HOLLIS AND CO
CHARTERED ACCOUNTANTS

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MAY NEWSLETTER

Tax-free childcare update

A new scheme for child care, 'Tax-free childcare', begins in Autumn 2015. Unlike the current employer-supported childcare arrangements, the new scheme will be open to the self-employed and to employees whose employer does not run a childcare scheme.

The scheme involves parents opening an online National Savings account to fund childcare expenses. The government will contribute to this, converting every 80p from parents into £1. This will then be available for spending on childcare - equivalent to tax relief at 20%.

A separate account will be needed for each qualifying child in a family. The maximum a family may contribute to an account will be £8,000 p.a. – topped up to £10,000 by the government.

The scheme is designed to cover all children up to age 12, and to age 17 for disabled children.

To qualify, parents must:

- Be earning just over £50 a week on average – based on the equivalent of working at least 8 hours a week at the National Minimum Wage
- For couples, this applies to both parents

Families become ineligible for the scheme if either parent earns more than £150,000 p.a.

The current employer-supported childcare schemes, offering childcare vouchers or employer-funded childcare places, will continue as long the employer is happy to continue operating them.

Work-place nurseries provided by employers will be unaffected.

Anyone claiming child tax credit, or its coming successor, universal credit, will not be eligible for the new arrangements.

Plant and machinery and the AIA

The Annual Investment Allowance (AIA) allows the cost of machinery and vehicles (but not cars) to be written off against tax in the year of purchase. The 2014 Budget increased the AIA from £250,000 to £500,000 from April 2014.

From 1 January 2016, it falls to £25,000. So now looks like a good time for major investment. But there are also some tricky transitional rules. If your company or business year-end does not match the AIA dates, the amount of AIA needs to be calculated using a complex formula. Further, there is a restriction on the amount you may claim if the allowance produces a loss. So before you spend, take advice to ensure you get maximum tax relief.

The AIA is likely to cover the needs of most businesses, but there are some other specialised tax allowances for capital investment, for example for environmentally beneficial plant and machinery.

Cars are treated differently. Allowances on all but very low-emission cars remain low. Where CO_2 emissions are no more than 95g/km, there is 100% relief. Vehicles up to 130g/km obtain relief at 18%; those over 130g/km get relief at only 8%. Both these percentages are calculated on a reducing balance basis.

Tax Calendar

May 2014

1	Additional daily payments of £10/day up to a maximum of £900 for failing to file self-assessment tax return due on 31 January 2014.
3	Notify HMRC of any changes in company car information for the previous quarter using P46(Car).
19/22	Monthly PAYE/Class 1 NICs/student loan and CIS payments due. *19th for non-electronic payments, 22nd for online payments*
31	Ensure all employees have been given their P60s.

June 2014

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

July 2014

5	End of tax quarter and last date for agreeing PAYE Settlement Agreement (if any) for tax year ended 5 April 2014.
6	Deadline for expenses and benefits annual return forms P9D, P11D and P11D(b) to reach HMRC. Deadline for employers to give copies of forms P9D and P11D to employees.
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 2013/14 Class 2 NICs.

August 2014

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

September 2014

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

New measures for 'false' self-employment - guidance for employers

From April 2014 HM Revenue and Customs (HMRC) has wider powers to close a perceived loophole in the Agency legislation. This allowed some workers to be taxed on a self-employed basis in circumstances where the government would like them taxed as employees. In practice, the main difference is likely to be an increase in employer's National Insurance Contributions (NICs) payable on some contracts (at 13.8% of salary, above the secondary threshold of £153 a week / £663 a month).

There is concern that the impact will be wider than the planned target.

The original target is workers who supply their services via an agency under a specially drawn up self-employment contract – usually designed to take advantage of a 'substitution clause' giving the worker the right to send someone else to do their job; though in fact this never happens. Such contracts have become widespread in the construction, driving, catering and security industries.

The new approach removes the requirement for an agency contract – so potentially extending the agency legislation to any situation where a worker, a hirer, and a third party are involved. The primary test becomes one of supervision, direction or control.

What this means is that if you have workers supplied to you by a third party on a subcontract or self-employed basis, there could be an additional cost of employer's National Insurance for you.

Alternatively, if you supply your services via your own limited company (a Personal Service Company) or partnership, you could find the new rules affect you. HMRC believes few Personal Service Companies will be affected, as remuneration is usually already received as employment income, and dividends paid as a 'genuine consequence' of shareholding in the Personal Service Company would not fall within the Agency legislation.

This adds another layer to the complex interrelations between workers and hirers which are already governed by Managed Service Companies rules and the IR35 Intermediaries legislation. If you have any concerns with the new guidance, please give us a call.

Directors' tax and benefits update

Pensions

A significant part of tax planning for directors involves pensions. After the Budget, individuals aged 55 plus now have more freedom about what they can do with their pension pot. From March 2014, this means more flexible limits as regards draw-downs from a pension fund.

From April 2015, over and above the 25% tax-free withdrawal, the balance of the fund will be available to be used as desired. It sounds good but there could be a high tax cost.

Coupled with a reduction in the annual amount taxpayers can invest in their pension to £40,000 (from £50,000 last year), and in the lifetime limit to £1.25m, now is a good time to review company pension arrangements for tax efficiency.

Benefits and RTI

Real Time PAYE Information (RTI) has significant impact for directors. There is greater need for withdrawals from the company to be documented, and properly approved. Lack of clarity gives scope for HMRC to challenge that the amounts should have been included in RTI returns – a potentially expensive mistake.

2013-14 will be the first RTI year for most employers. Although P35/P14s are no longer required, HMRC needs a return of taxable benefits in kind on form P11D by 6 July. Note that from 6 April, the beneficial loan limit increases to £10,000 from £5,000.

Owner-managed companies with a small number of directors can use an annual scheme for RTI – with only one online form needed in the year. However, this must be approved in advance by HMRC.

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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