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JWS NEWS

Alleviating the capital gains tax headache

Capital gains tax (CGT) is levied on the gain (profit) you make when you sell or otherwise dispose of an asset. CGT is payable at a standard rate of 18% for basic rate taxpayers or 28% for higher and additional rate taxpayers. However, careful planning can help to minimise your CGT bill.

Transfer assets

Husbands and wives, and civil partners, each have their own CGT allowance, known as the annual exempt amount (£10,600 for 2012/13). It may be possible to utilise both allowances by transferring assets to your spouse or civil partner, or transferring them into joint names, also achieving a lower overall tax rate if one of you is a basic rate taxpayer.

Holding an asset in joint names means the annual exempt amount for each individual (£10,600) is deducted from the gain before tax is due. If appropriate, you might want to transfer full ownership to a spouse or civil partner where their income places them in the lower rate tax band, thereby making use of both income and capital gains allowances.

Note that a transfer of this type constitutes a legal transfer and you should seek expert advice before taking action.

Sell gradually

Individuals with a particularly large gain on a divisible asset, for example a holding of shares, may want to realise it gradually to take full advantage of more than one tax year's CGT allowance. However, you should only consider spreading a disposal if you will not be putting your gain at risk in the meantime.

Pension contributions

Pension contributions are generally deducted from income before tax. Increasing your pension contributions could allow you to extend the limits of the lower tax rate band. Any capital gains realised in the same year are taxed in accordance with this extended band after allowances have been taken into account.

Make use of losses

You might also want to consider claiming a CGT loss for assets which have become of negligible value. This can be offset against current year gains or carried forward if you have no gains in 2012/13.

Entrepreneurs' Relief

Entrepreneurs' Relief can reduce the tax rate on the first £10m of qualifying lifetime gains to 10%. Certain rules and conditions apply.

Other reliefs

Other reliefs may also be available, such as: private residence relief; business asset roll-over relief; incorporation relief; Gift Aid contributions; and gifts hold-over relief for certain types of asset or gift. Please talk to us about these and other reliefs that may apply.

And don't forget…

A number of assets can grow in value, free of CGT. For example, CGT is not levied on any asset held in an Individual Savings Account (ISA), so you may each want to invest up to the annual maximum, to ensure that gains on shares acquired within the account are CGT-free in the future.

Other exemptions include Premium Bonds, profits from selling your main home or private car, betting and lottery winnings, personal injury awards and personal possessions worth no more than £6,000 each or per set.

We can help you plan to minimise your CGT liability – please contact us for advice.

Winter 2012/13

Inside this Issue...

Preparing for Real Time Information

April 2013 sees the introduction of HM Revenue & Customs' (HMRC's) new Real Time Information (RTI) regime, heralding fundamental changes to the way in which employers and pension providers must report the payments and deductions they make under Pay as You Earn (PAYE).

The current system

Under PAYE, employers deduct an appropriate amount of income tax and national insurance contributions (NICs) from employees' wages, in accordance with PAYE codes, tables and other instructions and procedures laid down by HMRC. Employers then add their own employer NICs and pay the total to HMRC, net of certain adjustments, every month or quarter.

However, it is not until the end of the tax year, when the annual return is completed, that the overall liability is reviewed and calculated. Under this system, inaccuracies can go undetected for a long time, with the result that individuals can go for extended periods inadvertently paying the wrong amount of tax.

Working in real time

The new RTI regime aims to ensure that the correct deductions are made from pay, resulting in more individuals paying the right amount of income tax and NICs throughout the tax year.

RTI requires employers and pension providers to submit information to HMRC regarding deductions they have made for PAYE, NICs and student loans ***when or before each payment is made***, rather than at the end of the year.

HMRC believes the new system will also make the reporting process simpler and less burdensome for employers, simplifying the PAYE end of year reconciliation process and removing the need to submit year end forms P14 and P35, and form P38A for casual employees.

Types of RTI submission

Full Payment Submission (FPS)

The FPS contains details of all employee payments and deductions, together with any new employees and those who have left the business.

