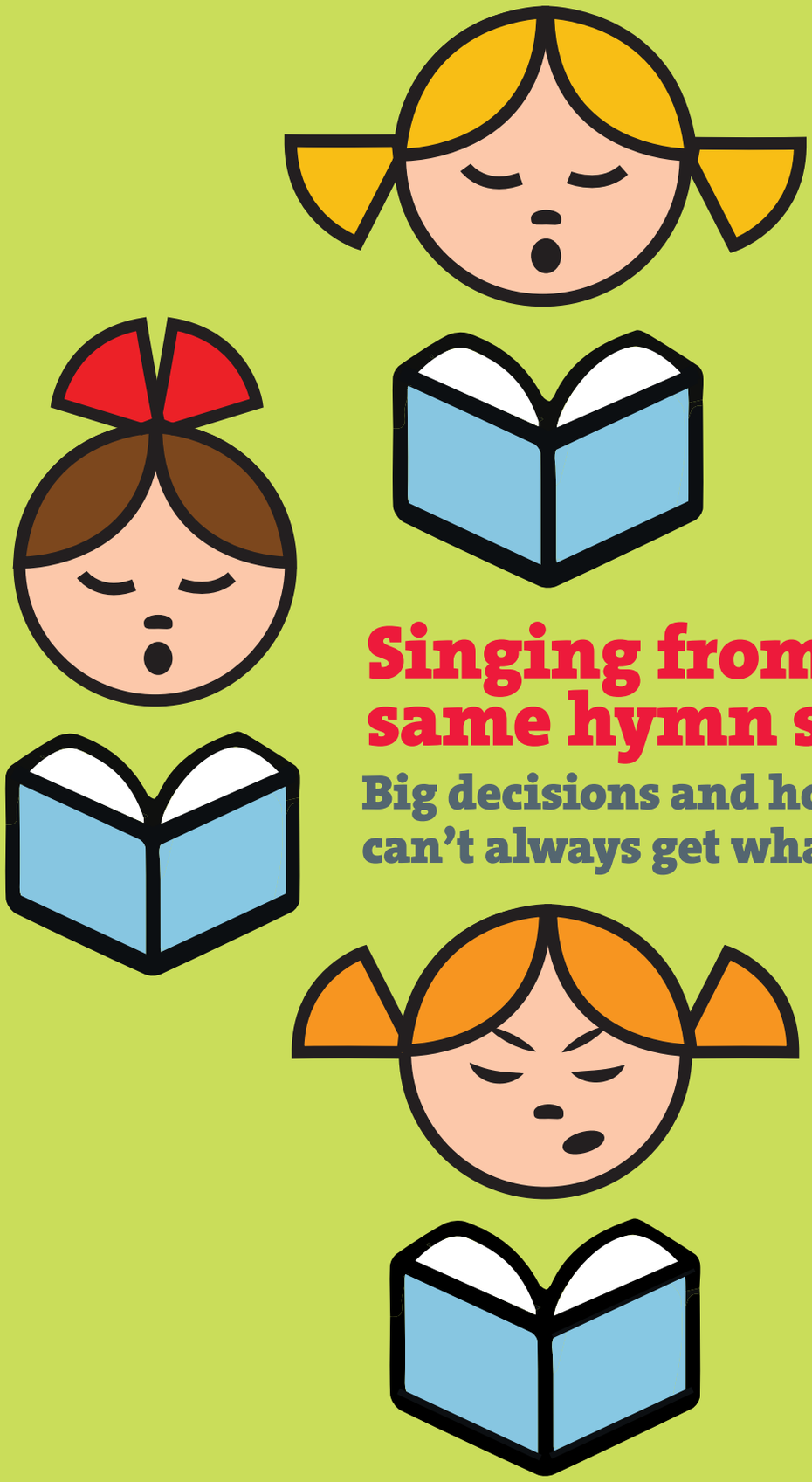
Winter 2014/15

Financial and business intelligence

SHIPSHAPE



Singing from the same hymn sheet?

Big decisions and how you can't always get what you want

shipleys LLP

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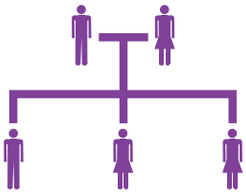

1 October new intestacy law applies

£4,000 annual junior ISA limit

Shipleys LLP is a firm of chartered accountants and business advisers. *Shipshape* is our regular newsletter for clients and contacts.

If you have any suggestions for topics you would like to see covered in *Shipshape*, or have any comments about its content, please contact Stuart Dey at our London office.

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More detailed information on tax changes is available on our website at www.shipleys.com

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You can't always get what you want

The Scottish independence referendum and shenanigans with the EU over the free movement of people principle got me thinking about decision-making. Is there a contrast between the ways major decisions are made in politics as opposed to in business? In both circumstances people often can't always get what they want.

A simple Yes or No vote certainly isn't very flexible and you can end up with a lot of unhappy people. In the run up to the referendum, both camps made promises on underlying issues to entice voters one way or the other. Are we set to see the same sort of thing in relation to the EU and would voters really place that one issue above all others in deciding whether or not we should stay in the Union?

We can work it out

Whilst many people have admirable motives to strive for the common good, what this means in reality and how to get there are other matters entirely. It's important to have and to communicate a clear goal in business, as it gives focus and direction to everybody involved. Nevertheless there may often be more than one way to achieve a common goal.

