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JWS NEWS

A capital relief? The new annual investment allowance

As announced in the 2012 Autumn Statement, the annual investment allowance (AIA) has increased from £25,000 to £250,000 for a temporary period of two years, with the aim of encouraging small and medium-sized businesses to invest in plant and machinery.

What is the AIA?

The AIA provides a write-off against current year earnings for qualifying capital expenditure, up to the set limit each year. It is effectively a 100% capital allowance. Although the AIA is available in respect of most items of plant and machinery, there are exceptions, the most notable of which is cars, which do not qualify for the AIA.

The AIA is optional and businesses do not have to claim it. They can instead claim normal writing down allowances.

Changes to the rules

The AIA limit has increased from £25,000 to £250,000 for expenditure incurred between 1 January 2013 and 31 December 2014. The increase applies to all businesses, regardless of whether they are within the charge to income tax or the charge to corporation tax. Where a business has a chargeable period corresponding to the calendar year, the business will have an AIA limit of £25,000 for 2012, increasing to £250,000 for 2013 and 2014 and reverting to £25,000 for 2015 (subject to any legislative changes before this).

Periods straddling 1 January 2013

Not all businesses have chargeable periods that coincide with the calendar year. Where a chargeable period straddles the date of the change – 1 January 2013 – the business will need to calculate its AIA limit for the chargeable period in two parts.

Entitlement to the AIA stands at £25,000 per annum before 1 January 2013 and at £250,000 thereafter. The AIA limit for a chargeable period spanning 1 January 2013 is found by determining the number of months in the period before 1 January 2013, dividing by 12 and multiplying by £25,000. The next step is to calculate the number of months for the period after 1 January 2013, dividing by 12 and multiplying by £250,000. The results of each calculation are then added together.

Example

A business has a 31 March year end. Its AIA limit for the year to 31 March 2013 is found as follows:

(9/12 x £25,000) + (3/12 x £250,000) = £18,750 + £62,500 = £81,250.

The AIA limit for the year to 31 March 2013 is therefore £81,250. However, expenditure incurred prior to 1 January 2013 which can qualify for the AIA is capped at £25,000.

Expenditure in excess of the AIA limit qualifies for writing down allowances at either 18% or 8% in the normal way.

Similar rules apply where a chargeable period straddles 31 December 2014 (the end date for the temporary increase).

Please contact us for more information on capital allowances, and to discuss the timing of any investments that you may be planning.

Inside this Issue...

Taxing changes: what's in store?

As Spring approaches, many individuals will be wondering what lies in store for the 2013/14 tax year and beyond, particularly in light of the raft of measures unveiled in the Chancellor's 2012 Autumn Statement. Here we provide a summary of some of the key tax changes on the horizon, along with some handy tax planning hints and tips.

Increase in the personal allowance

In the 2012 Budget it was announced that the tax-free personal allowance for 2013/14 would rise to £9,205. In the 2012 Autumn Statement this was increased by an extra £235 to £9,440.

The basic rate limit for income tax will be adjusted such that the higher rate threshold above which individuals pay income tax at 40% increases by 1% in 2014/15 and 1% in 2015/16. For 2013/14, the higher rate threshold will be £32,010, decreasing from the current £34,370.

Meanwhile, the age-related personal allowances will not be increased and their availability will be restricted to people born on or before 5 April 1948:

born 6 April 1938 – 5 April 1948	£10,500
born before 6 April 1938	£10,660

✔ TIP: Maximise personal allowances

If your spouse or partner has little or no income, you might want to consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their personal allowances. Please contact us before taking action as we will need to consider the wider implications for you and your family.

Additional income tax rate falls to 45%

From 6 April 2013 the additional rate of income tax, which is levied on those with incomes over £150,000, is set to fall from 50% to 45%. Consequently, the dividend additional tax rate will be reduced in line with this from 42.5% to 37.5% and trust rates will mirror these changes.

✔ TIP: Reduce tax rates across the family

While the 50% rate may be falling, it is always advisable to review tax rates across the family to ensure that you are making the most of tax-free opportunities and keeping marginal tax rates as low as possible. For example, it is costly for one spouse or civil partner to be paying tax at 40% or even 45% while the other pays tax at only 20%. Talk to us for strategies tailored to your individual circumstances.

Corporation tax rates lowered

The main rate of corporation tax will be reduced from 24% to 23% for the financial year commencing 1 April 2013. In his Autumn Statement, the Chancellor also revealed that from 1 April 2014 the main rate of corporation tax will be reduced to 21%. This is a greater reduction than previously announced in the 2012 Budget, which intended a rate of 22% from 1 April 2014.

✔ TIP: Consider the timing of expenditure

By incurring expenses shortly before the year end rather than after, relief for those expenses is obtained 12 months earlier. With the main rate of corporation tax set to fall further over the coming years, incurring expenses earlier rather than later may also provide relief at a higher rate.

