OLLIS & CO

Chartered Accountants & Registered Auditors

Nelson House, 2 Hamilton Terrace, Leamington Spa, Warwickshire CV32 4LY
T 01926 335381 F 01926 450287 E enquiries@ollisandco.com
www.ollisandco.com

Business Focus

Pension tax relief: what you need to know

April 2014 sees the latest changes to pension tax relief, with both the annual and lifetime allowances set to be reduced.

The annual and lifetime allowances

From 2014/15 the annual allowance (the cap on the amount you can contribute into a pension without paying a tax penalty in the pension input period ending in the tax year), will be cut from £50,000 to £40,000. In addition, the overall tax-advantaged pension savings lifetime allowance will fall from £1.5 million to £1.25 million. Both caps apply to contributions from all sources, including money paid by employers and contributions made by individuals directly.

However, where premiums paid in the pension input periods (PIPs) ending in the preceding three years are less than the annual allowance, unused relief may be carried forward – please speak to us for further advice.

What happens if I exceed the allowance?

There may be a tax charge for fund contributions exceeding the annual allowance (either payable by the scheme or under self assessment by the investor). Note that the annual allowance charge will claw back all tax relief on premiums in excess of the maximum.

Where pension savings exceed the lifetime allowance at retirement (and fixed, primary or enhanced protection is not available) a charge arises as follows:

Tax charge (excess paid as annuity)	Tax charge (excess paid as lump sum)
25% on excess value, then up to 45% on annuity	55% on excess value

Fixed Protection

'Fixed Protection 2014' is available for individuals with lifetime pension savings of between £1.25 million and £1.5 million. It enables individuals to fix their lifetime allowance at the higher value of £1.5 million without paying the lifetime allowance charge.

To receive Fixed Protection you must apply by 5 April 2014. Applications can be made in the post or online (via www.hmrc.gov.uk/pensionschemes/), but please seek expert advice before taking action.

It should be noted that you cannot have Fixed Protection 2014 if you already have primary or enhanced protection, or you took out Fixed Protection in 2012. Other rules apply, so please contact us for further information.

Individual Protection

As confirmed in the 2013 Autumn Statement, the Government is also introducing 'Individual Protection 2014' (IP14). Individuals with IP14 will have a lifetime allowance of the value of their pension savings on 5 April 2014, subject to an overall maximum of £1.5 million. Applications for IP14 can be made from 6 April 2014, but again, it is advisable to seek advice from a qualified pensions expert.

We can help to ensure that your personal finances are as tax-efficient as possible, and would be happy to advise on strategies to help you secure a comfortable retirement.

Inside this Issue...

Q&A The new Employment Allowance

From April 2014 businesses and charities will be entitled to a new annual 'Employment Allowance', worth up to £2,000. Here we answer some frequently asked questions on the new allowance.

Q. What is the Employment Allowance?

A. The Employment Allowance is a new measure designed to support businesses with the cost of employment. The allowance will cut up to £2,000 from every business and charity's national insurance bill over the course of the year's PAYE payments.

Q. Who will benefit?

A. The allowance will apply to all businesses, charities and Community Amateur Sports Clubs. According to recent Government estimations, around 1.25 million employers will benefit from the measure, while 450,000 firms are expected to be taken out of national insurance altogether in 2014/15.

Q. When is it being introduced?

A. The measure comes into effect from 6 April 2014.

Q. How will it work?

A. HM Revenue & Customs (HMRC) intends to deliver the new Employment Allowance through standard payroll software and its Real Time Information (RTI) system. A 'yes/no' Employment Allowance indicator facility will be added to the RTI Employer Payment Summary (EPS) and payroll providers will also be required to update their software in the same way.

To claim the allowance, employers will need to notify HMRC by completing the yes/no indicator. They will only need to do this once. The employer's payroll software will then offset the allowance against each monthly Class 1 secondary national insurance contributions (NICs) payment that is due to be made to HMRC until the allowance is fully claimed or the tax year ends. For the following tax year, it is proposed that the allowance will be available as an offset against a Class 1 secondary NICs liability as it arises during the tax year.

A similar process will mirror the IT procedure where an employer still submits their returns on paper.

Q. What if I have more than one PAYE scheme?

A. The Employment Allowance will apply per employer and can only be claimed once, irrespective of how many PAYE schemes the employer chooses to operate. It will be up to the individual employer to decide which PAYE scheme to claim it against.

Please note that this article is based on the draft legislation available at the time of printing. For further advice and strategies to help keep your tax liability to a minimum, please contact us.

