Chartered Accountants
Statutory Auditors

Editorial

Norman Christy

Welcome to a brand new edition of the George Hay & Company newsletter.

After the first spell of sustained hot summer weather, hopefully, the holiday season has, at last, been enjoyable.

The economic growth figures do indicate some relief from the flat-lining of recent years. Hopefully, once the holiday season is over, we will see some continuation of the recent economic improvement in the autumn.

I would like to invite you all to follow us on Facebook (https://www.facebook.com/pages/George-Hay-Co/525950300787701) and Twitter (@georgehayandco) so that you receive regular information updates and the usual articles. If you find any of the articles relevant and informative, please comment and/or share.

Ed

General

Pension Changes

Anyone who has pension benefits with a value in excess of the lifetime allowance will be subject to a tax charge on their excess benefits value. This is known as the lifetime allowance charge.

The lifetime allowance is reducing to £1.25 million on 6th April 2014.

To protect those who may be affected by this reduction, a claim can be made for `fixed protection 2014`. This must be made by 6th April 2014 and is available for those who have pension funds valued at more than £1.5 million on that date. The claim will protect benefits and the Tax Free Lump Sum based upon a £1.5 million lifetime allowance.

The claim will only be available if the taxpayer agrees not to contribute to any pension fund or receive additional benefit accruals after 5th April 2014.

Taxation

General

Another summer has almost gone and our thoughts turn again to Christmas and the Tax Return filing date of 31st January 2014. The best Christmas present any Government ever gave the taxpayer.

We are now contacting clients for Tax Return information. As in previous years, we do ask that clients send in their information, accounting records etc., as soon as possible, rather than leave this until December/January, as it does cause problems in ensuring the filing deadline is met.

Indeed, the Revenue have recently announced that taxpayers who have failed to submit Tax Returns are being offered the chance to bring their tax affairs up to date.

The campaign is aimed at taxpayers who had received a Tax Return to complete for any year up to 2011/2012 but had not done so. The Revenue will be writing to those they believe fall in this category and will follow this up with a telephone call.

These taxpayers will have until 15th October 2013 to complete and submit outstanding Tax Returns and pay the tax and NIC due. Those that do so will still have to pay interest but the penalty will be reduced to 10% of the tax that was due. After the 15th October 2013, those who have not taken advantage of this will face penalties of between 30% and 100% or criminal prosecutions.

French Tax: Trusts

The publication of Decree 2012-1050 by the French tax authorities may affect UK trustees of trusts which hold property in France. Following the publication of the Decree there are two new forms which must be filed by the trustees when: the trust owns an asset and/or a right located in France; and the settlor and/or a beneficiary is tax resident in France.

1. Annual declaration: The declaration, containing details of the trust, trustees, settlor, beneficiaries and trust assets and income, must be filed annually by 15th June from 2013. (For 2012, the declaration was due by 30th September 2012).

2. Occasional declaration: A return must also be filed upon constitution or winding-up of a trust or when an `event` occurs, including a modification of the trust terms, removal, death or addition of the settlor, beneficiaries or trustees, new assets added to the trust or distributed and, more generally any event that alters the running of the trust. The declaration, containing similar details to those required in the annual declaration, together with details of the event giving rise to the declaration, must be filed within one month of the event. For 2012 the deadline to declare the existence of the trust is 31st December 2012.

Failure to comply with these requirements triggers a penalty of €10,000 or 5% of the value of the entire assets of the trust, whichever is higher.

Increase in UK remittance basic charge (RBC) from April 2012.

This applies to longer term UK residents. Two rates of RBC can now apply.

The existing £30,000 charge will remain for those individuals claiming the remittance basis who have been UK resident in at least seven of the previous nine UK tax years.

A new £50,000 charge will apply if the remittance basis is claimed and the individual has been UK tax resident in at least 12 of the previous 14 UK tax years.

Income Tax

The recent Budget announced a surprise doubling of the limit on interest free loans that can be provided by an employer. From April 2014 this will be £10,000 (currently £5,000).

These loans are generally referred to as `season ticket loans` since many are loans to employees to enable them to purchase their annual travel season ticket.

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In summary, two rates of RBC can now apply.

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Disclosure Agreement with the Isle of Man

As part of their continuing attack on taxpayers with offshore assets, the Revenue has agreed a plan with the Isle of Man to clamp down on taxpayers who try to hide their money in that jurisdiction. The package includes an automatic tax information exchange agreement and the setting up of a disclosure facility, which would allow those with bank accounts in the Isle of Man to settle their tax before the information is automatically shared.

The tax will have to be paid, along with interest, but the Revenue has guaranteed a reduced penalty rate of between 10% and 20% rather than between 30% and 100%.

Clients, who believe they may benefit from this facility, should contact us as soon as possible.

More Tax Debt to be Coded out

As part of their efforts to improve the collection of tax debt, the Revenue have recently announced that they will collect larger underpayments through a taxpayers code. Currently, they will collect up to £3,000 this way, and this limit applies to all taxpayers, with PAYE, regardless of the size of their salaries.