A good decision-making process provides the opportunity to canvass opinions and understand the perspectives of others; their views can be illuminating and result in better decisions. There's certainly a role for an outside view which is less likely to be driven by self-interest.

In reality the 'nirvana' of a win-win scenario is pretty rare – in most instances there are both winners and losers. It's important to acknowledge however, that whilst not everyone will agree with every decision, that doesn't mean they won't support and feel bound by it. Taking time to really listen, understand and respect others' opinions can be crucial if they are to make an effective contribution on the journey ahead, or at least to make sure they don't create obstacles.

We shall overcome

People on the rough end of a decision can display amazing resourcefulness in mitigating the impact it has on them.

Tax revenues often go down when rates rise, as more people try harder to avoid the higher rates they think are unfair.

In Mexico City, the authorities introduced no drive days in an effort to tackle pollution and congestion – I'd like to see that tried in London! – where cars with odd and even number plates were permitted to drive in the city on alternate days – this must have been dreamt up by accountants! Enterprising Mexicans simply bought second cars so they could drive every day regardless!

The so-called law of unintended consequences also has another name – the Cobra Law. This was coined in colonial India when the introduction of a reward for killing cobras, intended to bring about a reduction in their numbers, led to people breeding them just to collect the reward! – sounds good to me.

Our house

As we come into the run-up to the next General Election, the mansion tax looks sure to become a hot topic. Whilst the Lib Dems original proposals were for a 1% charge on value over £2m, Shadow Chancellor Ed Balls said last month that it would start at £250 a month for properties worth £2m and go up from there. There's no clear information and it's not surprising that people are already asking me about it. The Libs Dems say that 0.5% of properties would be affected and that "over 50% of London houses worth £2m+ are bought by overseas investors, not middle class families". Who knows, this might be right, but it's carefully worded – I've not seen any statistics on who actually owns these houses, as opposed to who is buying them. It does seem to be one of those decisions where The Cobra Law might apply. We will actively monitor the situation, so watch this space.

In this *Shipshape*

We look at EMI schemes, which can play a very important role in getting key people on-side and working effectively towards a common goal. There's a useful review of the IR35 rules, which I suspect some people don't realise apply to them – or perhaps choose to ignore (at their peril!). Those in the creative industries certainly should not ignore the latest tax reliefs aimed at them.

Don't forget, you can't always get what you want, but (sticking with the theme), if you try some time, you just might find, you get what you need.

Enjoy the read.

Payroll gets painful

The whole payroll process has changed a great deal in recent times, There's also much more to be taken into account: more changes to the National Minimum Wage were introduced in October and small employers' relief for Statutory Sick Pay has been abolished. The Chancellor announced £2,000 off employers' national insurance bills with effect from April 2014 – but are you actually claiming this 'employment allowance'?

The Real Time Information (RTI) regime was introduced in April last year. Now that employers must report detailed payroll information to HM Revenue & Customs (HMRC) before paying their staff, payments of state benefits can be amended quickly. However, a consequence for employers is that HMRC immediately knows what deductions from pay have been made and therefore the payment to expect!

Late filing penalties were planned to apply to Full Payment Submissions due after 6 October 2014. If you have fewer than 50 employees, this date has been put back to 6 March 2015. Penalty notices will be issued quarterly in arrears, so the first batch can be expected in January 2015. The general notification service (GNS), which you can access by logging into your payroll account with HMRC or via your payroll software, should tell you how many employees HMRC thinks you have and whether you have been a recent late filer.

LATE FILING PENALTIES

Employees	Monthly filing penalty
1 to 9	**£100** (from 6 March 15)
10 to 49	**£200** (from 6 March 15)
50 to 249	**£300**
250 or more	**£400**

PAYE coding notices

Employers may see more coding notices which increase deductions from some employees' pay.

One reason for this is alleged errors by HMRC. Some employees who declared expenses on their tax return, but claimed they were business expenses and thus non-taxable, have had their coding notices adjusted to include the expenses as if they were taxable benefits. Employees affected need to get HMRC to issue revised notices quickly as employers are obliged to apply whatever has been issued.

You may also see coding notices for 2015/16 relating to a planned change in the rules on tax debts which can be collected through the PAYE system. In future, the £3,000 limit on under-payments, which can be collected this way, will only apply to those earning up to £30,000. A graduated scale will be used so that an additional £17,000 per annum (or over £1,400 per month) can be deducted from those earning more than £90,000 a year. The rule that tax deductions must not exceed half of gross pay will be kept and, in view of the new limits, payroll operators will need to be more alert to it.

Dispensations

If HMRC grants you a dispensation, you don't need to report certain routine business expenses on form P11D (Expenses and benefits), or to pay tax or national insurance on them. Your employees no longer need to claim them as tax-deductible business expenses in their tax returns. This can save a lot of administration – although proper records must still be kept.

You need to apply for and be granted a dispensation. HMRC must be satisfied that you follow a decent process for checking that the expenses are proper business expenses; a director authorising their own claims, for example, might prove problematic!

Pensions auto-enrolment

If you haven't already got to grips with auto enrolment then you need to get going straight away. You can check your staging date – by when the whole process needs to be in place – with The Pension Regulator *(www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx)*. The general consensus is to allow at least a year before the deadline to get a plan in place.

Parental leave

The Government aims to give parents more flexibility in their childcare arrangements at the same time as maintaining stronger links to their workplace. The current 39/52 weeks paid/unpaid statutory maternity/adoption leave and two weeks of statutory paternity pay are expected to remain. But from April 2015, apart from the two-week period following the birth, mothers will be able to end or interrupt their leave and share it with their partner. It's intended to be flexible provided the employer gets eight weeks' notice.

