings greater than £1.25 million, whereas fixed protection can be used if pension savings are below this limit. It will be possible to continue pension saving after 5 April 2014 with individual protection.

FP2014 is the only option if your pension savings are below £1.25 million. Otherwise, it may well make sense to apply for both types of protection. FP2014 will take precedence, but individual protection will come into play should fixed protection be lost.

This is a complex decision, so take professional advice if you think you are affected.

iStock©Onur Döngel

In this issue:

Offices at

9 Risborough Street
London
SE1 0HF
Telephone: 0203 267 1000
Fax: 0207 922 1261
Email: london@coulthards.co.uk

17 Park Street
Camberley
Surrey GU15 3PQ
Telephone: 01276-65470
Fax: 01276-691847
Email: camberley@coulthards.co.uk

Partners
Michael Church FCA
Chris Pexton FCA CTA

Consultants
Michael Elliott FCA
Peter Gittins FCA

Auto-enrolment rolls closer for SMEs

Auto-enrolment requires employers to enrol their employees into a pension scheme that meets certain minimum standards. The new system is being rolled out over a five-and-half year period and requires all employers – no matter how small – to make pension contributions for their employees. Failure to comply will result in hefty fines.

The process began in October 2012 and will be completed in February 2018. The date at which an employer is required to start auto-enrolment (known as the staging date) can be found by entering the employer's PAYE reference into a tool on the Pensions Regulator's website (www.thepensionsregulator.gov.uk).

An employer's obligation

Employers must automatically enrol all their workers aged between 22 and state pension age if they earn more than the basic personal allowance (£9,440 for 2013/14). Employees who are automatically enrolled have the right to opt out and those who are outside auto-enrolment have the right to opt in. Employers must not encourage employees to opt out.

Employers must provide a qualifying pension scheme into which their employees can be automatically enrolled. The scheme must meet:

- The automatic enrolment criteria;
- The qualifying criteria; and
- The minimum requirements.

The employer can set up an occupational or personal pension scheme which must be a registered pension scheme for UK tax purposes.

Guidance on the qualifying requirements can be found on the Pensions Regulator's website.

The process

Employers can find a provider by contacting a financial adviser (FA) or they can use the Government's National Employment Savings Trust (NEST). The Association of British Insurers also produces a list of qualifying schemes provided by their members. Employers must register their chosen schemes with the Pensions Regulator within four months of their staging date. Registration is mandatory and employers may be fined for a failure to register.

Employees' contributions, together with the related tax relief, make up the difference between the total and the employer contributions. Schemes must comply with various reporting and regulatory duties, which include filing regular scheme returns. There are penalties for employers who fail to comply with the auto-enrolment rules.

Employers should ensure that all their employees are familiar with auto-enrolment and its implications. It is also essential to ensure all your systems are in place to go live on the staging date. Get in touch if you need our help.

Managing the child benefit tax charge

We are now in the first full tax year of the child benefit tax charge, which means that you may find yourself in the scope of self-assessment – even if you have never had to file a tax return before.

The high income child benefit charge was introduced on 7 January 2013 and has meant that even if self-assessment is not new to you, you may still have to provide us with more information than previously for your 2012/13 tax return. This is because your partner's financial position can now be relevant when it comes to completing your own tax return.

The child benefit tax charge applies where either you or your partner has income of more than £50,000 and either of you receives child benefit. If both of you have income above £50,000, then whoever has the higher income will suffer the charge. Of course you might be one of almost 400,000 people who opted out of receiving child benefit before the child benefit charge was introduced, in which case you can skip ahead to the next story with a clear conscience.

However, if you are not yet registered for self-assessment and you should be paying the tax charge for 2012/13, it is already too late to register without incurring a penalty. The deadline was 5 October. The deadline for submitting the actual tax return is next 31 January (for online filing), but you will really need to contact us rather earlier than that.

Who counts as a partner?

