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# WatsON

Accountants • Business Advisors

## YOUR 'KIDS' FIRST PROPERTY

**How should parents approach buying a first property with their offspring?**

It is becoming increasingly common for parents to assist adult children with buying a first property. Some parents wish to give a child a share of a property, perhaps for estate planning purposes or as an investment for the future, but how should parents structure the purchase/gift so as to protect their objectives and the child's best interests?

Here are a few options:

### 1. TRANSFER THE PROPERTY INTO THE CHILD'S SOLE NAME

(provided he/she is over 18). This is a straightforward route, easy for the child and offering Inheritance Tax (IHT) advantages for the parents. However, it gives the parents no control, leaving the child free to sell and spend the proceeds as and when he/she wants and opens the property up to claims from a child's spouse or partner if a relationship breaks down. In addition consideration must be given to the potential Capital Gains Tax implications of the gift.

A Pre or Post Nuptial Agreement (for married children) or a Cohabitation Agreement (for unmarried children) could provide protection in these scenarios.

### 2. CO-OWNERSHIP COULD ALSO BE CONSIDERED

(the parents and child each owning a share of the property). This gives the parents some control and the child some financial independence. However, care must be taken over documenting how the proceeds of sale are to be split later, especially if outgoings and property improvement costs are not to be shared equally. Having a Declaration of Trust documenting the percentage split is advisable. Consideration should also be given to nuptial or cohabitation agreements if the child has a spouse or partner living at the property.

### 3. A TRUST COULD BE USED

This will usually be the best option if the parents are concerned about control, providing protection against spouses and partners and their own IHT planning. Under a Trust, the child would be entitled to the equity in the property (giving him or her some financial security) but the parents, as Trustees, would be the registered legal owners, managing the asset and deciding how or when to sell. They would have the option of transferring the legal title to the child when they feel the time is right. Further advice is needed, however, particularly on any tax implications of setting up the trust and ongoing tax charges.

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# SME RTI BREATHING SPACE

**A welcome postponement on filing penalties for SME's**

6 October 2014 sees the start of automated Real Time Information (RTI) late filing penalties. This was originally set for **ALL** Employers, but H M Revenue & Customs (HMRC) have announced that this will now only be the case for those employers with 50 or more employees. Small employers with less than 50 employees now have until 6 March 2015.

In due course HMRC will be sending out messages electronically to all employers advising them when the penalties will apply to them. This will be based on the number of employees shown on their records.

To avoid late filing penalties, you must make sure that all submissions due are fully up to date by 5 October 2014.

If the payment information is not received by HMRC as expected on an FPS (Full Payment Submission), or you haven't informed HMRC that no employees have been paid in any given tax period on an EPS (Employer Payment Summary), late filing penalties will apply. If you operate more than one PAYE scheme these penalties will apply to each scheme that does not comply.

At present HMRC will continue to charge late payment penalties on a risk assessed basis on payments due from employers for the tax year 2014-15 onwards. From April 2015 new automated in year late payment penalties will start.

In addition to the late filing penalties being issued for FPS and EPS submissions not received by the due date, a late filing penalty for any given month may be issued where the following applies:

- Payment information is not received as expected on an FPS
- HMRC have not been advised that no employees have been paid by sending an EPS.

The penalty amount will depend on the number of employees that are on the PAYE scheme (see below):

| No. of Employees | Payable per month per PAYE scheme |
|---|---|
| 1 - 9 | £100 |
| 10 - 49 | £200 |
| 50 - 249 | £300 |
| 250 or more | £400 |

Further penalties may be incurred where Returns are late for three or more months and this is set at 5% of the tax/NICs that should have been shown on the late Returns.

HMRC may decide not to issue a penalty if there is a good reason why the Return was late, reasons can be provided at the time of submitting the Returns.

The following examples may count as being reasonable excuses:

- death of a close relative or domestic partner at the time the Return was due to be filed
- serious illness of the person or close relative at the time the Return was due to be filed
- system failure due to fire, flood or IT difficulties

However the following examples would not count as being reasonable excuses:

- work pressures
- lack of information
- HMRC did not remind you to file!

