Summer 2013 Issue 19

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WatsON

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RTI HICCUPS - LET US HELP!

April 2013 saw the introduction to Real Time Information (RTI) for most Employers

Many employers and payroll bureaux were anxious as to whether HMRC could cope with the amount of data being submitted all at one time - but HMRC have 'done themselves proud' this time! Yes, some employers have encountered hiccups along the way but these have been minimal and fairly straight forward to put right.

In general the hiccups the Watson's payroll bureau have encountered have been fairly small which goes to prove that spending time on preparation and data quality certainly does pay off!

MAIN ISSUES IDENTIFIED:

- Many employers still appear to be unaware of their responsibilities to report ALL employees (including casual staff and those previously paid under the Lower Earnings Level (LEL)) to HMRC on or before payday. Employers MUST comply with RTI to avoid penalties.
- RTI applies to anyone who has a PAYE scheme whether it is run for many employees, just Directors or solely benefits in kind and dispensations.
- HMRC have agreed a temporary relaxation on the RTI rules for small employers (less than 50 employees) who have had trouble reporting under RTI. Until October 2013 they can report monthly but no later than the end of that tax month (5^{th}). This must not be used as postponement.
- HMRC have issued amendments to National Insurance numbers with no suffix - this hiccup is being investigated. In the meantime insert a space where the suffix should be. Do not guess which letter should be used!
- Due to a computer glitch HMRC are unable to register annual PAYE schemes or amend the pay frequency to schemes. HMRC are working on rectifying this.
- If you need to submit an EPS to recover any statutory payments or CIS tax suffered you must make sure this is entered each month as the cumulative value for the year. Some software will not allow you to recover CIS tax suffered as, under RTI rules, this should be dealt with through the final submission and refunded then.

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INTERESTED IN TAX RELIEF

Who isn't! HMRC "BIM" Guidance Manual can help unlock equity

As most property investors are aware, it is not possible to claim interest relief on your main residence as your main residence does not form part of the property business, but you *can* claim interest relief on properties that form part of your property business i.e. your buy to let portfolio. In these cases you can offset your mortgage interest on your let properties against any rental income received. This means that sometimes it can be tax efficient to move borrowing from your main residence to your rental portfolio, all you need is a little help from BIM45700!

WHAT IS BIM45700?

BIM45700 sounds dull but it gives landlords the opportunity to release equity from their investment properties and offset the interest regardless of what the equity release was used for.

As ever with HMRC there is a restriction but in this case it is relatively straightforward - the equity release cannot be greater than the market value of the property when it is brought into the letting business. If the property had been originally bought for letting, this amount would be the purchase cost of the property.

DO YOU HAVE AN EXISTING BUY TO LET PROPERTY?

David buys a rental property for £250,000. He provides a £50,000 deposit and borrows £200,000. Six years later the value of the property has increased to £300,000. This means that he now has £100,000 equity in the property.

He decides to remortgage the property to a value of £250,000 thus releasing £50,000 of equity from the property. He uses the £50,000 to reduce the mortgage on his main residence by £50,000.

The property was brought into the lettings business when it was purchased for £250,000 and the additional amount of equity released has not taken the borrowing over £250,000, so the entire interest amount charged can still be offset against the rental income.

BUYING A NEW MAIN RESIDENCE AND KEEPING YOUR OLD PROPERTY TO LET OUT?

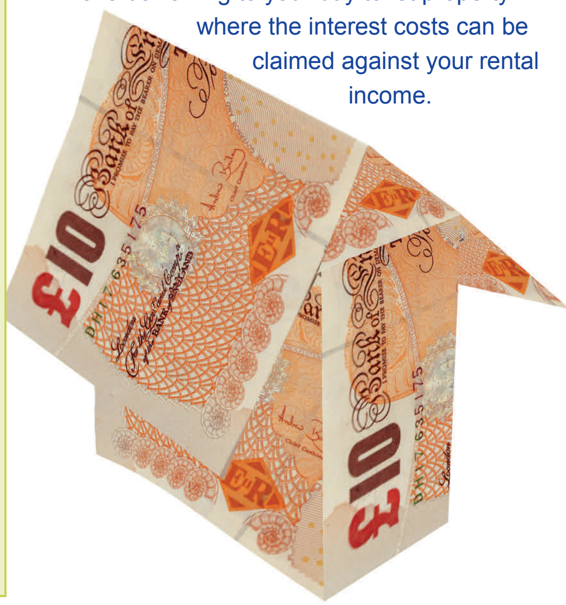
Emily bought a property for £100,000 (£20,000 deposit and £80,000 mortgage). She lived in the property for seven years and then decided to buy another and let out her current property.

