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Newsletter

Pensions freedom: go steady

The new pensions freedom rules are very useful for people in retirement – providing lots more flexibility – but there are dangers if you draw funds without thinking through the possible tax consequences.

Since 6 April 2015, it has been possible for you to draw a large lump sum form your pension scheme to spend on whatever you like, providing you are aged 55 or over. Pensions freedom could allow you to pay off your debts, go on a world cruise or carry out home improvements, or you may wish to help your children or grandchildren through school or university or fund a deposit for their first home.

But beware, you might receive a lot less from your pension than you expect. Many people think all pension lump sum payments are tax free. Some are, but many are not and you may find the tax deduction is far bigger than you think.

There are two ways in which you can flexibly draw from your pension fund. Flexi-access drawdown lets you take a tax-free lump sum, usually 25% of your fund, and leave the rest invested. Withdrawals from the remaining 75% are then taxable in full. If instead payments are made under the uncrystallised funds pension lump sum (UFPLS) rules, each payment consists of 25% tax-free cash with the rest taxable. There are other differences between flexi-access drawdown and UFPLS, notably that UFPLS is likely eventually to result in a greater amount of tax-free cash.

When a taxable payment is made, the tax is calculated under pay as you earn (PAYE) using an emergency 'month 1' tax code. That means only one twelfth of the personal allowance and each tax band is set against the payment, resulting in more of it being taxable at higher rates. For example, if you take a payment of £40,000 under UFPLS, £30,000 will be taxable and tax of £11,947 will be deducted.

But if that payment is your only income in 2015/16, your correct tax liability would be £3,880. To reclaim the overpayment of £8,067, you have to go to HM Revenue & Customs, leaving you out of pocket while it is processed.

If you are planning to make pension withdrawals, it is essential to take professional advice both on the choice of arrangement and on your potential immediate and final tax liabilities.

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Surprises in the Summer 2015 Budget

Mr Osborne's seventh Budget – and his first free of coalition constraints – contained plenty of surprises.

The Budget immediately after an election is often the most interesting – and taxing. July's Budget certainly lived up to this reputation.

One of the most significant changes was the reform of dividend taxation from 2016/17. The dividend tax credit will disappear, replaced by a new £5,000 dividend allowance, which will be separate from the personal allowance. Beyond that allowance new dividend tax rates of up to 38.1% apply. If you are a company owner who draws dividends instead of salary, you could be considerably worse off.

Residential buy-to-let investors were also targeted. From April 2016, the 10% wear and tear allowance will be replaced with a new relief based on the actual costs incurred in replacing furniture. Then, for individual investors, over a period of four years from 2017/18 tax relief on finance costs (primarily interest) will be phased down to basic rate. However, there was one small piece of good letting news: after an 18 year freeze, rent-a-room relief will rise to £7,500 from 2016/17.

Unfortunately the Chancellor also extended the freeze on the inheritance tax nil rate band for three years, to April 2021. This unwelcome news was accompanied by details of a new transferable main residence nil rate band, initially £100,000 in 2017/18, rising eventually to £175,000 in 2020/21. Thus from April 2020 a couple with an estate of up to £2m will have nil rate bands totalling £1m (2 X £325,000 + 2 X £175,000), provided that they have property worth at least £350,000 which is passed to direct descendants. Above £2m the new band will be subject to a 50% taper.

The new IHT allowance is being funded by yet another cut to the pension annual allowance: from 2016/17 it will be reduced if your total income exceeds £110,000 and your total income plus all pension contributions exceed £150,000. A 50% taper applies, but this time with a £10,000 minimum. The lifetime allowance – the maximum tax-efficient value of pension benefits – will also be cut by 20% to £1m from 6 April 2016 and a fourth set of transitional reliefs will be introduced.

The many changes in this second Budget of 2015 mean tax strategies will need careful review well before the end of the tax year. We are here to help.

Employee benefits: a win-win for all

If you provide your employees with a range of social benefits focused on childcare, eldercare and health care, then you should expect some improvements in productivity in return.

You might decide to make use of the expertise of a specialist benefits provider; doing so should lighten your administrative burden and give your employees access to a wider choice of benefits.

You can of course help employees with both childcare and eldercare by offering flexible working and working from home, and neither will result in any tax cost. Employers normally provide employees with financial assistance with childcare through the use of tax-free childcare vouchers, with the vouchers usually offered under a salary sacrifice arrangement. With salary sacrifice, an employee gives up a portion of taxable salary in return for tax-free vouchers, saving both tax and NICs. The childcare voucher scheme will no longer be available to new entrants from early 2017, so now could be a good time to be bringing people on board. You can also provide employees with tax-free nursery or child-minding facilities, but any other childcare support will be taxed. Unfortunately, the same applies to any eldercare support given to employees caring for parents.

