



Business Focus

Spring 2015 inside this issue...

- ▶ 2014 Autumn Statement: at-a-glance summary
- ▶ Can you save tax with company mobile phones?
- ▶ Social investment tax relief – for you and your community
- ▶ Tax Round-up
- ▶ Reminders for your Spring Diary



A gift horse? Avoiding the inheritance tax trap

With the inheritance tax (IHT) charge standing at 40% where a person's wealth exceeds the **£325,000 threshold (the 'nil rate band')**, the charge represents a significant issue for many people who own their own house and have other assets. Proper IHT planning is essential if you want to maximise the assets that will pass to your loved ones on your death.

One effective way of reducing the 'final' tax bill can be to make a series of gifts from your estate during your lifetime. However, it is important to note that gifts made in the seven years before an individual's death could still be considered part of the estate for the purposes of IHT. Here we take a look at some key IHT planning points.

The seven year rule

Many gifts made to individuals during an individual's lifetime will be exempt from IHT as long as the donor survives for seven years after making the gift. However, should this not be the case the gift may affect the calculation of IHT on the estate at death.

IHT is charged on an individual's personal wealth, together with any lifetime gifts that were made in the preceding seven years. While the full rate of tax payable is 40%, it is reduced on a sliding scale for gifts made between three and seven years before the death.

IHT taper relief

Under taper relief, if an individual survives for at least three years after making a gift, the associated IHT will be scaled down on the following basis:

Number of years by which gift is survived	Taper relief applying
3-4	20%
4-5	40%
5-6	60%
6-7	80%

However, it is important to understand that the IHT charge only applies to lifetime gifts where the total value of gifts made during the seven year period exceeds the nil rate band. This is because such gifts are charged before the actual estate at death. So taper relief will not apply unless the gifts made were worth in excess of the nil rate band. The practical effect of many gifts is therefore to use up some of the nil rate band that would have been available for the estate assets.

With this in mind, you may wish to consider taking out an insurance policy to cover the effect of substantial gifts in the event of death occurring within the seven year period.



Some other IHT planning options

- Trusts can allow the transfer of assets out of an estate for the purposes of reducing IHT, while still allowing a degree of control over the assets, with potential IHT charges being 20% on assets over the nil rate band
- Lifetime gifts and gifts on death to a spouse or civil partner are generally IHT exempt, and any proportion of the nil rate band that is unused on the first death can normally increase the nil rate band on the death of the survivor
- 'Small gifts' are free of any IHT liability, including regular gifts from surplus income, small annual gifts of up to £250 per recipient, and certain gifts in contemplation of marriage. An annual exemption of £3,000 is also available
- Up to 100% relief may be available on qualifying business assets
- A reduced rate of 36% applies to death estates where 10% or more of the net estate is left to charity.

When considering your IHT plan, it is important to take into account your own financial security as well as your family's likely future requirements. For a professional review of your IHT planning needs, please contact us.



2014 Autumn Statement: At-a-glance summary

Chancellor George Osborne presented the 2014 Autumn Statement on 3 December. Here we summarise some of the main announcements that could affect you and your business.

Stamp Duty Land Tax (SDLT)

Reform of SDLT on residential property immediately replaced the existing system with a new set of graduated rates. SDLT is payable at each rate on the portion of the purchase price which falls within each band, rather than at a single rate on the whole transaction value.

Business rates

The doubling of Small Business Rate Relief will be extended for a further year from 1 April 2015.

In addition, the business rates discount for retail and food and drink premises with a rateable value of £50,000 and below (the 'high street discount') will be increased from £1,000 to £1,500 up to the State aids limit for one year from 1 April 2015.

Employer NICs for apprentices

In a move designed to further encourage employers to take on apprentices, from April 2016 employer national insurance contributions up to the upper earnings limit for apprentices aged under 25 will be abolished.

Access to business finance

The Government will provide £400 million to extend the British Business Bank's

Enterprise Capital Funds programme, to be committed over the next three years, and will enable the Enterprise Finance Guarantee to support up to £500 million of new lending in 2015/16.

Research & Development (R&D)

The rate of the above the line credit will increase from 10% to 11% and the rate of the small and medium-sized enterprise (SME) scheme will increase from 225% to 230%. These will take effect from 1 April 2015.

