IN FOCUS
Winter 14

ttrbarnes
CHARTERED ACCOUNTANTS

Well, here we are again, another Christmas almost upon us, another Autumn Budget Statement to help us look forward to the New ~~Tax~~ Year. As always, we have done our best to extract from the Chancellor's statement, the main points that will affect you. Elsewhere in this issue, we have exciting announcements of new Technical initiatives that could save you time and money (see P3), while other changes that will help us to continue to improve our service to all our clients are introduced on P6. Meanwhile, on pages 2 and 5 we have included some tips to make the most of financial incentives while they're still around. All in all we hope there is enough to interest if not entertain you in the build up to the festive season.

CHANCELLOR STAMPS on Stamp Duty

On December 3rd, Chancellor George Osborne announced the reform of Stamp Duty Land Tax on purchases of **residential property purchases** with immediate effect.

This means that the rate of tax is applied to the portion of the purchase price that falls within each band, rather than a single rate applied to the whole transaction. There are winners and losers, as usual, but the effect of the changes is illustrated in the table.

Example properties		Tax paid under the old rules	Tax paid under the new rules	Change in amount of tax paid	Effective tax rate you'll pay under the new rules
£125,000	No stamp duty	No stamp duty	No stamp duty	No stamp duty	No stamp duty
£185,000	Average Help to Buy home	£1,850	£1,200	Saving: £650	0.7%
£275,000	Average family home	£8,250	£3,750	Saving: £4,500	1.4%
£510,000	Average London home	£20,400	£15,500	Saving: £4,900	3.0%
£937,500	No change in stamp duty	£37,500	£37,500	No change	4.0%
£2,100,000	Stamp duty increase	£147,000	£165,750	Increase: £18,750	7.9%

Source: HM Treasury

Elsewhere in the budget, the personal tax allowance increases to £10,600 from April 2015, while the basic rate limit rises to £31,785. The 40% tax threshold goes up to £42,385.

From April 2016 employer National Insurance Contributions (NICs) up to the upper earnings limit will be abolished for apprentices aged under 25 years (see our article on page 5 for changes from April 2015), while from April 2015 the £2,000 annual employment allowance for employer NIC will be extended to care and support workers.

For Savers, the Government will introduce legislation that will effectively mean that, following the death of an individual, ISA balances can be transferred to a surviving spouse or civil partner and retain their tax-free status.

For Businesses, the rate of R&D above the line tax credit increases from 10% to 11% from April 2015, while the small and medium (SME) scheme rises from 225% to 230% from the same date. At the same time legislation will be introduced to restrict qualifying expenditure for R&D tax credits so that the costs of materials incorporated in products that are sold are not eligible.

Anti-Avoidance Measures

These measures take immediate effect and are designed to help address unfair tax outcomes and support investment. These include:

- Restriction on the amount of Corporation Tax relief a company may obtain for the acquisition of goodwill when the business is acquired from a related individual or partnership.
- Changes to Entrepreneurs' relief (ER), mean that gains that are eligible for ER, but which are instead deferred into investments that qualify for the Enterprise Investment Scheme or Social Investment Tax Relief (SITR), remain eligible for ER when the gain is realized.
- Individuals will be prevented from claiming ER on disposals of goodwill when they transfer the business to a related close company.

Finally, the Government will review the increasing use of overarching contracts of employment by employment intermediaries such as umbrella companies, as these arrangements mean that workers can obtain tax relief for home to work travel that would not normally be available. It's a whistle-stop tour, but hopefully we've picked out the main points for you.

Make the most of your Annual Investment Allowance **BEFORE IT'S TOO LATE**

Introduced in 2008, the Annual Investment Allowance enables a business to write off 100% of qualifying capital expenditure (up to a set limit – currently £500,000) against taxable profits for the same period. Expenditure over the limit is subject to the normal writing down allowances of 18 or 8 %.

What is the limit for AIA?
From April 2014 to 31 December 2015 the AIA has been set at £500,000 per year, but
From 1 January 2016 it will drop to £25,000 per year, which is a huge reduction.