An FPS is required ***each time an employer makes a payment to an employee***, either at or before the time of payment, whether this is weekly or monthly, and it includes those whose income is below the lower earnings limit for NICs.

Employer Alignment Submission (EAS)

This is used to match and align employee records with those held by HMRC. You will need to submit an EAS if you have a large PAYE scheme with over 250 employees, if your scheme is split between different payroll providers or you have two or more payroll systems, or if you are unable to make a single FPS submission due to bandwidth restrictions.

Employer Payment Summary (EPS)

An EPS can be submitted where no payments are made to any employees in a pay period, or to advise HMRC of an alteration to your overall PAYE and NIC liability, recover statutory payments, etc.

National Insurance Number Verification Request

This allows employers to validate an employee's national insurance number, or to trace a number where it is not known.

Earlier Year Update

This submission is used after 19 April to correct any of the year-to-date totals submitted in your final FPS for the previous tax year.

Timescale for the changes

The new system is being phased in from April 2013 for all micro, small and medium-sized businesses and most large employers and payroll bureaux, and will be mandatory for all employers from October 2013. Businesses employing more than 5,000 people will arrange a 'migration date' between April and October with HMRC.

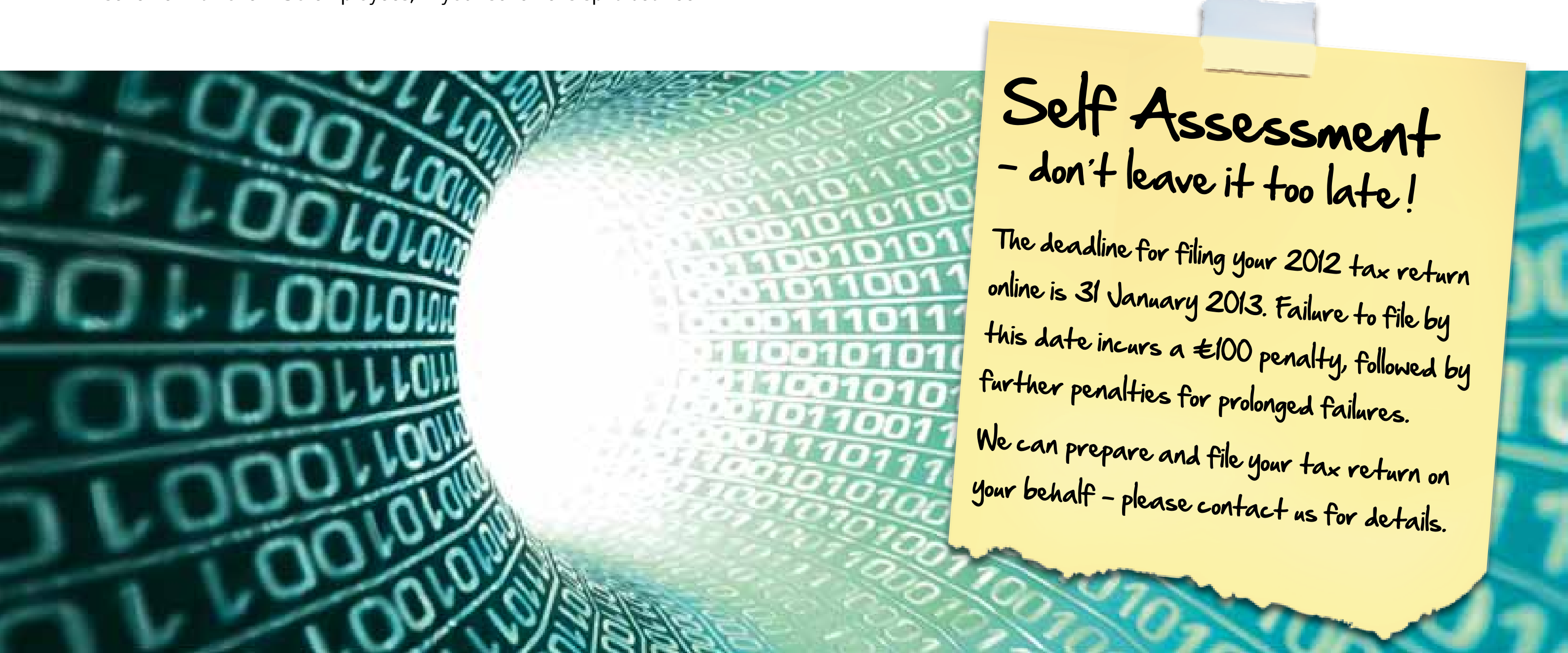
New PAYE schemes set up from November 2012 will be allowed to send payroll information in real time, as will employers joining HMRC's RTI trial before March 2013. In addition, existing employers who in 2012/13 use (or switch to) software which is RTI compliant will also be allowed to report using the new system. Small employers, with nine or fewer employees, can use the free HMRC Basic PAYE Tools package instead of commercial payroll software.