Shipleys Payroll Bureau & HR advice

Running a PAYE scheme to avoid penalties and keeping on top of the related issues can be a challenge for the non-specialist. Our payroll bureau can help with this and set up your BACS payments for salaries and PAYE/NI. We offer a flexible service to help you ensure deadlines are met and the related issues are addressed. We also have an in-house human resources consultant if you need such expert input.

Please get in touch with your usual Shipleys' contact for more information.

IR35

Do the rules apply to you?

Do you personally provide services to your client?

Yes

Are these services provided through an intermediary?

Yes

If you provided these services directly to your client, would you be regarded as an employee of the client?

Yes

Do you receive or are you entitled to a payment or benefit that is not employment income?

If so, then...

IR35 rules apply

IR35 is the legislation which aims to prevent individuals, who would normally be treated as employees, from avoiding PAYE and National Insurance Contributions (NIC) by providing their services through an intermediary.

Intermediaries are sometimes used because an organisation (buyer), which pays self-employed suppliers, can end up liable to PAYE tax and NIC if it transpires that the supplier should have been treated as an employee. Because a supplier's status reflects their overall position – including, for example, his or her income from others – this can be very difficult for the payer to assess. As a consequence (unintended or otherwise), organisations sometimes ask suppliers to form their own 'personal services' company. The topic hit the headlines a couple of years ago when it was reported that 2,000 civil servants and some BBC television presenters were being paid through service companies.

Without IR35, an 'employee' contracting with the 'employer' through their own 'service company' or 'personal services company' would receive gross income, and could then pay themselves dividends which are not liable to NICs or PAYE. A tax saving is likely and payment of the reduced liability may well be deferred. Using an intermediary also introduces scope for further tax planning. For example, other family members can hold shares and use their own personal allowances and basic rate band, or more complicated profit extraction strategies, which HM Revenue & Customs (HMRC) considers 'tax abuse'.

When do the IR35 rules apply?
The IR35 rules apply in situations where you would be regarded as an employee of the client if there wasn't an intermediary. They can also apply if you're working as an office-holder or undertaking office-holder duties for your client. It comes down to whether each hypothetical contract between you personally and every one of your clients would be a contract of service (employment) or a contract for services (self-employment). Existing contracts must be reviewed if there are any changes or variations in addition to considering new contracts.

Managed service companies (MSCs)
A person carrying on a business (or a discernible part of their business) of promoting or facilitating the use of companies to provide the services of individuals is likely to be an MSC. MSCs must treat all payments received by workers providing their services through such companies as income subject to PAYE and Class 1 NICs. Their PAYE and NIC debts, which are irrecoverable, can sometimes be transferred to third parties. An intermediary must consider whether the MSC legislation applies before considering IR35.

How do the IR35 rules work?
Where the hypothetical contract would be regarded as an employment, the intermediary has to calculate, declare and pay tax and NICs on an 'employment payment', deemed to be made at the end of the tax year. This is taken into account when working out and paying any corporation tax and it must also be declared on your personal tax return. It's in addition to any actual PAYE and NICs. The idea is that you end up paying roughly the same amount of tax and NICs as if you had been directly employed by the client.

Calculating the deemed payment
The deemed payment is based on the payments and benefits your intermediary receives from deemed employment engagements in the tax year, minus deductions for capital allowances, pension contributions, secondary class 1 NICs, in-year salary and taxable benefits, and a limited allowance for expenses. This is chargeable to income tax as employment income and subject to Class 1 NICs. The £2,000 employment allowance introduced in April 2014 can't be offset.

As the payments actually subject to PAYE and NIC are deductible in calculating the deemed payment, even if you have an engagement which is subject to the rules, if your intermediary operates a normal payroll it is possible that your deemed payment may be reduced to nil.

Business entity tests
HMRC produced an online guide *www.hmrc.gov.uk/ir35/guidance.pdf* to help assess how likely it is that IR35 applies, focusing on 12 tests about the business entity. However, HMRC recently agreed to abolish these tests from 6 April 2015 as they have proved to be complicated and few people use them. In the meantime, the tests can continue to be used if needed. HMRC will publish updated guidance in due course.

Speak to Shipleys
We are not always aware of the precise contractual relationships our clients have with their customers and the IR35 rules can apply to one small contract. If you think you may be affected by the IR35 rules, please speak to your usual Shipleys contact so that we can make sure the issue is properly considered.

Jargon buster!

Why's it called IR35?
IR35 was the reference number of the Budget press release when the legislation was first announced in 1999.

New tax relief schemes for video games and theatres

Creative industry gets a helping hand

Video games tax relief has been in play since 1 April 2014, and UK theatres are set for a boost now that the curtain has come up on theatre tax relief. This brings the number of special tax schemes for the creative industries to five.

The reliefs are based around the statutory accounts and the UK corporation tax returns. They are supposed to be straightforward to administer and easy to claim, but there are, of course, conditions on who can claim and how much.

What relief is available?
The reliefs operate by enhancing the tax deduction for 'core' expenditure (doubling it in some cases) and allowing it to be set against trading profits or, more commonly (where this creates loss), swapped for a tax refund, typically 20% or 25% of the expenditure surrendered. This is known as a 'payable tax credit'.

