BAKER CHAPMAN BUSSEY
CHARTERED ACCOUNTANTS

Balancing Business

News and information from Baker Chapman & Bussey

Summer 2014

Good news for pensions

MORE FLEXIBILITY AND CHOICE FROM 2015

In his budget the Chancellor announced, to everyone's surprise, a major relaxation in the way pensioners with defined contribution pension pots can access their funds. What if you can reach retirement and then access your pension funds however you wish? Well that is more or less what he has done!

Under current rules it has long been known that pensions are a tax efficient investment enjoying full tax relief on the contributions made and tax free growth within the fund itself. However, a seemingly attractive investment has not always been popular as it does lock away money until retirement and there are quite tight regulations as to how you can access the funds once you reach retirement age. At retirement the option to take a 25% tax free lump sum is available but the remainder of the fund has to provide a pension either by buying an annuity or entering a complicated arrangement of drawdown.

This new announcement will eliminate these restrictions and should make access to pension savings far easier for all and although we do not yet have the fine details, on the assumption that these will reflect his comments, then access to your funds will be greatly relaxed.

In essence, once you reach retirement you will be able to take whatever you like from your pension. Of course, this will not all be tax free, up to 25% of the fund can be taken tax free which remains as before, and the remainder will be taxable income in the year it is drawn. The option to buy an annuity remains but it is your choice. It is the option to take what you want when you want that provides the flexibility we have not had before.

Subject to income limits full tax relief remains on pension contributions, up to a maximum of £40,000 (for 2014/15) relief being given in the tax year you make the contribution and any growth in the pension fund is tax free. From the age of 55 you can decide to take your pension. How much is available will depend on your lifetime contributions and the growth in the fund.

How this will affect you

With the far greater flexibility proposed you can now choose when and how much of your pension you draw. Commentary following the budget suggested that some may strip their fund bare as soon as they can and whilst this is possible, it will be taxable income and could suffer tax at a 40% or 45%. We believe most will be more prudent and having saved during their lifetime, recognise that the idea of a pension is to provide income throughout retirement and will plan accordingly. The great advantage is that you will now have control and will not be subject to statutory limits, the only limits being how much you need and how much tax you will pay.

As ever, proper independent financial advice should be sought, but the purpose of this article is to point out the attractive tax benefits and flexibility of accessing your savings that will be attached to pensions from April 2015, which are likely to bring pensions back to the fore in respect of personal tax planning.

If you would like to discuss this further we are happy to assist you with a review and can suggest and outline a plan for you to take and see an independent pension adviser for specific advice.

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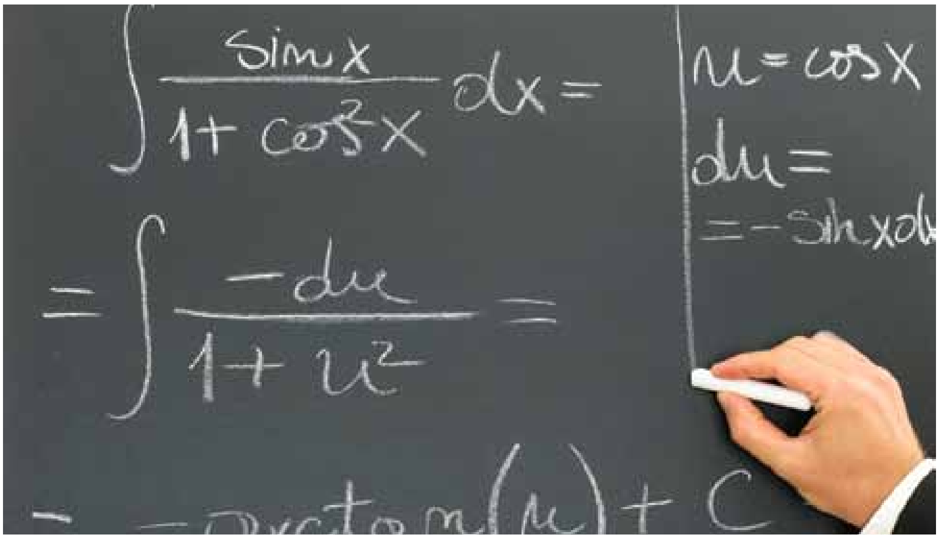
Getting your VAT right

IT DOESN'T HAVE TO BE THAT COMPLICATED!



There are several rates of VAT in the UK, the standard rate currently being 20%, plus reduced rates of 5% and zero. In addition, there are exempt supplies and those considered 'outside the scope of UK VAT'. If your business is VAT registered it is important to determine the correct rate of the goods you sell or the services you provide.