Preparing for RTI

HMRC will notify employers 4-6 weeks before they must begin using RTI. However, it is important to prepare for the move ahead of time as you may need to change some of your systems and procedures.

This includes checking in advance that your payroll data is accurate and in an appropriate format for RTI. In addition, you should ensure that your payroll software (or provider) is capable of processing RTI data (or, if you do not use payroll software, that you are able to submit data to HMRC electronically by the deadline).

We can offer assistance with your payroll function. Please contact us for further information.



Expenses payments - lightening the load

Employers face an increasing number of record-keeping and reporting obligations, including the requirement to report each director and relevant employee's expenses payments to HMRC on individual forms P11D each year. However, this process may be avoided by means of a dispensation.

What is a dispensation?

This agreement with HMRC removes the requirement for forms P11D. There is also no need for the employee to report the items on his or her self assessment return, nor is there any tax or national insurance to pay. A dispensation effectively allows all parties to ignore the items concerned for tax and national insurance reporting purposes.

What can be included?

A dispensation can apply for all expenses for which the employee would normally be able to claim as being 'wholly, exclusively and necessarily incurred'. Essentially these are items for which the net tax position is nil.

In the absence of a dispensation, the employer would report the expense on the employee's P11D and the employee would be taxed on it. However, the employee would probably claim a deduction for the expense, offsetting the tax liability. The dispensation removes the need to take this circuitous route.

Providing they do not breach the 'wholly and exclusively' rule, the main expenses that can be included within a dispensation are: travel and subsistence expenses; telephone expenses; business entertainment costs (though the employer must still keep an overall record of such costs); credit cards used for business purposes; and fees and subscriptions.

Exclusions

Dispensations are not granted in respect of reimbursed mileage for business travel in a car owned by the employee, for which the approved mileage allowance exists. Mileage payments can be made tax-free to the extent that they do not exceed certain limits – please contact us for further information.

A dispensation cannot be granted for any item for which there is no corresponding deduction. The reporting requirements are only lifted where there is no tax at stake.

Other requirements

Independent systems should be in place for checking expenses, with claims being checked by someone other than the employee making the claim. We will be happy to discuss with you the systems that HMRC will expect to see in place, before granting a dispensation.

For further advice on how we can alleviate your reporting requirements, together with strategies to reduce your business tax liability and boost profitability, please contact us.

Class 2 NICs: your questions answered

The self-employed (including partners in partnerships and members of trading LLPs) are liable to pay Class 2 NICs. These are flat rate weekly contributions and are the means by which the self-employed earn entitlement to the basic state pension and certain contributory benefits. Here we answer some frequently asked questions on Class 2 NICs.

Q. How do I register for Class 2 NICs?

A) The newly self-employed must register with HMRC for business taxes, and registration for Class 2 NICs is usually done at the same time. We can complete the forms on your behalf, and discuss with you the most appropriate method of payment.

Q. How much do I need to pay?

A) Class 2 contributions are payable at a flat rate of £2.65 per week (2012/13).

However, if you expect your earnings from self-employment to be less than the small earnings exception limit (£5,595 for 2012/13), we can advise on applying for an exception from paying Class 2 contributions. You may, if you wish, continue to pay Class 2 contributions voluntarily to keep up your entitlement to the basic state pension and other benefits.

