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Client Newsletter

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Financial planning throughout your lifetime

Proper planning plays an essential role in helping you to achieve your lifetime goals, and in today's challenging economic climate this is more the case than ever. Here we outline some of the key areas to consider as part of your personal financial planning strategy.

Minimising the tax take

Whatever your long-term goals, your key personal planning objectives should include making the most of tax-free opportunities, keeping marginal tax rates as low as possible across the family and maintaining a spread between income and capital. We can help to minimise the impact of regular and more periodic taxes.

Planning Tip: Every member of your family is taxed as an individual, and entitled to their own allowances and exemptions. With careful planning, a couple and their two children could have tax-free income and gains of up to £81,360 in 2013/14.

A family affair

Employing family members in your business can prove a tax-efficient option, as long as the package is commercially justifiable. In addition to a salary, tax-efficient remuneration packages may include benefits such as a company car or medical insurance, and payments into a pension scheme.

Planning Tip: Taking family members into partnership can allow more flexibility in profit allocation, and can prove a tax-efficient way of passing on the family business in the long term.

Investing in the future

A number of investment products produce tax-free income, including some National Savings products and Individual Savings Accounts (ISAs). All investments held in ISAs are free of capital gains tax (CGT). Other alternative tax-efficient investment options may include the Enterprise Investment Scheme, Venture Capital Trusts and property.

Planning Tip: Up to £11,520 can be invested in an ISA during 2013/14, including up to £5,760 in cash and deposits. Younger investors can invest up to a maximum of £3,720 in a Junior ISA.

Tomorrow never comes?

Statistics show that many individuals are heading towards retirement without sufficient pension savings to support even a minimum standard of living. It may seem a long way off but it is vital to plan now to ensure that you can achieve a comfortable retirement.

Planning Tip: Personal and stakeholder pensions provide tax relief on contributions, being payable net of basic rate tax relief at source. Stakeholder premiums can be paid on behalf of another person, for example by a grandparent on behalf of an infant grandchild.

Your estate – your legacy

Careful planning and a well-drafted Will can ensure that the wealth you have built up during your lifetime will be distributed tax-efficiently and according to your wishes. If your estate is worth more than £325,000 it could be liable to inheritance tax, so it is important to make use of the available exemptions. You may also want to consider making gifts from your taxable estate into trust, or maximising the tax relief on charitable donations.

Planning Tip: A structured programme of lifetime giving can significantly reduce the tax due on death, while allowing you to witness the benefits during your lifetime.

Please contact us to arrange a financial planning review.

Summer 2013

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2013 Budget overview

George Osborne's 2013 Budget contained a number of important measures affecting both businesses and individuals. Here we look at some of the highlights from the Chancellor's latest Statement.

Business measures

Corporation tax

The Budget confirmed plans to reduce the main rate of corporation tax to 21% for the financial year commencing 1 April 2014. In addition, the Chancellor revealed that from 1 April 2015 the main rate will be further reduced and amalgamated with the small profits rate, giving a new unified rate of 20%.

Employment Allowance

With effect from April 2014 every business and charity will be entitled to a £2,000 Employment Allowance. Employers will need to confirm their eligibility through their regular payroll process. This will ensure that up to £2,000 will be deducted from their employers' national insurance contributions liability over the course of the year's PAYE payments.

Seed Enterprise Investment Scheme (SEIS)

The Budget also announced an extension of the CGT exemption available under the SEIS. Any investors making capital gains in 2013/14 will receive a 50% CGT relief when they re-invest those gains into SEIS qualifying companies in either 2013/14 or 2014/15 (subject to an investment limit of £100,000).

There will also be a change to the legislation so that some eligible companies will not inadvertently be disqualified from taking advantage of the SEIS regime, by virtue of having been established by a corporate formation agent. This has effect in relation to shares issued on or after 6 April 2013.

Personal measures

Personal allowances for 2014/15

The 2013 Budget confirmed widespread speculation regarding an additional increase in the income tax personal allowance. For 2014/15, the personal allowance for those born after 5 April 1948 will rise to reach the Coalition's target of £10,000, a year earlier than originally planned, and the basic rate limit will be reduced to £31,865.

New tax-free childcare scheme

The Chancellor also confirmed the introduction of a new childcare scheme to support working families with their childcare costs. For childcare costs of up to £6,000 per year per child, support of 20% will be available worth up to £1,200 per child. From the first year of operation, all children under five will be eligible and the scheme will build up over time to include children under 12.

The scheme will provide support for families where all parents are in work and not receiving support through the Childcare Element of Working Tax Credits and where each is earning less than £150,000 a year. The new scheme will be phased in from Autumn 2015 as the current system of Employer Supported Childcare is phased out.

Help to Buy scheme

One of the headline measures in the 2013 Budget was the 'Help to Buy' scheme, which will see equity loans of up to 20% offered to buyers of newly built homes worth up to £600,000. This expanded version of the First Buy scheme became available on 1 April and will provide £3.5bn of additional investment over three years.

