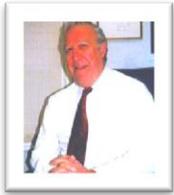


Editorial



Norman Christy

As we look back on yet another cool wet summer, we can only hope that both the weather and the economy will start to improve during the period of the Olympics.

At least the inflation figures do indicate some relief from the relentless cost of living increases which have dampened consumer demand over recent years.

Hopefully, once the holiday season is over, we will see some economic improvement in the autumn.

Ed

General

Unused Bank Accounts

Readers might be interested to know that about £400m in unused bank accounts and dormant bank accounts has been made available and £3.1m will be used to help the long-term unemployed set up business.

Default Retirement Age

On the 6 April 2011 the Government scrapped the default retirement age and employers are now required to monitor older employees' performance on an individual basis, as the only way to dismiss someone will be on grounds of performance or capability.

Bribery

Readers will be interested to know that the first prosecution took place under the Bribery Act 2010 and the individual has been sentenced to spend three years in prison for bribery, plus an additional six years for misconduct in public office.

Apparently the individual admitted requesting and accepting a £500 bribe to avoid putting details of a traffic summons on a court database.

Bank Charges



Readers will be pleased to know that more than 85% of personal current customers with a bank will benefit from new measures to make charges for unarranged overdrafts clearer, fairer and more manageable.

From March 2012 consumers will have the option of receiving alerts when their balance is low, while from March 2013 at the latest they will no longer be charged for going over their agreed overdraft by a small amount and receive annual statements showing how much they are being charged.

From September 2013 a new switching service will guarantee customers can switch accounts quickly and without hassle within seven days.

Insurance

We recently heard from our Insurance Broker and thought that readers might be interested to know that around a quarter of households have no contents insurance at all and research also suggests that nearly 3 in 10 insurers admitting to leaving doors unlocked and windows opened when going out briefly. We were told of two interesting claims which were refused and these are as follows:

The first involves Smudge, a moggy who thought that the ironing board was a nice place to rest his weary legs. He jumped up, the iron fell down, and the carpet was ruined.

In the second incident, Fluffy the cat was chased up the stairs and into the bedroom by a randy Tomcat that got into her owner's house. The chase was so frantic that claw marks damaged the carpet. We're not sure whether Fluffy enjoyed the experience.

HM Revenue and Customs

Readers may be interested to know that HM Revenue & Customs are adopting a fresh approach to visiting small and medium sized enterprises to check their statutory business records; this follows a pilot programme which recommended that they should in future be targeting more at higher risk businesses to make them less burdensome on compliant businesses.

Charitable Giving

In these troubled economic times charities are always hoping that members of the public will be passing on their excess cash to charitable organisations.

Most people who give to charity are individuals and we thought it might be helpful to explore different aspects of Charitable Giving.

Deeds of Covenant

The original relief for Charitable Giving was by way of Deed of Covenants and these can still be created by individuals who, effectively, promise to make a payment to a charity for at least four years. These are still part of the whole Gift Aid regime and are popular with large charitable organisations, churches and the like.

General Gift Aid

Gift Aid rules were introduced on the 6th April, 2000 to allow one-off donations. Generally any individual can now make a donation from their own finances to any charitable organisations and this donation will qualify for gift aid relief. Depending on the circumstances of the donor and the donee, the donor will be treated as having made a donation net of basic rate tax and if the donor is a higher rate taxpayer then the grossed up donation can be set against income in the year in which it was paid in order to reduce tax liabilities. Unfortunately, the downside on



this is that the donor must be a taxpayer and accordingly if a non-taxpayer makes a donation then he will be required to repay the tax to HMRC. In respect of the charitable organisation, i.e. the donee, the net amount will then be grossed up and the tax claimed from HMRC.

Self-Assessment Giving

For some time individuals have been able to direct tax refunds to a charity by including this instruction on their self-assessment tax return. However, it will not be possible to redirect any tax refund from April 2012.

