

## Editorial



Norman Christy

This issue of the newsletter is special because here at George Hay, we are celebrating 75 years since our firm was first established. More details of this and a brief history of our firm can be found below.

We have the usual general ‘light’ roundup of news followed by the more serious financial and taxation issues. We will round off with some interesting articles and the usual competition.

As ever, we hope you enjoy reading the newsletter and if you need further information on anything in this newsletter or indeed you have a general question, we would love to hear from you.

Ed

## George Hay’s 75<sup>th</sup> Birthday



In 1939, Mr George Hay started his own practices in Luton, Chesham and Biggleswade after severing ties with Spain Bros. & Co. where he was a senior partner. The practices which became known as George Hay & Company opened a further office in London

in 1948 operating from the address 50 Pall Mall.

Unfortunately, in 1952, Mr George Hay was severely injured in a hunting accident and effectively retired from active management. He died on 23rd April 1954.

In 1985, the practice split with the London, Chesham and Biggleswade becoming independent George Hay offices and in July 1983, the London office moved from Pall Mall to its present location in Pimlico.

It is with some pride that we, as a firm, in 2014 celebrate our 75 years in business.

## General

### Child Bank Account

Many readers will remember some years ago that children under 18 are entitled to earn interest before tax, but there is a requirement, which is to complete form R86.

Banks and building societies are encouraged to present R86 forms to parents who open children’s accounts, but there are a considerable number that have never had these forms. This means that the interest earned by the child suffers tax at 20%. It has been estimated that only 70% of parents have submitted this form and readers are reminded that if they do have children with savings accounts that this form must be completed in order to receive the interest gross.

### Consumer credit Licences

Those readers who have Consumer Credit Licences should be warned that they will expire on the 31st March, 2014. It will be necessary to register for interim permission with the FCA (Financial Conduct Authority) so that you can legally continue with consumer credit related activities from the 1st April, 2014.

The cost of registering for interim permission is £150 for sole traders and £350 for most other firms.

### Employment Allowance

The government proposal to provide all businesses with a £2,000 employment allowance towards the NIC became law at the end of 2013.

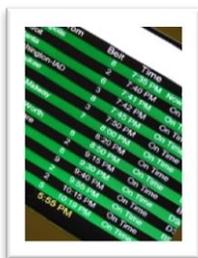
### Subscriptions

On a recent survey it was suggested that three-quarters of individuals belong to, or pay a regular subscription to, at least one organisation, but over half of those who are members of at least one organisation or service said

that they did not know or have forgotten what is available.

It may be a good New Year's Resolution to look at the various memberships and subscriptions that are paid by direct debit or standing order and if no use has been made of the membership it might be wise to seek cheaper options or cancel the subscription altogether.

### Flight delay Compensation



It may be helpful to readers to remind them in the present winter conditions that passengers flying from or to an EU airport on an EU-registered carrier can claim compensation if their plane arrives at its final destination more than three hours after it was due to land.

The only exception to this is that airlines would not pay out if they could successfully argue the delay was due to extraordinary circumstances such as strikes or bad weather.

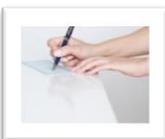
Compensation will initially be claimed from the airline but if not successful you should contact the CAA.

### Reduced National Insurance

Readers may be aware that from April 2014 businesses, charities and community amateur sports clubs (CASCs) in the UK will have their national insurance contributions reduced.

This will be made available to businesses through payroll software and Real Time Information system. In order to benefit, employers will simply need to confirm their eligibility through their payroll process and this will be deducted from their NIC payments via the Pay As You Earn system through the course of the year.

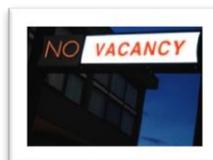
### Cheques



Readers will be interested to know that cheques are about to get a new lease of life where customers will be able to send photos of cheques so they don't have to visit a branch to deposit them.

Barclays early this year will be piloting a cheque imaging process.

### Hotels and Hospitality VAT



Hotels and Hospitality firms must now account for value added tax on any payments received from employees to whom they provide living accommodation or food and drink. Payments made via salary sacrifice scheme are also included in changes to value added tax rules announced by HMRC.

### BT Answerphone

Readers should be aware that if they avail themselves of 1571 answerphone service from 1st January, 2014 there will be a charge of £1.75 a month by BT. The only way to avoid this is that readers will actively have to opt out of the answering service.

### Missing children helpline

Finally in this section, nothing at all to do with finance or tax, but Ed was listening to the radio the other day and listened to an interesting programme on missing children. He was not aware and he is not sure many of our readers are aware that there is a European telephone number which covers obviously United Kingdom that can be dialled should a child go missing, which we hope will never happen. The telephone number is 116000 and is run by a Charity.

