HOLLIS AND CO

CHARTERED ACCOUNTANTS

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JULY NEWSLETTER

Dividends — getting the formalities right

Running your business through a limited company provides the advantage of a tax-efficient salary and benefits package, however there are certain administrative formalities that must not be overlooked. In the case of dividends, it is essential to get the formalities right. Miss these and HMRC may attempt to assess your dividends as employment income.

For a dividend to be legal and valid, there must be sufficient 'realised' profits within the company. Some 'paper profits', such as the increase in value of investment property, do not count, however trading profits do.

Before you can legally pay out a dividend, you must hold a directors' meeting to declare the dividend and keep written minutes of the meeting. You must also prepare a dividend voucher setting out the amount of the dividend paid to each shareholder, together with the name of the company and the shareholder, the date of the dividend and the tax credit attached to the dividend. If a dividend is paid without being formally voted by the board of directors HMRC may seek to tax it as employment earnings and subject to National Insurance. The timing of the payment of a dividend is also important. It determines which year you will pay any additional tax due on the dividend. Interim dividends need particular care. HMRC may not accept the dividend as valid until the payment date has passed.

If you would like any assistance with dividend paperwork, please contact us.

How to maximise tax relief on savings

A 0% tax band for the first £5,000 of savings income was introduced on 6 April 2015, together with an increase in the ISA limits to £15,240. Here is a brief rundown on these two tax reliefs and common pitfalls to look out for.

ISAs allow you to earn interest on your savings tax free. However, in order to maximise the relief you need to use up your ISA limit each year. You cannot carry forward any unused part of your annual limit.

The 0% savings band can be difficult to access. It is not available if your taxable income, other than savings income, is more than £15,600 per year. However, could your spouse or partner benefit? Now would be a good time to review the optimal split of savings income for couples. Remember that special rules apply to joint accounts for married couples and civil partners, and the tax rules impose a 50:50 split on joint property unless you formerly elect otherwise.

If your income is less than £15,600 you may now apply to have all your interest paid to you gross. This then saves you the trouble of submitting a tax repayment return each year.

Tax Calendar

July 2015

19/22	Monthly PAYE/Class 1 NICs/student loan and CIS payments due. *19th for non-electronic payments, 22nd for online payments*
31	Final day for second Self Assessment payment on account for tax year ending 5 April 2014.
31	Second payment due date for 2014/15 Class 2 NICs.

August 2015

1	Surcharge of 5% due on unpaid income tax for year end 5 April, 2014.
2	Submission date of P46 (Car) for quarter to 5 July.
19/22	Monthly PAYE/Class 1 NICs/student loan and CIS payments due. *19th for non-electronic payments, 22nd for online payments*
31	Annual adjustment for VAT partial exemption calculations (May VAT year end).

September 2015

19/22	Monthly PAYE/Class 1 NICs/student loan and CIS payments due. *19th for non-electronic payments, 22nd for online payments*

October 2015

1	Annual increase in national minimum wage.
5	Deadline to notify chargeability for Income Tax/Capital Gains Tax for 2014/15 if not registered for Self Assessment. Complete form CWF1 for self-employment or form SA1 for non self-employed income, or form SA401 for partners.
19/22	Monthly PAYE/Class 1 NICs/student loan and CIS payments due. *19th for non-electronic payments, 22nd for online payments*
31	Deadline for paper submission of Self Assessment tax returns for tax year ended 5 April 2015.

November 2015

2	Quarterly submissions of P46(car) (for employees whose car and/or fuel benefit has changed in the quarter to 5 July).
19	Monthly CIS payments due.

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Is it worth using the Flat Rate VAT scheme?

Businesses with a turnover up to £150,000 can choose to use the VAT Flat Rate Scheme, but why should you consider it? There are four main reasons:

- It may make preparation of VAT returns much easier. You will usually need only two pieces of information to complete the return; your VAT inclusive turnover and the appropriate VAT 'Flat Rate' percentage for your business, selected from HMRC's list.
- As calculations are simpler, there is less scope for costly errors, and possible penalties.
- Cash flow can be easier to predict. Your VAT payments are simply a percentage of your turnover.
- You may pay less VAT using the Flat Rate scheme compared with the standard method.

As you might expect, there are winners and losers.

- In your first year of the scheme you receive a 1% discount on the rate of VAT you pay HMRC.
- You don't claim a deduction for your normal input tax (you can only claim input tax for capital goods where a single item costs £2,000 or more including VAT). So if you have relatively high input tax, this scheme is definitely not for you.

Careful consideration should also be given to:

- Deciding which business category and percentage to use. Making an incorrect decision, or failing to review your Flat Rate percentage regularly, could prove an expensive mistake in terms of VAT and penalties.
- What to include as flat rate turnover. HMRC have in the past tried (unsuccessfully) to include bank interest in scheme turnover.

Professional advice can help you select the best category and navigate you through HMRC's ambiguous guidance notes. Please contact us for further advice.

Tax relief and accommodation for directors and the self employed

A sole trader or partnership will receive tax relief on the costs of accommodation when the cost is incurred:

- Wholly and exclusively for the purposes of the trade or profession, or
- If there is mixed business and private use it may be possible to claim an identifiable proportion of an expense (although in terms of accommodation this may be a very rare thing).

In practice this means that the accommodation costs incurred in:

- Renting or hiring a workplace, or
- Renting accommodation such as a hotel or guest house when travelling away on business

is allowed for tax.

When a taxpayer claims to be working away from home on business, HMRC may well ask the taxpayer about his objectives in making the journey. For example, if the taxpayer wanted to take a holiday to Spain, and booked flights and a hotel and then subsequently arranged a business meeting at that hotel, it would be difficult to argue that the cost of the hotel was wholly and exclusively incurred to facilitate the taxpayer's participation in business.

Actor Tim Healy is having a long running battle with HMRC over the type of accommodation he rented when he was working away from home in London during the week over a nine-month period. The tribunal was satisfied that hotel costs could be tax deductible, however, the actor rented a three room flat because it was cheaper than a hotel and this gave him the advantage of being able to have friends to stay in London, after they saw him perform. The case is subject to appeal, however, broadly we think that accommodation costs remain allowable provided that overnight accommodation is rented on account of business needs.

If you have any queries in relation to any of the topics covered in this newsletter then please do not hesitate to contact us.

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