TAX E-NEWS

Monthly Update

John Harrison and Company

FEBRUARY 2014

Dear Client,

Happy New Year and welcome to our first monthly tax newsletter of 2014. These newsletters are designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

John Harrison

RTI – PAYROLL PROCESSING FOR SMALLER EMPLOYERS

Real Time Information or RTI was introduced from 6 April 2013 which requires employers to submit payroll data to HMRC on or before wages and salaries are paid to employees.

However during the 2013/14 tax year this general rule is relaxed for employers with fewer than 50 employees who may submit their payroll data by 5th of the following month. It has recently been announced that this concession will be extended to 5 April 2016 **for employers with 9 or fewer employees**.

This relaxation is very useful as it should be remembered that penalties will start being imposed for late submissions from 6 April 2014. Please contact us if you need advice on operating RTI or would like us to deal with the administration of payroll on behalf of your business.

THEN GET READY FOR PENSION AUTO-ENROLMENT

The next big challenge for payroll departments within Small and Medium sized enterprises will be the phasing in of Auto-Enrolment which will require all employers to provide a pension scheme for their employees. Between 1 October 2012 and 1 February 2014 this has been a requirement for larger firms.

These larger firms are those with 250 or more employees. The next stage will be to roll out Auto-enrolment to employers with between 50 and 249 employees between 1 April 2014 and 1 April 2015. The precise “staging date” will be assigned by the Pensions Regulator on behalf of the Department of Work and Pensions(DWP). Employers with between 30 and 49 employees will be affected between 1 August 2015 and 1 October 2015 and finally existing business with fewer than 30 employees will be required to Auto-enrol their employees in a pension scheme between 1 January 2016 and 1 April 2017.

One way to delay the staging date for employers with fewer than 50 employees on 1 April 2012, but that were on that date part of a larger PAYE scheme shared by other employers would be to opt to move their staging date back to the date that would apply had they not been incorporated into the larger scheme.

So the start date for your business may still be some time away but changes may be required to your payroll system if you are to make deductions from employees’ pay for their pension contributions.

Feel free to contact us to discuss the full implications of Auto-Enrolment on your business.

NEW HMRC TAX RESIDENCE INDICATOR TOOL

From 6 April 2013 new Statutory tests were introduced to determine whether individuals are resident in the UK or not, generally making the rules much clearer than previously. There will still be situations where someone’s tax residence isn’t clear cut where they spend substantial time overseas and also make visits to the UK.

HMRC have released an updated version of the Tax Residence Indicator tool, which helps individuals check whether they are likely to be treated as resident in the UK for income tax and capital gains tax purposes from 2013/14 onwards. This is available on the HMRC website, however we would recommend that you contact us if you have any doubts about your tax residence.

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TAX RELIEF FOR RENEWING "WHITE GOODS" IN LET PROPERTIES

Controversially and without any prior warning HMRC removed the concession that allowed a tax deduction for the replacement of free standing equipment that does not qualify for capital allowances in unfurnished buy to let properties with effect from 6 April 2013.

Previously there was no tax deduction when the asset was originally acquired but a deduction was allowed when the asset was replaced.

The accountancy bodies are lobbying for the reinstatement of this tax relief, but in the meantime landlords should consider letting their properties on a furnished basis in future. Under the rules for furnished lettings the landlord can claim a "wear and tear" allowance of 10% of gross rents as a notional deduction towards the depreciation of furnishings. There is no statutory definition of furnished, however HMRC guidance states: *"A furnished property is one that is capable of normal occupation without the tenant having to provide their own beds, chairs, tables, sofas and other furnishings, cooker etc"*

An alternative approach, although more expensive, would be to install built in appliances as these would be fixtures and thus be part of the entirety of the property. Thus when replaced, like a bathroom, tax relief would be available as repairs.

WITHDRAWING FUNDS FROM INSURANCE BONDS

Single Premium Insurance Bonds can be a very tax efficient investment product as the tax rules allow up to 5% of the capital value to be withdrawn tax free each year. If no withdrawals are made that year the 5% tax free amounts accumulate so that after say 6 years 30% could be withdrawn from the Bond tax free.

Those seeking to make withdrawals should take professional advice before doing so. The tax consequences of exceeding this 5% limit are that the excess amount is taxable as income.

In a recent case before the Tax Tribunal a Mr Lobler failed to take proper advice and was faced with a massive income tax bill. He invested £1.1million in a series of life assurance bonds with Zurich Life. The insurance bonds fell in value and he decided to withdraw all of his money over a two year period. Rather than fully encashing the bonds he had made partial surrenders resulting in taxable income of approximately £1 million and a tax bill of £400,000!

LET PROPERTY CAMPAIGN

HMRC is targeting tax evasion by residential landlords. They'll use information they have about property rental in the UK and abroad and other information they hold on customers to identify people who might not have paid what they owe. Landlords who have not reported rental profits from properties in the UK and abroad have an opportunity to make a disclosure of the unreported income and pay the outstanding tax.

TAX DIARY OF MAIN EVENTS

Date	*What's Due*
1 February	Corporation tax for year to 30/4/13
19 February	PAYE & NIC deductions, and CIS return and tax, for month to 5/2/14 (due 22 February if you pay electronically)
28 February	Surcharge of 5% on 2012/13 self assessment tax still unpaid.
1 March	Corporation tax for year to 31/5/13
19 March	PAYE & NIC deductions, and CIS return and tax, for month to 5/3/14 (due 22 March if you pay electronically)

Please contact a member of our Tax Team if you would like to discuss any of the issues raised.

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