The cultural test
To qualify for CITR, video games, animations, films or television programmes must pass a 'cultural test' or qualify through an internationally agreed co-production treaty – certifying that the production is a 'British video game', 'British film' or 'British programme'. In all cases, formal certification is required.

Certification and qualification is administered by the British Film Institute (BFI) on behalf of the Department for Culture Media & Sport.

Video games tax relief

Although the cultural test applied to video games is more inclusive than for some of the other reliefs, at least 25% of the 'core' production budget "must be used and consumed" in the EEA. The video game development company must be responsible for designing, producing and testing the game, and directly negotiate, contract and pay for the rights, goods and services in relation to it. Other conditions include the intention to supply the game to the general public, and a limit of £1m on subcontracted work for each game.

There's no special definition of 'game', so it includes those for traditional PCs, consoles and mobile phone apps. But in every case it must have obtained a Pan European Game Information (PEGI) age rating, which helps parents and others assess the suitability of a game before purchase.

Both the additional deduction and the 25% payable credit are calculated on the EEA core expenditure, up to a maximum of 80% of the total core expenditure by the video games company. Core expenditure is expenditure on pre-development, principal photography and post-development. This means that the tax credit can be worth up to 20% of the total core expenditure.

Theatre tax relief

Businesses wishing to claim theatre tax relief must be responsible for producing the content of the theatrical production and actively involved in the decision-making process to deliver it. The expenditure must be directly incurred in the theatre production, integral to the production process and each production must be treated as a separate trade.

Theatrical productions cover ballet and 'dramatic productions', including plays, operas and musicals where actors, singers, dancers or other performers give their performances wholly or mainly through the playing of roles in front of a live audience. Circuses are also included but wild animals must not be used. Productions that do not qualify include those of a sexual nature, those which form part of a competition and those made to advertise or promote goods or services.

As there must be an intention to run a high proportion of all live performances to either paying members of the general public or for educational purposes, it is perhaps not surprising that the proposed requirement that performances should take place in licensed premises has been dropped.

Qualifying expenditure changes at various stages of production. At least 25% of the core expenditure incurred in each production must relate to expenditure in the EEA. The payable tax credit is calculated at 25% for qualifying touring productions and 20% for others.

Creative industry tax reliefs (CITR)

Film tax relief	April 2007
Animation tax relief	April 2013
High-end television tax relief	April 2013
Video games tax relief	April 2014
Theatre tax relief	September 2014

How Shipleys can help

These two new schemes are similar to the film and television tax credits scheme looked after by Shipleys principal Steve Joberns and his team of specialists. We are very familiar with the process and underlying principles and have an excellent working relationship with the HMRC department responsible for all five of the schemes.
Our experience is that careful budgeting and structuring can enable access to the tax credits, but ongoing monitoring of actual expenditure compared to that projected can be crucial if a claim is to succeed. Please contact us for detailed guidance.

The ins and outs of EMI schemes

The Enterprise Management Incentive (EMI) scheme provides valuable tax reliefs to small and medium-sized trading companies who want to grant share options to key employees.

Under a share option scheme, employees are given the option to buy shares in a company at a set price at some point in the future. In our example of a scheme in action, an option granted to acquire 10,000 shares at £1 each at any time in the next five years would mean that if the shares increase in value to £3 each, the employee can buy shares worth £30,000 for £10,000. If the share price falls (below £1 in our example) the employee doesn't exercise the option, so can't make a loss.

Tax advantages

EMI schemes are approved by HM Revenue & Customs, giving them a number of tax advantages compared to unapproved schemes.

As long as the option price to be paid by an employee is not less than the agreed market value at the time the option is granted, no income tax or PAYE liabilities are triggered when the option is later exercised.

Although the notional gain made by the employee on exercise is not taxable, the company can deduct an equal amount from its profits for corporation tax purposes.

Employees who acquire shares under the EMI scheme might not have any income tax liability to worry about but there is also capital gains tax be considered, as the CGT base cost of the shares will be the option price rather than the value when acquired. If the shares are actually sold for £30,000 then the £20,000 gain is liable to CGT, normally 18% or 28% depending on the taxpayer's other income. However, this gain may qualify for CGT entrepreneurs' relief (ER). EMI shares have some particular advantages here:

- they are deemed to have been held since the option was granted (rather than when it was exercised), which can be very helpful in meeting the requirement to have held the shares for at least 12 months
- the normal ER requirement to own at least 5% of shares or voting rights doesn't apply, so even a very small shareholding might still attract ER.

Gains which qualify for ER are taxed at 10%.

For more information about EMI schemes, please speak to your usual Shipleys contact.

