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Spring 2014

UP TO DATE DEVELOPMENTS IN TAX AND BUSINESS PLANNING

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Fallout from the Autumn Statement

This year's Autumn Statement contained no less than 59 measures, but made little difference to the government's overall tax take.

The 2012 Autumn Statement was described in some quarters as three mini-Budgets, but this December Mr Osborne still found plenty to announce. Not all of what he said was new or unexpected, but there were a few surprises:

Income tax The Chancellor confirmed that in 2014/15 the personal allowance would rise by £560 to £10,000. The basic rate band will shrink by £145 to £31,865, leaving the higher rate threshold just 1% higher next tax year, at £41,865. There is no change to the £150,000 starting point for 45% tax, nor the £100,000 threshold at which the personal allowance starts to be phased out.

One consequence of the increase in the personal allowance is that from April the phasing out of the personal allowance will cover a £20,000 band of income (£100,000 to £120,000). The effective marginal rate of tax in this band is 60% (48.75% for dividends), so it is best avoided.

There was news on the transferable tax allowance for couples (both married and civil partners), which is due to be introduced in 2015/16. This will only be available if neither party pays tax at more than basic rate. The transferable amount will start at £1,000 and will be uprated in line with the personal allowance.

Capital Gains Tax (CGT) The widely leaked proposal that non-resident individuals who own UK residential property would have to pay CGT on their gains was confirmed, although it will only apply to gains accruing from April 2015. More significant in terms of the tax raised is the halving of the final exempt period for private residential relief to 18 months. From 6 April

2014 this will limit your planning opportunities if you have more than one property. While the targets appear to be second home owners and buy-to-let investors, people going through a divorce could also be caught.

Pensions Both the annual allowance and the lifetime allowance will be reduced from 6 April 2014, so it is perhaps unsurprising that the Chancellor left pension taxation untouched. However, he did announce some changes on the state pension front:

- The state pension age (SPA) is now likely to rise to 68 in 'the mid-2030s' and to 69 by 'the late 2040s'. At this rate, today's 20 year old may eventually be facing a SPA of 70.



■ If you reach your SPA before April 2016 when the new single-tier pension starts, you can top up your Additional State Pension entitlement by paying a new class of voluntary national insurance contribution, class 3A. However, the first of these payments cannot be made before October 2015.

Investments The ISA limit will rise by £360 to £11,880 in 2014/15, of which £5,940 may be invested in cash. There will also be a review

of the availability of retail bonds with terms to maturity of five years or less as ISA investments.

Business taxes There were no changes to corporation tax rates, but the Chancellor did announce some help for small businesses through a number of changes to business rates. These included a restriction on the 2014 increase to 2%, the extension of the doubled small business rate relief to April 2015 and a discount of up to £1,000 in 2014/15 and 2015/16 for retail properties with a rateable value of up to £50,000.

Anti-avoidance There were 13 measures under the heading of 'Avoidance, tax planning and fairness' which the Treasury projects will raise £955m next tax year.



Time to focus on year end tax planning

As the end of the tax year approaches on Saturday 5 April 2014, now is the time to give some thought to year end tax planning opportunities.

Personal allowances The basic personal allowance for 2013/14 is £9,440. If it is not used before the end of the tax year it will be lost. To prevent this from happening, you could consider:

- **Bringing forward some income to 2013/14** to mop up the unused allowance. For example, if you own a company, you might pay yourself (or whoever has not used their personal allowance) a dividend or a bonus before the end of the tax year.
- **Transferring income-producing assets to a spouse or civil partner with little or no income.** For example, you could arrange to transfer cash deposits or other investments to them.

The personal allowance is reduced by £1 for every £2 by which income exceeds £100,000. It may be possible to avoid losing the personal allowance by reducing your income below £100,000. You might be able to achieve this

by making pension contributions, deferring some income until after 5 April 2014, making charitable donations or transferring income-producing assets to your spouse or civil partner. This strategy will save tax at an effective marginal rate of 60% (48.75% for dividends) for income between £100,000 and £118,880.

Pension contributions You benefit from full tax relief on contributions to registered pension schemes, and this can help to make them very tax-efficient investments. The tax relief is capped at the higher of £3,600 and 100% of your earnings, although this is subject to the annual allowance. This is set at £50,000 for 2013/14 but will reduce to £40,000 from 2014/15. The annual allowance can be carried forward for three years, after which time it is lost.

Tax-efficient savings You should consider investing in an individual savings account (ISA) by 5 April 2014. The ISA allowance for 2013/14 is £11,520, of which £5,760 can be in cash.

Capital gains planning Each individual can realise capital gains of up to £10,900 in the current tax year free of capital gains tax. Married couples and civil partners can therefore realise gains of up to £21,800 tax-free in 2013/14.

Take advice Please do not leave taking year end tax planning advice until the last minute, when it might well be too late to take action.

Let us know if you need to discuss any of the issues raised here.



Impact of the new residence tax rules

The new UK tax residence regime that applied from 6 April 2013 provides a lot more certainty than the old rules. But the changes are pretty sweeping.

Residence could be really important for your tax position, particularly affecting your liability to income tax and capital gains tax. The new rules on residence put you in one of three categories:

Definitely or automatically NON-RESIDENT:

- You have spent fewer than 16 days in the UK during a particular tax year after being resident here in at least one of the three preceding tax years.
- You have spent fewer than 46 days in the UK during the tax year in question and you have not been resident in the UK in any of the three preceding tax years.
- You work 'sufficient hours overseas' in the tax year with 'no significant breaks from overseas work'. Furthermore, during the tax year in question you spend fewer than 31 days in the UK working more than three hours a day and you spend fewer than 91 in the UK altogether for any reason.

