TAX NEWS

Monthly Update August 2014

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; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

Tyrrell & Company

AGENCY WORKERS AND PAYE

Changes in the Finance Act 2014 have tightened up the rules for "self-employed" workers supplying their services through UK agencies, employment businesses and other intermediaries.

From 6 April 2014 the agency must decide whether the way in which the worker does their work is subject to (or to a right of) supervision, direction or control by the end client or someone else. If it is then the worker will fall to be treated for income tax and national insurance contributions as an employee and the worker's pay will be subject to PAYE and Class 1 employees/employers national insurance contributions.

HMRC have confirmed that the agency legislation will not generally apply where a worker is engaged via a personal service company (PSC). This is because the agency legislation will only apply when remuneration is received by the worker as a consequence of providing the services.

Dividends paid to the worker as a genuine consequence of their shareholding in the PSC will not normally constitute "remuneration" for the purposes of the agency legislation. Such workers will still potentially be subject to the "IR35" rules.

Please contact us if you wish to discuss whether the new legislation impacts on you or your workers.

IMPROVED TAX BREAKS FOR INNOVATIVE COMPANIES

There are currently two very generous tax breaks for companies involved in research and development (R&D) , particularly those that go on to patent their products or inventions. Many such companies may not be claiming all the relief that they are entitled to.

Firstly, R&D tax credit relief provides companies with an enhanced corporation tax deduction of up to 225% for qualifying R&D expenditure. For example, £100,000 qualifying expenditure attracts a tax deduction of £225,000. Qualifying expenditure would include scientists' and engineers' salaries involved on the research project.

Many companies involved in R&D are making a loss in the early stages and rather than carry the loss attributable to the enhanced R&D spend forward they are able to claim a repayment from HMRC. The repayment was increased to 14.5% from 1 April 2014, turning the £225,000 loss into a £32,625 refund (32.625% of the qualifying spend).

The second generous tax break is the "Patent Box" which entitles the company to a lower corporation tax rate on profits from the sale, licensing or other receipts from patented products. This lower rate is currently being phased in but will decrease to just 10% from 1 April 2017. In order to qualify for the Patent Box the company must register a UK or European patent over their invention.

Although software development can qualify for R&D tax relief, it does not currently qualify for the Patent Box. Please contact us if you want to discuss whether either of these tax breaks apply to your company.

INTEREST ON LOANS TO YOUR BUSINESS

If you have made a loan to your business you should consider paying interest on the loan, as this will be an allowable deduction against the business profits. However, the interest will be taxable on the lender, so you need to consider the tax rate applicable to both parties.

For example, if the company pays tax at 20% and the director/shareholder pays tax at 40% this would clearly not make sense! If the loan is made to a company, the company will normally also need to deduct 20% tax at source and pay this to HMRC quarterly.

If the lender only has a small amount of other income, such as a small salary or pension below £10,000, the first £2,880 of savings income is only taxed at 10%. Next year, however, the first £5,000 of savings income will be tax free which will provide a planning opportunity for some, as shown by the example:

Mr Wonger needs £100,000 to expand his sole trader business. His wife has just inherited a similar amount from her mother and decides to loan it to her husband's business at 5% per annum. Her only other income is a small salary of £10,000 a year from her husband's business. The £5,000 interest would potentially save up to 45% income tax plus national insurance for Mr Wonger, whereas Mrs Wonger would receive £5,000 interest tax free.

CAPITAL TAX IMPLICATIONS OF THE LOAN

Although the loan to the business in the example above is tax efficient (in that there is no income tax due from 6 April 2014) it would also be important to consider the CGT and IHT implications of the loan.

Should the business default, it may be possible to obtain relief as a capital loss against capital gains in the same or future years. There would, however, be no inheritance tax business property relief should the lender die with the loan in place. Please contact us for further advice in this area.

NOT A TRANSFER OF GOING CONCERN SO VAT WAS DUE

A recent VAT tribunal case illustrates how important it is to take proper advice on a business sale. The Ryford Arms was sold by Pontardawe Inn Limited.

The purchaser of the premises and goodwill of the Ryford Arms was a company known as Claden Limited; However the fixtures, fittings and equipment were acquired by the shareholders personally. Furthermore, the former employees were not taken on by the new owners. The tribunal held that this was the mere purchase of assets and not an undertaking capable of carrying on independent economic activity, and thus VAT was due.

TAX DIARY OF MAIN EVENTS FOR AUGUST / SEPTEMBER 2014

Date	What's Due
1 August	Corporation tax for year to 31/10/13
19 August	PAYE & NIC deductions, and CIS return and tax, for month to 5/8/14 (due 22 August if you pay electronically)
1 September	Corporation tax for year to 30/11/13
19 September	PAYE & NIC deductions, and CIS return and tax, for month to 5/9/14 (due 22 September if you pay electronically)

Please contact a member of our Team if you would like to discuss any of the issues raised.