Long term plans for UK infrastructure

Prior to the Autumn Statement, the Government announced that it will provide funding for a specific set of infrastructure projects under what it calls the 'National Infrastructure Plan 2014'. These include:

Roads

A total of £15 billion has been designated for road improvements, which the Government describes as 'the biggest package of improvements undertaken in the modern age'.

Houses

Bicester has been confirmed as the second 'garden

city' with Government support for the construction of up to 13,000 homes.

Flood defences

£2.3 billion has been allocated as part of a major project to improve some 1,400 flood defence systems.

Science and innovation

The Government has allocated £5.9 billion of science capital funding over the next Parliament. The funding will support a range of projects and institutions, including £95 million for the UK to take the operational lead in the next European mission to Mars.

Loans for postgraduate masters

The Government will introduce

income-contingent loans of up to £10,000 for under-30s to undertake a postgraduate taught Masters course in any subject. The loans are planned to be available from 2016/17.

Anti-avoidance measures

A range of measures were announced aimed at tackling tax avoidance.

Incorporation

Individuals are to be prevented from claiming entrepreneurs' relief on disposals of the reputation and customer relationships associated with a business ('goodwill') when they transfer the business to a related close company.

Loss relief

Effective from 3 December 2014, legislation will deny loss relief where a miscellaneous loss, or miscellaneous income, arises from relevant tax avoidance arrangements. Legislation is also to be introduced, with effect from tax year 2015/16, to limit relief to miscellaneous income of the same type as the loss.



Can you save tax with company mobile phones?

Mobile phones have become increasingly important both in and out of the workplace. With more features than ever, if used properly they can effectively act as little mobile offices. Many employers know that providing mobile phones as part of employee salaries can be tax-efficient, with their provision being both a tax and national insurance-free benefit. Here we outline some strategies to get the most rewards at minimal cost.

For many years company mobile phones (or SIM cards) for employees have been a tax-free benefit. In 2006 the exemption was limited to one mobile phone provided to each employee for private use and specifically excluded the employee's family and household. In 2012 HM Revenue & Customs (HMRC) decided that smartphones were technically mobile phones rather than computers and thus potentially qualified for the mobile phone exemption.

The exemption covers the phone itself, any line rental and the cost of private calls paid for by the employer on that phone.

One of the key requirements in order to qualify for tax exemption is that the mobile phone contract must be in the company name. This means employer reimbursement for personal mobiles does not count, nor does simply adding the company name and address to the invoice of a personal phone.

There is no taxable benefit on an employee if an employer reimburses them for the cost of any business calls made on their personal mobiles.

Limited contracts

To make sure employees do not excessively use their mobiles to the point where it becomes too expensive for the business, consider a limited contract with a set number of free call minutes per month. Should an employee exceed their limit, the business



can request them to pay back any additional charges.

Any reimbursements they make will, however, come from their net pay. One way around this is to set up an employee salary sacrifice scheme for mobile phones, although the administrative burden of setting this up may make it an unattractive option.

Salary sacrifice

While salary sacrifice is not a tax-free benefit in kind, it may be another option to consider since it can help reduce employee tax and national insurance contributions (NICs). Much like salary sacrifice for pensions, an employee chooses to give up the cost of the mobile phone contract from their salary. This means no cost for you and an increase in net pay for the employee.

Current income tax and NIC levels mean salary sacrifice offers a saving of £32 for every £100 spent for basic rate taxpayers. This figure is £42 for higher rate taxpayers. This may prove to be enough of a benefit for your employees.

Salary sacrifice arrangements are effective when the contractual right to cash remuneration has been reduced. So, for example, the employee does not have the right to give up the benefit and revert to the original salary at any time. This does not stop employers and employees reviewing and adjusting the contractual arrangements at a later date.

Social investment tax relief – for you and your community

The social investment tax relief (SITR) offers investors upfront tax breaks and capital gains tax exemptions, similar to those given for buying shares in Enterprise Investment Schemes (EIS). Potentially you could reclaim one or more of the following, subject to various conditions:

- **Income tax relief:** This is available at 30% of the amount you invest. There is no minimum investment limit but the maximum annual limit is £1 million.
- **Capital gains hold-over relief:** You can defer payment of tax on a capital gain if the gain is reinvested in shares or debt investments that would also qualify for SITR income tax relief.
- **Capital gains disposal relief:** If you've had income tax relief on the cost of your investment, and you dispose of your investment after you've held it for at least three years, any gain you make on your investment is free from capital gains tax.

of society', such as housing, community transport, youth organisations, sporting facilities or healthcare, so typically they will be charities or community benefit companies.