A new mortgage guarantee will also be available under the scheme, and will support £130bn of mortgages for both new and existing homes, starting from January 2014.

To discuss how the Budget measures may affect your business and personal financial planning, please contact us.

Reducing payments on account

Under self assessment, a taxpayer may need to make payments on account of the current year's tax liability. With the second payment on account for 2012/13 due by 31 July 2013, you may be able to reduce your payments and benefit from a cash flow advantage.

Payments on account: the basics

Payments on account are generally based on the previous year's tax bill and, where relevant, Class 4 national insurance contributions (NICs). You are not required to make payments on account if your total net tax bill for the previous year was less than £1,000 or if more than 80% of the previous year's tax was deducted at source, even if the tax due exceeded £1,000.

Standard payments are set at 50% of the previous year's tax and Class 4 NICs liability and are payable in two equal instalments – on 31 January in the tax year and 31 July after the end of the tax year. CGT and student loan repayments are excluded from the computation and are payable as part of the balancing payment on 31 January following the tax year.

A planning opportunity?

The payment on account calculation assumes that the current year's liability will be the same as the previous year. However, where you suspect that the tax liability for the current year will be lower than the previous year, for example because your income has fallen due to a slump in business, you can apply to have your payments on account reduced.

Case study

Ben is a self-employed plumber. He has a tax and Class 4 NIC liability of £1,800 for 2012/13. Based on his 2012/13 liability, he is due to make his 2013/14 payments on account of £900 on both 31 January 2013 and 31 July 2013.

However, Ben reduced his workload in June 2012. He estimates that his tax and Class 4 NIC liability for 2012/13 is £1,200 and makes an application to reduce his payments on account accordingly. He is therefore required to make payments on account of £600 on both 31 January 2013 and 31 July 2013.

To claim a reduction we will need details of income, expenses and deductions for 2012/13 – in essence your 2013 Tax Return and accounting information – together with estimates of any figures that are not yet available. We can then prepare draft figures and make the claim, which will be backdated to cover the 31 January payment on account.

A claim to reduce payments on account can be made at any time. If the claim is submitted after a payment on account has been made, the excess will be refunded. Note that interest will be charged, and penalties are also possible, if your actual liability is more than the reduced amount paid on account.

Avoiding additional penalties

If your 2012 Tax Return has not yet been filed, 31 July also marks the deadline for an additional late filing penalty of the higher of £300 or 5% of the tax due (in addition to a series of penalties already imposed for not filing your Return on time). Late filing also often results in late payment, with consequent interest and penalties applying.

With this key date in mind, please ensure that you provide us with all outstanding information, and we will provide tailored advice to suit your individual circumstances.

Going, going, gone…
the tax implications of selling a business

Selling a business is a complex procedure, and there are various tax implications to consider, some of which we explore below. For advice that is tailored to your specific circumstances, please contact us.

Planning ahead

Forward planning will ensure a tax-efficient sale, which utilises all of the available reliefs. With careful forethought, and by consulting us, you can help to maximise the sale value and avoid an unnecessary tax bill.

Utilising losses

It is generally beneficial to utilise losses prior to the sale of the business, as it can be difficult to transfer losses to a new owner. Furthermore, the purchaser may be reluctant to pay for losses for which there is no guarantee of future relief.

Terminal loss relief is available for individuals and companies, allowing the loss of the final 12 months of trading to be set against profits of the same trade made in any or all of the previous three tax years/accounting periods, with losses offset against the most recent year/period first.

Capital losses can only be relieved against capital gains and consideration can be given to selling assets to generate gains to 'mop up' unrelieved losses.

Taking advantage of Entrepreneurs' Relief

Entrepreneurs' Relief is a valuable relief available to individuals who are either in business as a sole trader, in a partnership, or who have a personal company in which they own shares.

The relief is given in respect of the disposal of all or part of a business, the assets in the business after it has stopped trading, or for the disposal of shares in a company, providing that the associated disposal conditions are met. The relief reduces the rate of CGT payable to 10% on qualifying disposals. It is available for qualifying gains up to the maximum lifetime limit of £10 million. This is a valuable relief, potentially saving tax of up to £1.8 million for an individual and £3.6 million for a couple. Please contact us for advice on maximising the relief.

> "Tax relief is generally available for costs incurred wholly and exclusively for the purposes of the business"

Relief for costs

Costs will be incurred when selling a business and it is advisable to secure tax relief whenever possible. Although it is not always possible to control the timing of expenses, it is easier to obtain relief for expenses incurred prior to cessation.

The general rule is that relief is available for costs incurred wholly and exclusively for the purposes of the business. To the extent that this condition is met, the expenses are deductible in computing the profits of a business.