The rate of VAT depends upon the category of supply being made and this in turn may affect the ability of the business to reclaim all of the input VAT paid on the goods and services it buys. Broadly speaking, the supply of goods or services falls within one of five categories for VAT purposes:

1. Standard-rated supply – VAT is due at 20 per cent. Although many goods and services supplied in the UK are standard-rated, other every-day items, such as non-luxury foods, books and newspapers, are zero rated.
2. Lower-rate supply – VAT is currently due at 5 percent. Examples of lower-rate goods include gas and electricity supplied for domestic and residential use, and certain energy saving materials installed in residential dwellings.
3. Zero-rated supply – VAT is charged on zero-rated supplies of goods and services but at a rate of 0 per cent. Examples of zero-rated supplies include: construction of new residential properties; printing of brochures, leaflets and pamphlets; and equipment for disabled people.
4. Exempt supply –VAT is not charged on exempt supplies as these are not classed as taxable. These include insurance, some doctors' and dentists' services and some types of education.
5. Outside the scope or non-business income. These are goods bought or sold outside the EU and sales by non VAT registered traders – in these cases no supply of either goods or services has been made in the UK.

It is important to charge your customers the correct rate of VAT because this will affect the amount of output VAT you pay and the VAT you are able to recover. You can find more detail on the applicable rates of VAT at this URL www.hmrc.gov.uk/vat/forms-rates/rates/goods-services.htm.

Businesses that make standard-rated, lower-rated or zero-rated supplies can claim back the majority of their input tax on related expenses. A business that makes only exempt supplies cannot claim input tax on its related expenses. A business with a mixture of supplies may be partially exempt and may only be able to recover some of its input VAT.

A business that only receives income classified as 'outside the scope of VAT' will not have to register for VAT but can register voluntarily if that income would, if provided in the EU, be taxable supplies. This would enable the trader to recover the input VAT.

Recovery of input VAT does depend on the nature of the supplies made and it can become quite complicated where there is a mixture, especially if there are exempt supplies.

In this instance (known as partial-exemption) a business must analyse the input VAT on its expenses between those items directly relating to its exempt and chargeable supplies, and those items that cannot be directly attributed to a category of supply. The input VAT in this last category (the residual input VAT) is usually done by reference to sales, although other methods can be agreed with HMRC. The input VAT directly attributed to the exempt supplies and the portion of the residual input VAT apportioned to the exempt supplies will, subject to certain tests, be blocked and irrecoverable. It is therefore important to correctly classify a business's supplies.

If your business deals with mixed rate supplies it is important that you understand how to calculate your VAT, but as you can see from the above, this is not always straightforward. If you are unsure, get in touch and we will be pleased to help.

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Selling your home

CHANGES TO YOUR TAX LIABILITIES

Most people understand that tax is not usually due on a gain made on your home. So if you buy a house for £250,000 and sell it some years later for £350,000, you owe the tax man nothing.

But today a significant number of people have acquired second homes, perhaps as an investment or a holiday home, or because they have relocated and were unable to sell in a difficult property market. As a result, their original residence may have been rented or may have become a second property.

It is important, therefore, to understand the definition of a 'home'. Your home is your main residence; it is where you live, where you have the centre of your life, the address to which you have correspondence sent and where you locate the majority of your personal possessions. That all seems quite logical but if you own two or more properties there are occasions when the boundaries become blurred.

Confusion often arises over the length of time that a person is required to reside at a property for it to become their home or 'principle private residence'. The Revenue does not attach a time period to this definition, instead it looks at the quality of occupation to determine if it is a person's home for tax purposes. In other words, you must actually live there.

Although your main residence will be exempt from tax, a question may arise if you have not been resident there throughout your ownership. For example, you may have moved away and let the property in your absence and this may have tax implications. The long standing 'last three years rule' used to be of some help. The rule is that as long as the property had been your residence at some point during the period of ownership, then the last three years are treated as if you had been living there. This rule was introduced to allow time for a property sale.

However, following the MP's expenses' scandal and tax reliefs on main and second residences being viewed, and indeed used, for tax avoidance, this has been reviewed and the Chancellor has reduced the exempt period to 18 months. For example, suppose you bought a property five years ago in order to let it out or renovate it, and you do not make it your home until a few months before you decide to sell, only the final 18 months of your ownership (previously three years) would qualify for relief.

Another attractive Capital Gains Tax relief is 'letting relief', which gives an additional exemption on any property gain by matching the main residence relief, subject to a maximum of £40,000. However, this too has been affected by the 18 month final period rule. On a second property that had made a gain of £100,000 the reduction of the tax exempt period from three years to 18 months could cost you an extra £15,000 in a 'worse case' scenario.

In recent years the Revenue has been able to review property sales easily, due to the computerisation of Land Registry records. Using a process of matching property sales against tax returns it has discovered many individuals who have not declared their gain and owe tax.

These illustrations serve to show that if you have a second home or a property which you let to tenants, the tax consequences should not be ignored. Come and talk to us if you are thinking of selling. Early advice will help you deal with the transaction in the most tax efficient way.

