WHITEFIELD

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Newsletter August 2012

This month we have included articles that cover: share reorganisations and CGT, VAT special scheme exit rules, a recent house flipping case and an update on the introduction of Real Time Information.

Our next newsletter will be published 6 September 2012.

Welcome to Whitefield

Welcome to the first Whitefield newsletter - to most readers its format will be familiar, the name new.

We are getting settled into our new offices, IT is mostly there, phones more of a problem but all key staff have a dedicated landline and mobile now.

Most disruption should be through now, but there is still some tweaking and settling down to do, documents to update and so on.

Our new website is at www.whitefieldtax.com, and you can register from there for RSS updates, and watch out for twitter soon.

For clients using us as a registered office this should have been updated at Companies House automatically to our new address - but we are emailing separately in the next few days on this.

If you like what we do, please leave some nice feedback at http://www.whitefieldtax.com/web/feedback/

Back to top

Share reorganisations and CGT

If you exchange shares in your company for shares or debentures in the same or a different company as part of a company reorganisation, what are the tax consequences?

If certain share reorganisation tax rules apply, the reorganisation is not treated as a disposal of the original shares. Essentially the new shares or debentures stand in the place of the original shareholding – the base cost and acquisition date are unchanged.

This would be the case if:

- Your company replaced shares of one class with shares of another class, or
- You received shares or debentures from another company as part of the sale or takeover of your company.

Please note that these “paper to paper” rules do not apply to EIS or BES shares in most circumstances.

Warning regarding interaction with Entrepreneurs relief (ER)

Care needs to be taken if your existing shareholding would have qualified for ER on sale and the new shareholding would not. This could be the case if:

- You have less than 5% of the voting rights and ordinary share capital in the acquiring company.
- You are not an employee, director or officer of the acquiring company.
- Either of these apply at any time in the 12 months leading up to the disposal of the “new” shares.

If ER is lost as a result of the reorganisation you could be paying CGT at 28% instead of 10% on a subsequent sale.

Note that if the share exchange involves loan notes, then there are further implications that need to be considered.

There is a remedy. Although the share reorganisation rules set out above apply automatically, you can elect to disapply the rules in most cases. If you do elect then the reorganisation of your original shareholding will be treated as a taxable disposal – by claiming ER relief your CGT bill will be 10% of the chargeable gain.

Unless you can dispose of all or part of your shares prior to the tax payment date (usually the January following the end of the tax year in which the reorganisation occurred) you would need to take the funding of the tax payment into account before making the election.

This article only touches on the general principles of these arrangements. Actual circumstances are likely to be complex and will require significant planning in order to produce the best tax outcome. Please contact us if you would like more detail.

Back to top

VAT special scheme exit rules

Two of the VAT special schemes can provide particular advantages for smaller businesses.

- The Flat Rate Scheme (reviewed in our June 2012 newsletter) can reduce overall VAT payable, especially for traders that are subject to the lower Flat Rate percentages.
- Cash Accounting allows you to defer payment of VAT added to your sales until the invoices are paid. This can have significant cash flow benefits for businesses with amounts owed from customers that are higher than amounts due to suppliers.

In order to register for either of these schemes, your projected business turnover for the year following registration needs to be below certain limits.

- Under the Flat Rate Scheme rules you can register as long as your projected turnover for the next twelve months does not exceed £150,000 excluding VAT.
- The equivalent turnover limit to join the Cash Accounting Scheme is £1.35m.

Once you are in the scheme you can continue to enjoy the benefits until your turnover exceeds the exit turnover limits. For both of these schemes these turnover limits are higher than the amounts required for registration.

- You will need to leave the Flat Rate Scheme when your annual turnover exceeds £230,000 excluding VAT.
- The equivalent amount to leave the Cash Accounting scheme is £1.6m.

Planning note

From a planning point of view it is therefore wise to consider registration for these schemes when a smaller business commences trading or shortly thereafter, when turnover limits will be at their lowest levels in most cases.

The Flat Rate rules allow you to stay in the scheme and exceed the turnover registration limits by £80,000 before you need to exit. For Cash Accounting purposes the equivalent figure is £250,000.

Back to top

Recent house flipping case

The case in question involved a couple who inherited a second home from a deceased parent.

They complied with the usual filing deadlines and sent an election to have the second property considered as their principal private residence for the week before it was sold on 19 October 2007. If successful, the election would have had significant Capital Gains Tax consequences. For example if a property is at any time considered to be a principal private residence, the last three years of ownership will be ignored for CGT purposes.

HMRC rejected their claim.

The election was refused, not because they only claimed to be in residence for a week, but because they could not demonstrate that they had occupied the second property with any degree of permanence or continuity.

For example:

- The owners kept no records of their periods of residence in the inherited house.
- None of the householder bills were in their personal names.
- No personal possessions were moved to the second property.
- The inherited house was similar to, and only 6 miles from, the main residence.
- Steps were taken to sell the property shortly after it was inherited.

Readers who may be considering this type of arrangement should take note: it is not only essential to make a proper election to HMRC within the required time limits, it is also critical to accumulate evidence of appropriate occupation of the elected property.

Back to top

Real Time Information

From April 2013 most employers (and from October 2013 all employers) will be required to submit PAYE information to HMRC as the information is processed. The process acronym, RTI, short for “Real Time Information”, is a new way for employers to report their employees’ pay and tax details. According to HMRC it will make it easier for employers, pension providers and HMRC to administer PAYE.

Employers and pension providers will tell HMRC about PAYE payments at the time they are made – rather than at the

end of the year.

A pilot started in April 2012 is apparently going well. Over 1,300 employers will join the pilot between now and September 2012.

David Gauke, Exchequer Secretary, is quoted as saying:

“RTI is the single biggest innovation in the administration of the tax system since PAYE was brought in after the Second World War. Its introduction will remove admin burdens from businesses of around £300m each year and will support the operation of Universal Credit. As we have seen today, the RTI pilot is going well and on track for April 2013 when most employers will start reporting PAYE in real time.”

If you need more information on the impact that this new initiative will have on your business please call.

Back to top

Tax Diary Aug/Sept 2012

1 August 2012 - Due date for Corporation Tax due for the year ended 31 October 2011.

19 August 2012 - PAYE and NIC deductions due for month ended 5 August 2012. (If you pay your tax electronically the due date is 22 August 2012.)

19 August 2012 - Filing deadline for the CIS300 monthly return for the month ended 5 August 2012.

19 August 2012 - CIS tax deducted for the month ended 5 August 2012 is payable by today.

1 September 2012 - Due date for Corporation Tax due for the year ended 30 November 2011.

19 September 2012 - PAYE and NIC deductions due for month ended 5 September 2012. (If you pay your tax electronically the due date is 22 September 2012.)

19 September 2012 - Filing deadline for the CIS300 monthly return for the month ended 5 September 2012.

19 September 2012 - CIS tax deducted for the month ended 5 September 2012 is payable by today.

Back to top

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