The cost of the new property is £300,000. At the time of purchasing her new property her previous residence was worth £150,000 (This is the value of the property as it is brought into the lettings business).

She increased her debt on the previous residence from £80,000 to £120,000 i.e. she released £40,000 of equity. She then uses this equity release to reduce the mortgage on her main residence by £40,000.

Because the additional amount of equity released has not taken the borrowing over £150,000, the entire interest amount charged can still be offset against the rental income.

BIM45700 is a very handy tool! We hope you can see in both examples how it is possible to reduce debt on your main residence *and* move borrowing to your buy to let property where the interest costs can be claimed against your rental income.



PENSION REFORM - AUTO ENROLMENT

Are you prepared for the changes to the Pension Law that will affect Employers with at least one employee?

With the Law surrounding provision of a pension for your employees significantly changing - here we answer a few of the questions you may have.

WHY THE CHANGE?

Around 7 million people are not saving enough to give them a sufficient retirement income and approximately 750,000 employers do not offer a work place pension. Those employers that do, have few members. One of the reasons for this is that employees have to actively "opt in" and many employees simply "don't get around to it". This coupled with the fact that people are living longer and enjoying a longer retirement gives cause for concern to the Government. The Government want people to look at their retirement on a more positive level.

WHAT IS CHANGING?

From 2012 it became compulsory for employers to automatically enrol all eligible workers into a pension savings plan.

Every employer is required to:

- ensure that they have a qualifying pension scheme. They can have more than one scheme but the scheme(s) must be available to meet the obligations required of the employer.
- Automatically enrol all eligible workers into a qualifying pension scheme, if they are not already an active member of a qualifying scheme.
- Make pension contributions on the workers' behalf.
- Register and comply with The Pensions Regulator (TPR).
- Provide workers with information about auto-enrolment and how this will affect their pension saving.

THE SEVEN STEPS

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

SEVEN STEPS TO PREPARE FOR AUTO ENROLMENT

OVER THE NEXT FEW ISSUES OF 'WatsON' WE INTEND TO COVER THE SEVEN STEPS FOR AUTO ENROLMENT AS PROVIDED BY THE PENSIONS REGULATOR (TPR).

STEP 1

KNOW YOUR STAGING DATE

The staging dates are based on the size of your PAYE scheme (how many employees you had as at 1 April 2012 starting with the largest employers first (October 2012). The staging dates continue through to February 2018 by which time all employers will be under the new Pension Reform.

- The staging date is the date from which an employer first comes under auto enrolment.
- If the Company has more than one PAYE scheme then the staging date will be determined by the largest scheme.
- Employers with 250 or more workers will have been staged in to auto enrolment by February 2014.
- Employers with between 50 and 249 workers will be staged in to auto enrolment between April 2014 and April 2015.
- Employers with 40 workers or less will be staged between 1 June 2015 and 1 April 2017.
- Employers with less than 30 workers will have a staging date based on the PAYE scheme reference.

HOW CAN I FIND MY STAGING DATE?

You should receive a letter from TPR but you can also find your date by visiting the TPR website at www.tpr.gov.uk/staging you will need your PAYE reference to hand.

You can choose to move your staging date forward if you wish.

SLEEPING PARTNERS TO PAY NIC

Don't get caught sleeping with NIC changes

On 4 April 2013 HMRC announced a change in their view of the Law covering the National Insurance contributions (NICs) liability concerning sleeping and inactive limited partners. From 6 April 2013 all partners will be required to pay NICs.