Payroll Giving

Payroll Giving allows employees to make regular payments to a charity directly from their pay and the employer will deduct the payment and pass them on an approved Payroll Giving agency. The benefit of this is, of course, the payment being made by the employee is deducted from the gross pay before PAYE is calculated.

Corporate Gift Aid

The Gift Aid is different in respect of corporations in that the gift is made gross rather than net and is claimable against corporation tax for the donor, but the recipient donee receives the payment as a gross gift.

Taxation

General

We have now dealt with the Employer Return forms P11D, which had to be submitted by 6th July 2012. We will therefore concentrate on preparation of clients` Tax Returns for 2011/2012. Most clients will be aware now, that these have to be submitted by 31st January 2013.

Would all clients please send in their usual Tax Return information/accounting records as soon as possible, so that we can prepare their Tax Returns in due time and if necessary, provide tax planning advice at the same time. The latter is very difficult if we only receive the relevant information a week or so before the filing date.

Indeed, the Revenue recently announced that a record 7.65 million Self-Assessment Tax Returns were filed

on line on time this year, with an overall total of 9.45 million Tax Returns filed on time. This equates with 90.4% of taxpayers meeting the deadline.

The busiest day for online Tax Returns was of course 31st January, when nearly 445,000 Tax Returns were filed.

Self Employed

Many of our clients are self-employed and one of the major considerations for their accounts is the deduction of business expenses. The issue of accommodation/subsistence is always a `thorny` issue as regards the Revenue.

In a recent tax case, T. Healy (yes, the actor from Auf Wiedersehen Pet) v HM Revenue & Customs, the costs of accommodation was considered by the First Tier Tribunal.

Mr. Healey, who lived with his wife in Cheshire, accepted a role in a play in London.

He rented a flat around a mile from the Theatre.

In his accounts/Tax Return he claimed the cost of the rent, the costs of taxis travelling to and from the Theatre and subsistence (meals in restaurants).

The Revenue refused this claim and Mr Healey appealed.

The Tribunal ruled that the flat was rented `wholly and exclusively in connection with his profession as an actor`.

However, the Tribunal rejected his claim for the cost of meals in restaurants, on the basis that this was not wholly and exclusively for the purpose of this profession.

As regards the travel, Mr. Healey did not have sufficient evidence in support of the claim for the taxi fares, so this claim was also rejected. However, it does seem that if he could have provided receipts, the claim may well have been successful. As mentioned to clients before, this does demonstrate the importance of keeping receipts.

USA Citizens

Good news for those clients who are resident in the UK but are still US citizens.

US citizens have to file an annual US income Tax Return even if they are resident outside the US. There are of course penalties for not doing so.

In December 2011, the IRS announced that they would not impose penalties in all cases, provided the taxpayer was trying to comply with the law.

The announcement went onto say that `taxpayers who owe no US tax, will owe no failure to file or failure to pay penalty.

Changes to UK Tax Rules Affecting Non Resident Investors

The recent Budget announced a number of major tax changes for non-resident investors in UK property.

Stamp Duty Land Tax (SDLT)

There was an immediate increase in the rate of SDLT for homes costing over £2m from 5% to 7%. However where the UK residential property is held in an overseas corporate structure, the rate of SDLT will be 15%.

Capital Gains Tax

Overseas Corporate Structures will also be affected by the proposed introduction of a capital gains tax charge on gains made on the disposal of residential property and shares or interests in such property.

Currently, non-residents (both individual and companies) are not liable to UK capital gains tax. If the proposed tax changes take place, then this exemption for overseas companies will cease.

Income Tax

If the property purchased by the overseas company is rented, then there remains the advantage that the maximum rate of income tax is only 20% rather than the 50% currently chargeable on an overseas individual.

Inheritance Tax

One of the advantages of a non-resident individual owning an expensive UK property via an overseas company, was that UK Inheritance Tax could be avoided, since the asset was shares in an overseas company, hence no property situated in the UK.