Company car tax rates

At the time of the Autumn Statement, HMRC revealed that the car fuel benefit charge multiplier will rise from £20,200 in 2012/13 to £21,100 in 2013/14. Meanwhile, the van fuel benefit charge is also set to increase from £550 to £564 from 2013/14.

✔ TIP: Time to review your company car policy?

With our help, you can determine whether the company car is still a tax-efficient option or whether a qualifying 'van' might be an alternative. It may also be worth reviewing the company car policy completely, as it could prove more beneficial to pay employees for business mileage in their own vehicles, at the statutory mileage rates.

And from 2014/15 … pensions tax relief reduced

Following widespread speculation, the Autumn Statement confirmed the Government's plans to cut pensions tax relief. In the event, the Chancellor revealed that the annual allowance will be reduced to £40,000 with effect from 6 April 2014. In addition, the lifetime allowance will be lowered to £1.25 million with effect from 2014/15.

These are just some of the changes coming into effect. For further information or to discuss how the above changes may affect your financial planning, please contact us.

Home from home? The tax implications of your holiday property

When the time comes to sell your holiday home, it can be something of a surprise to be confronted with a capital gains tax (CGT) bill.

However, a residential property which is not your main home (or 'principal private residence') is not CGT-exempt – a gain is taxable and a loss is available to offset against gains on other assets, or to carry forward.

Calculating your CGT liability

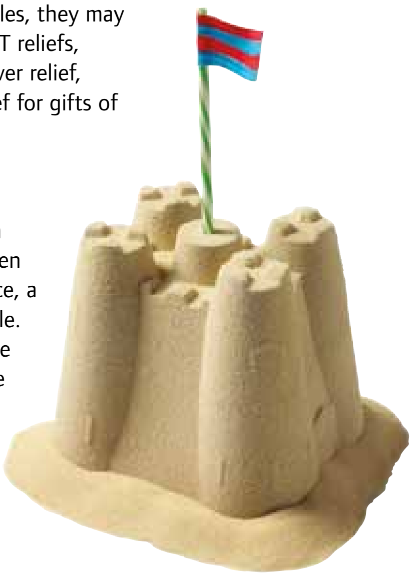
Any gain is calculated by taking into account the net sale proceeds, minus the total cost, resulting in the taxable gain (or allowable loss). Tax is charged on the gain, after deduction of the annual exempt amount and any losses available to set off.

Net proceeds are the figure left after deducting the incidental costs of disposal. For a sale, these may include: estate agents' and solicitors' fees (including VAT), advertising costs, and agents' 'For Sale' board charges. The cost is the original purchase price plus stamp duty, solicitors' charges, land registry charges, and the cost of 'improvements' to the property.

The definition of improvements is broad, and we would be happy to discuss this area with you. For the cost of an improvement to be deductible, it must have been expended to enhance the value of the property, and be reflected in the value of the property at the date of disposal. (So, for example, the cost of fitting a kitchen where there was not one at the time of acquisition would qualify, but not if it by then needed replacement).

Holiday lettings

Not all holiday homes are retained for the use of friends and family. Some holiday homes are let and, if they qualify for the special Furnished Holiday Lettings rules, they may also be eligible for certain CGT reliefs, including business asset rollover relief, entrepreneurs' relief, and relief for gifts of business assets.



A second home?

As mentioned above, unless a property has at some time been your principal private residence, a gain on disposal will be taxable. However, where the use of the property is such that it can be defined as being a 'second home', it is possible that an election can be made which will extend the CGT exemption to part of the disposal gain, as in the following example.

Example

Mr Andrews works in London. He owns a house and spends almost every week there, Monday to Friday. On Friday afternoons, Mr Andrews catches a train to Devon, picks up his car from the station car park, and drives to his second home. That house is fully equipped, the fridge and cupboards are stocked, and Mr Andrews has wardrobes and drawers full of clothes. After considering the case in full, it may be possible for Mr Andrews to make the election for a short period, meaning that a gain on the sale of the house may qualify for some relief.

Note that time limits apply to this claim.

As with many assets, it may be worth keeping the property 'in the family' – by gifting it to your children, for example. We can advise you on the most appropriate strategies for your circumstances.

For further information and advice on minimising your tax liabilities, please contact us.

VAT cash accounting scheme: could you benefit?

The cash accounting scheme is an optional VAT scheme, under which businesses do not pay the VAT charged on sales to HM Revenue & Customs (HMRC) until the customer has paid them. Similarly, VAT on purchases and expenses cannot be reclaimed until the supplier has been paid.

This contrasts with the standard VAT scheme, under which VAT is paid on invoices issued, even if the customer has yet to pay, and VAT is reclaimed on invoices received, even if the supplier has yet to be paid.