2013 Autumn Statement: the key measures

Chancellor George Osborne presented the 2013 Autumn Statement on 5 December. Here we summarise some of the main announcements that could affect you and your business, but for further details please contact us.

New cap on business rates increases

The Chancellor announced that business rates increases in England will be capped at 2% in 2014/15. Businesses will also be allowed to pay their rates in 12 monthly instalments from 1 April 2014.

Business rates discount

In addition, a business rates discount of up to £1,000 will be introduced for 2014/15 and 2015/16, to apply to certain retail properties with a rateable value of up to £50,000.

The Government will also introduce a 50% business rates reoccupation relief for 18 months up to the State aid limits, for businesses that move into retail premises that have been empty for a year or more.

Small Business Rate Relief extended

The temporary doubling of the Small Business Rate Relief (SBRR) has been extended for a further 12 months to April 2015.

The Government will also relax the rules to allow businesses taking on an additional property to retain SBRR on the first property for one year, with effect from 1 April 2014.

Employer NICs for under-21s

From 6 April 2015, employers will no longer be required to pay Class 1 employer NICs on earnings paid up to the Upper Earnings Limit to any employee under the age of 21. This will apply to both existing employees and to employers taking on new staff.

Income tax

As announced at Budget 2013, from 2014/15 the personal allowance for those born after 5 April 1948 will be increased to £10,000 and the basic rate limit will be reduced to £31,865. The higher rate threshold will be set at £41,865.

Transferable tax allowance for married couples

From April 2015, eligible spouses and civil partners can transfer £1,000 of their personal allowance to their partner, where neither pays tax at the higher or additional rate.

State pension

The Chancellor has confirmed that the State Pension Age (SPA) could rise to 68 by the mid-2030s and to 69 by the late 2040s.

Individuals who have not built up a full entitlement to the state pension are currently allowed to pay voluntary NICs before SPA to increase their entitlement. From October 2015 a new class of voluntary NIC (Class 3A) will be introduced, giving those who reach SPA before 6 April 2016 an opportunity to boost their Additional State Pension.

Capital gains tax (CGT)

For the sale of a property which has at some time been the person's principal private residence, the final period exemption will be reduced from 36 months to a maximum of 18 months for disposals after 5 April 2014. This may also affect the entitlement to residential lettings relief.

The Government will also consult on plans to introduce a CGT charge on gains made by non-residents disposing of UK residential property after 5 April 2015.

Capital allowances and second-hand fixtures

April 2014 sees the introduction of significant changes to the rules on capital allowances and second-hand fixtures.

The basics

Capital allowances permit businesses to write off the cost of capital assets, such as plant and machinery, against their taxable income. This includes plant and machinery that is a 'fixture' or part of a building such as lifts, air conditioning, heating and sanitary ware.

> From April 2014 plant and machinery allowances will not be available for any future owners of fixtures on any part of the past owner's qualifying capital expenditure which has not been pooled.

As a result of legislation introduced by the 2012 Finance Act, claiming capital allowances for the purchase of a second-hand fixture is conditional on certain requirements, namely the *pooling requirement* and, normally, the *fixed value requirement* (a formal apportionment of the sale price between fixtures and other items). In exceptional circumstances this requirement may be substituted by a *disposal value statement* (a written statement by the past owner of the value of fixtures previously brought into account, for example on the sale of a business property following permanent cessation of the business).

The rules apply to expenditure incurred on or after 1 April 2012 (corporation tax) and 6 April 2012 (income tax). However, as a result of transitional rules, the pooling requirement does not apply until 1 April 2014 (corporation tax) or 6 April 2014 (income tax). The effects of this requirement are examined below.

The pooling requirement

Where the interest in a fixture is transferred on or after 1 April 2014 for corporation tax purposes or on or after 6 April 2014 for income tax purposes, the current owner will only be able to claim plant and machinery capital allowances in respect of the fixture if the pooling requirement is met.

The pooling requirement is met if the past owner pooled their qualifying expenditure in respect of the fixture, either by allocating the qualifying expenditure in respect of the fixture to a pool or by claiming a first year allowance (FYA) or the annual investment allowance (AIA).

Conditions

The past owner must pool the expenditure in a chargeable accounting period in which they are treated as the owner of the fixture. For these purposes, the past owner is the last person who was entitled to claim capital allowances in respect of the fixture, by virtue of having incurred qualifying expenditure on it.