For the purposes of the child benefit tax charge, a partner is defined as anyone that you are living with (or have lived with) during the tax year. So this can put someone in the awkward position of having to contact a former partner to establish if they are claiming child benefit and/or who has the higher income. HMRC will help if there is a problem. Child benefit is only ever paid to one claimant, and normally this will be the person the child is living with. However, someone else could make the claim if they are contributing towards the child's upkeep at least as much as the amount of the child benefit. The contribution need not be monetary, and the cost of clothes, presents and pocket money all count.

Depending on your level of income, it might be possible to reduce the tax charge for the current tax year by making additional pension contributions but you will need to organise this by 5 April 2014. If you need our help, please get in touch.

The latest update of HMRC's advisory fuel rates is a mixture of increases and reductions. The rates effective from 1 September 2013 are:

Engine size	Petrol	Diesel	LPG
1,400cc or less	15	12	10
1,401cc to 1,600cc	18	12	11
1,601cc to 2,000cc	18	15	11
Over 2,000cc	26	18	16

Self-employment rules change for LLPs?

The Government has consulted on proposals to remove the presumption of self-employment for limited liability partners (LLPs) and to tax salaried members as employees. HMRC is now considering the responses received with a view to introducing new rules from April 2014.

At present, individual members of an LLP are taxed as self-employed partners, even if they have more in common with employees (such as being on a fixed salary) than full partners in a traditional partnership. A person who is self-employed is generally taxed more favourably than an employee and HMRC is concerned that LLPs are being used to exploit the tax advantages of self-employment even though they are employees in most respects.


iStock© stokkete

HMRC plans to introduce new rules to prevent LLPs being used in this way, by removing the presumption that all individual members of an LLP should be taxed as self-employed partners. Instead, a member who meets the test for a 'salaried member' will be taxed as an employee, subject to income tax and primary Class 1 national insurance contributions.

A `salaried member' is a member who meets one of the following two conditions:

Condition one

They are an individual member of the LLP who, if the LLP were carried on as a partnership by two or more of its members, would be regarded as an employee of the partnership. The normal tests of employment and self-employment would apply.

Condition two

They are an individual member of the LLP who does not meet the first condition but who:

a) has no economic risk (loss of capital or repayment of drawings) if the LLP makes a loss or is wound up;
b) is not entitled to a share of the profits; and
c) is not entitled to a share of any surplus assets on a winding up.

Where the substance of the relationship is that of employment, the member would be treated as a salaried member and taxed as an employee.

Members of an LLP who do not meet either condition would continue to be taxed as self-employed partners.

If you need to review your partnership and employment status before the intended rules change in April 2014, let us know.

Know your eSignatures

You may be surprised that electronic or digital signatures have had full legal recognition in the UK since 2000.

You can therefore use them to sign documents and carry out business transactions electronically. Documents arrive almost instantaneously regardless of distance, delivery is more certain, and printing/postage costs are saved. Moreover, you can easily send a document that has been 'eSigned' in an encrypted format for improved security.

But electronic and digital signatures are not the same thing. An electronic signature is typically one where you add an image of your signature to a document. They are easy to use because they just require a mouse click, but they offer limited security. A digital signature has more security because it embeds information into a document; as a result digital signatures are generally accepted in most jurisdictions which is an important consideration if you do business overseas.

Unless your business is very small, you should consider using digital signatures. When you are deciding which software supplier to use, you should choose one who complies with the Digital Signature Standards set by the National Institute of Standards and Technology. You will then not be locked into proprietary software, meaning that switching software suppliers in the future will be much easier.

Repair or replace but don't renew for lettings

The rules have changed about what expenditure is deductible for calculating the profit on a property letting. The so-called 'renewals basis' has been abolished, affecting landlords of partly furnished residential property.

The problem essentially arises because items such as tables, beds, carpets, cookers and washing machines are classed as capital expenditure. A normal trading business can claim capital allowances, but these are not available if assets are used in a dwelling house, unless it qualifies as a furnished holiday letting.