For example: If for the period 1 April 2014 to 31 March 2015 your taxable profits are £1,000,000 and you have spent £450,000 on qualifying capital expenditure, you can write that full amount off against your taxable profits and taxable profits will be £550,000. However, for the period 1 April 2015 to 31 March 2016 you would have 9 months at the £500,000 limit and then 3 months at the reduced limit of £25,000. The transitional rules mean that the total allowance is proportioned across the year, so the maximum amount available to be written off between January to March 2016 is £6,250 (i.e. £25,000 x 3/12). Therefore, the total amount to be claimed for the year is £381,250, and results in taxable profits of £618,750.

So the moral of the story is to make sure you make your claim well before the reduction!

AIA is available for companies, individuals and partnerships, where all the members are individuals; it's available for most assets purchased by a business, such as machines and tools, vans, lorries, diggers, office equipment, certain building fixtures and computers, but it does not apply to cars.

If you require any further information don't hesitate to get in touch with our Tax Department who will be happy to discuss any queries you may have.

TRANSFER OF PERSONAL TAX ALLOWANCE: Is it worth it?

If your spouse or civil partner has an annual income amounting to less than their personal tax allowance, while your income exceeds your allowance, they can now transfer up to £1,050 of their allowance to you, *as long as you are not a higher rate tax payer.*

The tax break, to be introduced in the 2015/2016 tax year, will be worth up to £210 annually for some couples.

An individual can elect to transfer part of their personal allowance to their partner if they are married to or in a civil partnership with the same individual for all or part of the tax year, and at the time the claim is made.

It's worth mentioning that you can't elect to transfer a personal allowance and claim Married Couples Allowance, so as with all tax matters, it's worth seeking the advice of a professional before taking any action.

For more information on this and any other tax related matter, please contact our Tax Department.

TTR BARNES

Total Technology Review to help your business.

As always, our first concern is how we can best serve your business needs, ensuring that you have the information and resources you need from us, so that you can concentrate on growing your business.

With this in mind we have been reviewing the plethora of technology applications designed to make our lives easier, and have identified the following 3 to provide the best value to you, our clients.

Joining your team

How many of you receive a list of notes and journal entries for you to amend your records for the year going forward? How much help would it be to you if, instead of sending you a list of things to do, we could simply log onto your system and do it for you? Well with Team Viewer, we can do just that. This software enables us to 'borrow' your computer by accessing it remotely and we can amend your records as easily as if we were sitting in your office. Then you can get on with your day to day business, while we deal with your records. Tidier records mean more streamlined accounts production and could, potentially save you money on your accounts bill.

Opening cyber-space

These days more and more correspondence takes place via email, rather than snail-mail, and banks and other organisations now want electronic copies of hard documents. This gives us the challenge of finding ways to transfer these documents securely. Likewise, Payroll clients, and bookkeeping clients have confidential and sometimes very large files of information to send into the office. Our software IRIS Openspace provides a secure area to transfer information and documents. We will register you with the site, and you will receive an invitation to register in your email Inbox. Once registered, you have your own account space, which enables you to see and download any documents we send you, and you can also upload documents to the site for us to download and work with.

Even better, you can register several people in your business with IRIS Openspace, and grant them different security settings so, for example, a member of staff would be able to upload payroll information, but would be unable to download a set of accounts. If you have multiple businesses, these can all be registered under 1 email address.

Working up in the cloud

Finally, how does Cloud Accounting sound as a way forward? Becoming much more user friendly, this is a rapidly developing area with several software programs on the market, offering substantial advantages to businesses of all sizes. As with all accounting software, it's important to use the most appropriate program for your business, so expert advice is vital.

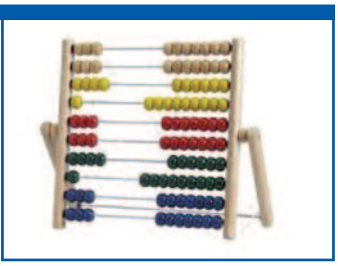
If you have any Questions about any of the products mentioned above, or for advice about the best product for your business, please contact Allan Smith.