Employees can make use of a company gym without any tax implications whether it's provided free or at a subsidised price. You can also provide healthy food in a company canteen. However, if you pay for a fitness club membership or provide a dining card, there are likely to be tax implications. Cycling to work can be encouraged by providing employees with tax-free bicycles and safety equipment, and an employee can be given the opportunity to purchase the bicycle at a fair market value following the end of the loan period.

You can provide tax-free annual health checks, health counselling and eye tests (where an employee is required to use a computer), but medical insurance and medical treatment are normally taxable. There is, however, an annual exemption of up to £500 if you pay for medical treatment to help an employee return to work following sickness or injury.

Be warned that tax-free benefits are generally subject to strict conditions and often have to be available to your entire workforce for the tax-free status to apply. Please get in touch if you want to discuss any aspect of your current benefits package, or to find out more about upcoming changes.

The latest update to HMRC's advisory fuel rates is something of a mixed bag, with one reduction amongst the increases and unchanged rates. The rates, which can be used where an employee has a company car, are currently:

Engine size	Petrol	Diesel	LPG
1,400cc or less	12p	10p	8p
1,401cc to 1,600cc	14p	10p	9p
1,601cc to 2,000cc	14p	12p	9p
Over 2,000cc	21p	14p	14p

Hybrid cars are treated as either petrol or diesel cars for this purpose. The rates will be reviewed again on 1 September, although current rates can be used for a further month after then.

PAYE and late reporting pitfalls

Despite a softening of HM Revenue & Customs's (HMRC's) attitude towards PAYE penalties, running your own payroll can still be something of a minefield unless you are well organised and provide us with timely information.

Late payment penalties are nothing new, and can be charged whether you pay monthly or quarterly. You are permitted one penalty-free late payment each tax year, but after that, the penalty charges can quickly add up. More substantial tax-based penalties come into play if just one payment is more than six months late, and in addition to any penalties, you would be charged daily interest on late payments.

Late submission penalties are a relatively new phenomenon, and this is the first tax year that they have been fully in place. Penalties apply if a full payment submission (FPS) is made late, although once again there is some built-in leniency. For each submission, there is currently a three-day grace period before HMRC will impose a penalty. And as for late payments, the first default in a tax year is penalty-free. At this point you might be particularly concerned if your payroll is weekly, but the penalty system is applied on a monthly basis – which means just one penalty even if more than one FPS is late during any particular tax month. The potential penalty depends on how many employees you have:

Number of employees	Monthly penalty
1 to 9	£100
10 to 49	£200
50 to 249	£300
250 or more	£400

HMRC can also charge an additional tax-based penalty if an FPS is more than three months late.

The penalty system is entirely automated, and HMRC will typically expect to receive 12 FPSs from you each year. Therefore, it is important to submit an employer payment summary (EPS) for any month in which no employees are paid. But you have a little more leeway here, because an EPS is not due until the 19th of the following month.

There can be a bit of wriggle room, and an FPS can be submitted late without penalty if you indicate why the FPS is late – for example, where it's impractical to report work done on the day or if there is a reasonable excuse. You can also file a corrected FPS should an employee leave.

HMRC sends out penalty notices quarterly. If you think a penalty is incorrect then there are a number of grounds on which to base an appeal. Such as an IT problem, a natural disaster or ill health. For smaller companies with just salaried directors (or even employees), the easiest option for minimising penalty risk is to just file several FPSs in advance, maybe three months at a time if this ties in with quarterly payments.

Self-assessment penalties clarified

HM Revenue & Customs (HMRC) has been making headlines with its recent decision to not charge the £100 penalty for self-assessment tax returns sent in late for 2013/14. But this does not mean that in future you can simply ignore the filing deadline.

HMRC started applying the £100 penalty automatically three years ago, even when no tax was due or a return was just a few days late. It did not help that a year later, some one million higher earners were drawn into the self-assessment net when child benefit became taxable.

In something of an about-turn, HMRC now wants to focus more resources on major tax avoidance – hence the recent supposed leniency.

However, the current penalty waiver is only for those who have sent in their tax return, paid the tax due, appealed and have a good reason for sending in the return late. In these circumstances, appeals have generally been accepted without further investigation.

