CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

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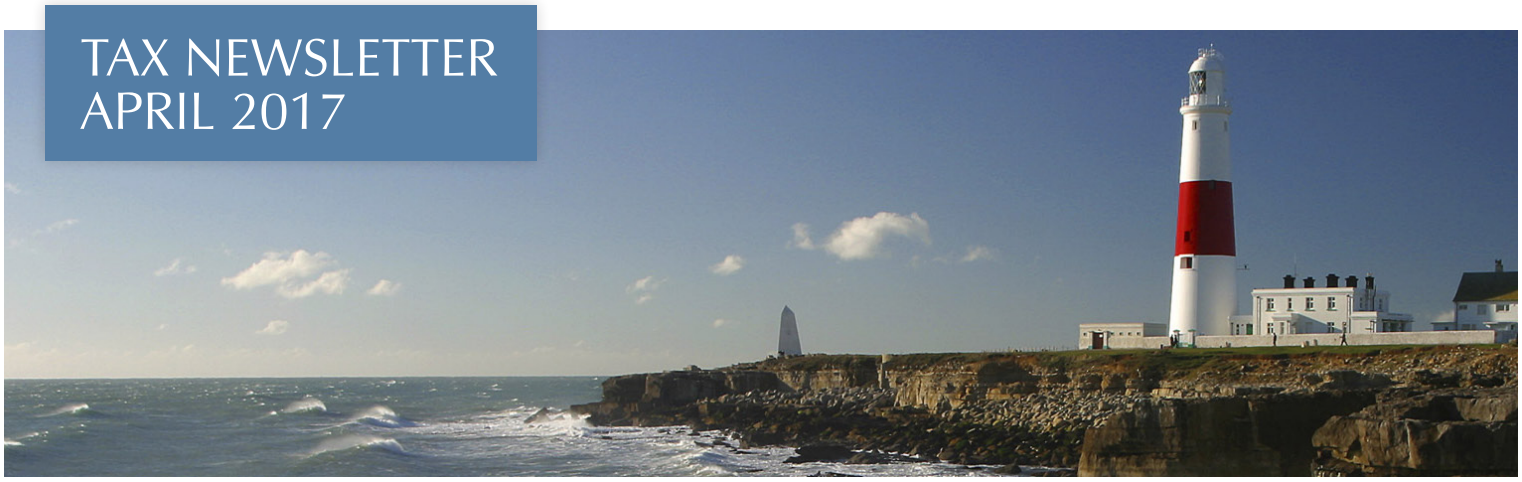

Welcome to this month's Enews, which follows the surprise announcement that Theresa May has called for a general election on 8 June. This news has been closely followed by the Ministry of Justice making a less surprising announcement that it will put it's much criticised plans to substantially increase probate fees from May 2017 (the so called "stealth tax on death") on hold.

Whilst no formal date has been announced, it is likely that Parliament will close on 27 April, seriously affecting the progress of the 762 page Finance Bill 2017. It is likely that certain parts will be passed quickly but with less scrutiny, with some parts being dropped and brought back post-election. A second finance bill is then likely to follow. The Treasury Committee has called for the controversial Making Tax Digital measures to be dropped, but the Chancellor made no response to the calls.

We will report in next month's update, which measures, if any, were put on hold.

In this month's ENews however we look at some of the tax changes that have come in from 1/6 April 2017, including changes to salary sacrifice rules, minimum wage rates and the VAT Flat Rate Scheme.

We also consider some upcoming filing deadlines, firstly the Annual Tax on Enveloped Dwellings (ATED) where returns must be filed by 30 April 2017, and secondly, forms P11D, which must be filed by 6 July 2017.

Of course, now that the end of the 2016/17 tax year has passed, you are also able to file your tax return for the last year. Dealing with this early provides you with advance warning of forthcoming tax liabilities; to pay the correct amount of tax at the right time, or to reclaim any tax refund as quickly as possible. However, be warned if you are using HMRC's software, as the tax legislation is now so complex that it is not able to correctly calculate your tax due if you have a certain mix of income.

As usual, if you would like any further information on any of the issues raised, then please do get in touch.

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ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

The Annual Tax on Enveloped Dwellings (ATED) is a tax charge on 'non-natural persons' i.e. a company, a partnership with a corporate partner, or a collective investment scheme which has an interest in UK residential property. It does not apply to commercial property.

This hidden tax charge is not well publicised and, generally, awareness of its existence is fairly limited. The tax charge can be significant though and there are quirks and pitfalls which can catch out the unwary.

When the Government first introduced ATED on 1 April 2013, it only applied to residential property interests valued at more than £2 million. Since then the lower threshold has been reduced twice meaning that from 1 April 2016 property interests valued at more than £500,000 have also been subject to ATED. Due to the reduction in the lower threshold, ATED is now of much wider application than when it was first introduced and many companies will be affected.

The charge is based on a banding system. Assuming the property interest was held by the company on 1 April 2012, the banding so far has been based on the value of the property at that date. However, the property needs to be re-valued every 5 years and so all properties will need to be re-valued on 1 April 2017 for this purpose to check which band they fall in to. If the property was acquired post 1 April 2012, the value is taken at the date of acquisition.