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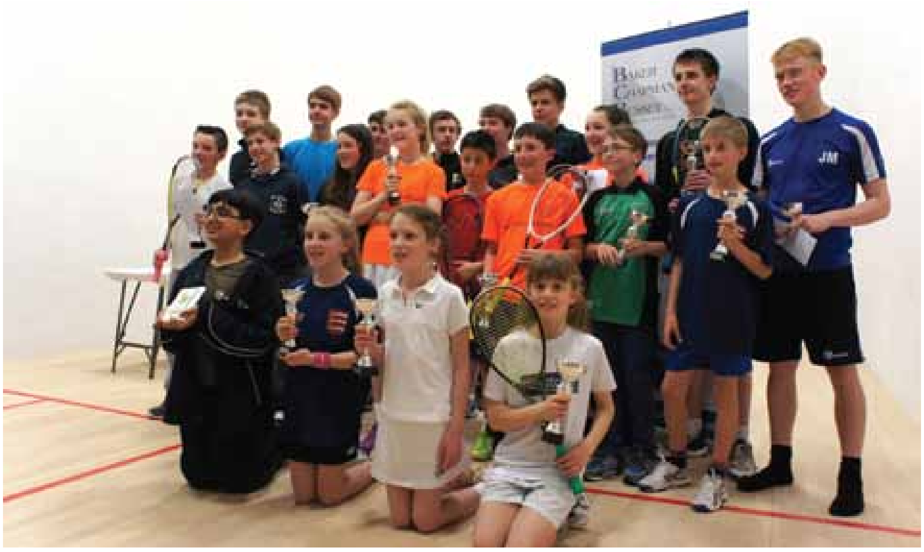
Essex Junior Squash



We were delighted to sponsor the Essex Junior Open Squash Tournament, which took place over the Easter weekend at the Corporal Budd VC Gymnasium at Colchester Garrison. Two days of intense competition resulted in seven players becoming Essex Junior Champions.

Trophies were presented by Lt Colonel (Ret) Stephen Absolon, who represented the British Army. This was the first time that the tournament had been played at the Garrison venue.

The girls under-11 trophy was won by Sophie Wood, the girls under-13 trophy by Ellie Hewes and the under-15s by Alice Green.

Winning the boys' trophies were Harry Martin in the under-11 category, Oliver Green in the under-13s and Billy Beecroft in the under-15s.

A cut too short

A local hairdressing salon was recently named and shamed by the Revenue when they discovered it had failed to pay National Minimum Wage (NMW).

It is important to keep up to date with the NMW as further changes come into force on 1 October. The adult rate will increase by 19p to £6.50 per hour and the rate for 18 to 20 year olds will increase by 10p to £5.13 per hour. There are also increases for 16-17 year olds and apprentices, for whom the new minimum wage will be £3.79 and £2.73 respectively.

Vince Cable, the Business Secretary, has accepted recommendations made by the Low Pay Commission. It is anticipated that approximately one million workers will benefit from the increased wage rates.

Paying less?

The majority of employers should, from April 2014, be claiming the employment allowance.

Up to £2,000 can be claimed against employer's National Insurance Contributions. You need to claim the allowance, usually a tick-box in the payroll software, and it reduces each month's liability until the allowance is used up.

For more guidance see the HMRC website at: ww.gov.uk/ government/ publications/ employment-allowance-more-detailed -guidance.

Please ask us should you require any help with your payroll.

Beware - yet more scams!

In previous newsletters we have pointed out that there are plenty of scams relating to organisations purporting to be HMRC. There has been another spate of these type of emails recently, many of which are becoming more realistic and more sophisticated. Unsurprising, we find that clients are still confused by what is, and what is not, to be believed, so here is our guidance:

If you receive an email saying that you have a tax refund it will not be from HMRC - it will be from a spammer. The Revenue do not contact you in this way. You should never respond to these emails, click on links in such emails, nor give out your bank or personal details unless you are absolutely sure of the source.

As the old adage says: if it seems too good to be true, it probably is!

What's in your will?

When you die, who will benefit? Have you made a Will and, more importantly, is it still valid?

If you want to decide how to leave your wealth then a Will is essential. Many more families are being caught with Inheritance tax bills as the annual tax allowance has not kept pace with property prices.

A review of your Will and the tax consequences at least every five to ten years is our recommendation.

We are happy to review your tax planning with you.

Baker Chapman & Bussey
Magnet House, 3 North Hill, Colchester CO1 1DZ
Tel: 01206 715000 Fax: 01206 715010

Braintree House, 18 Bocking End, Braintree CM7 9AA
Tel: 01376 559000 Fax: 01376 559005

mail@bakerchapman.co.uk www.bakerchapman.co.uk

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