Tax Newsletter November 2014

This month's newsletter includes: a reminder of the tax and VAT consequences of having an annual staff party, new rules proposed to cap charges made for administering pension funds, rent-a-room relief and a reminder of the new minimum wage rates from October 2014.

Are you covered against HMRC's tax investigations? PRACTICE NEWS

Every year HMRC conduct investigations into thousands of businesses and individuals and immunity is not guaranteed for anybody, regardless of careful reporting. Even if no additional tax liabilities are uncovered, you could still be faced with professional fees of thousands of pounds from time spent answering queries and dealing with HMRC.

Fortunately there is a valuable insurance you can take out to protect yourself against these fees. Ellacotts offers Premier Protection Tax Fees Service Cover which could save your business a great deal of time and expense. The cover also includes access to the CCH Business Support Helpline.

If you would like to find out more about this please contact Christine Coates on 01295 250401 or chriscoates@ellacotts.co.uk .

Rent-a-room relief INCOME TAX

If you let a room or rooms in your main home you will not pay any tax on rents received as long as the gross receipts do not exceed £4,250 in a tax year.

This relief extends to owner occupiers and tenants who receive rent from letting furnished accommodation in their home.

If your gross receipts are more than £4,250 you can choose between paying tax on:

- Your actual profit - gross rents minus actual expenses and in certain cases capital allowances, or
- Your gross receipts (and any balancing charges) minus £4,250; with no deduction for actual expenses or capital allowances.

Rent-a-room relief applies to a tax year and the limit of £4,250 is reduced to £2,125 if during the basis period someone else also received income from letting accommodation in the same property.

National Minimum Wage (NMW) PAYROLL

A reminder to business readers that the NMW rates increased from 1 October 2014; the new rates are:

- 21 and over £6.50 per hour
- 18 to 20 £5.13 per hour
- Under 18 £3.79
- Apprentice rate £2.73

Don't forget that HMRC oversees compliance with the NMW regulations. The types of workers who are not entitled to the minimum wage are:

- self-employed people running their own business
- company directors
- volunteers or voluntary workers
- workers on a government employment programme, e.g. the Work Programme
- family members of the employer living in the employer's home

- non-family members living in the employer's home who share in the work and leisure activities, are treated as one of the family and aren't charged for meals or accommodation (e.g. au pairs)
- workers younger than school leaving age (usually 16)
- higher and further education students on a work placement up to 1 year
- workers on government pre-apprenticeships schemes
- people on the following European Union programmes: Leonardo da Vinci, Youth in Action, Erasmus, Comenius
- people working on a Jobcentre Plus Work trial for 6 weeks
- members of the armed forces
- share fishermen
- prisoners
- people living and working in a religious community

Workplace pensions overhaul **PENSION**

The Government has announced changes that should standardise, and in most cases reduce, the charges made to administer funds on behalf of contributors.

Draft regulations published in October confirm that charges to invest and manage the default funds of all qualifying schemes will be capped at 0.75% annually.

Small differences in charges can have a major impact on a pension pot by the time a person retires. An average earner due to accumulate a pension pot of around £30,000 could benefit to the tune of £1,600 by saving in a scheme charging 0.75% compared to one which charges 1.5% – and for many the boost could run into tens of thousands of pounds.

The draft regulations also ban unfair charges and hidden costs that could, without action, severely reduce people's pension savings over decades.

The Government will bring forward further rules and regulations to ensure that from April 2015 members of workplace personal pensions will not be charged consultancy fees for advice to their employer, and from April 2016 savers in all types of scheme will no longer be charged commission or consultancy fees. Nor will they have to pay charges for pension savings which increase when they change jobs.

Pensions Minister Steve Webb said:

"Consumers have had a raw deal from the market for too long. A pension is one of the biggest investments you can make in your lifetime, yet many people have seen the savings they have put by all their working life whittled away by high or needless charges they may not even be aware of.

We are taking strong action to restore confidence in pensions by capping charges, banning hidden costs and putting new standards in place to ensure everyone saving in workplace pensions get the best possible value for money.

With millions of people now saving through automatic enrolment, we want to give them confidence that their hard-earned money is working for them and not disappearing in opaque charging structures and ending up lining the pockets of the pensions industry."

The level and scope of the charge cap will be reviewed in 2017.

The new governance standards will apply across all money purchase workplace pension schemes and will ensure that people running schemes understand the key components of scheme quality and have members' interests as their priority.

Under the changes, trustees of pension schemes will be required to design default funds in members' interests, keep them under regular review and ensure that core financial transactions are processed promptly and accurately. They will have to assess the value of costs and charges borne by those saving in a pension, and they must have a chair of trustees who will be responsible for signing off an annual statement on how the quality standards have been met.

The 0.75% cap will cover all charges excluding transaction costs.

Planning the Christmas celebrations **EMPLOYMENT LAW**

If you are involved in planning the staff Christmas party for your firm don't forget to consider the Income Tax and VAT consequences. Here's a short reminder of the points you should add to your check list.

The cost of an annual staff party or similar function is allowed as a deduction for tax purposes. However, the cost is only deductible if it relates to employees and their guests, which would include directors in the case of a company, but not sole traders and business partners in the case of unincorporated organisations.

Also, as long as the criteria below are followed there will be no taxable benefit charged to employees:

1. The event must be open to all employees at a particular location.

2. An annual Christmas party or other annual event offered to staff generally is not taxable on those attending provided that the overall average cost per head of the functions does not exceed £150 p.a. (inc VAT). The guests of staff attending are included in the head count when computing the cost per head attending.

3. All costs must be taken into account, including the costs of transport paid to and from the event, accommodation provided, and VAT. The total cost of the event is merely divided by the number attending to find the average cost. If the limit is exceeded then individual members of staff will be taxable on their average cost, plus the cost for any guests they were permitted to bring.

4. VAT input tax can be recovered on staff entertaining expenditure. If the guests of staff are also invited to the event the input tax has to be apportioned, as the VAT applicable to non-staff is not recoverable. However, if non-staff attendees pay a reasonable contribution to the event, all the VAT can be reclaimed and of course output tax should be accounted for on the amount of the contribution.

If these limits are breached employers can pick up the tax cost by using a PAYE settlement agreement.

A final note on 'Trivial' gifts for employees.

Employers may find the following Revenue concession useful - we have copied the note directly from the HMRC handbook:

"An employer may provide employees with a seasonal gift, such as a turkey, an ordinary bottle of wine or a box of chocolates at Christmas. All of these gifts are considered to be trivial and as such are not taxable. For an employer with a large number of employees the total cost of providing a gift to each employee may be considerable, but where the gift to each employee is a trivial benefit, this principle applies regardless of the total cost to the employer and the number of employees concerned."

One final cautionary note regarding VAT and staff gifts, VAT is chargeable by the employer when an employee receives gifts totalling more than £50 in a year. Turkeys, however, are still zero rated for VAT purposes!