STOP PRESS - Beneficial Loans

The exempt threshold for beneficial loans from employers to employees has been doubled for 2014/15, so that it now stands at £10,000.

This means that from 6 April 2014 employers no longer have to include on P11Ds etc details of loans where the outstanding balance is £10,000 or less throughout the year.

There are changes afoot **WITH P11D RULES**



HMRC have released a consultation document that proposes to abolish dispensations for P11D benefits. At the moment, in the absence of a dispensation, all employee benefits must be reported on a P11D, regardless of whether or not the benefit will be liable for tax. If a dispensation is granted, HMRC have effectively confirmed that the benefit is tax exempt and it doesn't, therefore, have to go on a P11D.

Any employer can apply for a dispensation, regardless of size or sector. Applications will usually be approved as long as HMRC are convinced that the benefit is tax exempt and that the employer will keep adequate records of the benefits provided. The benefit of this system to employers is threefold:

1. HMRC has confirmed that the benefit is tax exempt, providing peace of mind that P11D reporting is accurate;
2. If all employees are covered by the dispensation there is no need to complete P11Ds, saving time and expense, which could be considerable depending on the size of the workforce;
3. If all employees are covered by the dispensation then there is one less deadline and potential fine to worry about.

The suggestion is that the current system does not work as well as it should, with some employers being granted dispensations for benefits that are not tax exempt. The suggested solution is to abolish the dispensation facility and instead employers must decide for themselves whether or not an expense payment is taxable.

According to HMRC, this system will be more straightforward and will reduce administration for employers. While it does mean that tax-exempt benefits will no longer need to be entered on the P11D, it's doubtful that HMRC have factored in the time required for employers to consider whether or not each benefit is taxable. We will keep you updated about the progress of this proposal.

MORE CHANGES AFOOT: abolition of the £8,500 P11D threshold

A more imminent change to the P11D rules is the abolition of the minimum earnings threshold for reporting of benefits and expenses. Taxation on benefits in kind was first introduced in 1948 when the intention was to tax benefits of employees who were in "higher paid employment".

The current threshold of £8,500 has not been changed since 1979, and after 35 years it is finally going to be abolished so that everyone receiving a benefit in kind (anything that is given to an employee that is not cash) will need a P11D to be completed.

On one hand, this does seem to simplify the system; everyone who receives a benefit needs a P11D, and only one form to complete; however, there is a sting in the tail.

Abolishing the qualifying threshold for P11D means that these benefits will now be liable to Employers' Class 1A NIC at 13.8% adding to the cost for employers.

This change is likely to be introduced from 6 April 2015, but this has yet to be confirmed. If you have any queries about P11D or other employee benefits, please contact our Tax Department.

ABOLITION OF CLASS1 NIC for those under 21

With effect from April 2015 employers with employees under the age of 21 will no longer be required to pay Employers (secondary) National Insurance Contributions (NIC) on earnings below the upper earnings level.

Based on the expected earnings thresholds for April 2015 this would include amounts up to £813 per week or £42,285 per year. The change will apply to both new and existing employees below the age of 21.

The exemption applies to all 'legitimate' employees, so firms employing the children of directors must be able to prove that the employment is a commercially acceptable arrangement for the exemption to apply, as is required for corporation tax relief. It's also likely that the exemptions will be heavily policed, so it may be advisable to obtain sight of an original birth certificate when hiring a new employee under 21.

Software companies are already in consultation with HMRC regarding changes required to payroll packages and Real Time Information (RTI) so it seems likely that the exemptions will require some entry into payroll software.

The exemption does not apply to benefits in kind, therefore Class 1A NIC will still be payable on any benefits provided to those under 21, and the individual's state pension is also not affected as the employees will still be paying their NIC and so contributing to state benefits.

If you have any queries regarding the above, please contact our Tax Department.

TO FURNISH, or not to furnish

We have featured this news in previous newsletters, and on our website, but it's worth repeating, so here goes.

