2014-15

YEAR END TAX
REVIEW

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Look both ways!

The Government can be very two-faced over tax. It provides numerous tax reliefs to encourage people and businesses to invest in one direction rather than another, then when certain reliefs are used extensively the Government cries "tax avoidance!" This leaves taxpayers confused, and frightened of taking up new tax reliefs when they are offered.

For example this year the Government has introduced new reliefs for investing in social enterprises, and for passing control in a company to its employees. The limits on what can be saved in an ISA have been considerably expanded, and changes to the taxation of pensions from April 2015 will make that form of long-term saving one of the most tax-efficient places to leave your cash.

On the other hand if the taxman thinks you have abused tax reliefs, he has the power to demand payment of the avoided tax even before your disputed tax bill has been examined by a court.

In 2015 there will be a General Election and the first "tax sweetener" of changes to Stamp Duty Land Tax on house purchases has already been announced. We expect "clamp downs" to follow the election. To tread that increasingly fine line between tax saving and "aggressive tax avoidance" you need balanced and impartial advice.

This newsletter sets out a number of plans that HMRC should not object to – they involve straightforward use of reliefs in a way that the law intended. There are also warnings about the penalties and interest that are automatically imposed when tax returns or tax payments reach HMRC after the prescribed date.

We recommend you undertake an annual review of your financial affairs to check if you are paying more tax than you need to, and whether the structures you set up in the past are still appropriate. Under self-assessment, your personal return for 2013/14 must be submitted and the tax liability settled by 31 January 2015; between then and the end of the tax year (5 April 2015) is a good time to assess whether you are as well defended against the taxman as you can be.

Tax law changes all the time, so some of the points in this newsletter are a little different from last year, while others 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. •

NISA ways to save

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

Each UK resident adult can deposit up to £15,240 in a NISA from 6 April 2015 (limit was £15,000 from 1 July 2014). The investments in the NISA can be held in stocks and shares, or in cash, in any proportion you determine. Income and capital gains arising in any kind of ISA are tax-free.

A person aged 16 or 17 can open a cash ISA, investing up to £15,240 in 2015/16 (£15,000 for 2014/15). Beware of making significant contributions to your child's ISA if they are still under 18, because if you provided the funds and the interest exceeds £100 p.a., 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 (CTF) account. Anyone, even the parents, can deposit up to £4,080 into the child's junior ISA in 2015/16 (£4,000 for 2014/15) without tax charges. From 6 April 2015 it will be possible to transfer funds from a CTF to a Junior ISA.

You can switch your savings between different NISA providers, if you ask the manager to do this for you. ●

ACTION POINT!
Does your savings strategy match your goals?

Planning gains

Most people have an annual exemption for capital gains tax (CGT) of £11,000 (£11,100 for 2015/16). This is wasted if you don't make capital gains 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 £66,000. After your annual exemption is deducted you will pay CGT of £15,400 (28% x £55,000). If the assets you hold can be split into separate chunks, so that each sale produces a gain of less than £11,000, spreading the sales over six tax years means you will pay no CGT at all.

Portfolio managers often sell one holding of shares 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?

Tipping points

When your total income reaches certain thresholds it tips any extra income into a band where a higher rate of tax is charged. This can happen at some unexpected points due to the withdrawal of allowances or the claw-back of benefits.

If your total income in this tax year or the next year is expected to hover around one of those tipping points, you could save money by moving income or deductions from one year to the other.

For example, if you are a 20% taxpayer in 2014/15, but expect that a bonus in March 2015 will tip you into 40% tax for this year, you could ask your employer to postpone the bonus payment to after 5 April 2015. You'll pay the tax on that income later, and you may stay out of the 40% band as the 40% threshold will be higher for 2015/16.

The main thresholds are (2014/15 figure first, then 2015/16):

- Basic personal allowance: £10,000 rises to £10,600 – basic rate tax starts
- Higher rate threshold for income: £41,865 rises to £42,385– 20% rate rises to 40%
- Transfer of allowance between married couple / civil partners: where recipient has income less than £42,385 (not available in 2014/15)
- Child benefit clawback: income between £50,000 and £60,000, after pension contributions or charitable donations – (no change for 2015/16)
- Withdrawal of personal allowance: income between £100,000 and £120,000 (£121,200 in 2015/16), after pension contributions and charitable donations
- Additional rate: income above £150,000 – 40% rises to 45% (no change for 2015/16)

If your income falls in the band in which your personal allowance is withdrawn, your marginal income tax rate is effectively 60%, plus 2% national insurance. For child benefit clawback the marginal rate can be much higher, depending on the amount of benefit received. This makes the tax saving on shifting income or deductions even more valuable.