For clarity, sleeping partners and inactive limited partners are those who take no active part in the running of the business.

Partners will now be required to pay Class 2 and Class 4 NICs on the grounds that they are self employed earners.

HMRC state the reasons for the change of stance surrounding this issue is as follows:

Class 2 NICS:
HMRC say that sleeping and inactive limited partners are liable to pay Class 2 NICs because they are "gainfully employed" as self employed earners for the purposes of s2(1)(b) of the Social Security Contributions and Benefits Act 1992 (SSCBA 1992) because:

- "employment" as defined in s122 SSCBA 1992 includes business and s1(1) of the Partnership Act 1890 provides that "Partnership is the relation which subsists between persons carrying on a business in common with a view of profit"; and
- s2(1)(b), SSCBA imposes no requirement that partners have to actually be active in the business.

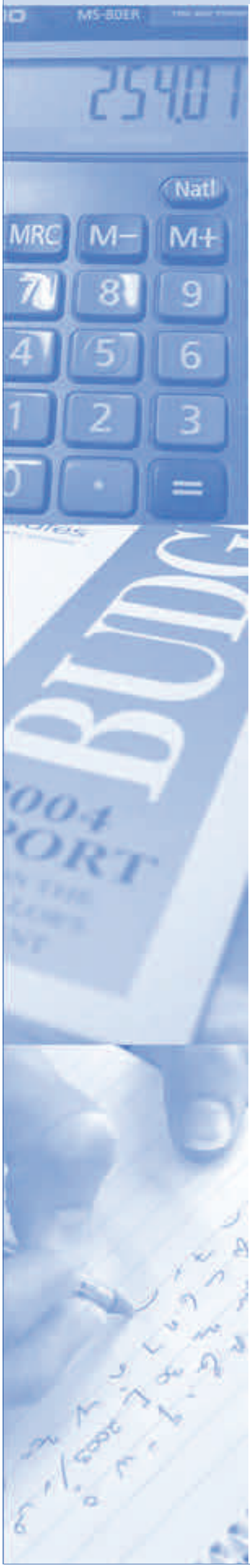
WHAT ARE THE CONSEQUENCES:

- Sleeping and inactive limited partners who are not already paying Class 2 NICs must advise HMRC of their self employment status and arrange to pay NICs or seek exception/deferment as appropriate.
- Sleeping and inactive limited partners should account for Class 4 NICs liability, if any, for the 2013/14 tax year of assessment and for subsequent tax years.
- Some partners may have paid Class 2 and 4 NICs for past years. HMRC considers they will not be entitled to a refund of Class 2 NICs or to any overpayment relief in respect of Class 4 NICs.
- Partners who have not paid Class 2 or Class 4 NICs for a past period will not be required to pay those contributions.
- There may be instances where some sleeping and inactive limited partners may wish to pay Class 2 and 4 NICs for years prior to 2013/14 in order to qualify for, or improve, contributory benefits.

Class 4 NICS:
HMRC say that sleeping and inactive limited partners are liable to pay Class 4 NICs because:

- in order for there to be a partnership for the purpose of the Partnership Act 1890 the persons making up the partnership (whether general, sleeping or limited partners) will all be "carrying on a business in common with a view of profit"; and
- s15, SSCBA 1992 imposes no requirement that partners have to be active in the business.

If you would like more information, give us a call!



CASH IS STILL KING

Suggestions to help with your business cashflow

Whilst companies can suffer due to a lack of profits, a lack of cold hard cash can bring a business to its knees!

Here's a quick run down of ways to assist your cashflow:

Swift Settlement

- Invoices should:
  - contain all information necessary for customers to pay you electronically directly into your bank (i.e. account number, sort code, reference).
  - be accurate, easy to read, have clear payment instructions and clearly state when payment is due.
  - be sent out as soon as possible – consider weekly or even daily rather than monthly.
- Set up direct debits if your customers are making regular payments to you, even if only once a year.
- Possibly introduce penalties for late payment or maybe even discounts for early payment.
- Have a system in place that flags up what debts are overdue and then chase them. If your customer goes into day 31 of your 30 day terms then chase immediately.