# PENSION REFORM - AUTO ENROLMENT

**The Seven Steps to Preparing for Auto Enrolment - STEP 5**

## THE SEVEN STEPS

1. Know Your Staging Date
2. Assess Your Workforce
3. Review Your Pension Arrangements
4. Communicate the Changes to all your Employees
5. **Automatically enrol your eligible job holders who are not already active members of a qualifying pension scheme** *- in this issue*
6. Register with TPR and keep records
7. Contribute to your employees' pensions

*PLEASE REMEMBER THAT AUTOMATIC ENROLMENT IS COMPULSORY BUT ONGOING MEMBERSHIP IS NOT.*

*A JOBHOLDER HAS THE RIGHT TO OPT OUT OF A SCHEME BUT NOT OPT OUT OF AUTO ENROLMENT.*


## SEVEN STEPS TO PREPARE FOR AUTO ENROLMENT

### STEP 5

### AUTOMATICALLY ENROL YOUR ELIGIBLE JOB HOLDERS WHO ARE NOT ALREADY ACTIVE MEMBERS OF A QUALIFYING PENSION SCHEME

There are a number of steps set out in Law for the process of automatically enrolling eligible jobholders into an automatic enrolment scheme and time limits for completing the automatic enrolment.

The one month period from the eligible jobholder's automatic enrolment date is called the "joining window". At this time the employer must:

- give the eligible jobholders personal information to the pension scheme provider
- give enrolment information to the eligible jobholders
- ensure that the eligible jobholders are active members from their automatic enrolment date. ALL INFORMATION MUST BE GIVEN IN WRITING.

The pension provider may also require additional information including personal email addresses, gross earnings in any pay reference period and the value of any contributions payable to the pension scheme by the employer and the eligible jobholder.

The basic terms and conditions of the contract between the pension scheme provider and the eligible jobholder are to:

- explain the purpose of the personal pension scheme
- specify the services to be provided by the personal pension scheme provider
- specify the value of any contributions payable by the eligible jobholder, where this information is available to the pension scheme provider
- specify the charges payable to the pension scheme provider
- in the absence of a choice being made by the eligible jobholder, explain the investment strategy adopted by the pension scheme provider for the contribution made by the eligible jobholder and employer.

# ANNUAL TAX ON ENVELOPED DWELLINGS ('ATED')

**Will the Government's reduction in the threshold affect you?**

## WHAT IS ATED?

ATED is a new tax charge on UK residential property held within a company that is payable annually.

If you have high value residential property in corporate ownership and think the Annual Tax on Enveloped Dwellings doesn't apply - please read on.

The 2014 Budget has significantly widened the application of ATED, which was first introduced in 2013, and will extend the tax regime to UK residential property worth more than £500,000. This will bring far more properties within the scope of the annual charge.

## WHEN DOES ATED APPLY?

In broad terms, an ATED charge arises for any period from 1 April 2013 onwards where a company, a partnership with a corporate member or collective investment scheme owns UK residential property worth more than £2 million (valued at 1 April 2012).

The Government is to reduce the threshold at which ATED charges apply to £1 million from 1 April 2015 and to £500,000 from 1 April 2016.

## WHAT IS THE ATED CHARGE?

The amount of ATED payable depends on the valuation band into which the residential property falls.

| | Property Value £. | Annual Charge £. |
|---|---|---|
| From April 2016 | 0.5m - 1m | 3,500 |
| From April 2015 | 1m - 2m | 7,000 |
| Since April 2013 | 2m - 5m | 15,400 |
| | 5m - 10m | 35,900 |
| | 10m - 20m | 71,850 |
| | 20m+ | 143,750 |

## ATED RETURNS

The assessment period for ATED is the year from 1 April to 31 March (rather than the tax year, 6 April to 5 April). Tax is payable in advance, and the Return and the payment are due by 30 April in the year of assessment. It should be noted that if relevant residential properties are acquired at any point after 1 April in a year an ATED Return, or an Amended Return, must be filed within 30 days of any relevant acquisition. Similarly, if the usage of a property changes this can trigger a requirement for a Return, or an Amended Return, to be filed.

## ARE THERE ANY RELIEFS AVAILABLE?

There are various reliefs that can remove the requirement to pay ATED, including properties let on a commercial basis to a third party unconnected with the owner, properties held as trading stock in a development business and properties held for charitable purposes.

Importantly relief is not automatic and an ATED Return must still be submitted each year, even where there is no charge. Failure to make a Return will result in substantial penalties.

## ARE THERE ANY FURTHER IMPLICATIONS?

Properties caught by the ATED charge will be subject to Capital Gains Tax at 28% on disposal.

# KEEPING AN EYE ON YOUR CASH FLOW

**Cash is still King**

Cash is the lifeblood of a business but with so much emphasis usually put on profitability it can be easy to overlook this fact. Of course, the bottom line is important, but poor cash flow management can drive a growing and/or profitable company out of business.

The risk is especially great for expanding companies. For example, if billing is delayed at the same time as stock is accumulated to fulfil increased orders, you can find yourself short of the cash needed to pay suppliers and employees.