The table below sets out the respective tax charges for properties valued at more than £500,000 for the year commencing 1 April 2017:

Value of property	
More than £500,000 but not more than £1m	£3,500
More than £1m but not more than £2m	£7,050
More than £2m but not more than £5m	£23,550
More than £5m but not more than £10m	£54,950
More than £10m but not more than £20m	£110,100
More than £20m	£220,350

There are very tight deadlines for the submission of ATED returns and payment of the ATED tax charge. Those companies already in the regime must file a return and make payment for the year commencing 1 April 2017 by 30 April 2017. Different time limits apply where a company comes within ATED for the first time during a financial year but normally the return will need to be filed, and the tax charge paid, within 30 days of the property coming within the charge.

There are various reliefs available to mitigate the tax charge. The most common reliefs are where the property is used in a commercially run property letting or property development business, or is a farmhouse occupied by a qualifying farm worker. If a company wants to claim one of the available reliefs it must file a return to claim this. Failure to file a return renders a company liable to pay penalties typically amounting to £1,300 per year, even where no ATED is found to be due.

If you are concerned that your company may be subject to the ATED regime and would like more information, or if you need help in filing an ATED return, please contact Tara Hayes at tara.hayes@albertgoodman.co.uk

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MAXIMISING TAX FREE INCOME

With the announcement in the Budget that the dividend allowance will reduce from 6 April 2018, and following the removal of the tax credit on dividends from 6 April 2016, it is worth revisiting other opportunities for tax efficient remuneration from a family company.

For basic rate taxpayers with non savings income (i.e. pension income, salary, rents or self employed income) within the personal allowance, it is now possible to receive up to £6,000 of interest, tax free, by taking advantage of the "starting rate" for savings.

Example:

Geoff has lent his company some funds and has a director's loan account with a balance of £100k. In 2016/17, he takes a salary of £8,000 (i.e. non savings income at a level where no NI is payable either), interest on his loan account of £9,000, and dividends of £5,000.

His personal tax calculation looks like this:

Earned income (non savings)	8,000
Interest (savings)	9,000
Dividends (dividends)	5,000
Total income	22,000
Less: Personal allowance	(11,000)
Taxable Income	11,000
Personal savings allowance	1,000 at 0%
Starting rate for savings	5,000 at 0%
Dividend allowance	5,000 at 0%

Geoff can therefore receive £22,000 from his company completely tax free, and he will receive a repayment of £1,800 in respect of the tax deducted at source by the company from his loan interest.

This example can be taken further, increasing dividends to £26,000, taking total income to a level which fully utilises the basic rate tax band, after taking into account the personal allowance. The personal savings allowance and the starting rate for savings, along with the spare personal allowance after taking into account the salary means that there is £22,000 of tax free income as shown above. The additional dividends of £21,000 above the dividend allowance are subject to tax at 7.5%, resulting in income tax of £1,575, against which the tax deducted from the company interest will be deducted, giving a repayment due of £225.

If you would like more advice on being able to take funds out of your company, whilst minimising your tax costs, please get in touch.

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NEW 'SALARY SACRIFICE' RULES CAST A WIDE NET

From 6 April 2017, new legislation applies to limit the tax and NIC advantages of salary sacrifice arrangements.

The overall theme of the legislation is to prevent employees being able to give up part of their salary in exchange

for a tax free benefit in kind, or a benefit in kind which is valued at less than the cash given up. The PAYE and NIC savings for the employee are removed from 6 April 2017 and this is affected by them being liable to tax and NIC on the higher of the value of the benefit or the cash given up.

Although the media focus has been predominantly on the impact on salary sacrifice schemes, the legislation applies to what are termed 'optional remuneration arrangements'. This therefore also catches arrangements whereby an employee is offered the choice of a benefit (i.e. a car), or a cash allowance in lieu of the benefit. If the employee takes the cash allowance, this will be subject to NIC and PAYE in the normal way as additional salary. If the benefit is chosen, and the taxable value of the benefit is less than the salary foregone, the value of the benefit will be whatever the value of the alternative cash allowance would be.

The new rules will affect any new or revised contractual agreements entered into from 6 April 2017: this includes a change, renewal (including auto-renewal) or modification of a current agreement. For agreements in place before that date, which continue to apply without change, the new rules will not take effect until April 2021 for cars emitting CO2 of more than 75g/km. Most other benefits under such schemes will be taxable from April 2018, with school fees and accommodation being taxable from April 2021.

There is an exemption from the new rules where the benefit provided is an ultra-low emissions car (emitting CO2 of less than 75g/km), pension contributions, childcare vouchers or bicycles.

Strangely, the rules do not affect salary packages offered to new starters, provided they do not have the choice over their starting package make up.

If you would like to discuss the impact of the new rules on your employee remuneration packages, then please do get in touch.