If an individual decides to own the property in his or her own name, to avoid the possible additional stamp duty and capital gains tax problems mentioned above, they will expose themselves to UK Inheritance Tax, since the asset is then UK situated.

Thus careful planning will now be required as a result of the changes/proposed changes.

If clients wish further advice on this, please contact us.



“You know Fred was buried with his mobile phone? Well I rang his number by mistake and it was engaged.”

Capital Gains

On a typical note, the Revenue have recently confirmed that taxpayers who sell their Olympic Torch, may be subject to capital gains on the proceeds.

This is on the basis that the Torch is a chattel, but the chattel exemption would then apply, so that the gain would be exempt if the proceeds were less than £6,000.

PAYE – Real Time Information

Clients may be aware that the Revenue is introducing a new way of dealing with PAYE Returns. This is called Real Time Information, whereby on or before every pay-day, employers will have to send the Revenue, data on payments to employees which are subject to PAYE income tax or NIC.

There is currently a live pilot scheme operating with a large number of volunteer employers.

The intention is to `iron out` any difficulties before the scheme becomes mandatory between April and October 2013.

We do deal with the payroll for many of our clients and will have the necessary systems in place to deal with the changes.

However, for those clients who deal with their own payroll and are unsure what to do, please contact us for advice.

VAT

HM Revenue and Customs have announced the new fuel rates for company cars. These will apply to all cars.

These will apply to all journeys on or after 1st June 2012 until further notice:

Engine Size	Petrol	LPG	Engine Size	Diesel
1,400cc or less	15p	11p	1,600cc or less	12p
1,401cc to 2,000cc	18p	13p	1,601cc to 2,000cc	15p
Over 2,000cc	26p	19p	Over 2,000cc	18p

VAT Recovery on Mileage Allowance

Clients should be aware that they are entitled to recover the VAT on the fuel element of the mileage allowance paid to employees (using the rates quoted above). Essentially, an employer is entitled to regard the fuel element of a mileage allowance paid to an employee as something supplied directly to the business, provided the employer does hold sufficient VAT receipts obtained by the employee to cover the total amount of the VAT claimed.

It is therefore essential that clients, who are employers and pay mileage allowance, do obtain VAT receipts for the purchase of the fuel from the employee with the mileage allowance claims.

Employee Benefits

The Revenue recently announced that a Smartphone, as configured and understood at the start of 2012, is a mobile phone and hence qualifies for the tax exemption for a single mobile phone made available to an employee without transfer of ownership.

Previously, they had tried to argue that it was a taxable benefit.



When you said you are a high flyer in the City Charles, I thought you were a financial whizz kid.

Rouge Gallery

A tax adviser was recently found guilty of cheating the public purse to the extent of £70 million. Apparently, he submitted tax relief claims that falsely stated the value of shares gifted to charities.

This `bogus` tax avoidance scheme was created and sold by the Deputy Managing Director at Vantis Limited between 2005 and 2006 and operated as follows: -

He used a network of financial professionals to advise more than 600 wealthy individuals, including bankers and sport stars, to buy shares worth only a few pence each, in four new companies, he had set up. He then listed the companies in the Channel Islands Stock Exchange and paid people money from an offshore account to buy and sell the shares simply to inflate their price.

In another story, there was an interesting E.C.H.R. case recently involving the Ukrainian Tax Police, which does show a remarkable contrast in how the Ukraine deals with `tax avoidance`.

A squad of 6 Tax Police visited a shopkeeper who had failed to submit Tax Returns.

The shopkeeper and his employees prevented the Tax Police from accessing his records. In the course of the struggle, one of the employees claimed to have been punched by one of the Police officers, which was the case eventually heard by the E.C.H.R. They ruled against the employee.

However, the background to the case does make the approach taken by our Revenue Officials seem somewhat tame by comparison.



Articles

Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS)

It is worth mentioning the EIS and the new SEIS.

In broad terms these reliefs apply to subscriptions for new shares (i.e. they do not apply to purchases of shares) amounting to less than 30% in an unquoted trading company.