If you are an owner of a property that is not fully furnished then from April 2013, you have lost a valuable tax relief.

Prior to 5 April 2013, you were able to claim a wear and tear allowance, if the property was fully furnished, in other words had more than simply white goods, based on 10% of gross rents less certain expenditure.

Alternatively a renewals basis could apply, where you instead claimed the cost of replacing items.
From 6 April 2013, the renewals basis has been abolished. There is no longer any relief for replacing items, whether through careless damage or every day wear and tear. The 10% wear and tear allowance for fully furnished properties is all that remains.

If you currently let your property partly furnished, it may be worth considering making it fully furnished, so that you can claim the wear and tear allowance.

'Fully furnished' is gauged by the Inland Revenue as the 'toothbrush test', in other words the tenant could take up occupation with the addition only of personal items. Apart from functioning kitchens and bathrooms, it must include tables, chairs, beds, sofa, flooring and curtains. Style and fashion are not relevant, although clearly what is fully furnished for a student let would not be the same as a luxury flat in a city centre.

Be wary of any request to remove furniture by the tenant, either to create space or so that the tenant can bring his own furniture, as this may mean you lose the right to claim the 10% wear and tear allowance.

Key Wealth Management

Financial Focus

Growth in Key Wealth Management

We are pleased to announce that we have been growing our team here at Key Wealth Management, and have recently been joined by Richard Emery and Dean Smith as directors of the firm.

Dean Smith

Richard Emery

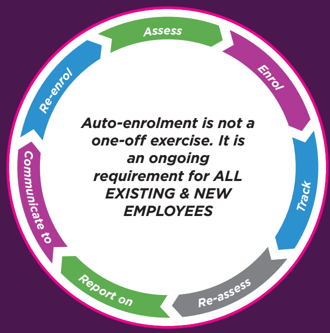
Richard has been an Independent Financial Adviser for 25 years, having spent the last 14 years as controlling director of a local IFA practice. He has a wealth of experience in helping personal and corporate clients to manage their financial affairs including investment, retirement, and tax planning. Richard is married with 2 children and in his spare time can usually be found getting his hands dirty restoring classic cars and motorcycles.

Dean has over 20 years' experience in financial services, and has been an Independent Financial Adviser for 13 years. He aims to continue to provide a broad service to clients but mainly specializes in pensions and investments. Dean is also the Founder/Chair of 1 local charity and Treasurer of another. He is very interested in football, having recently taken up a part-time coaching role with the FA and continues to coach youth football (Dean's team can be seen in the photo right).

We also welcome 2 new Administrators, Roz Cook and Ayla Wilson (yet to be persuaded in front of the camera).

The arrival of our new Directors and Advisers coincides with the retirement of George Farnan, who has been with the firm since 2004, and will retire at the end of this year. He will be swimming and walking off into the sunset, listening to live music, all his favourite pastimes.

Are you ready for Auto-enrolment?



We know, we know; this is one of the buzzwords of the moment; there is so much information about auto-enrolment being published; will people be ready? What sort of advice/service will be offered? How do you make sure you choose the right policy to look after your staff?

There are, however, some very basic steps you can take now, to make the transfer as easy as possible when the time comes:

1. Check your Staging Date, if you haven't done so already, so that there is room for manoeuvre.
2. Check which employees need to be automatically enrolled with the scheme (most, but not all, will qualify);
3. Choose a pension scheme and confirm that the Provider will accept your workers.
4. Make sure that your payroll system will support automatic enrolment
5. Finally, make your employees aware of what will be happening and what, if anything is required from them.

Once your Staging Date arrives you must ensure that you:

A. Enrol eligible employees onto the scheme;
B. Make contributions to the scheme;
C. Keep good records; and
D. Complete your registration with the Pensions Regulator.

Fines will be imposed on people who fail to register employees into a pension scheme; these are up to £2,500 per day for those with employee numbers between 50 and 249, and up to £10,000 for firms with more that 250 people.