However if you let out furnished property, you can claim a wear and tear allowance to cover the cost of providing furniture. The allowance is 10% of the rent received, although the rental figure is reduced for any costs that the landlord pays, which would normally be borne by the tenant. The 10% deduction covers those items that tenants would usually provide themselves if the property were unfurnished.

Until April 2013, you also had the alternative of using a renewals basis. For furnished property, this tended to be less popular than the wear and tear deduction because it was more complicated and only covered the replacement cost of furniture and appliances rather than their initial cost. However, it was the only option available if you let property with some furniture, but not enough for the property to qualify as furnished. Unfortunately, the renewals basis has been withdrawn from 6 April 2013.

Repair or replace?

So where does this leave you if you are renting out a partly furnished property? Basically, the only such expenditure that is now deductible is the cost of repairs or replacing furnishings that would normally be found in unfurnished lettings, such as bathroom or kitchen fittings.

When it comes to property repairs, there can be a fine line as to what actually qualifies. HMRC makes a distinction between repairing the property itself (which is deductible) and replacing a separate, distinct, asset (which is not deductible). An item will be classed as a separate and distinct asset if it stands apart from other assets or is freestanding or can be removed.

Where a landlord carries out a substantial amount of work, HMRC will also consider whether the character of the property has been altered. The cost of simply modernising a property should not present a problem, but this might not be the case where, for example, a property is renovated so that it is suitable for up-market long term letting rather than as student accommodation.

Taskforces are specialist HMRC teams that undertake intensive bursts of activity in specific high-risk trade sectors and locations. Over the next three years, HMRC is aiming to use taskforces to collect additional tax of some £90 million each year. The latest taskforces are targeting the holiday industry in Blackpool, the Lake District, North Wales, Devon and Cornwall. They will also tackle tax evasion by restaurants in Yorkshire and Humber, along with tax dodging by Midlands-based road hauliers and the Scottish fishing industry.

Be warned that you can expect to see about 30 new taskforces every year from now on.

TAX CALENDAR

Every month

- **1** Annual corporation tax due for companies with year ending nine months and a day previously, e.g. tax due 1 November 2013 for year ending 31 January 2013.
- **14** Quarterly instalment of corporation tax due for large companies (depending on accounting year end).
- **19** Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.
- **22** PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.
- **30/31** Submit CT600 for year ending 12 months previously. Last day to amend CT600 for year ending 24 months previously. File accounts with Companies House for private companies with year ending nine months previously and for public companies with year ending six months previously.

If the due date for payment falls on a weekend or bank holiday, payment must be made by the previous working day.

OCTOBER 2013

- **31** Deadline for 2012/13 self assessment return if filed on paper.

NOVEMBER 2013

- **2** Submit employer forms P46 (car) for quarter to 5 October 2013.

DECEMBER 2013

- **30** Last day to submit 2012/13 tax return online to have unpaid tax of under £3,000 collected through the 2014/15 PAYE code.

JANUARY 2014

- **14** Due date for CT61 return for quarter to 31 December 2013.
- **31** Submit 2012/13 self-assessment return online. Pay balance of 2012/13 income tax and CGT plus first payment on account for 2013/14.

FEBRUARY 2014

- **1** Initial £100 penalty imposed where the 2012/13 return has not been filed or has been filed on paper after 31 October 2013. Further £300 penalty or 5% of the tax due if higher where the 2011/12 return has not yet been filed.
- **2** Submit employer forms P46 (car) for quarter to 5 January 2014.
- **3** Third 5% penalty imposed on tax still unpaid for 2011/12.

MARCH 2014

- **2** Last day to pay 2012/13 tax to avoid automatic 5% penalty.
- **31** Last few days to use any CGT and IHT annual allowances and exemptions and to invest in an ISA in 2013/14.