However, a person is not a past owner if they ceased to be treated as the owner before 1 April 2012 (for corporation tax purposes) or 6 April 2012 (for income tax purposes).

So from 1 or 6 April 2014, plant and machinery allowances will not be available for any future owners of fixtures on any part of the past owner's qualifying capital expenditure which has not been pooled. Where this is the case, the qualifying expenditure incurred by the current owner will be deemed to be nil.

Example

Mark owns a freehold office which he sells to Ben. The office contains various fixtures and fittings. Mark and Ben make an election to the effect that £30,000 of the purchase price relates to fixtures that Mark included in the general pool, and in respect of which he has claimed capital allowances. This is the value that Mark is required to bring into account as a disposal value and the value of the qualifying expenditure on which Ben can claim capital allowances. The purchase price also includes fixtures and fittings valued at £20,000 on which Mark has not claimed capital allowances, although he could have done so.

If the sale takes place before 6 April 2014, the pooling requirement does not have to be met and Ben can claim plant and machinery capital allowances on both the fixtures valued at £30,000 on which Mark has claimed capital allowances and the fixtures valued at £20,000 in respect of which no allowances have been claimed.

However, if the transfer takes place on or after 6 April 2014, Ben can only claim capital allowances in respect of the fixtures valued at £30,000 in respect of which the pooling requirement has been met. He is deemed to have qualifying expenditure of nil in respect of the fixtures for which the pooling requirement is not met.

For further advice and information on claiming capital allowances for your business expenditure, please contact us.

Tax Round-Up

Smallest businesses gain Real Time PAYE extension

Micro employers with fewer than 10 employees have been granted additional time to comply with HMRC's new RTI reporting requirements.

Under RTI, employers must submit their PAYE information to HMRC *on or before* the day of payment.

HMRC previously granted a temporary relaxation of the RTI regulations for employers with fewer than 50 employees who pay their staff weekly or more regularly and find it difficult to report at the time of payment. These employers have been allowed to send information by the date of their regular payroll, but no later than the end of the tax month.

While this relaxation of the rules will come to an end as planned in April 2014, HMRC has since announced that businesses with fewer than 10 employees will now be given until April 2016 to prepare for RTI. Until this time they may submit PAYE data on or before the last payday in the tax month. The concession will not apply to businesses that start up during this period.

HMRC to collect Class 2 NIC debts through PAYE

HMRC has confirmed that it will collect outstanding Class 2 NICs by adjusting PAYE tax codes from April 2014. The change will affect self-employed individuals who are now in PAYE, or who are paid a taxable UK-based private pension and owe HMRC Class 2 NICs.

HMRC began sending payment requests in April 2013 to taxpayers with outstanding Class 2 NICs. If an individual has received an incorrect payment request, the Revenue has asked that they contact them immediately.

If the payment is not made, HMRC has confirmed that it may collect the debt through the individual's PAYE code from April 2014. Alternatively, it may pass it to a private debt collection agency for recovery on its behalf.

Standard VAT return proposed for all EU businesses

The European Commission has outlined new proposals to introduce a standard VAT declaration for all European businesses, in a bid to remove the many variations in filing requirements that currently exist between the 28 EU member states. The stated aim is to make the system simpler and more cost-effective and to help reduce fraud.

However, while some businesses stand to benefit from a reduction in bureaucracy and costs, other firms could see their costs rise.

Under the plans, from January 2017 all businesses with a turnover of more than £1.7m would be required to file the new return on a monthly basis, compared with the quarterly returns that are currently required in the UK, significantly increasing the compliance burden for an estimated two million UK firms.

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

Tax Tip

Keen saver?

From 6 April 2014 the overall annual ISA subscription limit will rise from £11,520 to £11,880, of which up to £5,940 can be invested in cash. The subscription limit for Junior ISAs and the Child Trust Fund will also increase from £3,720 to £3,840.

Why not make the most of this popular **tax-free** savings vehicle and invest the full allowance during 2014/15 to ensure you receive the maximum tax advantage?

Reminders for your Spring Diary

March

2 Last day to pay any balance of 2012/13 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 2013.

April

5 Last day of 2013/14 tax year.

Deadline for 2013/14 ISA investments.

Last day to make disposals using the 2013/14 CGT exemption.

14 Due date for income tax for the CT61 period to 31 March 2014.

18/22 Quarter 4 2013/14 PAYE remittance due.

20 Interest will begin to accrue on unpaid PAYE/NI for 2013/14.

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

May

1 Start of daily penalties for 2013 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 2013/14 P60s to employees.