This limit will remain for those with annual PAYE earnings of £30,000, but have been increased for those with higher earnings as follows:-

Annual PAYE Earnings	Coding Out Limit
Less than £30,000	£3,000
£30,000 to £40,000	£5,000
£40,000 to £50,000	£7,000
£50,000 to £60,000	£9,000
£60,000 to £70,000	£11,000
£70,000 to £80,000	£13,000
£80,000 to £90,000	£15,000
More than £90,000	£17,000

Rogues Gallery

A Birmingham based `independent tax adviser` was jailed recently for 18 months after pleading guilty to charges of cheating the public Revenue.

David Douglas was a regulated financial adviser specialising in investment portfolios and pension.

The Revenue found that for 13 years Douglas had not declared his income or paid the tax due on this, which they estimated to be some £1 million. They are also now taking confiscation proceedings.

A Barrister was also recently sent to jail, for 3½ years, for failing to pay more than £600,000 in VAT.

Rohan Pershad instead spent the money on two luxury homes and private school fees.

The Judge told Pershad `it saddens me to pass this sentence as I am sure it will sadden many members of the public to hear that you, a successful and otherwise compassionate man, should have to sink to these levels.`

VAT

There have been a number of developments on the VAT front.

The European Court recently ruled that the sale of electricity generated by solar panels, on or adjacent to a private individuals dwelling, is an `economic activity` for VAT.

This means that private individuals could register for VAT, charge VAT on the supply to the energy provider (or Grid) and recover the VAT on the costs incurred in the installation of the panels, sounds good.

However, this could have serious implications. It is the person that is registered for VAT, not the business. Thus, registration could result in their having to charge VAT on other business activities, in addition to the normal administrative burden of preparing VAT Returns etc.

Indeed, those tradesmen such as plumbers, electricians etc., who may currently be under the VAT registration threshold, could find themselves liable to compulsory registration if their income from these activities, plus the total value of the supplies to the energy provider, exceeds the VAT threshold.

Horror Story

This is a true story. A business submitted a repayment VAT Return and the Revenue repaid the VAT to the bank account they had in their records. Unfortunately, this account had been closed by the business, which had a new account but had never told the Revenue.

Clients may not be aware, but banks can reallocate closed accounts numbers and the Revenue`s electronic banking system apparently only recognises the sort code and account number and does not to take into account the payee name!

In this case, the bank had reallocated the closed account number, unfortunately to someone who was not particularly honest. The repayment went into this account and the individual `took the money and ran`.

The moral of the story is that clients should ensure they advise Customs of any change in bank account details immediately.

Invoicing

Changes to invoicing rules took place on 1st January 2013, with a view to simplifying these.

These are as follows:-

Use of a simplified VAT invoice for supplies up to £250 in value. All VAT – registered businesses will be able to use a simplified VAT invoice when they make a supply in the UK to a taxable person where the value of the supply does not exceed £250.

Time limit for issuing a VAT invoice for an EU cross-border supply.

The rules on the time limits for issuing a VAT invoice are being aligned. The amended UK rules will require the invoice to be issued by the 15th day of the month following that in which the goods are removed or the services performed. This will, in some cases, reduce the timescale for UK businesses to issue a VAT invoice.

Articles

Proposed `Cash Basis` for Small Unincorporated Businesses

With effect from the current tax year 2013/2014 it will be possible for a small unincorporated business to opt for the `cash basis`.

A number of points should be mentioned concerning this:

1. The `cash basis` is optional.

2. The `cash basis` is for unincorporated businesses, not companies or Limited Liability Partnerships.

3. The first year for which the `cash basis` is available is 2013/2014.

4. It will be necessary to tick a box on the Tax Return to opt for the `cash basis`.

5. You can start using the `cash basis` if turnover does not exceed the VAT threshold, currently £79,000.

6. You have to stop using the `cash basis` if the turnover exceeds double the VAT threshold, (£158,000 currently).

7. The main point of the `cash basis` is that you bring income into charge to tax when you receive it and expenses are only relieved in the period which they are paid.

<u>Drawbacks of the `Cash Basis`</u>

There are some drawbacks with the `cash basis` including the following:-

1. If you elect for the `cash basis` then you are not be able to claim set off of any losses sustained against other income.
Thus, for instance, if a sole trader in the first year of trading incurs a loss then if an election is made for the `cash basis` this loss cannot be set off against other income.
2. A `cash basis` trader will be not be able to claim against profit interest paid in a year of more than £500.

<u>Unincorporated Businesses – Fixed Expenses Scales</u>

A further innovation is that all unincorporated businesses, whether they use the `cash basis` or not. may now use the fixed expenses scales but they do not have to.

In broad terms the fixed expenses scales for business use of cars are based on the current employee tax free motor mileage rates of 45p per mile for the first 10,000 in a year and 25p thereafter.

There are fixed expenses scales for use of home as office but these are not particularly attractive (e.g. the fixed expenses scale is £10 per month when a trader works between 25 to 50 hours per month at home).

Transition to the Cash Basis

An existing business can elect for a transition into the `cash basis` and there are transitional rules to allow income which has already been charged to tax and expenses which have already been allowed to be excluded from the first year`s `cash basis` income tax profits calculation.

Is the `Cash Basis` Attractive?