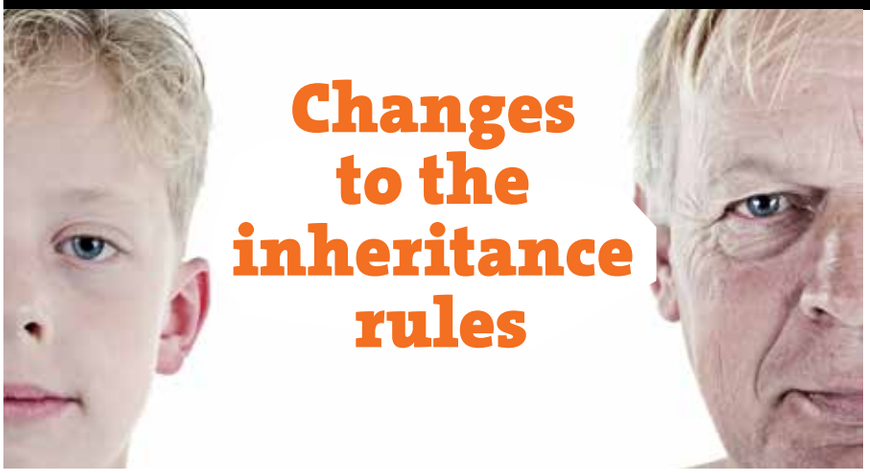
How to set up an EMI scheme

- Market value of shares is agreed with HMRC 's Shares & Assets Valuation department using form Val231. HMRC often agrees a value per share of no more than two times earnings per share for small minority shareholdings.
- Company and employee sign an EMI option agreement.
- Company registers the scheme and reports each option granted online (paper form EMI1 will no longer be accepted).
- Company submits EMI40 annual summary return (currently still a paper form) which includes details of any options exercised.

Example: EMI scheme in action

SHARE OPTION GAIN Value of shares on exercise	£30,000	£3 per share – market value in November 2014.
SHARE OPTION GAIN Cost of options	(£10,000)	Options granted on £10,000 shares at £1 per share (then market value) in October 2013.
SHARE OPTION GAIN	£20,000	No income tax or PAYE liability for the employee when exercised. The company can deduct this amount from profits for corporation tax purposes.
SALE PROCEEDS	£30,000	Employee sells shares immediately after acquiring them under the option agreement.
COST	(£10,000)	
CAPITAL GAIN	£20,000	Liable to CGT at 18% or 28% depending on employee's other income, except if it qualifies for ER.
CGT AT 10%	£2,000	Gains qualifying for ER are taxed at 10%, so the employee ends up with £18,000.

Although on paper company shares may seem valuable, minority shareholdings in private companies are in fact fairly worthless if no dividends are paid and the employee can't actually sell them. There may be restrictions on disposing of shares, such as a requirement that they be offered to other existing shareholders first. Therefore EMI schemes work best when the company is working towards a sale, a listing or some other event where it's possible for the option-holder to sell the shares.



Changes to the inheritance rules

The law on intestacy in England and Wales, has changed. From 1 October 2014, if someone who has a spouse or civil partner but no children dies without a will, the surviving spouse/civil partner will inherit everything.

If the deceased leaves a spouse/civil partner and children, the surviving spouse or civil partner will receive a tax-free 'fixed net sum' of £250,000 plus interest from the date of death until payment, the deceased's personal belongings (in legal terms 'personal chattels') and half of the remainder of the estate. The surviving children will inherit the balance, in trust until they reach 18. The definition of personal chattels has also changed to include all tangible movable property, except for property: consisting of money or securities; used solely or mainly for business purposes; or held solely as an investment.

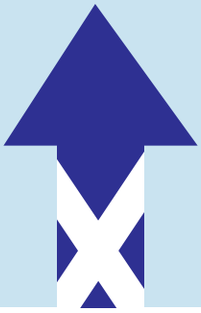
The new rules apply even to estranged spouses or civil partners.

In another law change, relatives of a missing person can now apply for a presumption of death certificate that will give them powers to act in all the person's affairs, under the Presumption of Death Act 2013. Separately, alterations to the Inheritance (Provision for Family and Dependants) Act 1975 may also make it easier for some cohabitants, as a claimant will no longer have to show that the deceased contributed more to the relationship financially, effectively maintaining the claimant.

HMRC errors over Child Benefit Charge

HMRC has written to a number of higher rate taxpayers incorrectly asserting that their 2013 tax returns are wrong, in that a liability for the High Income Child Benefit Charge was overlooked. It is hard to see how HMRC can police this. The tax return gives no opportunity to identify a partner (who might be the one with the liability). Recipients of such letters should review whether the charge applies.

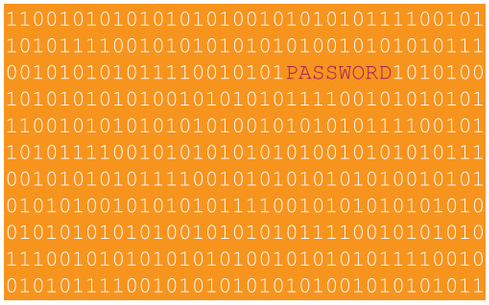
Greater tax powers for Scotland



The three main political parties have all promised Scotland even greater tax powers, but the extent of these is not yet definite, not least because of the General Election next May. They have all pledged to further devolve income tax but none of the parties are in favour of fully devolving the corporation tax regime.

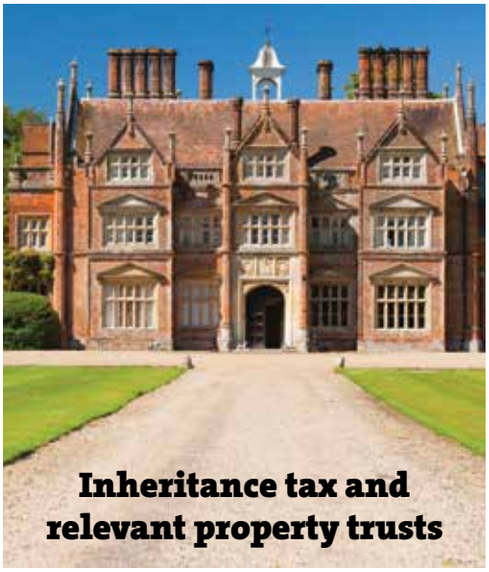
Under legislation existing before the referendum, Scotland will get a Land and Buildings Transaction Tax in place of Stamp Duty Land Tax from April 2015 and a Scottish income tax from April 2016.

