Tranter Lowe

Chartered Accountants

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Think carefully how income-producing assets are held!

Everyone is entitled to a tax free personal allowance. Those born before 6 April 1948 receive a higher personal allowance of £10,500 and those born before 6 April 1938 are entitled to an even greater allowance of £10,660. However, this higher level of entitlement is being gradually phased out in the much publicised 'Granny Tax'.

This higher allowance has always been subject to reduction depending on income level and for 2013/14 the income reduction point is £26,100. The allowance is lost at a rate of £1 for every £2 above the income threshold. This means that the allowance is lost totally if the incomes are above £28,220 for those born between April 1938 and April 1948 and £28,540 for those born before April 1938.

For married and civil partner couples who wish to maximise the effectiveness of their allowances, look to ensure income-producing assets are held in the most tax efficient way by transferring assets between the spouses/civil partners, specifically if only one spouse is entitled to the allowance and the other partner is a higher rate tax payer. **The tax saving could be as much as £2,132 (£10,660 at 20%)!**

Think carefully before assets are sold!

In the same ways as assets can be transferred between spouses and civil partners to best utilise the Income Tax Allowances available to the couple, the Capital Gains Tax annual exemption should also be utilised if possible, to maximum the tax saving.

By transferring assets into joint names before sale it is possible to utilise both Capital Gains Tax exemptions – in this current tax year, that amounts to £10,900 each - and could make **a massive tax saving of £3,052** if the disposing spouse or civil partner is a higher rate tax payer!

And because of the tax treatment of the way assets are transferred between spouses and civil partners there is no loss of benefit of the base cost or the length of holding the assets. The transfer is called a "no gain no loss" transfer.

Please take legal advice before transferring properties as there may be stamp duty and legal fees to take into consideration and these may outweigh the tax savings.

Claim back tax on bank and building society interest

Tax is deducted from most bank and building society interest before it is paid over. This is a problem if you are not a tax payer.

If you or a relative hold a bank or building society account and are not a tax payer then we will happily check this, organise the interest to be paid gross and reclaim the tax overpaid for up to 4 years. If the account is in the name of a minor it will be necessary to establish the origin of the capital invested, because if the capital was derived from a parent and any interest comes to over £100, the interest is deemed to be the parent's income and, as such, is taxable on that parent.

Please get in touch with your client manager if you wish to discuss this further.

Small salaries for company directors?

The payment of a State Pension is often far in the future for some clients. The press often question whether the State Pension will even be around in 5 or 10 years' time. But, other benefits, like Maternity Benefit and Incapacity Benefit, are payable provided your contributions to the National Insurance scheme are up to date.

During 2013/14 there are two limits for National Insurance Contribution (NIC) for employed individuals (Class 1 contributions): the lower earnings limit (£109 per week) and the primary threshold (£149 per week). If a salary in the range of £109 - £148 is taken then NIC is deemed to have been paid but at zero per cent making a salary of £5,688 - £7,696 attract no liability to either employees NIC (roughly 12% of the salary) or employers NIC (13.8% of the salary). This can make a substantial difference to the individual's net pay and the company's PAYE liability whilst continuing to ensure that the individuals NIC contributions are up to date.

If the director is also a shareholder then additional distributions can be made in line with the shareholdings provided the company has sufficient retained profit after Corporation Tax has been paid. If these distributions to the shareholders are less than the basic rate band threshold, for Income Tax purposes, then no further tax is payable.

Care should be taken when drawing dividends from a company, so please discuss this with us before adopting this method. Dividends must be correctly voted and declared in line with the Companies Act 2006 and your client manager will be able to discuss the systems to be implemented to ensure this runs smoothly for the company.

Salary Sacrifice

Many large employers have for some time allowed their employees access to a range of non-cash benefits in exchange for a reduction to their cash remuneration. In the past, these employee rewards have not been available to small employers as the costs of administering the scheme has outweighed the benefits. However, as more suppliers come to the market it is now possible for a progressive employer to reward key employees and save tax and National Insurance Contributions (NIC).

The employers can choose what rewards to offer and, provided they are within the range of products approved by HM Revenue and Customs (HMRC), the scheme is exempt from tax and NIC.

The products which are most attractive to employers and employees alike are mobile phones, laptops (including iPad's), bikes, childcare vouchers and cars (although there may be a taxable benefit in kind for the employee on the provision of a car, depending on the circumstances).

An example of how it would save tax and NIC

Liz would like a new bike for her son Morgan. The bike costs £800 and Liz agrees with her employer to reduce her annual salary by £800. The employer varies Liz's contract of employment and enters into a contract with the bike provider. The bike arrives and Morgan is delighted.

Liz is a key employee and pays tax at higher rates. She is motivated by her forward thinking employers reward scheme but she also save tax and NIC. She saves £320 (£800 x 40%) and NIC of £16 (£800 x 2%). This is a total saving of £336 for swapping £800 salary for a new bike – making the bike actually cost only £464 (£800-£336).

The employer saves £110.40

These saving may not look like very much in isolation; however, if several employees take several tax free benefits the employers' NIC savings add up and it would only take two or three of these savings to cover the cost of the administration of the scheme.

The scheme is very popular for the provision of child care vouchers but the savings are substantially larger when the benefit is a car. The tax and NIC savings on the provision of a car must be weighed against the benefit in kind charge.