## WHAT ARE THE BENEFITS OF PROJECTION?

Cash flow projections are critical, especially in times of need, but you don't have to wait for a crisis to benefit from good cash flow planning. A properly developed cash flow projection can help a business foresee and prepare for potential shortages.

Cash flow management can also help:

- maintain adequate cash reserves to pay bills, expand the business and invest in facilities and product development
- reduce interest costs through managed borrowing
- increase interest income by transferring surplus funds into interest bearing accounts temporarily if appropriate
- receive discounts through bulk purchasing
- improve relations with the bank manager

Businesses that prepare cash flow projections often learn something about their systems, the dynamics of their business and the process often has other positive outcomes. For example, you might discover that you need to pay more attention to certain customers or that you can defer payments to suppliers more beneficially.

# CASH FLOW CHECKLIST

**20 signs that your business could be facing cash flow problems**

To help you focus on your cash flow and profitability we have prepared a Checklist (below). Simply circle 'Yes' or 'No' to indicate which statements are true for your business.

If you have more 'No' answers than you are comfortable with, you may be facing cash flow problems. **Call us to discuss an action plan.**

| | | |
|---|---|---|
| When we receive a job we know we can complete it and be paid on our terms | Yes | No |
| We send a bill as soon as we complete a job | Yes | No |
| Invoicing documents are accurate, complete and clear | Yes | No |
| Our credit procedures alert us to problem customers so that we can follow up on outstanding accounts | Yes | No |
| We monitor and enforce our credit terms and obtain deposits from "doubtful" payers | Yes | No |
| We finance capital expenditure in the most cost effective manner | Yes | No |
| Our pricing reflects time spent on jobs and covers associated risks | Yes | No |
| Employees understand the importance of the business's cash flow | Yes | No |
| We complete work efficiently | Yes | No |
| We catch mistakes before they reach customers | Yes | No |
| Mistakes cause us to improve processes | Yes | No |
| We keep a close eye on budgets throughout the year | Yes | No |
| We determine the viability of outsourcing work | Yes | No |
| Adequate controls are in place to control employee overtime | Yes | No |
| We are effective in negotiating materials and supplies contracts | Yes | No |
| We forecast cash flow monthly and base our financial arrangements on our projections | Yes | No |
| Our bank is our partner and understands our business and its financial needs | Yes | No |
| We always see that work is done by the least expensive, capable employee | Yes | No |
| We link staff pay to productivity and company profits | Yes | No |
| Our standard operating procedures are written down and everyone follows them | Yes | No |

STAFF ROOM

# KERRY'S FUNDRAISING RUN

**An impassioned personal challenge**

Back in March 2014 one of our Corporate Team, Kerry Kirby, ran her very first half marathon in Hastings.

It was a huge personal challenge but she was motivated by the thought of the money she was raising to support the Bexhill Renal Unit - a cause very close to her heart as her dad requires regular treatment.

Kerry commented that she was totally overwhelmed by the support she received, the kind words and sponsorship.

Kerry personally raised an amazing £1,100 for the unit.



**Kerry** *"My dad has kidney failure and needs dialysis three times a week. I wanted to raise money for something close to me and for the local community of Bexhill where I grew up".*

# NEW MEMBERS OF THE WA TEAM

**A warm welcome to our new staff members**

STAFF ROOM


**Left to right:** Luke Summerford, Nick Gooch, Tom Harper and Alex Moore.

We are delighted to welcome four new members of staff in recent months.

Luke and Nick who are both qualified accountants have been engaged to strengthen the tax and Corporate Teams and Tom is embarking life as a trainee accountant.

Alex, who is high functioning autistic is joining the administration and reception team. On the occasions that you may speak to Alex we ask respectfully for your patience and understanding while he picks up the role and grows in confidence.

We wish them every success in their future with us!

## Dates for your Diary

| | |
|---|---|
| **1 October 2014** | Due date for payment of Corporation Tax for period ended 31-12-2013 |
| **31 October 2014** | Last day to file 2014 paper Tax Return |
| **1 January 2015** | Due date for payment of Corporation Tax for the period ended 31-3-2014 |
| **31 January 2015** | First Self Assessment payment on account for 2014/2015 |
| | Capital Gains Tax payment for 2013/2014 |
| | Balancing payment for 2013/2014 Income Tax/Class 4 NICs due |
| | Last day to file 2014 Tax Return online |
| **2 March 2015** | Last day to pay balance of 2013/2014 tax and Class 4 NICs to avoid automatic 5% penalty |
| **March 2015** | Budget speech by Chancellor of the Exchequer |
| **31 March 2015** | End of Corporation Tax financial year |