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

It's also possible to adjust the timing of deductions for Gift Aid charity donations or pension contributions from year to year, as these can increase the value of a threshold that tips you into the higher tax rate. ●

ACTION POINT!
Consider moving income or deductions around 5 April 2015.

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 2014 can reduce the 2013/14 tax liability which is due on 31 January 2015, if the 2013/14 tax return is submitted in January 2015.

If your top rate of tax in 2013/14 was 45%, and your highest rate in 2014/15 is 40%, you may want to carry back Gift Aid relief from gifts made in 2014/15 to 2013/14.

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 £50,000. This generates an income tax reduction of £20,000 (for a 40% taxpayer). If the shares would otherwise produce a taxable gain on disposal of say £16,000 (after your CGT annual exemption), you can also save CGT at 28%, that's £4,480. So the charity receives £50,000 for a cost to you of only £25,520. ●

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

Foreign escapes

When you move abroad you don't automatically 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.

You should test your UK tax residence status around the end of each tax year. Start with asking yourself whether any of the following apply for the year:

A 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.

B You were not resident in the UK for any of the previous 3 tax years, and in the UK for fewer than 46 days.

C You worked full-time abroad and were in the UK for fewer than 91 days, with no more than 30 days working in the UK.

A day usually counts as 'in the UK' if you were here at midnight. You'll need to know your tax residence position for earlier years before you can determine your status under test A or B, but be warned; the conditions that applied for periods before 6 April 2013 were different.

If you meet any of A to C above you are automatically not resident for tax purposes in the UK, and you don't have to check any further conditions.

If you can't meet any of the A to C circumstances, you need to check if you are automatically resident in the UK by meeting one or more of the following conditions:

- you are in the UK for 183 days or more;
- have a home in the UK in which you spend sufficient time; or
- you work full-time in the UK.

Where none of those conditions apply there are further tests concerning the number of ties you have to the UK. The rules are notoriously complex, but your residence status has a huge effect on the extent to which you are liable to taxes imposed by the UK.

We can guide you through these rules if you're planning to spend more time abroad. ●

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

Slowness fines

If you exceed the speed limit on the road in front of a speeding camera, you will get an automatic speeding fine. Likewise if you are slow in submitting your tax returns you will get an automatic late filing penalty.

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

From 6 March 2015 all employers will be subject to penalties ranging from £100 to £400 (depending on the size of the payroll) if they file their RTI reports late. These penalties apply for every month the RTI report is late, so will quickly mount up to a very significant sum.

Pay attention to any warning notices or letters you receive from the taxman about penalties due for late filing, as the mistake could be at HMRC's end of the computer system.

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 all your tax returns and RTI reports?

Restricted interest

When you borrow as an individual to invest in a business or let property, the interest you pay on the loan will be tax deductible, within limits. Interest paid on a loan used to acquire property to let can only be deducted from rental income arising from your property letting business.

For interest due on other business loans, there is cap on the total amount of interest plus losses that can be deducted from your other income. This is the greater of £50,000 and 25% of your income for that tax year.

If you don't get tax relief for the interest charged on a business-related loan in the year you pay it, you can't carry forward that charge to get relief in another tax year. So it's important to claim tax relief for interest paid, before other deductions for losses, which can be used in other tax years.

If your business-related loans are so high that you run into tax relief restrictions for the interest you pay, you may need to consider selling some assets to restructure your borrowings.●

ACTION POINT!
Review your borrowings to maximise tax relief on interest payable.

Timing is everything

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

For instance, advancing the acquisition of assets to just within your current accounting period will mean the capital allowances associated with those assets can be claimed earlier.

Disposing of high-value assets such as property may give rise to a capital gain. Delaying the disposal into your company's next accounting period will postpone the tax payable on that gain, by up to a year.

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 repairs, training costs, bonuses or pensions contributions.

An accrued salary payment, such as a bonus voted before the year-end, is deductible for the period if it is actually paid within nine months after that year-end. However, a pension contribution must be paid within a company's accounting period to be deductible for that period.●

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

Changing NIC

Good news for the self-employed! From 6 April 2015 class 2 National Insurance Contributions (NIC) will be collected as part of the self assessment of income tax and class 4 NICs due on profits from a self-employed trade or profession.