If you would like to know more about how salary sacrifice can help you retain and motivate your key employees then please talk to a member of the team.

Claim your correct expenses

Expense return forms will have been submitted recently by employers and it always pays to check that the correct expenses have been claimed.

Certain industries have flat rate expenses agreed directly with HM Revenue and Customs (HMRC) and these are claimed on your annual tax return. We check these to make certain the correct amount is claimed but please talk to your client manager if you would like to know more about what is claimed on your Tax Return.

You can claim for professional fees and subscriptions which you need, or are useful to belong to, as part of your profession.

Certain industries have to have their uniforms professionally cleaned – nurses' uniforms, for example. Whilst it is unusual for these not to be cleaned on site, if you must pay for the cost of repairing, cleaning or replacing this type of specialist clothing yourself, and your employer doesn't reimburse you, then you are entitled to tax relief. You cannot claim, however, for the initial cost of buying this clothing.

As a general rule an employee will not get tax relief for the cost of clothing they wear to work - but there are some exceptions.

For example, if you work in a sector like the building trade or the metal working industry you'll have to wear protective clothing like:

- overalls
- gloves
- boots
- helmets

protective clothing builder construction metal work

Provided you retain the receipts for your purchases, the cost of replacement protective clothing is an allowable expense.

You are also entitled to tax relief if you have to buy - out of your own money - the tools you require to perform your work. For example, if you are a hairdresser your employer might require you to provide your own scissors. The tax relief also applies to the cost of maintaining and replacing the tools.

You are only entitled to claim tax relief for business mileage in your own vehicle if your employer pays you:

- no mileage allowance; or
- less than the approved amount

drive car mileage

If your employer pays you more than the approved amount, you'll have to pay tax on the extra. You should keep a record of the business mileage traveled each week and forward it to your account manager at the time we prepare your annual tax return. We can then calculate the tax relief due or the excess paid when we look at the expenses paid to you by your employer.

Should you incorporate?

When business profits are low, for whatever reason, families may be entitled to claim Universal Credit (UC). If it is possible that this may be the case then the structure for your business becomes very important.

As a sole trader you may, if you choose, account for your profits on a different basis, both equally acceptable to HM Revenue and Customs (HMRC). This simpler basis is acceptable if your turnover is up to the VAT threshold of £79,000 for 2013/14 but if you are claiming UC you can continue to use this basis up to a turnover of £158,000. Unfortunately for UC claimants this simpler method of accounting is still not the "cash in cash out" method which will be required on a monthly basis for your UC claim.

So it will be vital to speak to your client manager if you believe the turnover of your business may fall at any time so that your year-end accounts can be correctly dealt with.

UC automatically assumes a level of self-employed income which is equal to 35 hours per week at the National Minimum Wage. Of course this is often not going to be the correct figure, especially when a person is first self-employed or at times when cash flow is not going well. That, coupled with a requirement to report to the Department for Works and Pensions (DWP) on a monthly basis, may make the claim very difficult to manage alongside running a business.

If your business was incorporated then you would take a monthly salary upon which the UC claim would be based. This is easier to manage and there would be a level of certainty about the UC payment to be received.

VAT flat rate scheme

If your VAT taxable turnover is less than £150,000, you could simplify your VAT accounting by calculating your VAT payments as a percentage of your total VAT-inclusive turnover.

Although you cannot reclaim VAT on purchases - it is taken into account in calculating the flat rate percentage - the Flat Rate Scheme can reduce the time that you need to spend on accounting for and working out your VAT. Even though you still need to show a VAT amount on each sales invoice, you don't need to record how much VAT you charge on every sale in your accounts. Nor do you need to record the VAT you pay on every purchase.

If you are newly VAT registered you can reduce your flat rate by 1 per cent until the day before the first anniversary of your VAT registration. The rate varies widely from 4% to 14.5% depending on the nature of the business. If you wish to discuss the pros, cons and potential tax saving please speak to a member of the team.

Gifts out of Normal Income

When a gift is made, the person giving (the donor) has to survive 7 years from the date of the gift to prevent some, or all, of the gift being brought back into the estate for Inheritance Tax (IHT) purposes. There is, however, an allowance for gifts made as part of your normal expenditure from your income.

Any regular gifts you make out of your after-tax income, not including your capital, are exempt from Inheritance Tax. These gifts will only qualify if you have enough income left after making them to maintain your normal lifestyle.

These include:

- monthly or other regular payments to someone;
- regular gifts for Christmas and birthdays, or wedding/civil partnership anniversaries; and/or
- regular premiums on a life insurance policy - for you or someone else

You can also make exempt maintenance payments to:

- your husband, wife or civil partner;
- your ex-spouse or former civil partner;
- relatives who are dependent on you because of old age or infirmity; and/or
- your children, including adopted children and step-children, who are under 18 or in full-time education

If you make gifts out of income as part of your normal expenditure, you should keep a record of your after-tax income. This will show that the gifts are regular and that you have enough income to cover them and your usual day-to-day expenditure without having to draw on your capital. If the gifts are in cash it is important that regularity is established; an easier way of doing this is to pay a bill or a series of bills for the person to whom the gift is to be made (the donee).

Because an intention to make regular gifts out of normal income can be established by written evidence, and supported by other records, such as receipts and bank statements, then even if a donor does not survive for 7 years the executors of the estate will be able to claim for the payments to be removed from the estate, thus generating substantial IHT savings.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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