Bank

- Don't let the bank manager be the first to tell you of your weakening bank and cash balance situation – take responsibility and keep an eye on this at all times and consider future income and expenses that will affect the same.

Stock

- Stock control is key. Stock piling goods for long periods of time ties up funds that could be better used elsewhere.

Credit Terms

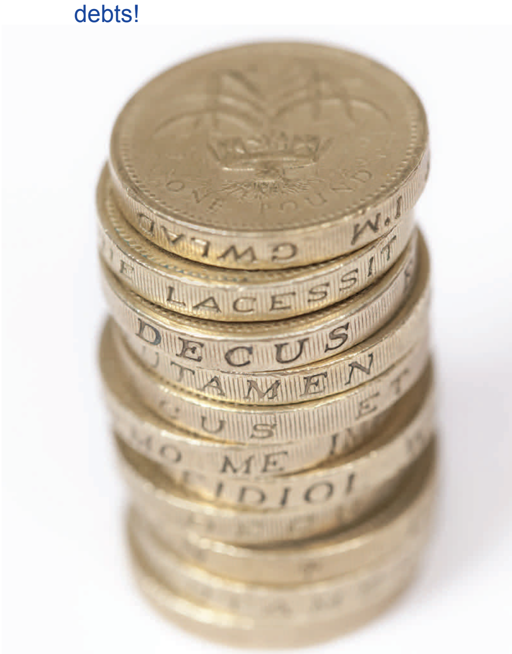
- A supplier offers 30 days credit, use this to your advantage but don't go into 31 days and beyond!
- Keep your cashflow positive by paying attention to the time difference between when your customers pay you and in turn when you need to pay your suppliers. Credit terms offered by you to your customer should be shorter than those terms offered by your supplier to you.
- Consider if you need to offer credit at all – can you be paid in advance or at the time the goods/services are provided.

Credit Cards

- Business Credit Cards can be a very useful instrument in cash management but remember the bill will need settling in full at the end of each month in order to avoid incurring interest.

Invoice factoring and invoice discounting

- Once you have an established relationship with your customer you can speed up the payment of your invoices by using an invoice factoring or invoice discounting provider. They pay you the sum of the invoice you raised and, via regular monthly instalments, collect the same direct from your customer (via direct debit) until all costs have been recovered. Resulting in improved cashflow and saving on the cost incurred in chasing debts!



CLIENT CORNER

EXHIBITION: GREAT ART ON SCREEN

100 cinemas in the UK join 30 other countries in ground-breaking screening

Award-winning film-maker Phil Grabsky, in association with Seventh Art Productions, has launched a major series of art events for cinema called EXHIBITION: GREAT ART ON SCREEN. This world-first allows art lovers to marvel and delight at the works of some of history's greatest painters through high-tech digital cinema.

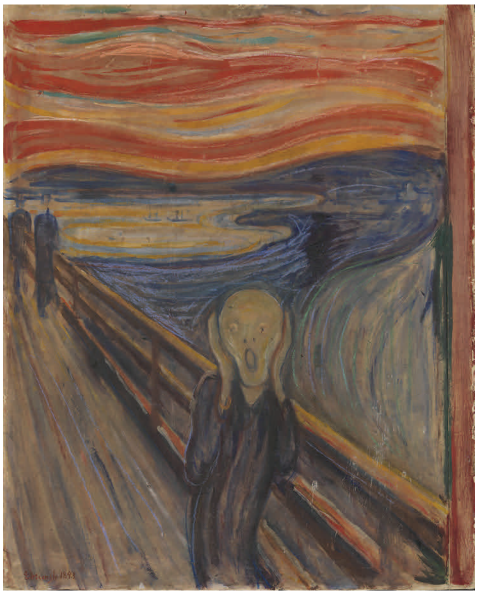
Screenings began in April with *Manet: Portraying Life at the Royal Academy of Arts, London*. Cinemagoers had a unique opportunity to see the exhibition, behind-the-scenes footage and a revealing biography of the artist.