And don't forget, the self-employed will also need to pay Class 4 NICs. These are paid as a percentage of your annual taxable profits – 9% on profits between £7,605 and £42,475 (2012/13), and a further 2% on profits over that amount.

Q. When are payments due?

A) Class 2 NIC payments are due on 31 January and 31 July, corresponding with the self assessment payment deadlines.

If you expect to be both employed and self-employed it may be possible to 'defer' some of your Class 2 and/or Class 4 NICs. This means you will pay what is due after the end of the tax year when the actual amount has been calculated, thus avoiding the likelihood of paying too much national insurance on your self-employed income.

Q. How do I pay my contributions?

A) HMRC recommends that the self-employed pay their Class 2 NICs by direct debit. Contributions can be paid either monthly or six monthly. Where a direct debit has not been set up, HMRC will issue a payment request and the payments are made in arrears.

Other ways to pay include internet or telephone banking, Faster Payments or CHAPS, bank giro, or at the Post Office. Payments can also be made by post, although this is generally discouraged.

It is imperative that the correct reference number is used when making payments of Class 2 NICs. This comprises an 18-digit number beginning with '11' and is shown on the initial letter sent out by HMRC. We can check the number on your behalf.

Please call us if you would like further help or information on this subject.

Year End Planning

Your Year End Tax Planning Checklist

With the end of the tax year drawing closer, it is important to make sure that you have taken advantage of all of the tax-saving opportunities that are available to you. Please see our checklist (right) for key tax planning strategies that could apply to you, ahead of the year end.

We can advise on strategies to minimise taxes and maximise the strength of your business and long-term financial health by, for example:

- planning to extract profits from your business tax-efficiently
- taking advantage of tax breaks such as capital allowances
- making the most of tax-advantaged saving opportunities, including ISAs
- utilising personal allowances and reliefs across the family
- boosting your retirement income through pension contributions
- using reliefs and allowances to reduce the inheritance tax due on your estate.

It's all in the timing

Timing is crucial if you want to maximise tax relief or minimise your tax bill. It can also determine when any reliefs impact on your tax payments or your tax code.

Remember, we are here to help you, so please contact us in good time so that we can work with you to minimise your tax bill and maximise your personal wealth.

I will...	Actioned (✔)
Make the most of my 2012/13 ISA allowance	
Talk to my accountant about ways to extract profits from my business at the smallest tax cost	
Find out how the timing of dividends and bonuses could reduce or defer tax	
Review my pension arrangements	
Claim capital allowances for expenditure on business equipment	
Find out the impact of accelerating disposals into the current financial year or deferring them into the next	
Plan to minimise the tax take, including VAT and capital gains tax	
Review my estate plan and my Will	
Put in place a tax-efficient gifting strategy	
Consider ways of improving cash collection	
Make sure I am offering tax-efficient staff remuneration packages	
Contact my accountant regarding these and any other issues relating to my business, tax and personal financial situation	

Reminders for your Winter Diary

December

30 Last day for online submission of 2012 Tax Return for HMRC to collect tax through clients' PAYE code, where they owe less than £3,000.

31 Last day for non-EU traders to reclaim recoverable UK VAT suffered in the year to 30 June 2012.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2011.

January 2013

1 Due date for payment of Corporation Tax for period ended 31 March 2012.

14 Due date for income tax for the CT61 quarter to 31 December 2012.

18/22 Quarter 3 2012/13 PAYE remittance due.

31 First self assessment payment on account for 2012/13.

Capital gains tax payment for 2011/12.

Balancing payment – 2011/12 income tax/ Class 4 NICs.

Last day to renew 2012/13 tax credits.

First payment due date for 2012/13 Class 2 NICs.

Deadline for amending 2010/11 Tax Return.

Last day to file the 2012 Tax Return online without incurring penalties.

February

1 £100 penalty if 2012 paper Tax Return not yet filed. Additional penalties may apply for further delay. Interest starts to accrue on 2011/12 tax not yet paid.

2 Submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2012/13.