Relief may also be available for post-cessation expenses to the extent that they would have been deductible had the business still been trading. However, post-cessation expenses can only be set against post-cessation receipts and without any receipts they may go unrelieved. CGT relief for costs of disposal will be at only 10% if the disposal scores for Entrepreneurs' Relief, so please discuss your disposal with us at an early stage.

Value Added Tax (VAT)

Where a VAT registered business is transferred as a going concern, the new owner of the business can apply to keep the VAT registration number. Although VAT is normally due on a sale, special rules apply to a transfer on a going concern basis, meaning that where the conditions are met, the sale is not treated as a supply for VAT purposes.

Pay As You Earn (PAYE)

If you are an employer, the action you need to take in relation to your PAYE scheme will depend on whether the purchaser is taking over your payroll. If this is not happening, you will need to close down your PAYE scheme. Further guidance can be found on the HM Revenue & Customs (HMRC) website at **www.hmrc.gov.uk/paye/payroll/close-or-change.htm**.

Notifying HMRC

If you sell your business we will need to tell HMRC so that they can avoid sending unnecessary correspondence or asking you for payments that are not due.

Whatever your reasons for selling the business, we can work with you to help minimise your tax liability and gain maximum leverage from the opportunity.

Tax Round-Up

HMRC eases RTI reporting requirements for smaller businesses

HMRC has temporarily relaxed the Real Time Information (RTI) reporting arrangements for businesses with fewer than 50 employees.

The new RTI regime is being phased in from April, although ahead of its introduction, HMRC acknowledged that certain employers may need longer to comply with the new requirements.

As a result, until 5 October 2013 employers with fewer than 50 employees who pay their staff weekly or more regularly and find it difficult to report at the time of payment may now send information by the date of their regular payroll, but no later than the end of the tax month.

Businesses employing more than 5,000 people will arrange a 'migration date' between April and October with HMRC. The scheme will be mandatory for all employers from October 2013.

The Revenue will continue to assess the impact of RTI on the smallest businesses throughout the summer.

To discuss the implications of the new RTI regime for your business, please contact us. We would welcome the opportunity to advise on your individual circumstances.

New campaign to target second home sales

HMRC recently launched a new campaign to recoup undeclared profits on the sale of second homes.

The Property Sales campaign is designed to claw back any unpaid CGT from people selling property that is not their main residence. This includes buy-to-let investments and holiday homes in the UK and abroad.

Individuals have until 9 August to disclose any unpaid CGT on property sales, and any tax owed must be paid by 6 September. Sellers who make a disclosure voluntarily are likely to receive a lower penalty compared to those who are approached directly by HMRC.

Head of HMRC Campaigns, Marian Wilson, advises: 'It is better to come to us before we come to you. After the opportunity closes, HMRC will use information it holds about property sales, in the UK and abroad, to identify people who have not paid what they owe. Penalties – or even criminal prosecution – could follow'.

New warning over HMRC phishing emails

Taxpayers are being advised to be wary of fraudulent emails purporting to be from HMRC, which inform individuals that they are entitled to a tax rebate.

HMRC said it received almost 80,000 reports of tax rebate phishing emails last year. The emails promise a tax refund in exchange for personal, credit card or banking details. However, those who respond risk exposing themselves to fraud and having their personal information passed on to criminal gangs.

HMRC states that it would not inform customers of a tax rebate via email, and is advising taxpayers not to surrender any of their personal or payment details.

Suspicious HMRC emails should be forwarded to: phishing@hmrc.gsi.gov.uk.

Tax Tip

Making the most of the ISA allowance

The new tax year saw the introduction of the latest tax-free allowances for Individual Savings Accounts. Did you know that 16 and 17-year-olds can invest up to £5,760 in an adult cash ISA in 2013/14, even if they already have a Junior ISA – leading to combined tax-free savings of up to £9,480?

While adult investors may only contribute to one ISA per year, it is possible to transfer funds from the current or previous years at any time in order to maximise returns.

Reminders for your Summer Diary

June

30 End of CT61 quarterly period.

Annual adjustment for VAT partial exemption calculations (March VAT year end).

July

6 Deadline for submission of Form 42 (transactions in shares and securities).

Deadline for submission of EMI40 (EMI Annual Return).

File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds. Issue copies of P11Ds or P9Ds to employees.

14 Due date for income tax for the CT61 period to 30 June 2013.

19/22 Quarter 1 2013/14 PAYE remittance due.

Final date for payment of 2012/13 Class 1A NICs.

31 Second payment due date for 2012/13 Class 2 NICs.

Second Self Assessment payment on account for 2012/13.

Annual adjustment for VAT partial exemption calculations (April VAT year end).

Liability to 5% penalty on any tax unpaid for 2011/12.

Deadline for tax credit Annual Declaration (if estimated, final figures required by 31/01/14).

August

2 Submission date of P46 (Car) for quarter to 5 July.

31 Annual adjustment for VAT partial exemption calculations (May VAT year end).