If you are already paying class 2 NIC for 2014/15, the last payment for the six months to April 2015 will be collected by direct debit by 31 July 2015. If you have just started a self-employment you don't have to set up a direct debt to pay the class 2 NIC due. You will be sent a bill for the class 2 NIC due for the period to April 2015, to be paid by 31 July 2015.

From April 2015 onwards the class 2 NIC due will be calculated by the HMRC computer when you submit your tax return for the tax year. You will pay the amount due for 2015/16 as part of the balancing payment for the tax year, payable by 31 January 2017.

If your profits are below the threshold from which class 2 NIC is payable, you will not be charged class 2 for the year, so you don't need to apply for a small earnings exemption certificate for 2015/16 or any later year.

If you have another job alongside your self-employment, on which you pay sufficient class 1 NIC, you won't have to pay class 2 or 4 NIC for 2015/16. This means you don't have to apply to defer payment of class 2 & 4 for 2015/16. ●

ACTION POINT!
Relax! HMRC will take the strain of working out what class 2 NIC is due.

Claim your expenses

If you need to use your own car for a business journey, perhaps to travel to a customer, 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 shortfall, 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 in which you made the business journey. Claims for 2010/11 must reach the tax office by 5 April 2015.

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 on 0300 200 3300.

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

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 or charities by providing income tax relief for investors in the following schemes:

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

These limits apply for the 2014/15 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. The SITR scheme came into effect on 6 April 2014 so investments under that scheme can't be carried back to 2013/14.

Reinvesting a gain into EIS shares or SITR shares or bonds can defer the capital gains tax on that gain. A gain reinvested in SEIS shares can halve the tax on that gain.

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 2014/15 into SEIS shares, that £100,000 will cost you just £36,000 after income tax relief of 50% and CGT relief of 14%.

You should take advice from a qualified financial adviser 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. ●

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

Pay on time

One of the aims of Real Time Information (RTI) was to encourage employers to pay over PAYE deducted from payrolls to HMRC on time each month – by 19th of the month for cheques, or by 22nd if paying electronically.

If you have paid your PAYE late for any periods since April 2014 you may have accrued late payment penalties you aren't yet aware of. HMRC has warned employers about paying late, by sending electronic notifications sent through its online PAYE system – but you need to first log on to the PAYE online system and download the messages in order to read them. If you have received such electronic notices – don't ignore them.

The business tax dashboard can show you whether your PAYE payment has been allocated to the correct period. This dashboard service is also accessed through HMRC's PAYE online service.

No penalty is imposed for the first time you pay PAYE late in the tax year, as long as that payment does reach HMRC within 6 months of the day it was supposed to. Subsequent late payments attract a penalty of 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. Say you pay PAYE late on 8 occasions in 2014/15, the penalty will be calculated as 3% of the amounts paid late.

As the penalty depends on the number of times you are late with PAYE payments during the tax year, the penalties for 2014/15 won't be issued until the first quarter of 2015/16. This could come as a nasty surprise.

Some employers have found that HMRC has reallocated their PAYE payments to the wrong period, or has recorded debts which are not due. If you are in dispute with HMRC about a PAYE debt, log the matter with HMRC's disputed charges team by calling the employer helpline on: 0300 200 3200, or we can do this for you. ●

ACTION POINT!
Are you aware of any warning messages about late paid PAYE?

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 families with an unequal distribution of income will often pay more tax than couples who earn enough each to cover their basic personal allowance (£10,000 for 2014/15) and basic rate band (£31,865 for 2014/15).

Consider the Browns, who are married with two children and claim child benefit. In 2013/14 George Brown earns £80,000 and Sally Brown has no income. After paying tax and NI of £26,636 the family has net income of £53,364. However, as George's income is over £60,000, the child benefit of £1,752 is clawed back as a tax charge, making their net income £51,612. As an alternative to the child benefit tax charge, Sally can ask HMRC not to pay her the child benefit, but to keep her claim 'live' so she receives NI credits that count towards the state pension.

In 2014/15 the Browns both work part-time, each earning £40,000, just below the higher rate threshold. After paying tax and NI of £9,845 each, the family takes home £60,310, but as neither parent has income above £50,000, they keep the child benefit of £1,770.