It is worth mentioning that generally these schemes are, because of the 30% shareholding ceiling which encompasses close family shareholdings also, of little value to the typical small family business.

In broad terms, the scheme works as follows :

1. For EIS there is 30% income tax relief on subscribing for shares in an unquoted trading company.
2. For SEIS then there is 50% income tax relief for monies utilised to subscribe for shares in a new unquoted trading company.
3. For both schemes, assuming that the businesses continue to qualify for 3 years or more, there is total exemption from capital gains tax on ultimate sale of the shares.
4. It is stressed that there are a number of conditions attached to these schemes and that it is necessary to approach H. M. Revenue & Customs on behalf of the company for approval so as to access the tax reliefs.

Clients who wish to discuss any of these matters further should get in touch with their normal contact partner or Paul Craik or John Flanagan in the tax department.

Small Businesses Capital Gains Tax on Sale

Clients will be aware that on sale of a small business there is some capital gains tax exposure.

This applies whether the sale represents the sale of the goodwill of an unincorporated business or, alternatively, the sale of the shares of a Limited company.

Tax Pitfall – Company Selling Goodwill

There is a tax pitfall here if a limited company sells the goodwill of its trade. Essentially, the sale of goodwill will be exposed to capital gains tax at corporation tax rates (between 20% and 26%) Additionally, on drawing the money out of the company there would be an exposure to a second level of taxation on the individual (either as a capital gain or a dividend).

Entrepreneurs Relief – 10% Rate

In the case of the sale of shares in a trading company or the sale of goodwill in an unincorporated trading business, then generally the 10% rate can be claimed (there is a lifetime limit of £10m per individual) for capital gains tax purposes.

Clients should however be beware that there are one or two tax pitfalls here, if there are substantial amounts of cash/investments held within a Limited company coupled with a relatively low level of trading turnover, then H. M. Revenue & Customs could argue that the company was not `substantially or wholly a trading company`.

Additionally, property investment and property dealing (but property development is ok) will not qualify for the Entrepreneurs Relief 10% capital gains tax rate.

Capping On Tax Relief On Losses

As clients will be aware, the Chancellor in his Budget in March 2012, did impose a cap on various tax reliefs but this did not apply to tax reliefs where there was already a cap imposed under the legislation (e.g. pension premium relief where the maximum tax relievable amounts are fixed by specific legalisation).

As clients will be aware the Chancellor's initial proposals have been watered down in some respects.

In particular, the proposed cap on tax relief for charitable donations is being reconsidered by the Government with full details yet to be announced.

However, there do remain restrictions now on other tax reliefs, in particular, the relief for the offset of trading losses against other income.

Trading Losses – Loss Relief

The main impact of the proposed changes (which are due to come into effect from 6th April 2013) will be that the relief claimable by an individual who has sustained trading losses and is claiming these losses against other income will be capped at the higher of £50,000 or 25% of the individual's income in the tax year against which he is claiming loss relief.

Practical Effect – Unincorporated Businesses

An example of the sort of practical effect which this measure might have is mentioned below :-

John has employment income of £200,000 per annum working for a large employer in the Financial Sector.

During 2013/14 he spends 12 hours per week working as a partner in a partnership which sells high fashion clothing on-line.

Unfortunately, due to supply difficulties, the partnership sustains a substantial trading loss in the tax year 2013/2014 and John's share of this loss amounts to £100,000.

John attempts to claim this loss against his salary income but this claim is limited to £50,000 only, giving rise to an income tax repayment (likely to be 45% coming to £22,500.)

The unrelieved balance of £50,000 share of loss in the partnership will remain available to carry forward against John's share of future partnership profits (if any).

Thus the overall effect is that, notwithstanding that this is a genuine commercial trading loss of £100,000, only £50,000 is able to be relieved against other income.

Summary

Clients do need to be aware that there will, after 5th April 2013, be a cap on tax relievable trading losses claimable by offset against other income.