SITR will be in place for investments made, or capital gains arising, in the period from 6 April 2014 to 5 April 2019.

It is available for investments by individuals (but not companies or partnerships) in 'Social Enterprises'. In essence, the company or organisation in which the investment is made must provide services for the 'benefit

The Social Enterprise need not necessarily be in the UK, and there is no defined list of what qualifies, however there is a list of activities that do not qualify. The good news is that if you are an investor you will not need to worry about judging whether the recipient of your investment meets the

conditions, because any organisation offering SITR qualifying investments to the public should have already gone through an HMRC clearance process in order to be able to do so.

This process has only been available to social investment organisations since July 2014, so the options for investment are currently limited, but the numbers are expected to grow.

When you make an investment, the Social Enterprise will give you a Compliance Certificate in respect of your investment in it, confirming they have met the conditions. You won't be able to claim for any of the tax reliefs without such a certificate.

None of the reliefs is available if you have had relief for the investment under the EIS, the Seed Enterprise Investment Scheme or Community Investment Tax Relief.

There are numerous qualifying conditions and complications, so professional advice is essential.

TAXES RECEIPTS

Tax Round-up

New VAT rules come into effect

1 January 2015 saw the introduction of the new place of supply rules for VAT, affecting those businesses supplying digital services to consumers within the EU.



Under the new system, VAT on digital services (including broadcasting, telecommunications and e-services) is now payable in the country where products are bought, rather than the country in which the seller is located.

A new VAT Mini One-Stop Shop (VAT MOSS) also came into effect on 1 January, with the aim of minimising the additional

administrative burdens, by removing the need for suppliers to register in each Member State in which digital services are provided.

However, following concerns over the impact of the rules on small businesses, HMRC recently announced a transitional period for the smallest firms, stating that 'until 30 June 2015, micro-businesses that are below the current UK VAT registration threshold, and which register for the VAT MOSS online service, may base their 'customer location' VAT taxation and accounting decisions on information provided to them by their payment-service provider'.

Tax debt recovery powers watered down

Plans to give HMRC the power to take unpaid tax directly from bank accounts were recently revised, following controversy over the proposals.

Chancellor George Osborne has agreed to

the introduction of safeguards in order to prevent the 'direct recovery powers' from affecting innocent taxpayers.

The new safeguards include the right to appeal to HMRC and then, if unsuccessful, through the courts before debts are removed from bank accounts. Face-to-face warnings must be given, and a specialist unit will also be set up for cases involving vulnerable individuals.

David Gauke, Financial Secretary to the Treasury, said, 'We're strengthening the guarantees we can offer taxpayers that

the powers will only be used when debtors have consistently refused to talk to HMRC and settle their debts, and their use will be subject to the toughest scrutiny and oversight possible'.

The original plans were outlined to tackle the estimated 17,000 individuals who are thought to owe an average of £5,800 each.



Tax Tip

Dividend versus salary/bonus

A dividend is paid free of NICs, whilst a salary or bonus can carry up to 25.8% in combined employer and employee contributions. However, a salary or bonus is generally tax deductible to the company, whereas dividends are not. 5 April 2015 is the last date for paying a 2014/15 dividend, and any higher or additional rate tax on that dividend will not be due until 31 January 2016.



Contact us for more information.

Reminders for your Spring Diary

March

- 2 Last day to pay any balance of 2013/14 tax and Class 4 NICs to avoid an automatic 5% late payment penalty.
- 31 End of Corporation Tax financial year. End of CT61 quarterly period. Filing date for Company Tax Return Form CT600 for period ended 31 March 2014.

April

- 5 Last day of 2014/15 tax year. Deadline for 2014/15 NISA investments. Last day to make disposals using the 2014/15 CGT exemption.
- 14 Due date for income tax for the CT61 period to 31 March 2015.

- 17/22 Quarter 4 2014/15 PAYE remittance due.
- 20 Interest will begin to accrue on unpaid PAYE/NI for 2014/15.
- 30 Normal annual adjustment for VAT partial exemption calculations (monthly returns).

May

- 1 Start of daily penalties for 2014 online Tax Return not yet filed. Additional penalties may apply for further delay.
- 3 Submission date of P46 (Car) for quarter to 5 April.
- 31 Last day to issue 2014/15 P60s to employees.