In 2015/16 Sally Brown takes maternity leave, so earns just £8,773. This is entirely covered by her personal allowance of £10,600. As the Browns are married, and George is a basic rate taxpayer, Sally can transfer £1,060 of her allowance to George, reducing his tax bill by £212. This would not be possible if George had increased his earnings, tipping him into the higher rate tax band for 2015/16.

These examples show that it makes sense to transfer some income from the higher earner to the lower earner in order to take advantage of the tax-free allowance 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. ●

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

Good company?

Operating your business through a company can cost less in tax. From 1 April 2015 all companies will pay tax at 20%.

This is a much lower rate than income tax at 40% and 45% that applies to individuals. In addition sole traders and partners pay national insurance contributions (NIC) 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 NIC when the company's profits are paid out to them. Just how much tax and NIC are due depends on how the profits are extracted. For example, dividends are not subject to NIC, but salary and bonuses are.

Individuals can reduce the NIC 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 £7,956 (2014/15) will carry NICs for the individual and the company, although the 'employment allowance' of up to £2,000 will reduce the company's liability to NIC (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?

Planning to sell

There comes a time for every business owner when retirement becomes more attractive than carrying on. If you are reaching that point, you need to start planning for selling or passing on your business.

A sale of a successful trading company will generate a capital gain, which would normally be taxed at 28% after deduction of the annual exemption of £11,000. Entrepreneurs' relief can reduce this tax rate to 10%, but all of the following conditions must be met for at least 12 months ending with the date of the sale:

- you held at least 5% of the shares and voting rights of the company; and
- you were an employee, director or company secretary of that company or of another company in the same group.

If you step back gradually from the company, retiring from your role as director before you sell your shares, you may miss out on valuable tax relief.

If you would like to pass on your company to your employees, you can use a trust to hold the shares for the benefit of those employees. By transferring shares to the trust, that collectively provide control over the company, you will escape any capital gains tax on your disposal. However, the transfer of shares to the trust must be completed within one tax year, so it would be best to start this process at the beginning of the next tax year. ●

ACTION POINT!
Allow at least 12 months to prepare to sell your company.

Letting a room

Many people earn a little extra money by letting a room in their own home to a lodger or guest for short or long periods. There are also websites that allow home-owners to let rooms by the day or week to tourists.

If you earn money this way you should declare any profit you make on your annual tax return. However, you can take advantage of rent-a-room relief to exempt from tax the first £4,250 you receive as rent in each tax year. Where more than one person receives the rent, each person has a tax free exemption for rent of £2,125.

The rent must be for a room in the home you also occupy, and it must be let as residential accommodation, not as an office or for storage. ●

ACTION POINT!
Can you claim rent-a-room relief?

Payroll changes

As if RTI isn't enough to cope with, you need to be aware of changes to payroll taxes and employee benefits arriving in 2015/16.

From 6 April 2015 there will be no employer's NIC on the earnings of employees aged under 21, up to the upper earnings limit (£815 per week).You will need to keep a sharp eye on the birthdays of your younger employees as the zero rate of employer's NIC will only apply if the employee is under 21 at the time he or she is paid.

The pay threshold from which student loan repayments must be collected through the payroll will increase to £17,335 from £16,910 on 6 April 2015. Plan your starting rate for ex-students accordingly.

Parents of children born or adopted on or after 5 April 2015 will be able to share their maternity or paternity pay and leave between them. You may need to adapt your payroll system to cope with this, as the first periods of leave could be shared as early as February 2015.

A new "taxfree" childcare scheme will start in autumn 2015. It will take the form of a savings scheme which parents pay into and to which the Government contributes a further 20%. Only parents paying tax at less than 45% will qualify for the scheme. Your employees will need to choose between taking employer provided childcare vouchers and this new childcare scheme. We can help explain the differences. ●

ACTION POINT!
Are you up to speed with payroll changes looming just round the corner?

Mansion taxes

Some politicians want to impose an annual "mansion tax" on high-value homes, but this tax already exists. It's called the annual tax on enveloped dwellings (ATED).

The ATED is currently restricted to residential properties worth over £2 million, but that threshold will reduce to £1 million on 1 April 2015, and reduce again to £500,000 from 1 April 2016.

The owner only has to pay the ATED if the property is held through a corporate structure, and it doesn't qualify for one of the reliefs, such as those for commercial letting, or using it to house workers.

