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MORE THAN ACCOUNTANTS

Tax E – News

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Welcome to our tax newsletter, designed to keep you informed of the latest tax issues. We hope you enjoy reading these tax tips; and remember - we are here to help you so please contact us if you need any further information on any of the topics covered.

USING THE NEW 2015 PENSION RULES FOR ESTATE PLANNING

As mentioned in previous editions of this newsletter, current rules state that pension annuities lapse on the death of an individual, with no value passing to their children. In contrast, drawdown pensions can be passed on to the next generation, subject to a 55% charge on the fund. We were expecting an announcement of a reduction in this penal charge in the Autumn Statement, but the Chancellor decided to announce the change earlier than anticipated at the Conservative Party Conference. The changes will have exciting estate planning opportunities - please contact us to discuss these in more detail.

From next year, individuals with a drawdown arrangement or with uncrystallised pension funds will be able to nominate a beneficiary to receive their pension when they die.

No tax if pensioner dies before age 75

If an individual dies before they reach the age of 75, they will be able to give their remaining defined contribution pension to anyone as a lump sum. This lump sum is **tax free**, whether it is in a drawdown account or uncrystallised. This contrasts with ISAs and other investments, which would potentially be subject to inheritance tax.

Furthermore, the person receiving the pension pot will pay no tax on the money they withdraw from that fund, whether it is taken as a single lump sum or accessed through drawdown.

Death of pensioner after age 75

Anyone aged 75 or over dying with a drawdown arrangement or with uncrystallised pension funds will be able to nominate a beneficiary to pass their pension to. It is proposed that the nominated beneficiary will be able to access the pension funds flexibly, at any age, and **pay tax at their marginal rate of income tax**.

There are no restrictions on amount of the pension fund that the beneficiary can withdraw at any one time. Beneficiaries will also have the option of receiving the pension as a **lump sum payment, subject to a tax charge of 45%** (if the deceased is over 75).

NIC ON SALESMAN'S COMMISSION

Unlike income tax under PAYE, Class 1 National Insurance Contributions (NICs) are not normally calculated on an employee's cumulative earnings but on the earnings for that week or month in isolation. Employees pay Class 1 contributions at the rate of 12% on earnings between £663 a month and £3,488 a month. Above the upper earnings limit, a rate of 2% applies.

There have always been special rules for directors where an annual earnings period applies, but these do not generally apply to employees. HMRC are understood to be increasing the application of an annual earnings period for other employees in cases where they suspect Class 1 NIC is being avoided. Take for example a car salesman with a regular salary of £24,000 a year. His normal gross pay would be £2,000 a month, but he receives a commission twice a year based on car sales. If he receives £5,000 commission in October due to his car sales in the period to September, £3,512 of that commission would only attract 2% Class I NICs (£70.24), as the £3,488 limit applies on a non-cumulative basis. Applying an annual basis would have resulted in a further £351.20 being deducted (£421.44 less £70.24).

Note that employers NIC would be unaffected.

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NO NIC DUE ON RENTAL INCOME

Class 2 NICs are payable by the self-employed at the rate of £2.75 per week, although there is a small earnings exemption for those earning up to £5,885. It is understood that HMRC believe Class 2 NICs also apply to buy-to-let landlords. This is not correct and was tested in a case before the Tax Commissioners back in 2002 (*Rashid v Garcia*), when it was determined that property income was not applicable for Class 2 NIC purposes. Please get in touch with us if you receive a demand from HMRC for Class 2 NICs or a questionnaire requesting details of your property rental activities.

NEW INTESTACY RULES IF YOU DON'T MAKE A WILL

Many people die intestate because they think their estate will automatically pass to their spouse free of inheritance tax (IHT). This is not necessarily correct. Moreover, having a Will in place makes it easier to get a grant of probate and avoids the Statutory Intestacy Rules governing how the estate is distributed.

From 1 October 2014, if an individual is survived by a spouse or civil partner (but no children or remoter issue), the entire estate will go to the surviving spouse or civil partner. Previously, the spouse would only have received the first £450,000 (and half of the excess over £450,000); the other half of the excess would have passed to parents or siblings.

If the deceased individual is survived by a spouse/civil partner as well as children or remoter issue, the surviving spouse or civil partner will only receive the first £250,000 (and half of the excess over £250,000). The children will receive the other half of the excess equally between them. Having a Will is thus important for IHT planning, as only the first £325,000 is exempt unless the assets pass to the spouse. Making a Will is also important when couples divorce and there are former partners and children of previous marriages involved.

CORPORATION TAX QUARTERLY INSTALMENT PAYMENTS

Most companies pay corporation tax 9 months after the end of their accounting period. However, companies with profits in excess of £1,500,000 a year are required to pay corporation tax on a quarterly basis. The first 25% is due 6 months and 14 days into the period, with subsequent 25% payments due every 3 months thereafter. This can be a serious cash flow issue in the first year that it applies, although there is a one year "grace" period. The £1.5 million limit is divided by the number of "associated" companies (under common control), so if there are 4 companies this limit is just £375,000. From 1 April 2015 this rule will only apply to members of a 51% group. We can help you plan to avoid this rule applying to your companies.

TAX DIARY FOR NOVEMBER/DECEMBER 2014

Date	*What's Due*
1 November	Corporation tax for year to 31/01/14
19 November	PAYE & NIC deductions, and CIS return and tax, for month to 5/11/14 (22 November if paid electronically)
1 December	Corporation tax for year to 28/02/14
19 December	PAYE & NIC deductions, and CIS return and tax, for month to 5/12/14 (22 December if paid electronically)
30 December	Deadline to file 13/14 SA tax return online if unpaid tax (up to £3000) is to be collected via 14/15 PAYE code