Eligibility

The cash accounting scheme can be used by businesses whose estimated taxable turnover for VAT purposes during the next tax year will not exceed £1.35 million. VAT taxable turnover covers all standard rated, reduced rated and zero-rated supplies but excludes the VAT on those supplies, sales exempt from VAT and sales of capital assets.

Once a business has joined the cash accounting scheme, it can remain in the scheme until its taxable turnover exceeds £1.6 million.

HMRC will not allow businesses that are not up to date with their VAT returns and payments, or persons who have been convicted of a VAT offence or charged a penalty for VAT evasion in the last year, to use the scheme.

The advantages of cash accounting

The cash accounting scheme has a number of advantages over standard VAT accounting. Cash accounting can be beneficial to the business's cashflow as the VAT charged on sales does not have to be paid to HMRC until the customer has paid the bill.

Furthermore, the scheme provides automatic bad debt relief, in that if the customer fails to pay, the VAT charged on the invoice does not have to be paid to HMRC.

The disadvantages

However, the scheme also has a number of disadvantages. VAT cannot be reclaimed on purchases and expenses until payment has been made to the supplier (rather than on the invoice). Under the cash accounting scheme, where a business reclaims more VAT than they pay to HMRC, they will receive their repayments later and, as such, the scheme is unlikely to be beneficial for such businesses.

We can help with all of your VAT planning needs – please contact us for advice and assistance.

Tax Round-Up

Tax simplification for small unincorporated businesses

With effect from the 2013/14 tax year, a new voluntary cash basis will be introduced for small unincorporated businesses, together with simplified arrangements for some business expenses.

The new cash basis will allow eligible self-employed individuals and partnerships with annual receipts of up to the current VAT threshold of £77,000 to calculate their profits on the basis of the cash that passes through their business. They can stay in the scheme for as long as their turnover remains below £154,000.

Businesses in the scheme will generally not need to distinguish between revenue and capital expenditure. In addition, all unincorporated businesses will be able to choose to deduct certain expenses on a flat rate basis.

The new rules on VAT e-invoicing

With effect from 1 January 2013, new VAT legislation came into effect with the aim of simplifying the process of electronic invoicing, and encouraging uptake.

Following the changes, individual member states can no longer impose conditions on businesses seeking to issue electronic invoices.

The new rules allow for the equal treatment of paper and electronic invoices, with the method used being left to individual buyers and sellers, although the customer must agree to the use of an electronic invoice and the content of the invoice must be accurate.

It is advisable to keep all original documentation, whether in paper or electronic form, and to ensure that your processes for dealing with paper and electronic invoices are consistent.

Research suggests that the majority of invoices currently remain paper-based, and SMEs spend an average of 25 hours a week managing and chasing invoices, a significant proportion of which remain unpaid.

Child benefit changes spark surge in opt-outs

Changes to the rules on child benefit came into effect on 7 January, meaning that families in which one parent has a taxable income of more than £50,000 will lose some or all of their benefit, and drawing many thousands of individuals into the self assessment system.

Under the new regime, the benefit will be 'clawed back' from higher earners via HMRC's new High Income Child Benefit Charge, and will be withdrawn entirely where an individual's salary exceeds £60,000.

Individuals who know that their income will exceed the limits have the right to opt out of receiving the benefit. Around 270,000 individuals have already chosen to do so, with HMRC reporting a late surge of 80,000 in the weekend running up to 7 January.

Affected claimants who choose to retain their benefit will need to register for self assessment by 5 October 2013. Those who have not yet opted out can still do so, but may face a tax charge for the time during which they remained in the system.

We can help with all of your tax and financial planning needs, including dealing with your tax returns on your behalf. Please contact us for further assistance.

Tax Tip

Are you making the most of salary sacrifice?

By using a salary sacrifice scheme you can reduce your total salary costs while increasing the value your employees receive from their employment package. This involves substituting part of your employees' pay for a tax-free voucher or benefit. Examples include childcare vouchers worth up to £55 per week (per parent), the use of a company bicycle and safety equipment, and a daily meal allowance for employees incurring a cost on a meal or meals while travelling.

Reminders for your Spring Diary

March

2 Last day to pay any balance of 2011/12 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 the period ended 31 March 2012.

April

5 Last day of 2012/13 tax year.

Deadline for 2012/13 ISA investments.

Last day to make disposals using the 2012/13 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2013.

19/22 Quarter 4 2012/13 PAYE remittance due.

20 Interest will begin to accrue on unpaid PAYE/NI for 2012/13.

30 Normal annual adjustment for VAT partial exemption calculations (monthly returns).

May

1 Start of daily penalties for 2012 online Tax Return not yet filed. Additional penalties may apply for further delay.

3 Submission date of P46 (Car) for quarter to 5 April.

19 Last day for filing forms P14, P35, P38 and P38A – 2012/13 PAYE returns – without incurring penalties.

31 Last day to issue 2012/13 P60s to employees.