Following *MANET*, the next two *EXHIBITION* events are *MUNCH* - from the National Museum & Munch Museum, Oslo (cinemas from 27 June) and *VERMEER* - from the National Gallery, London (cinemas from 10 October).

This is just the beginning! *EXHIBITION* is already in pre-production for five major exhibitions in 2014.

Phil Grabsky is currently looking for brand sponsors or support through the crowd-funding site Kickstarter.

Grabsky, who lives in Brighton said *"I have been driven by the desire to share the thrill of great exhibitions from Kansas City to Adelaide, Osaka to Naples, and Glasgow to Cape Town. To be launching with three stunning shows from three top venues is a real coup!*



Edvard Munch: The Scream, 1893, © The Munch Museum/ The Munch - Ellingsen Group, BONO, Oslo/DACS, London 2013

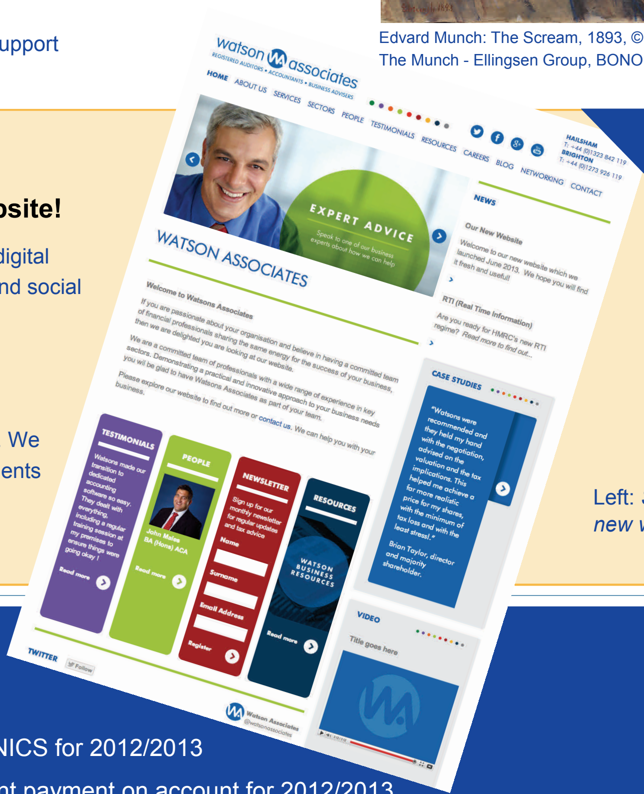
NEW WEBSITE

June 2013 sees the launch of our new website!

This has been an exciting project for us in updating our digital presence and learning about the positive use of digital and social media for our business.

We hope to be blogging and tweeting very soon!

Please take a look at our new site (www.watsons.co.uk). We hope you will find it fresh and reflects our approach to clients - even if we all look a little older in our photos than the previous site!



STAFF ROOM

Left: *Screenshot of our new website*

Dates for your Diary

6 July 2013	P11D and P11D(b) due
19 July 2013	Due date for Class 1A NICS for 2012/2013
31 July 2013	Second Self Assessment payment on account for 2012/2013
1 October 2013	Due date for payment of Corporation Tax for period ended 31-12-2012
31 October 2013	Last day to file 2013 paper Tax Return
1 January 2014	Due date for payment of Corporation Tax for the period ended 31-3-2012
31 January 2014	First Self Assessment payment on account for 2013/2014
	Capital Gains Tax payment for 2012/2013
	Balancing payment for 2012/2013 Income Tax/Class 4 NICs due
	Last day to file 2013 Tax Return online
2 March 2014	Last day to pay balance of 2012/2013 tax and Class 4 NICs to avoid automatic 5% surcharge
March 2014	Budget speech by Chancellor of the Exchequer
31 March 2014	End of Corporation Tax financial year