Tax on Child Benefit – Income over £50,000

Clients will be aware that in the March 2012 Budget, a new tax charge was introduced on recipients of Child Benefit where the income for the tax year exceeds £50,000 per annum.

The commencement date is 1st January 2013.

Tax Charge – Claw back of Child Benefit

The rules provide that Child Benefit is clawed back by 1% for every £100 of excess income over £50,000 in a tax year, so that when income reaches £60,000 all of the Child Benefit is clawed back.

Married Couples and Cohabiting Couples

It must be stressed that the claw back charge applies to the spouse or unmarried partner with higher income, where either of the couple are in receipt of Child Benefit in a tax year.

High Effective Marginal Tax Rates

Because the withdrawal of Child Benefit will be in addition to normal income tax and National Insurance there can be extremely high effective marginal tax rate, illustrated by the example below :-

Janet has a salary of £50,000 and no other income. She receives Child Benefit of £2,500. She asks us, as accountants, for advice on the tax implications of taking a £10,000 bonus.

If she takes the bonus not only will she pay £4,000 income tax and £200.00 National Insurance, the whole of her Child Benefit will be clawed back.

Thus the net cash in hand from the £10,000 will be £3,300.

Thus she has suffered an effective marginal rate of tax of some 67%.

Tax Planning Point

Clients should be aware that the £50,000 income tax threshold is net of pension/Gift Aid Relief.

Thus, for instance, in the above example, if Janet were to arrange with her employer, that, instead of being paid the £10,000 bonus, this was put into a personal pension scheme as an employer contribution, then this contribution would be effective, not only in terms of tax relief but, additionally, in eliminating the Child Benefit claw back charge.

Summary

Clients need to be aware of the new claw back of Child Benefit tax charge taking effect from 1st January 2013.

Staff

The firm recently celebrated Norman Christy's 75th birthday with a surprise party attended by all staff in the office that day. Our septuagenarian leader was really taken by the occasion and as can be seen from the picture on the right, he had a good time and as did all the staff.



Norman cutting his birthday cake

It seems that the Tax Department during this year know something that others do not know as we have had two weddings this year. Abdul Mahmood was married on the 7th April.

I am sure readers will be pleased to know that after being engaged for ten years Paul Craik has finally decided to marry Deidre and the wedding took place on Sunday, 6th May.

We, from the firm, wish them all the best for the future.

We are pleased to welcome two new members, Oliver Brighton and Perna Kapoor, to our firm.

Oliver Brighton, who has joined as an Accounts/Audit Senior and is an ACA finalist, joins us from Pearson



"Mr Lamb, I want a better job."

May, Bath, having gained a wealth of accounts and audit experience across a varied client portfolio. In his spare time Oliver is a keen brewer, having designed and constructed a small scale microbrewery. He also enjoys skiing and is a DIY enthusiast.

Competition

Congratulations to the many readers who sent in an answer to our last Competition and the answer, of course, was Bus 1: 145 - Bus 2: 267



Two readers have now received a bottle of champagne with our compliments.

We now come to this summer's puzzle where those who are enjoying sitting in the sun in a deck chair can work the answer out.

At the local multiplex the Manager noticed that Screen 1 was being watched by four more people than Screen 2. Screen 2 was being watched by 14 more people than Screen 3. The film on Screen 4 had 40 fewer viewers than the film on Screen 3. The film on Screen 4 had 40 fewer viewers than the film on Screen 3. If 444 people in total were watching the four films, how many were watching each screen?

Conclusion



We can only hope that the more favourable inflation and employment statistics are more than a flash in the pan.

Whatever the economic outlook, I would like to wish our readers an enjoyable and relaxing holiday season, and, hopefully, a prosperous autumn.

Ed

The George Hay & Company Newsletter is published six monthly, Editor, Norman D Christy, F.C.A., and is for private circulation only to clients of George Hay & Company. Further copies are available on request to Norman D Christy, F.C.A.

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