



A R Lee & Co *newsletter*

Clarence Street Chambers
32 Clarence Street
Southend-on-Sea
Essex
SS1 1BD

All change ahead...

The new tax year will shortly commence and will see the final implementation of some very major changes to both taxation and welfare, the effects of which have not yet been fully appreciated. Up to date details are provided in this newsletter and we are here to help if needed.

All businesses continue to face a period of rapid change, whilst many are still struggling to survive in what remains a very difficult market. We continue to actively assist all our clients to meet these challenges and we are always happy to help.

As always, if there are any matters you would like to discuss in more detail, then please let us know.

“Simpler” Income Tax System for Small Businesses

From 6 April 2013, self-employed individuals or partnerships carrying on a small trading business can choose to be taxed on a new cash basis. Businesses can join the scheme if their turnover is less than the VAT registration threshold (currently £77,000) or twice that for recipients of Universal Credit. Businesses must leave the scheme if their annual receipts exceed twice the VAT registration limit.

Despite being described as ‘simpler’ the new scheme is far from it, with detailed rules which specify what expenses can be claimed for and how, with many restrictions applying and fixed allowances for others. Without carrying out detailed calculations under both methods of calculating taxable profit, which will be very time



consuming and will incur additional expense, it will be impossible to tell which method will give the best result. As a result, professional reaction to the proposed new rules has been lukewarm and take-up is likely to be low.

Why is it, that when something is described as ‘simple’ it is usually anything but!

Directors: Andrew Lee FCCA
Robert Woodcock FCCA
Assisted by: Jenny Fulford ACCA
WEB: www.arlee.co.uk
EMAIL: office@arlee.co.uk
TEL: 01702 333204
FAX: 01702 333205

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Real Time Information (RTI) - The biggest change to PAYE since it was first introduced

Except for very large employers and those who have already chosen to join RTI voluntarily, 6 April 2013 will see all remaining employers operate their payroll under the new RTI procedures. These basically require the details of each payroll run to be submitted online to HMRC "on or before" payment is made to the employees, thus enabling HMRC to maintain a record of all employees' income in real time. Such a record is required in order to facilitate the introduction of Universal Credit, about which more detail is provided below.

The new procedures have given rise to a number of practical issues particularly with regard to the payment of irregular or casual staff and this is especially so for the hospitality and retail industries. As a result, the Government have agreed to relax the 'on or before' rule and have allowed a period of seven days after payment has been made for the details to be submitted to HMRC, but only if certain other factors apply.

We have been working with the large number of clients for whom we already process payroll to ensure the change to RTI is as smooth as possible but, for some, it may require changes to their procedures and we are doing our best to minimise these and also any related processing cost implications.

If you need any help or advice concerning your own payroll procedures, then please do let us know.



Universal Credit - The new system for Benefit payments

HMRC's welfare responsibilities are to be moved back to the Department of Work and Pensions (DWP) as the new Universal Credit gradually replaces the current system of Tax Credits, Housing Benefit and other related benefits. The new system will be piloted from April 2013 in selected areas and will go nationwide from October 2013. Existing Tax Credit claimants will be migrated over to the new system over the next two years or so.

Entitlements under Universal Credit are expected to be lower than with the Tax Credits system and potential new claimants should register for Tax Credits before October 2013 wherever possible in order to maximise their claim.

Self-employed claimants will be particularly badly affected as they will be assumed to be earning at least the equivalent of 35 hours at the minimum wage, currently £6.19, so £216.65 per week. Income must be calculated and declared to the DWP on a monthly basis using actual receipts and payments for the month, as RTI only applies to claimants employed under PAYE. This will impose a significant burden on self-employed claimants and will lead to fluctuations in the level of benefit received.

SAVINGS & INVESTMENTS

Retail Distribution Review (RDR)

Those of you who already have an independent financial advisor will probably know the system under which they are paid was changed substantially at the beginning of this year following the Retail Distribution Review (RDR). Although some financial products will continue to be commission based, many will now become fee based.

As a result of these changes, financial advisors have had to re-organise themselves and many may not survive the change. As a result, we are likely to see many small financial service companies disappear or merge into larger ones.

We have studied the market and have chosen several of the largest firms in the area to refer our clients to, as we are confident they will provide an excellent service both now and in the future. If you need any financial advice then do let us know and we will provide you with their details.

Seed Enterprise Investments Scheme (SEIS)

This scheme was introduced from the 2012/13 tax year and offers 50% Income Tax relief and, for 2012/13 only, relief from Capital Gains Tax as well, meaning that total relief of up to 78% of the cost of the investment can be achieved. However, it has recently become clear that investments made during 2013/14 will also qualify for

relief against CGT for 2012/13, as the relief can be carried back one year. Whilst this has always been the case, the full effect of the relevant legislation was not properly understood.

Relevant Life Policies

For limited companies who wish to provide their directors or key employees with life assurance, Relevant Life Policies can be very tax efficient. The company will receive Corporation Tax relief on the cost of the premiums, but no P11(d) benefit will arise on the director or employee. Cover of up to fifteen times annual earnings (including dividends) can be provided and these new style policies are proving to be very popular.

