

## Monthly Update

Dear Client,

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

Tax Partner

### THE AUTUMN STATEMENT

George Osborne stood up in the House of Commons recently to update MPs on the government's plans based on the latest forecasts for the UK economy from the Office for Budget Responsibility.

The Office for Budget Responsibility report - published twice a year - is its assessment of the UK economy's likely performance over the next five years.

It reports on the state of the public finances and assesses whether the government is likely to achieve its goal of balancing the UK's budget within five years ('balancing the budget' is where spending matches the amount received from things like taxes).

### THE KEY ECONOMIC AND BUSINESS POINTS

#### ECONOMIC GROWTH

2011 forecast revised down to 0.9% from 1.7%, 2012 forecast revised down to 0.7% from 2.5%, In 2013, 2014 and 2015, forecast growth will be 2.1%, 2.7% and 3%.

### GOVERNMENT BORROWING

Borrowing forecast to be £127bn in 2011-2, falling to £120bn, £100bn, £79bn and £53bn in following years, an extra £111bn in total than previously predicted. Debt to GDP ratio to peak at 78% in 2014-5, falling afterwards.

### TRANSPORT COSTS

The average rise in regulated rail fares to be capped at 6% - 1% above inflation - in January, rather than the 8% cap expected. The planned 3p fuel duty rise in January to be scrapped. But duty will go up by 3p in August.

### JOBS AND BUSINESS SUPPORT

OBR forecast of total public sector job losses up from 400,000 to 710,000.

The Chancellor announced a credit easing programme to underwrite up to £40bn in low-interest loans to small and medium-sized firms, a £1bn business finance partnership to raise money for medium-sized firms and a Regional Growth regeneration fund to get £1bn in extra funding. The Bank levy will be increased from January.

In addition there will be a £250m support package for energy-intensive firms, with £500m for science.

Business rate holiday relief for small firms has been extended to April 2013

He also announced a £1bn "youth contract" to subsidise six-month work placements for 410,000 young people.

For a detailed summary of the Autumn statement please contact us and we will be delighted to provide you with a copy.

### THE TAX CATCH UP PLAN

We are always delighted when you kindly refer a new client to us. It shows us we are providing the service to you that we always strive for, and we then try and do our best for the person you have referred.

One area where we can help is when you come across someone who for whatever reason has not declared all of their income – or perhaps fears that may be the case. The latest HMRC initiative aimed at such a person is the Tax Catch Up Plan. Although it is primarily targeted at those delivering tuition and coaching or who use those skills in another way to supplement income, this initiative can also be used to cover any situation where income has not been declared.

The incentive to using this new plan is a substantial reduction in the level of penalty usually charged. We will always try and get the penalty reduced to the lowest possible – that can be NIL, 10% or 20% of the tax outstanding, depending on the circumstances.

That will save a lot of money as normally the penalty for paying too little tax can be as much as 100% of the tax. There is a deadline of 6 January 2012 to notify participation in the Tax Catch Up Plan.

### UK/SWITZERLAND TAX AGREEMENT

This ground-breaking agreement has been signed and is expected to take effect from January 2013. It will mean that UK residents can retrospectively regulate the tax position on their existing banking relationships in Switzerland by either making a one-off tax payment or disclosing their accounts. Future investment income and capital gains of British bank clients in Switzerland will then be subject to withholding tax, and the amount collected will be transferred to the British authorities by Switzerland. In addition, mutual market access for financial services will be improved.

There will be a one-off tax payment option in 2013 of between 19% and 34%, where the account is still open on 31 May 2013, and that will settle all taxes in relation to the funds in the account. The alternative to facing the deduction is to instruct the bank to disclose details of the account to HMRC, in which case HMRC will seek unpaid taxes plus interest and penalties.

There will be a new withholding tax from 2013 ranging from 27% to 40% where the account holder has not previously advised HMRC about the assets and has not authorised full disclosure.

Plenty of food for thought by individuals who do have undeclared funds in Switzerland, and we are ready to advise on the options available to regularise the position.

### USING YOUR OWN LIMITED FAMILY COMPANY TO MEET UNIVERSITY COSTS OF YOUR SON OR DAUGHTER

The scope is substantial, with care, and can result in both a corporation tax deduction and no income tax charge on you to cover the benefit. The ultimate tax-efficient arrangement! As you can imagine, the rules are strict to achieve this.

Your son or daughter must be properly established as employed by your company, but that does not have to be full-time. Various safeguards must be built into the arrangement so as to resist any attack from HMRC.

Not surprisingly there are limits to the tax exemption, and in particular it does not cover tuition fees. Rather it is meant to cover lodging, subsistence and travel up to a level of £15,480 in the academic year. We will be pleased to advise of what exactly can be done in your specific circumstances.

### BENEFICIAL OWNERSHIP OF AN ASSET

If you own an asset personally, with your spouse not being involved, that would normally mean that the capital gain on a sale will be taxed on you alone. The key aspect is who is the beneficial owner, rather than whose name is shown on the deeds or certificate of ownership. Often that will be the same person, but following a recent tax case there is scope for showing that perhaps each spouse is the beneficial owner with the result that ½ of the gain is taxed on each of them.

That can reduce the overall capital gains tax payable, especially if husband and wife can each use their own annual CGT exemption of £10,600.

The taxpayer in that case (the wife) successfully argued that although the mortgage on the property was in her name only, nevertheless her husband shared the mortgage payments with her. It was also held that the evidence clearly showed that the property had been bought in part from joint savings and also from the proceeds of an endowment policy held in the husband's name. It was therefore accepted that both husband and wife were beneficial owners of the property and the gain was taxed 50:50 between them even though the title deeds only showed the wife as the legal owner.

This decision, subject to any successful appeal, provides plenty of flexibility in tax planning and we will be pleased to provide full details.

### IR35 TAX YIELD REVEALED

If you use your own personal services company to provide services, you will be well aware of the infamous IR35 rules. When they apply they result in the income of your company from the end-users being treated as your own earnings, with the result that PAYE and national insurance contributions are due.

In response to a recent Freedom of Information request HMRC was forced to admit that over the past 5 years only a paltry 322 cases were reviewed by way of a formal enquiry! What's more, the tax yield from cases reviewed was only £219,000 in 2010/11, compared with £1.9 million in 2006/07.

Of course IR35 does have a deterrent effect, but even so the above statistics suggest that the complexities and uncertainties of the IR35 legislation are out of all proportion to the amount collected. Whilst it is probably wishful thinking that it will be abolished, there are grounds for suggesting that certain arrangements which have been brought within IR35 should be reviewed to see if the position can now be rectified. That includes situations where a personal services company was not established as it was thought that IR35 will bite.

**amas** chartered management accountants

**Ayr Office** : 14a Beresford Terrace, KA7 2EG t: 01292 291 010

[www.amasaccounting.com](http://www.amasaccounting.com)

**Glasgow Office** : 2 West Regent Street, G2 1RW t: 0141 432 1002

[info@amasaccounting.com](mailto:info@amasaccounting.com)

amas (scotland) limited | reg no. 262672 scotland | vat no. 842 3968 05