The relief from ATED must be claimed each year for each property by completing at ATED return by 30 April within the year. The tax must also be paid upfront on the same day, and reclaimed if a relief starts to apply to the property later in the year.

For 2015/16 the ATED charges will range from £7000 to £143,750 per property per year. Penalties apply if the ATED is paid late or the ATED return is filed late. ●

ACTION POINT!
Check whether your residential properties could be subject to the ATED.

Reduce the pain

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 and class 4 NIC on your self-employed profits for 2014/15 is paid in two payments on account (POA) on 31 January 2015 and 31 July 2015. These amounts are based on the tax liability reported in your 2013/14 self-assessment tax return.

If your final tax liability for 2013/14 is more than the total of POA paid in January and July 2014, you pay the rest on 31 January 2015, plus any capital gains tax you owe for the year. So the amount due on 31 January 2015 is half your normal tax bill as a POA for 2014/15, plus your CGT, plus any balance due for 2013/14 – ouch!

If your tax liability for 2014/15 drops compared to 2013/14, you'll get some of your POA for 2014/15 back when you send in your 2014/15 return (due by 31 January 2016) – but you'll be out of pocket in the meantime.

Instead you can claim to reduce the POA for 2014/15 where you think your tax bill for that year will be less than for the previous year, before you send in your tax return. You don't need a precise calculation, but you can usually tell when POA will be too large.

Say your business has had a bad year in 2014/15, 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 2014/15 will be lower than for 2013/14. It's worth reducing your POA so the money is in your bank account rather than theirs. ●

ACTION POINT!
Do you need to discuss reducing your payments on account for 2014/15

Your clear intention

When you die 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 – if your executors are entitled to the money on your death, there may be unnecessary IHT to pay.
- leave a letter of wishes for your pension fund managers, so they know who to pay any undrawn funds to – after 5 April 2015 those funds should pass free of tax if you die aged under 75.
- 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.

If you leave broadly 10% or more of your chargeable estate to charities, the IHT rate applied to the balance of your estate will be 36%, not 40%. However, your Will needs to be clearly worded to ensure the amount of the charitable gift is not challenged after your death. Wealthy charities will take your executors to court if they think the charitable gift has been mis-calculated. ●

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

Selling digital abroad?

Do you sell digital services online as an automatic process directly to people in other EU countries? 'Services' are things you can't physically hold. So downloads of software, music, e-books, pictures or games fall into this category.

However, the 'automatic' criteria is key. If your service needs any human intervention at your end, such as manually emailing the product to the customer, it is not caught by the VAT rules described below. Also if you sell your digital services to an agent who sells them on to the final customer, the agent should sort out any international VAT due.

If your services are caught, from 1 January 2015 you will have to charge VAT on the digital services you sell to non-business customers, at the VAT rate that applies in the country where your customer belongs. You will have to pay over that VAT to the tax authority of that country. You can register for VAT in every EU country you sell to (up to 27 countries), or alternatively use the online portal (MOSS) to do all the VAT accounting and payments in one go.

In order to register to use MOSS in the UK you must first register for UK VAT. However, if your business turnover is currently under the VAT registration threshold (£81,000), you can register for VAT and MOSS in one go. As a special concession you will not have to charge UK VAT on your UK sales, but you will have to submit a nil VAT return to HMRC and a MOSS-VAT return for each calendar quarter. We can help you with those returns.

You will need to know the VAT rates that apply to your digital services in all the countries you sell to and issue VAT invoices to your overseas customers that comply with the local regulations – which are NOT the same across all the EU countries.

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

ACTION POINT!
Talk to us about the digital services you sell to consumers elsewhere in the EU.

Electric Avenue

Is your company vehicle electric?

Cars which emit no CO2, such as electric vehicles, have been tax-free for several years, but from 6 April 2015 they will be taxed on 5% of the list price. This taxable benefit will rise to 7% of the list price in April 2016 and to 9% of list price from 6 April 2017. Remember this is the list price when the car was new, which you will have to research to report to HMRC if the vehicle was acquired some years ago.

Electrically powered vans are also tax-free. But from 6 April 2015 the private use of an electric commercial vehicle will be a taxable benefit, calculated as 20% of the benefit charged for other vans, i.e. £630 for 2015/16. This taxable benefit will increase by 20 points each year, so by April 2020 electric vans will be taxed on the same basis as other vans.