Spoof HMRC emails



Beware of emails that appear to come from HM Revenue & Customs (HMRC) but are designed to entrap you. For some examples see *www.hmrc.gov.uk/security/examples.htm*

HMRC will never send notifications of a tax rebate, or ask you to disclose personal or payment information, by email. If you have received a bogus HMRC-related email, forward it to *phishing@hmrc.gov.uk* and then delete it. For more on this see *www.hmrc.gov.uk/security/reporting.htm*



Inheritance tax and relevant property trusts

The inheritance tax position of 'relevant property trusts' (in the main discretionary trusts and most lifetime trusts set up after 21 March 2006) is to change with effect from 6 April 2015. The rules are being simplified for pre-7 June 2014 trusts. For capital that is settled or becomes relevant property after 6 June 2014, the settlor will have to allocate a trust nil-rate band (TNRB), currently equal to £325,000, to be shared among any trusts set up or added to after 6 June 2014. The allocation will be irrevocable once it affects a trust's inheritance tax liability, unless the trust has come to an end.

Follower and accelerated payment notices

HM Revenue & Customs (HMRC) can now issue a 'follower notice' to someone using particular tax arrangements the benefit of which has been defeated in a court or a tribunal if it thinks the ruling is relevant. The recipient must take 'corrective action', i.e. to accept the decision applies to their affairs or pay a penalty of up to 50% of the denied advantage. Although an appeal against a penalty and therefore implicitly the notice is possible, it cannot challenge the validity of HMRC's opinion that the judicial ruling is relevant to the arrangements.

HMRC also now has the power to issue an 'accelerated payment notice' to someone who has made a tax appeal in certain circumstances – broadly when a follower notice has been given, the disclosure of tax avoidance (DOTAS) arrangements apply or if a GAAR (general anti-abuse rule) counteraction notice has been issued. The effect is that the recipient must pay the tax in dispute without waiting to see the outcome of any appeal.

Other planned measures include the introduction of a new strict liability summary criminal offence where the prosecution would only need to demonstrate that an individual failed to disclose offshore income or gains, and not that their intention was to defraud the Exchequer.

Annual Investment Allowance

The increase in the Annual Investment Allowance to £500,000 applies until 31 December 2015, after which it plunges to £25,000. If business accounts are for a period that begins in 2015 and ends in 2016 the part that falls in each calendar year is treated as a separate period for the allowance. If a company's accounts are for the year to 31 March 2016, the maximum allowance for the year is 75% of £500,000 plus 25% of £25,000, a total of £381,250. This could all be used in the first nine months, because it is less than £500,000. If the maximum is not fully used by expenditure in 2015 the qualifying expenditure in the last three months is limited to £25,000.

Mini-Budget

The Chancellor's Autumn Statement, a prelude to the Government's last Budget before the election next year, will take place on 3 December. A summary will be available at *www.shipleys.com.*

VAT corner %

Mini One Stop Shop update

As mentioned in the last edition of *Shipshape* the new EU-wide VAT registration service under the Mini One Stop Shop (MOSS) provisions became available in October.

Holding companies

The VAT position of holding companies has always been complex, largely because the holding of shares in subsidiaries is not a business activity. This means no VAT registration opportunity and no VAT recovery on costs (unless the company has other activities).

An active holding company (i.e. one that actively manages its subsidiaries) can register and recover VAT on costs, but it must both charge for and be paid fees for the management services.

The number of recent VAT Tribunal appeals on this point suggests that HMRC may be targeting holding companies. The key message from these cases is that input VAT recovery is only available where there are onward supplies of goods or services. These supplies need to be either VATable or zero-rated services (such as those supplied to an overseas subsidiary), in order to qualify. They should also consist of something more substantial than merely a recharge of directors' fees.

Whilst it may be tempting to delay levying management fees until the subsidiary can afford to pay them this may lead to a denial of input VAT recovery and possibly cancellation of the VAT registration altogether.

Recharges to associated entities

A similar issue to that above for holding companies arose for a company called Temple Retail. It had incurred costs and recovered the VAT in full even though the costs partly related to an associated finance company in the corporate group.

As the costs had not been recharged, HMRC disallowed the proportion of the input VAT relating to the sister company on the basis that the expense did not relate to any business activity conducted by Temple.

Temple was, eventually, successful in its appeal but only because HMRC had dragged its feet and issued its assessment too late. Had the VAT officer been a bit more on the ball Temple would have lost the VAT and could also have faced a penalty.

Input VAT is only recoverable if it relates to some form of onward VATable or zero-rated supply of goods or services made by the business that wants to recover the VAT. If the VAT relates to another business it is best to get the supplier to readdress the invoice or issue a recharge invoice.

Cost sharing exemption

The Finance Act 2012 introduced a new exemption for organisations with exempt and/or non-business activities that join together on a co-operative basis to form a separate, independent entity, known as a cost sharing group.

Although the UK legislation is fairly new, this exemption has been available in the EU VAT Directive since 2006, so affected entities have the right to the exemption going back to that time.