One option being considered by HMRC is a reform of the penalty system to make it similar to the penalty points system that applies for motoring offences. First offenders would then not be penalised, but more substantial penalties would apply for serious failures or for persistent rule breaking.

Could SEIS help you finance your start up?

Raising finance for a start-up company can be difficult at the best of times, but it can be somewhat easier if investors are protected if your company does less well than expected.

This is where the generous tax breaks offered under the seed enterprise investment scheme (SEIS) can come into play. The SEIS income tax reliefs alone mean that an additional rate taxpayer is risking just £2,750 of every £10,000 invested if the worst happens and your company's shares become worthless. Investors will benefit by £5,000 if the shares do not grow in value, and if your company prospers the SEIS investment can be sold taxfree.

HM Revenue & Customs (HMRC's) small companies enterprise centre (SCEC) will decide if your company and share issue qualify, and we recommend companies to get advance assurance of qualification. Not surprisingly, the qualifying conditions for the company are quite stringent, including:

- If the company is already trading, the trade must have been carried on for less than two years.
- Various 'safe' trades, such as property development or running a hotel, nursing home or residential care home are not permitted.
- You must have fewer than 25 employees.
- Gross assets cannot exceed £200,000.
- The company has to be unquoted, although listing on the AIM or ISDX markets is permitted.
- There cannot have been any previous investment under the enterprise investment scheme or from a venture capital trust.


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The total amount that your company can raise under the SEIS is limited to £150,000, and the shares issued must be full-risk ordinary shares which are fully paid up.

Your investors will not be able to claim any tax reliefs until you receive SCEC authorisation. However, you cannot apply for this until the company has either been trading for four months or at least 70% of the money raised by the share issue has been spent. Once authorised, the SCEC will issue the company with a certificate as well as tax relief claim forms for you to forward to your investors.

If your company has already started trading, you need to start planning well in advance of the two-year deadline. It could take anything up to two months to obtain advance assurance from the SCEC, and you will then need to find investors – they may not be interested until you have SCEC assurance.

HM Revenue & Customs (HMRC) is changing the way it expects taxpayers to pay future agreed time to pay arrangements. HMRC can use discretionary powers to agree to payment of a debt by instalments after the deadline, where someone is genuinely unable to pay by the due date and is able to commit to agreed payments to bring their tax up to date.

Direct debit has always been HMRC's preferred method of payment for any regular time to pay arrangement. However from 3 August 2015 payment by direct debit is mandatory. The reasons given for this include the greater certainty of payments and the time saving. HMRC does not intend to revisit any existing non-direct debit agreements as a matter of routine, but for any new agreements taxpayers will be expected to agree to payment by direct debit.

TAX CALENDAR

Every month

1 Annual corporation tax due for companies (other than large companies) with year ending nine months and a day previously, e.g. tax due 1 October 2015 for year ending 31 December 2014.

14 Quarterly instalment of corporation tax due for large companies (month depends on accounting year end).

19 Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

22 PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for year ending 12 months previously. Last day to amend CT600 for year ending 24 months previously.

File accounts with Companies House for private companies with year ending nine months previously and for public companies with year ending six months previously.

If the due date for payment falls on a weekend or bank holiday, payment must be made by the previous working day.

OCTOBER 2015

1 National minimum wage increases to £6.70 an hour.

5 Deadline to register for self-assessment for 2014/15.

12 Additional state pension top-up scheme opens for payment of Class 3A voluntary NIC to increase a state pension.

14 Due date for CT61 return for quarter to 30 September 2015.

19 Pay tax and Class 1B NIC on PSAs if not paying electronically (otherwise 22 October).

31 Deadline for 2014/15 tax return if filed on paper.

NOVEMBER 2015

5 Submit employer forms P46 (car) for quarter to 5 October 2015.

DECEMBER 2015

30 Deadline to submit 2014/15 tax return online to have underpaid PAYE tax of up to £3,000 collected through the 2016/17 tax code.

JANUARY 2016

14 Due date for CT61 return for quarter to 31 December 2015.

31 Submit 2014/15 self-assessment tax return online. Pay balance of 2014/15 income tax and CGT plus first payment on account for 2015/16.

FEBRUARY 2016

1 Initial £100 penalty imposed where the 2014/15 tax return has not been filed or has been filed on paper after 31 October 2015.

2 Submit employer forms P46 (car) for quarter to 5 January 2016.

MARCH 2016

1 Last day to pay 2014/15 tax to avoid automatic 5% penalty.