money matters

Lang Bennetts
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In this issue:

Pension flexibility on the horizon

The Budget proposed some major changes to the ways in which people can access their pension benefits.

Under the pre-Budget 2014 rules for drawing retirement benefits, from age 55:

- You could draw up to 25% of the fund free of tax as a lump sum.
- The balance had to be used to provide an income under a variety of options, of which the main ones were:
  - ***Buy an annuity*** Annuities normally guarantee an income throughout life.
  - ***Choose capped drawdown*** This allowed withdrawals directly from the pension fund, but they were subject to maximum amounts that were subject to regular review.
  - ***Select flexible drawdown*** This was effectively drawdown without any annual limits or compulsory reviews, but it was only available to individuals with at least £20,000 a year of secure (state or occupational scheme or pension annuity) pension income.

Finance Bill 2014: The interim changes

The pension changes are being introduced in two main steps. There are various interim provisions pending the planned changes from April 2015:

- ***Capped drawdown*** The limit for capped drawdown increased from 120% to 150% of the broadly equivalent market annuity rate for drawdown years starting on or after 27 March 2014. So, for example, if you are 65, the maximum capped drawdown as at May 2014 would be 8.85% of the fund.
- ***Flexible drawdown*** From 27 March 2014 the minimum secure income you need in order to take flexible drawdown was reduced from £20,000 to £12,000.

Future legislation and consultation

The later changes will take a little longer to introduce and are currently subject to consulation.

- *Pension flexibility* From 6 April 2015 capped drawdown will disappear and effectively flexible drawdown – with no minimum income requirement – will become available to everyone. Annuity sales are expected to plummet as a result.

- *Death benefits* The tax position on death under the current rules is that any money remaining in a pension fund that is being used for drawdown is subject to a flat tax charge of 55%. The same tax rate also applies to any fund that is not in drawdown if the death occurs from age 75 onwards.

The Budget statement said that "…the government believes that a flat 55% charge will be too high in many cases in the future" and promised to "engage with stakeholders" in reviewing the rule.

PAYE reporting – year two of Real Time Information

If you have more than nine employees but fewer than 50, you should have started real time PAYE reporting from 6 April.

The HM Revenue & Customs (HMRC) relaxation for employers of this size has now ended. New employers with nine or fewer employees must also start real time reporting.

Under Real Time Information reporting – which HMRC calls RTI – employers have to send details to HMRC every time they pay an employee at the time they pay them. They must also use payroll software to send this information to HMRC electronically as part of their routine payroll process.

Existing employers with nine or fewer employees will now not have to start RTI until April 2016. They can continue to submit information to HMRC just once by the end of each tax month, even if employees are paid weekly or more frequently. New businesses cannot make use of this relaxation.

For other employers, 2013/14 was the first year of real time PAYE reporting.

Getting to understand penalties can be quite daunting, but it is a good idea to know how much leeway you have before they apply.

Late payment

You are allowed to be late with one monthly or quarterly payment without incurring a penalty. Company owner-managers may have just one year-end payment. But a second late payment will mean a penalty of 1% of the tax due, with the percentage increasing for each subsequent late payment during 2014/15. Harsher penalties will apply if you are more than six months late. HMRC has gone ahead with the introduction of in-year interest, so any late payment will also attract daily interest.

Late filing

After 6 October, you will not be penalised for your first late submission. Penalties are then applied on a monthly basis, and any subsequent late submission during a month will mean a penalty. This is bad news for weekly filers, although there will be just one penalty even if several weekly submissions are late during any month. Penalties range from £100 to £400 depending on the number of employees, and there will a harsher penalty for employers who are three months late.

Inaccurate filing

Incorrect submissions could attract a penalty if you do not take reasonable care, so it is worth taking the extra time to ensure accuracy.

Increasing the limits for ISA investment and relaxing some rules

Normally, it is a good idea to make use of your individual savings account (ISA) allowance at the start of each tax year – and this year is no exception.

However, the 2014/15 ISA investment limits will be increased from 1 July 2014, so you will need to arrange to top up your investment then.

ISAs enjoy much the same privileges as pension funds – without the tax relief on inputs. The funds are free of UK tax on the rolling up income and capital gains. Like pensions, ISAs cannot benefit from reclaiming the tax credit on dividends on UK shares. Unlike pensions, the proceeds are 100% taxfree.

Introducing NISA

ISAs are being reformed, becoming a simpler product called the New ISA or NISA from 1 July. Once NISAs are introduced, you will be able to invest up to £15,000 a year, and this limit will be completely flexible. It will therefore be possible to put the whole £15,000 into a cash NISA or into a stocks and shares NISA or any combination you wish.

The stocks and shares component will also benefit from several changes. Currently, if you hold cash pending future investment, any interest you earn in the ISA is subject to a 20% tax charge. This tax charge will cease from 1 July 2014, so there will no longer be any tax charge if you turn your ISA stocks and shares investments into cash.