A recent case involving the West Of Scotland Colleges Partnership showed how difficult it can be to rely on EU legislation. The Partnership acted as a cost sharing entity for member colleges on a non-profit basis which appears to be exactly what the exemption was designed for. However, the lack of UK legislation meant that it had no way of knowing the terms and conditions that HMRC would apply to the exemption. As a result the Partnership did not know that it was important to seek reimbursement of the exact cost incurred by each member college so exemption did not apply.

Pensions

Pensions flexibility proposals – more details

Some funded defined benefit (DB, or final salary) schemes will be allowed to convert as a result of receiving 'qualified advice' to defined contribution (DC, or money purchase) schemes, to enjoy the flexibility announced in the Budget.

DC scheme members aged 55 or over (from 6 April 2015) will be able to access their pension fund before it crystallises (i.e. is used to provide benefits) as many times as they wish, with 25% of each withdrawal treated as a tax-free lump sum and the other 75% taxed as income.

For pensions crystallising after 5 April 2015, 25% of the fund may be taken as a tax-free lump sum and the balance used either to:

- buy an annuity – annuity income will be allowed to go up or down (currently it must be level or increase) with no limit on the guarantee period (the minimum length of time that the annuity will pay out, including to dependants or survivors after the death of the pension holder), or
- set up a 'flexi-access drawdown fund' (FAD) from which as much or as little as desired may be drawn, but drawings will be taxed as income.

If a tax-free lump sum or FAD income is taken, the limit on tax-deductible contributions will reduce from £40,000 to £10,000 (with no carry forward if unused).

A lump sum paid out on the death of a pension holder aged under 75 is currently tax-free if the fund is uncrystallised. If crystallised it is subject to a 55% tax charge until next April when it will also be tax-free.

For pension holders who are at least 75 years old the 55% rate has been reduced to 45%, and this can be avoided altogether if the funds are transferred after April 2015 to a pension fund for nominated beneficiaries.

Shipleys news

Shipleys in your pocket

We are delighted to announce the launch of Shipleys' very own app available free-of-charge to download from Apple's iTunes store or Google Play, the Android marketplace.

Our simple-to-navigate app is packed full of handy tools and features, including tax tables with all the latest personal and business rates and rules, such as personal allowances, income tax rates, National Insurance Contributions, pension contributions, corporation tax rates and capital allowances. There's also a 'key dates' section to remind businesses about the most important deadlines in one handy place.

The app includes easy-to-use calculators to work out VAT, stamp duty, mortgage payments, the effect of inflation and even to estimate your potential exposure to inheritance tax. The payroll calculator shows you how much of your gross pay you get to keep. The calculators should, of course, only be treated as a guide, and are not a substitute for individual planning.

You'll also find information about the range of Shipleys' services as well as mini biographies and contact details of our senior people. There's also a section where you can keep track of new articles posted to our website.

To download the app, visit your app store and search for Shipleys LLP. We hope you find it useful – please let us know what you think.

shipleys LLP Alumni

Where are they now?

Museum finance

Nicola Jones, who was with Shipleys as an auditor between 1991 and 1996, has recently taken on a new role as head of finance at The Museum of London at London Wall and the Museum of London Docklands. She encourages Shipshape readers to pay a visit!

Recruiting business

Former Shipleys audit senior **Alan Charlesworth** is now both managing director and finance director of IPS Group Limited, an executive recruitment business with officers in the UK, USA and Asia specialising in the insurance and financial services markets.

Standards setting

Paul Druckman, an articled clerk at Shipleys in the 1970s, is currently CEO at the International Integrated Reporting Council (IIRC). When he's not travelling around the world for work, Paul enjoys golf and tennis, and time with his wife of 31 years and their two children. Paul is keen to hear from his contemporaries.

Shipleys Alumni on LinkedIn

A reminder to former Shipleys staff about our Shipleys Alumni LinkedIn group. We're always interested to hear what our former colleagues are up to and spread the word via this page, so please share your news with us and pass this on to other alumni you keep in touch with.

Celebrating exam success

Congratulations to **Gurvir Cheema** and **Isla MacGillivray** on obtaining the ACA qualification after passing all three of their final Advanced Stage exams.

AGN member focus

Hall Chadwick, Australia

With offices across Australia, Hall Chadwick started in 1886 and is one of the largest and most experienced accounting groups in the country. It provides a wide range of services and has a strong reputation for innovation. With expertise across a wide range of international tax issues, it helps multinational clients with matters such as transfer pricing, high level controlled foreign company (CFC) and foreign investment funds (FIF), double tax agreements, foreign hybrid structures, transactional M&A and cross-border transactions, and the global mobility of expatriates. Over the years Shipleys has forged close links with Hall Chadwick through sharing clients and active participation in AGN. Sydney-based partner David Kenney is a member of the Asia/Pacific region board of AGN. Several of Shipleys' team have gained valuable work experience down under, and we have played host to a number of Australians seconded to the UK. www.hallchadwick.com.au

HALL CHADWICK

Shipleys Business Club

Three new Shipleys Business Club guides are now available on our website:

Key client programmes: advantages and disadvantages, ideas and tips for successful implementation.

Feedback: situations where it can be useful, tips in seeking it and its role in an appraisal process.

Raising the game of your board, faster: non executive directors and others.

www.shipleys.com/resources/reference

Lights, camera, action!

Maggie Gyllenhaal in The Honourable Woman

Established in 2013, television production company Drama Republic has already had primetime success with award-winning BBC1 drama The Honourable Woman. Co-managing director Greg Brenman chats to* Shipshape *about the journey so far.