### Taxation

#### General

Another 31st January has passed and we have managed to again ensure Tax Returns were submitted on time for all but a handful of clients. Those from whom we are still awaiting please do act as quickly as possible. Although liable to the £100 fixed penalty, you can still avoid the 5% late payment penalty, which will be charged on any tax due for 2012/13 still unpaid at the end of February and also the daily penalties of £10 for any 2013 Returns still not submitted by the end of April. To avoid these further penalties, clients should provide the information to prepare their outstanding 2013 Tax Returns before the end of April.

## HMRC services

Clients are probably aware that the standard of service provided by the Revenue has decreased substantially over the last few years. The constant cutbacks in staffing levels have meant the Revenue do not have sufficient staff to provide a proper service and indeed, we understand the level of morale for those still employed has also fallen substantially.

Another indication of the falling numbers of staff is that the number of cases of serious tax evasion identified and investigated by HMRC fell by 16% in 2012/13. The number of cases referred as 'serious' fell to 2,888 in 2012/13, down from 3,456 cases in 2011/12 and 4,506 cases in 2010/11.

The current series of advertisements warning the public that Revenue & Customs are 'watching' and will catch tax evaders does seem to be a somewhat 'hollow' threat.

However, they do seem to be going for 'softer targets' more vigorously. The Revenue & Customs "affluent unit" has recently been expanded. This unit investigates tax payers with an annual income of more than £150,000 and wealth of between £2.5 million and £20 million. It will now also cover the 300,000 or so individuals with wealth in the range of £1 million to £2.5 million.

The common characteristics of individuals who are targeted are as follows:

- They habitually use avoidance schemes and have a low effective rate of tax across their total income.
- They have bank accounts in Switzerland and appear to have an understanding of their tax liability.
- They fail to file their Self-Assessment Return on time.
- They avoid or evade stamp duty on property purchases.
- They have UK and offshore property portfolios.

## Inheritance Tax (IHT)

We have of course just enjoyed the Christmas break and Christmas is a time for giving.

We would therefore like to remind clients of some of the various Inheritance Tax reliefs for gifts:

1. Gifts to husbands, wives or civil partners are tax-free. This counts even if you are separated but not divorced and both live in the UK.
2. Gifts to charities are tax-free.
3. Gifts to anyone up to £3,000 a year are exempt. Any unused allowance can be carried forward one year. On top of this you can make small gifts worth up to £250 each to as many people as you want each tax year and these will be exempt (but you cannot combine a small gift with the annual exemption and give someone £3,250).
4. Gifts to friends and relatives who get married or become civil partners. Each parent can give their child up to £5,000, grandparents and other relatives can give up to £2,500 and anyone else can give up to £1,000, which would be exempt from IHT.

Indeed, since April 2013, the exempt amount that a UK domiciled individual can transfer to a non UK domiciled spouse or civil partner has increased from £55,000 to the prevailing Nil Rate band, currently £325,000.

### **The High Income Child Benefit Tax Charge.**

Those clients earning over £50,000 in 2012/13 and for whom we prepared a Tax Return, will be aware that we were obliged to ask the rather awkward question if they or their partner were claiming Child Benefit. The reason we were obliged to ask the question was that in such circumstances, the Child Benefit paid from 7/1/13 was clawed back through the Tax Return.

The Revenue have started issuing warnings that those taxpayers who are not in Self-Assessment, who earn

over £50,000 and who claim Child Benefit, will be fined unless they either stop claiming the benefit or register under Self-Assessment and prepare a Tax Return each year.

Any clients who believe they may be caught by this new tax charge and who have not stopped making the claim but are currently not required to prepare a Tax Return, should contact us as soon as possible.

### Official Red Tape



According to figures from the Federation of Small Businesses, business owners are losing around 12 working days a year keeping on top of their tax administration, which is “costing them half a billion pounds a year”.

Half the companies surveyed, said they spent between 2 and 8 hours each month understanding, calculating and completing tax forms. Does that sound familiar?

### Minimum Wage

We would remind clients that the minimum wage rates changed from 1/10/2013. These are now as follows:

- The main rate (for workers over 21) is now £6.31 per hour
- The rate for 18 to 20 year olds is now £5.03 per hour
- The rate for 16 to 17 year olds is now £3.72 per hour
- The rate for apprentices is now £2.68 per hour

### Capital Gains Tax

The main residence relief for capital gains tax has been in the news recently for a number of reasons, in particular the recent reduction in the period of exemption from 3 years to 18 months in the final period of ownership, due to come into force from 6/4/14.

The Revenue have also been more active in denying relief where there has been a short period of occupation as a residence. In a number of recent tax cases, taxpayers have lost their claim for this relief if they were unable to demonstrate that their occupancy had a reasonable level of permanence about it. In the past, it was generally accepted that a period of 6 months occupancy was sufficient but this may no longer be the case.