AIM shares have been permitted since last August (a change that at the time did not receive much attention). Some AIM shares qualify as business assets for inheritance tax purposes. So if you hold them for at least two years, they should be free of this tax. From 1 July it will also be possible to invest in short-dated securities through an ISA because the five-year to maturity requirement has been abolished.

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Junior ISAs

The 2014/15 junior ISA investment limit for children under 16 will also increase from £3,840 to £4,000 from 1 July. Many families are currently locked into poorly performing child trust funds, but from April 2015 it should be possible for them to transfer the funds into junior ISAs, which generally pay higher rates of interest and may suffer lower charges.

£2,000 NIC cut for employers

Smaller employers should especially welcome the new Employment Allowance that was introduced from 6 April. It has the effect of reducing the amount of employer class 1 national insurance contributions (NICs) each employer pays to HM Revenue & Customs (HMRC) by up to £2,000 each tax year.

You can claim the Employment Allowance if you are a business or charity (including Community Amateur Sports Clubs) that pays employer class 1 NICs on your employees' or directors' earnings.

If your company belongs to a group, or your charity is part of a charities structure, only one company or charity can claim the allowance. It is up to you to decide which of them will do so. You cannot claim the Employment Allowance if you employ someone for personal, household or domestic work, such as a nanny, gardener or au pair. Public organisations such as local authorities also cannot claim the allowance.

You can only claim the £2,000 Employment Allowance against one PAYE scheme - even if your organisation runs multiple schemes.

The employment allowance, as the name suggests, was introduced with the aim of encouraging employment. For 2014/15 it should cover your NICs if you employ four adult full-time workers (or eleven 18-20 year-olds) at the national minimum wage.

If you are the owner-manager of your company and withdraw the profits mainly in the form of dividends, the allowance may be of little or no benefit unless you have employees or you decide to pay yourself a salary or bonus of more than the personal allowance of £10,000.

But remember that although you can reduce your NICs by £2,000, you will lose the tax relief you would have received on those NICs.

Claiming the allowance is quite straightforward, and if you run your own payroll it should be as simple as confirming you qualify when first running the payroll for 2014/15. If the software does not support a claim, you can use HMRC's Basic PAYE Tools. The allowance is deducted as your NICs arise; so if the monthly employer's NICs are £500, there should be nothing to pay until August.

Tax relief cut for multiple home owners

If you have more than one home, you should be aware that the value of a useful capital gains tax (CGT) relief has just been cut.

Final period relief used to be exempt from CGT for the last 36 months of ownership. Now the exemption only applies for the last 18 months. The change applies where contracts have been exchanged on the property in question after 6 April 2014.

The change should not present a problem if you only have one property and continue to live there, but it will make a difference if you buy a new property before selling the old one.

Your main home is exempt from CGT, but only one such property qualifies. Therefore if your ownership of two or more properties overlaps, you can choose which one will qualify for the main residence exemption. Of course, to qualify as your main home you must live in the property, so properties that have always been rented out are fully taxable. A problem can arise when you get married or enter into a civil partnership because a couple can only have one exempt property between them.

The difference that the change will make will depend on the amount of your gain when you sell your old home and also how long you have owned it.

For example, you make a gain of £100,000 on a house that you have owned for 20 years, after living there until the last five years before you sold it. Until April, a total of 18 years would have been exempt (15 years when you lived in it plus the last three years final period relief). So just £10,000 of the gain would have been taxed – less than the £11,000 annual exempt amount. Now, only 16.5. years are exempt (15 years when you lived in it plus the last 1.5 years final period relief); so £17,500 of the gain would be taxable.

There is, however, one situation where final period relief remains at 36 months, and this is for people moving into care. The logic is that it may take longer to dispose of a property in these circumstances.

Certain other periods of absence are also exempt, and these are unchanged.

New rules for taxing LLP members

Some members of limited liability partnerships (LLPs) are in danger of being taxed as if they were employed rather than self-employed under new rules that came into force on 6 April 2014.

From the tax year 2014/15 onwards, an LLP member will be taxed as an employee if they meet all the following conditions:

A. At least 80% of the total amount the LLP pays the member for their services is 'disguised salary'. This will be the case where the individual is paid a fixed level of remuneration or if the amount varies but it is not linked to the profits and losses of the LLP.

B. The member does not have significant influence over the affairs of the whole LLP.

C. The member's contribution of capital to the LLP is less than 25% of the disguised salary for the tax year.

An LLP member who meets all these conditions will now be treated as an employee for tax under PAYE. Furthermore, both the member and the LLP as employer will have to pay class 1 national insurance contributions (NICs) rather than the overall much lower level of self-employed NICs.

To prevent their being treated as employees, members of LLPs will need to establish that they do not meet at least one these conditions, for example by making sure that at least 25% of their earnings remains within the LLP. Individuals who were LLP members at 6 April 2014 have three months (i.e. by 6 July 2014) to provide sufficient capital to ensure that condition C does not apply.

The new rules for LLPs were part of a wider set of provisions covering the taxation of partnerships. Another set of rules was aimed at preventing the allocation of profits to corporate partners in order to take advantage of the generally lower rates of tax that apply to companies.

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