The good news is that you don't have to go through this alone. To find out more about automatic enrolment and your pension duties, contact us. To find out your staging date go to www.tpr.gov.uk/planner.

Changes to tax rules for inherited pension pots

In the spring Budget statement the Chancellor announced changes to the rules governing defined contribution savings schemes, but there were no details to say what would happen to the pension pot if the policyholder dies.

These rules have now been clarified and the proposal is to reduce the amount of tax payable on the pension pots as follows:
If an individual aged **under 75** dies, and they are currently in drawdown, or have not yet started to take a pension, the fund can pass to beneficiaries as a tax free lump sum;
If an individual **over 75** dies, whether they are in drawdown or not, the beneficiaries may either:

a) Drawdown from the fund themselves, and this will be taxed at their marginal rate, or
b) Take the fund as a lump sum, and this will be taxed at a rate of 45%. With effect from 2016/2017 the fund will be taxed at their marginal tax rate.

This changes the current situation where any remaining fund in a pension pot when someone drawing their pension dies is taxed at 55% if it is paid as a lump sum; this tax rate also applies to an uncrystallised pension pot belonging to someone over 75 when they die.
As a result of these changes, with effect from April 2015 relevant lump sum tax benefits will be tax free should an individual die under the age of 75, and will be taxed at 45% where the individual dies aged 75 or over; however, in 2016/2017 the benefits will be taxed at the beneficiaries' marginal rate where an individual dies aged 75 or over.
This applies to the following:

- Pension protection lump sum death benefit
- Annuity protection lump sum death benefit
- Drawdown pension lump sum death benefit
- Defined benefits lump sum death benefit
- Uncrystallised funds lump sum death benefit

An important point to note is that the effective date applies to payments made on or after 6 April 2015, and not to the date of death; however, in the case of those who die under 75, the tax free lump sum must be paid within 2 years of the scheme administrator being notified of the death.

Finally, it's also worth remembering that inherited pension wealth will not count towards the lifetime allowance of the beneficiary.

As with all-important financial matters, it's important to seek expert advice before making any decisions. If you have any queries regarding the tax situation, please contact either Natalie Newton in our Tax Department or Dean Smith of Key Wealth Management for advice regarding your current pension arrangements.

People At…TTR BARNES

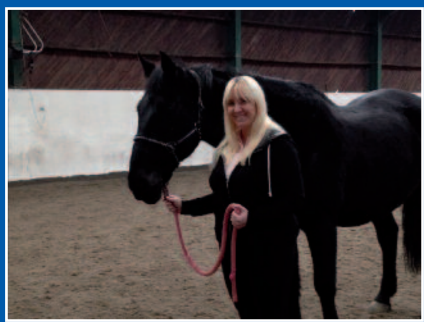
Not too much has happened since our last Newsletter but we do like to keep up with our staff as much as possible.

Our very own Director Allan Russell and his two sons Jonathan and Craig completed the Great North Run in pretty good times.

Allan: 1 hour 56 min and 36 seconds
Jonathan: 1 hour 56 min and 37 seconds
Craig: 1 hour 56 min and 37 seconds
Not sure how Allan managed to get that second quicker!

Left to right: Allan Russell, with sons Jonathan and Craig

Laura Lockhart with Strider and Ed.



Horsing around

We are pleased to introduce Ed (the dark horse), who has been sponsored by TTR Barnes.
Ed works at the Washington Riding School, where he helps teach both disabled and able-bodied students to ride. The School, based at Stephenson Road in Washington seeks to increase awareness and understanding between able bodied and disabled children through shared learning experiences.

We learned about the sponsorship programme through Laura Lockhart, who also rides at the school, and has sponsored a horse herself. Here she is with Ed, and also with her sponsored horse, Strider.

Wear It Pink & Eat Cake

Once again we have been raising money for a worthy cause. Our pink day for Breast Cancer Research went down very well with both employees and clients enjoying the feast of cakes and biscuits.
We were all very impressed with the amount of Pink in the office that day: especially the cake!!

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