EMPLOYMENT LAW UPDATE

Holiday Pay and Sickness - New Guidance

Under current law, employees can choose to take their annual leave while they are off sick (in order to receive full pay, rather than sick pay), but they can also choose not to and can carry over their leave from one year to the next. A recent Court of Appeal case ruled the entitlement is automatic and that the employee does not need to make a specific request. The accrued holiday can then be taken when the employee returns, or must be paid in lieu if the employment is terminated.

Long term sickness must be carefully managed as proactively as possible and it may be necessary to amend contract terms in order to set time limits on the utilisation of carried over holiday. We can assist you to obtain expert advice in this respect, if required.

Employment Tribunals

Fixed fees are to be introduced from Summer 2013 for claims made through the Employment Tribunal based on the nature and complexity of the claim which vary between £160 and £1,200. These are intended to deter vexatious claims and to encourage alternative methods of resolution, such as mediation.



Health & Safety Management

All businesses must demonstrate adequate Health & Safety procedures and management, although it is very easy to become "bogged down" in paperwork. The Health & Safety Executive (HSE) has recently launched an online "Health and Safety Toolbox" aimed at smaller, low-risk businesses. This can be accessed from the right hand side of the HSE's home page and will make it quicker and easier to access the information that applies to particular industries.

Members of our tax investigation service are entitled to free health and safety advice via a 24 hour, 365 days a year telephone advice line provided by Abbey Protection Group.

The Government has also promised to scrap or improve much of the existing health and safety regulations, although we are yet to see the effect of this.

Free Employment Law Advice

Please remember that if your business is a member of our tax investigation service you are entitled to free employment law advice via a 24 hour, 365 days a year telephone advice line provided by Abbey Protection Group. This includes the provision of draft documents and on-going advice.

Employment Rights - Statutory Limits

From 1 February 2013, the maximum amount of a week's pay for the purpose of calculating the basic or additional award of compensation for either unfair dismissal or redundancy is increased to £450. The maximum award for unfair dismissal is also increased from £72,300 to £74,200.

The limit on the amount of guarantee payment for lay-offs is increased from £23.50 to £24.20 per day.

From 8 March 2013 the right to unpaid parental leave increases from 13 weeks to 18 weeks.

From 7 April 2013, the standard rates of statutory maternity, paternity and

adoption pay increase from £135.45 to £136.78 per week. The rate of statutory sick pay also increases from £85.85 to £86.70 per week.

Employee - Owner Employment Contracts

The Government proposes to introduce new style employment contracts under which employees can exchange some of their UK employment rights for shares in the business they work for. Companies of any size can use the new kind of contract and can give employees share options worth between £2,000 and £50,000. The employee will give up their right to unfair dismissal, redundancy, flexible working and time off for training and will also be required to provide 16 weeks' notice of return from maternity leave. The shares will be exempt from Capital Gains Tax. However, reaction to the new style contracts in the professional press has not been very favourable.

THIS AND THAT

High Income Child Benefit Charge

If either you, or your partner earn more than £50,000 per year and you receive Child Benefit, then you will be liable to this new charge from 7 January 2013. HMRC have tried to identify all those taxpayers who might be affected, but we do not think they have successfully achieved this. If you are confident your income will exceed £60,000, you may wish to disclaim the benefit in order to avoid further liability to the charge. Please speak to us if you need further advice.



PAYE Tax Coding Notices

Please send us copies of all PAYE Coding Notices you receive, as these are no longer sent to us by HMRC and we need to check them to ensure they are correct and also to obtain details of any adjustments that are relevant to your Tax Return.

Updated Approach to Business Records Check

After completing a pilot study of 3000 businesses, HMRC have updated and re-launched their business records check programme. They will now make greater use of risk analysis and will initially contact businesses by letter. They will then phone the taxpayer and go through a short questionnaire. Subject to this, they will confirm that either no further action is required, or provide further guidance, or arrange a visit to inspect the business records.

Bereavement Allowance and Payment

If your spouse or civil partner dies before they reach state pension age you may be entitled to a payment of £2,000. If they were aged 45 or over, you may also be entitled to a weekly allowance for 52 weeks. However, both benefits must be claimed and are not paid automatically. The Department of Work and Pensions (DWP) have recently established a dedicated bereavement service and a simplified claim procedure.

50% Taxpayers

If your taxable income exceeds £150,000, then you are currently liable to tax at the rate of 50% on any excess. However, this rate will reduce from 6 April 2013 to 45%. Therefore, if you are considering making any pension contributions, it will be better to pay them before 5 April 2013 than after. If you make any Gift Aid contributions after 5 April 2013, but before 31 January 2014, you can elect for relief to be given in the previous year, thereby increasing the amount of higher-rate relief available.

Advisory fuel rates for business mileage

The new rates effective from 1 March 2013 are:

Engine size	Petrol	Diesel	LPG
1400cc or less	15p		10p
1401cc - 2000cc	18p		12p
Over 2000cc	26p		18p
1600cc or less		12p	
1601cc - 2000cc		15p	
Over 2000cc		18p	

HMRC's Approach to Tax Debt

HMRC are under considerable pressure from the Government to collect as much tax as possible and have recently adopted a new approach by categorising non-payers as either 'can't pay' or 'won't pay'. Those who are classed as 'won't pay' can expect to receive much harsher enforcement action.

It is therefore important that if you cannot pay your liability on time, that you make contact with HMRC at the earliest opportunity to discuss the position and the options available to you. By doing this you can avoid surcharges and also unpleasant enforcement action.