One factor which may well “swing the balance” in favour of such a claim would be photographic evidence. Photographs showing the property being lived in, used for family celebrations etc, would be good evidence that the property was being occupied as a home, whereas photographs taken for an Estate Agent for example, showing the house pristine and unused, would not.

### Negligible Value claims

There is a valuable relief available but not used very often, for shares which have become of “negligible value”.

Any clients who have some shares which they can demonstrate have become of negligible value (unfortunately RBS does not count!), it is possible to crystallise any loss by making such a claim rather than having to try and sell the shares. The capital loss can then be set against other capital gains.

There are also other reliefs available if the shares are in an unlisted trading company and were acquired by subscription.

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

### VAT

A recent tax case illustrates the importance of identifying whether a supply is of goods or of services.

A Ms A. Khoshaba obtained the lease of a hairdressing salon and arranged for it to be converted into a café. In her first VAT Return she tried to claim back the input tax on the conversion costs.

Revenue & Customs rejected the claim on the basis that it related to a supply of services, which had taken place more than 6 months before she had registered for

VAT. The Tribunal agreed with the Revenue in that the invoice related to a single supply of services. Had it been a supply of goods, she could have claimed the VAT for supplies in the previous 4 years.

Clients are advised to seek advice if they are considering such transactions as any minor delay could result in a considerable amount of VAT becoming irrecoverable.

#### Non-established taxable person

Since 1<sup>st</sup> December 2012, a business or person established outside the UK no longer gets a VAT registration threshold. They are classed as a non-established taxable person (NETP) and their VAT registration threshold is now zero.

Overseas investors in the UK property market should be aware of one trap, in that if the property is let as “holiday accommodation” rather than as a straightforward residential let, the income is standard rated for VAT purposes, rather than exempt.

As such, the income would immediately be liable to VAT, given the zero registration threshold, and thus the owner of the property would be required to register for and account for VAT on his supplies.

One option would be to appoint a UK based property managing agent. This would result in the owner of the property having a “fixed establishment” in the UK, thus restoring the normal VAT registration threshold of £79,000.



#### Advisory Fuel Rates

The new rates which have applied since 1st December 2013 are as follows:

<u>Engine Size (cc's)</u>	<u>Petrol</u>	<u>LPG</u>
1,400 or less	14p	9p
1,401 to 2,000	16p	11p
Over 2,000	24p	16p

#### Diesel

1,600 or less	16p
1,601 to 2,000	14p
Over 2,000	17p

#### Articles

#### Marriage Transferable Tax Allowance

Clients may be aware that the Government has made an announcement on the above subject.

However, the devil is in the detail:

1. The allowance will not commence until 6th April 2015.



2. From that date forward married couples and civil partners will have the option to transfer up to £1,000 of their personal income tax allowance from one partner to the other, but only where neither partner is a higher rate taxpayer.

In practice, therefore, this transferable tax allowance will be of very limited interest, except to households where only one spouse works and the other is a basic rate taxpayer. Even then the benefit over a year is £200 (i.e. £1,000 at 20%).

#### Real Time Information (RTI)

H. M. Revenue & Customs is to close inactive payroll schemes

H. M. Revenue & Customs have announced that for payroll schemes opened after 5th April 2013, they will automatically close the payroll scheme if no payment submissions (normally these will be Full Payment Submissions – FPS) are made in any four month period.

Clearly this would cause problems in the case of clients who pay salaries on an annual basis (this does apply to many director controlled Companies where a small annual salary will be taken each tax year).

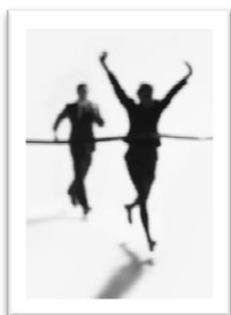
The solution to this problem is to designate the PAYE scheme as an “Annual Scheme”.

### **Staff News**

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

Well done Jay you have worked hard for this.

### **Competition**



Congratulations to the two readers who supplied the answer to the Competition in our Summer Newsletter and the two readers who were selected have now received a bottle of champagne.

The answer to the question What number is seven less than six times one fifth of itself? and the

answer is 35.

We now turn to the Winter Competition and this revolves around coins.

One member of our staff came to Celia to refund part of petty cash expenses. The amount paid was £4.26 and the member of staff handed over the exact money using ten coins containing no 2p pieces or £2 coins, but at least one 50p piece, and more 5p pieces than 1p pieces. How many of each type of coin did she use?

### **Conclusion**

We hope you have enjoyed reading the newsletter. We look forward to your answers to the competition above.

We also look forward to a dry and warm weather this coming summer as we have so far had our fair share of rain this year.

Ed

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