The private use of a regular company vans will rise to £3,150 from 6 April 2015. The benefit of having fuel for private journeys in the van also rises from £581 in 2014/15 to £594.

There is currently no taxable benefit when you charge an electric vehicle at the business premises and the company pays for the electricity. But equally there is no standard rate to reimburse employees when they use their own domestic electricity supply to charge an electric company car.

If you use your own electric car for business journeys your employer can reimburse you at the tax-free mileage rate that applies for all cars: 45p for the first 10,000 miles and 25p for additional miles in the tax year. On those rates you will definitely be quids-in running an electric car, although capital cost of buying an electric car will generally be higher than for a conventional vehicle.

If you are already electric, or are thinking of buying an electric vehicle, ask us to check the sums. ●

ACTION POINT!
Budget for the tax due on electric vehicles.

Auto pensions

Over the next three years all employers, including 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 starting 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 (£10,000 for 2014/15)
- 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 ensure you have time to implement the changes.

Earlier years

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

Claims and elections you may need to make by 31 January 2015 for the 2012/13 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 2011/12;
- averaging of profits for farmers or authors; and
- trading losses to be set against your other income.

Some tax reliefs, e.g. for investments under EIS or SEIS, have longer claim 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?

Should VAT be flat?

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

The amount of VAT you have to pay over to HMRC ranges from 4% to 14.5% of your gross turnover, depending on the business sector you operate in. This is the "flat rate". You choose which trade sector classification best fits your business when you apply for the scheme, then operate the flat rate attached to that sector.

If you have two different activities which fall into different trade sectors (such as catering and retailing), you must use the flat rate that applies to the activities which form the larger part of your turnover. That can make the flat rate very generous or very stingy for the smaller part of your business, and change the decision overall. For example, if you have a buy-to-let property, that counts as a business for VAT purposes. Even though you don't charge VAT to residential tenants, if you are registered for the FRS you may have to pay VAT to HMRC on your rental income.

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 time and money under the VAT flat rate scheme?

A good start for VAT

When your business is growing, it's very important to get your VAT registration right. For UK sales you don't have to register for VAT until your VATable sales (including zero-rated items) over 12 consecutive months reaches £81,000. If you register earlier than required, you must account for VAT on sales that could have been VAT-free. If you register later than the law demands, you can suffer a penalty.

Unregistered traders are supposed to check the £81,000 turnover threshold at the end of every month, and must act within 30 days if their turnover exceeds that threshold. If you tally-up your sales just once a year for income tax purposes, you could easily miss this 30-day deadline. If your sales suddenly take off, don't let the success distract you from the possibility that you might need to register for VAT within 30 days.

Some people try to keep their turnover below the £81,000 level by splitting their business between different operators, such as separate companies or partnerships. Others fail to realise that expenses recharged to a customer are part of business turnover and count towards the limit. It's important to take advice in order to be sure about what HMRC accept and what they don't.

You might want to register for VAT before you have to, so that you can claim back VAT on start-up expenses. You can lose out on reclaiming VAT if you delay your VAT registration too long after you incurred those expenses. You also can't change the VAT registration date you request once you've applied to register. It's very important to plan ahead for your VAT registration, to ensure your registration date falls at the optimum time. ●

ACTION POINT!
Check your total sales on a 12-month rolling basis

Northern exposure

Taxes in Scotland are about to change. On 1 April 2015 Stamp Duty Land Tax (SDLT), which the purchaser pays on the price of land or buildings, will be replaced by Land and Buildings Transaction Tax (LBTT), for property located in Scotland.

Under LBTT, each slice of the consideration for the property will be subject to the tax rate for the band it covers, like the new system for SDLT on residential properties which was introduced on 4 December 2014.

The rates and thresholds proposed for LBTT for purchases in Scotland will be different to the SDLT rates , leading to higher taxes for some buyers. For example the LBTT on a house costing £300,000 purchased in Scotland in April 2015, will amount to £7,300. The SDLT for the same property purchased on the same date in England would be £5,000.

There is currently no penal rate of LBTT for corporate purchasers of residential properties in Scotland, to mirror the 15% rate of SDLT that applies for corporate purchases of residential properties over £500,000.

Purchasers of freehold commercial properties costing over £150,000 may pay more under LBTT than under SDLT. The rates for commercial leases are the same as for SDLT, but the LBTT will apply to licences as well as leases. This could impose the tax on short-term licences for shops within shops, or retail outlets in places like airports. ●

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