Definitely or automatically UK RESIDENT:

- You spend at least 183 days in the UK.
- You have a home in the UK and basically you stay there for at least 30 days, and you either have no overseas home or your visits there are minimal over a 91 day period.

- You work in the UK full time, with more than 75% of your working days in the UK.

NON-RESIDENT or RESIDENT in the UK:

It depends on how much time you spend in the UK and how many ties you have with the country:

- Family tie – a family member is resident in the UK.
- Accommodation tie – you have available accommodation in the UK that you use.
- Work tie – you work in the UK for at least 40 days a year.
- 90 day tie – you have spent more than 90 days in the UK in either of the two previous tax years.
- The country tie – this broadly depends on how much time you have spent in the UK in the previous three years.

The more ties you have, the fewer days you can spend in the UK before you will be treated as UK resident (and vice versa). The position is a bit tougher for a leaver than for someone who is arriving in the UK.



Be aware of computer and mobile security

In an increasingly mobile world, you need to be extra careful when it comes to computer and mobile security.

Physical security While working away from the office you should be careful of opportunistic theft. A laptop lock is a basic precaution and don't forget to back up regularly. You could use cloud storage or a thumb drive – kept separate from your laptop.

Passwords You can take measures to ensure your password is strong. A good password contains a mixture of at least eight characters (some unusual) yet remain memorable.

Adding an unusual character and a number would get a 'Best' rating on Microsoft's password checker. Most computer security experts recommend changing passwords regularly. Make sure you use different passwords across different sites.

Internet access Beware of open public hotspots that are password-free. In some cases the network itself may be completely rogue and set up to trap the unwary.

3G is generally more secure than wi-fi, although it has its limitations. When using a wi-fi hotspot, turn off all file and printer sharing, enable the firewall, update your anti-virus software, and set your network location to 'public'. Also, always avoid entering user names and passwords unless you are sure of a secure connection (using a VPN for example).

Online purchases

The safest approach to purchasing online is to just use one card and maintain a low spending limit. Credit cards give you more security than debit cards and you should check your statements regularly.

Data protection

When using smartphones and tablets on the move, you should be aware of the potential data protection implications. Confidential data can be easily lost if a device is stolen.

And finally

No two businesses are alike when it comes to computer and mobile use, so it is worth having regular formal reviews of security with your IT and telephony departments. If you regularly work on important or highly sensitive documents away from the office, then seek specialist advice.



Deferring taking your state pension

Deferring the start of your state pension can be a good idea.

The state pension age (SPA) is currently 65 for men and a shade under 62 for women, but you do not have to draw benefits when you hit your SPA. There can be good reasons for not claiming your pension, for example you might still be working and might therefore not need the extra income.



if you defer your pension for at least a year. The deferred pension payments are paid as a single taxable lump sum, with interest, once you start drawing your pension. That pension will be at the same level as when you

initially deferred it, plus the usual annual increases.

At present there are two options available to you if you want to delay the start of payments under your state pension:

1. Extra Pension If you delay claiming your state pension for at least five weeks, under the current rules your pension will normally be increased by 0.2% for each week of deferral. For instance, if you start your state pension two years after your SPA, your entitlement will increase by 20.8% (0.2% x 52 weeks x 2 years). This uplift will apply in addition to the normal annual increases to state pensions.

A 10.4% annual increase at a time of 0.5% base rates is definitely generous, even after allowing for the fact that your higher pension will be paid for a shorter period.

The interest rate applied to the deferred payments is "at least 2% above Bank of England base rate". At present this means 2.5% interest, which beats any available instant access account.

The lump sum is not added to your income as you might expect, but instead is taxed at your highest rate of tax in the tax year you draw it.

Death benefits during deferral and the interaction of pension deferral with other social security benefits are both potential minefields. To make matters worse, the deferral rules themselves will change in April 2016, when the single-tier state pension begins. The fine detail of these revisions is awaited, but we know the lump sum option will disappear and the deferral rate will probably fall. Given these complexities, it is important to seek advice before making the decision to defer.

2. A Lump Sum This option is only available

Auto-enrolment staging dates

Small and medium size businesses will soon have to start enrolling their staff in a workplace pension.

If there were between 50 and 249 members in your PAYE scheme on 1 April 2012, your staging date for auto-enrolment will be between 1 April 2014 and 1 April 2015.

However, if you started trading after 1 April 2012 your

staging date will not be until May 2017 at the earliest. Smaller employers are subject to later staging dates, which can be found at: <http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx>. Bringing your staging date forward can align it with your accounting date. However, you are restricted to a limited number of new dates; for example, there are just eight possible dates for 2014. To change your staging date, the Pensions Regulator requires a month's notice.

You can postpone the start of automatic enrolment for employees for up to three months from your staging date. You will also be



able to postpone automatically enrolling a staff member for up to three months from the day they started work or became entitled to be automatically enrolled in the pension scheme.

You could consider an occupational scheme or a personal pension scheme. A relatively low cost option is the National Employment Savings Trust (NEST), which can be used as the sole scheme for all staff, but it is also flexible enough to be used alongside other schemes. You could use NEST for a particular group of workers or as an entry-level scheme for new staff. You could even use NEST as a base scheme for all employees but use another scheme for top-up contributions.

Be warned that a number of technical changes have recently been made to the auto-enrolment rules, which are reflected in the detailed guidance provided by the Pensions Regulator.

131 Edgware Road, London, W2 2AP
T: +44 (0)20 7402 7444 F: +44 (0)20 7402 8444
E: post@bgm.co.uk W: www.bgm.co.uk



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