Drama Republic was set-up in January 2013 by long-term colleagues Greg Brenman and Roanna Benn, who had spent 18 years together at Tiger Aspect Productions.

Greg says the company was "incredibly fortunate" to hit the ground running with two productions – Hugo Blick's international drama, The Honourable Woman starring Maggie Gyllenhaal, alongside season two of My Mad Fat Diary for E4, a co-production with Greg's old company Tiger Aspect.

"As an eight-hour co production with BBC and Sundance TV, shot over 20 weeks in UK and Morocco, The Honourable Woman was actually one of the most ambitious projects we, as producers, have ever undertaken," says Greg.

Drama Republic is now in pre-production on two new projects for BBC1: Dr Foster, a five-hour serial written by Mike Bartlett and an adaptation of J B Priestley's An Inspector Calls.

Lights, camera, action!

"One of the most significant challenges was going from being a company that wanted to produce drama to being one that actually did," says Greg, who explains that it was important to move from development to production as quickly as possible. "Thankfully we succeeded on that front so we were able to bring in revenue and achieve credibility at an early stage in our corporate development."

Thrilled by the reception The Honourable Woman has received from audiences and critics, Greg says the drama has made some "very healthy" sales and is now transmitting around the world. It also recently won 'Best Foreign Drama Series' at La Rochelle TV Festival.

"We keep our fingers crossed that it continues to be well-received."

Growing the company

"Now a company of eight, we are growing every day," says Greg. "We have a very focused slate that we believe provides broadcasters, here and abroad, with material that will excite them. We aim to become a leading UK producer of quality drama."

> *"Sitting at the heart of the industry, we feel that Shipleys is always in pole position to offer the best advice."*
>
> **Greg Brenman, Drama Republic**

Above everything else, Greg says the company prizes its relationships with writers and creators of content. "It's important for us to make the right choices and develop projects which play to our strengths and broadcasters want to buy."

A helping hand from Shipleys

Shipleys has been working with Drama Republic from the beginning, helping to set up and run the company, and providing recent assistance with tax credit applications.

"Shipleys has been an incredible bedrock of support and guidance," says Greg. "Sitting at the heart of the industry, we feel that Shipleys is always in pole position to offer the best advice."

www.dramarepublic.com

My Mad Fat Diary produced for E4

Whatever happened to Child Trust Funds?

The Child Trust Fund (CTF) allows parents, grandparents and other family members to build up investments for a child. This can be used to offset university costs so that the child is less likely to start their working life in debt. One recent study suggests that a student starting university in 2014 will on average face a debt repayment of over £66,000.

A child born between 1 September 2002 and 2 January 2011 inclusive was entitled to a CTF if they were eligible for Child Benefit and lived in UK without immigration restrictions. The CTF account belongs to the child but cannot be accessed until they are 18. A total of up to £4,000 can be added in each year beginning with the child's birthday.

Government incentives

Initial deposit

When the then Chancellor, Gordon Brown, introduced these accounts in 2005 the Government provided an initial deposit voucher (to the Child Benefit claimant), normally for £250, but more for those with low income parents and in certain other circumstances.

Tax advantages

Interest and dividends earned on the savings aren't subject to income tax, and any capital growth is also tax-free. Furthermore, there is no impact on parents' benefits or tax credits.

Types of CTF account

Savings accounts operate like bank or building society accounts, earning interest, while share accounts hold shares in companies (which can go up or down in value and may generate dividends). Stakeholder accounts hold investments in several companies, intended to be moved automatically to something lower risk when the child reaches age13.

Wind down, withdrawal and unintended consequences

Some 25% of the vouchers issued in the first four years of the scheme were never actually used and HM Revenue & Customs (HMRC) had to open accounts for people. These accounts can be claimed at *www.hmrc.gov.uk/tools/childtrustfundclaim/ctfaccount.htm*

In May 2010, CTFs were costing £5m a year to run and it was estimated that stopping payments would save £320m of the annual deficit. In August 2010 the initial opening voucher was reduced to £50 and no new accounts were opened after 2 January 2011.

CTFs were criticised virtually from the start for relatively high charges and limited product choice. The intended automatic risk-reducing switch of investments in stakeholder accounts ('lifestyling') due to affect the earliest CTFs next year has been put off, at least until 2017, pending a consultation. From April 2015 those with funds languishing in low-yielding, high-cost CTF accounts will be able to convert them to Junior Individual Savings Accounts (ISAs).

Junior ISAs

Children under 18 who live in the UK and not entitled to a CTF can have a Junior ISA which offers long-term tax-free savings. In a cash account there is no tax on interest, and in a stocks and shares account there is no tax on capital growth or dividends. A child can have one of either or both, but the annual overall contribution limit is £4,000. Funds cannot normally be withdrawn until age 18 – at which point the account will automatically be converted to a regular ISA and the child can take money out when he or she likes.

Parental derived income and gains

Special tax rules apply where a parent gives an unmarried child under 18 funds to invest. The child's income on such funds is taxed on the parent if it exceeds £100 a year. The limit applies per parent. If the income doesn't exceed £100, it is taxed as that of the child, who may use their own tax-free personal allowance (£10,000 in 2014/15).

For dividend income this would produce no advantage as the tax credits thereon are not refundable. However interest could be received without deduction of tax, or a refund claimed if tax had been paid at source.

Any capital gains in excess of the annual exemption (£11,000 in 2014/15) are taxed as the child's.

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