The `cash basis` may well be attractive to, for instance, small start-up unincorporated businesses who sell on credit and are consistently profitable. Such businesses will probably pay tax later on a cash basis than would be the case on an accruals basis (because invoiced sales at the end of the tax year where the monies are received in the following tax year would only become taxable in the tax year of receipt).

Thus, in broad terms, there would be some cash-flow advantage obtained by deferring the tax payable.

However, there are some disadvantages and complications particularly if trading losses are incurred and/or the business turnover is likely to exceed double the VAT threshold in the future.

Enterprise Management Incentives (EMI) Shares – Entrepreneurs Relief Relaxation

Clients will generally be aware that Entrepreneurs Relief enables the capital gains tax rate on disposals of shares in unquoted trading companies (and Goodwill etc., of unincorporated businesses) to qualify for a 10% rate of capital gains tax on gains of up to £10m (life-time limit).

However, the conditions for Entrepreneurs Relief on shares include a requirement that the individual must have at least 5% of the ordinary share capital and the voting rights in the company to qualify, and, must hold this shareholding for more than 12 months.

In practice this has meant that employees with EMI options have often been unable to claim Entrepreneurs Relief on a company being sold.

Generally, this is because the EMI option would only be exercised on or shortly before sale and/or the shareholding involved might fall below 5%.

New rules have been introduced from summer 2013 as follows:-

1. In the case of EMI option shares, the requirement for an individual to hold 5% or more of the ordinary capital/voting rights in the company, in order to qualify for Entrepreneurs Relief, is removed.
2. Additionally, the legislation has been revised to allow the period during which the option is held to count towards the qualifying 12 month holding period required for Entrepreneurs Relief.

Accordingly, this relaxed legislation will make it more attractive for individual employees to be offered EMI options over company shares. In particular, options which are exercised shortly before a sale of shares are now much more attractive.

Staff News

60 Not Out

1953 was a memorable year. On 29th May Sir Edmund Hillary and Tenzing Norgay completed the first successful ascent to the summit of Mount Everest and on 2nd June Elizabeth II was officially crowned Queen of England at Westminster Abbey. The first James Bond novel Casino Royale was published and the European Economic Community held its first assembly.

A short time after these momentous events, in late August 1953, just down the road from the Abbey at number 50 Pall Mall, a fresh faced teenager started his career as a trainee accountant with George Hay & Company. Keen of mind and with sharpened pencil this “young” man still scratches away in the ledgers of George Hay & Company, albeit as Senior Partner. Norman Christy amazingly and quite uniquely celebrates his 60th anniversary of joining George Hay & Company on 31st August 2013.

Norman was articled to the late George Hay himself and qualified as a Chartered Accountant in 1959. A rapid rise up the career ladder saw him become a partner in 1967 and senior Partner in 1974. Each working day Norman still rises at the crack of dawn and, often accompanied by his faithful hound and office mascot Pip, wends his way into the Pimlico office arriving by 7 a.m. for a well-earned cup of tea.

Norman receiving gift from staff

Brushing away all thoughts of retirement Norman still puts in a full working week and gallantly volunteers to take on entertaining duties on behalf of the firm whenever the need arises.

We are sure all clients as well as the partners and staff of George Hay & Company will raise a toast to congratulate Norman on this epic achievement. May he enjoy many more years at the helm.

Pip

Pip is only just one being born on 10th July, 2012 and has joined the office staff and has made a very different change to the office.

We have had a number of new employees and no particular order Pani Hadjipenanyi who states that he was born and raised in North West London and after graduating from University went straight in to Public Practice as a Trainee Accountant and has been working in Practice ever since. He qualified in August 2012 and was accepted into the Association of Chartered Certified Accountants in November 2012.

We welcome Pani to the team.

Jay Parekh was born in Southend-on-Sea, raised in North West London and directly after graduating from the University of Manchester a BEconSci Economics (Hons) degree dived head first into the (exciting?!) world of accountancy as an ACA trainee. He joined George Hay in March 2013 when he was part qualified and intends to qualify by the end of 2013.

We welcome Jay to the team.

Maria Marshall have been processing payroll for over 12 years most of which has been within an accountancy practice background. She enjoys both the variation & bespoke requirements of client payroll and building strong relationships with her clients.

During her spare time she enjoy travelling to far and away places normally in search of some sun! She is also a member of a local sports club and plays competitive Netball.

We welcome Maria to the team.

Congratulations to Neetiay Abbott who has just passed his final examinations and he is now a Chartered Accountant.

Well done Neetiay you have worked hard for this.

Competition

Congratulations to the two readers who supplied the answers to the Competition in our Summer Newsletter and they have now received a bottle of champagne. The answer to the Competition was as follows:

Abi, due Wednesday, born Friday,
Em, due Friday born Thursday
Jack, due Tuesday, born Monday
Mel, due Monday, born Tuesday
Tom, due Thursday born Wednesday

A small numerical question for the completion this time to set our puzzlers.

What number is seven less than six times one fifth of itself?

The usual two bottles of champagne will be available to those readers who send the correct answer to us.

Conclusion

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

I would like to wish our readers 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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