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VAT FLAT RATE SCHEME - LIMITED COST TRADER

Changes are being made to the Flat Rate Scheme (FRS) which take effect from 1 April 2017. These changes may mean that the FRS is less attractive to some businesses and this may result in these businesses deciding to no longer operate under the FRS. In some cases where a trader has voluntarily registered for VAT it may be appropriate to deregister from VAT.

A new higher 16.5% rate will apply from 1 April 2017 for businesses with limited costs, such as many labour-only businesses, using the Flat Rate Scheme. Businesses using the FRS, or considering joining the scheme, will need to decide if they are a 'limited cost trader'.

Under the FRS a set percentage, determined by the business trade sector, is applied to the VAT inclusive turnover of the business as a one-off calculation instead of having to identify and record the VAT on each sale and purchase the business makes. The percentage rates are determined according to the trade sector of the business and these generally range from 4% to 14.5%.

A limited cost trader will be defined as one whose VAT inclusive expenditure on goods is either:

- less than 2% of their VAT inclusive turnover in a prescribed accounting period
- greater than 2% of their VAT inclusive turnover but less than £1,000 per annum if the prescribed accounting period is one year (if it is not one year, the figure is the relevant proportion of £1,000).

'Relevant goods', for the purposes of this measure, must be used exclusively for the purpose of the business but exclude the following items:

- capital expenditure
- food or drink for consumption by the flat rate business or its employees
- vehicles, vehicle parts and fuel, except where the business is one that carries out transport services, for example a taxi business, and uses its own or a leased vehicle to carry out those services
- payment for services, as these are not goods, this would include rent, accountancy fees, advertising costs etc

Examples of qualifying 'relevant goods' include stationery (and other office supplies), gas, electricity and cleaning products, but only where these are used exclusively for the business.

Businesses using the FRS will need to ensure that, for each VAT return period, they use the appropriate flat rate percentage, so the check to see whether a business is a limited cost trader will have to be carried out for each VAT return.

These rules come into force from 1 April 2017, so where a business has a VAT period that straddles 1 April 2017, the test to determine whether the business is a 'limited cost trader' will only apply to the period from 1 April 2017.

Please contact us if you would like advice on the FRS.

Internet link: GOV.UK VAT notice 733

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CHANGES TO CHILDCARE IN 2017

Launching of Tax Free Childcare

We previously reported on the expected launch of the Government's tax free childcare scheme in early 2017 and we confirm this will now be launched on 28 April 2017 and it will be gradually rolled out through the year.

As a reminder, the tax free childcare scheme is available to working parents (each earning at least £115 per week but less than £100k per annum) who will be able to receive up to £2,000 per year, per child, towards their childcare costs (£4,000 for disabled children). The scheme applies to children up to the age of 12, or the age of 17 for children with disabilities.

How does the scheme work?

Parents will need to register with the Childcare Choices website, which launched on 22 March 2017, and can pre-register before the launch date.

Once an account is opened, parents need to pay in their money for the childcare and the government will then top the account up. For every £8 paid into the scheme by the parent, the government will contribute an extra £2. Parents may then use the money in the account to pay a registered childcare provider.

Parents can remain under any existing Employer Supported Childcare scheme, usually in the form of childcare vouchers, if they wish and these schemes may remain open to new entrants until April 2018. The tax exemption for workplace nurseries will also be unaffected.

30 Hours Free Childcare

An additional scheme will be launched in September 2017.

The free childcare scheme is available to working parents of three or four year old children. Parents will again need to apply for the scheme using the Childcare Choices website. Although this scheme is not available until later in the year, you are able to pre-register now.

Currently, parents are entitled to 15 hours of free childcare but under the new scheme, the free childcare time will be doubled.

To check whether you are eligible for the scheme, more information can be found here:

https://www.gov.uk/government/publications/30-hours-free-childcare-eligibility

For more information on childcare options please get in contact with us.

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BENEFITS IN KIND

Now that the 2016/17 tax year has come to an end, it is time to start thinking about the filing requirements for any benefits in kind provided to employees during the year.

If employers have been providing benefits during the tax year, there may potentially be a reporting requirement on a P11D form and P11D(b) and class 1A national insurance to pay over to HMRC. Common benefits that need to be reported are:

- Company vehicles provided for private use;
- Interest free or low interest loans (above £10,000);
- Private medical insurance or treatment;
- Provision of clothing;
- Gifts which cost more than £50.

This list is not exhaustive and other benefits provided may be taxable.

Employers will need to act quickly as there are less than 3 months until the P11D filing deadline of 6 July.

If you have been providing taxable benefits and would like more information or assistance in preparing P11D forms, then we would be more than happy to help.

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LOW EMISSION CARS – MORE BUMPS IN THE ROAD

Following on from the article in our last E-news about changes to car benefit rules which adversely affect low emission cars over the next few years, it is also worth highlighting the changes to the vehicle tax regime which now apply from 1 April 2017.

Previously, low emission cars (less than 100g/km) had been exempt and therefore paid no vehicle tax.

For new cars registered on or after 1 April 2017, the vehicle tax in the first year will be based on CO2 emissions, but for the second year onwards, a standard rate of £140 (£130 for alternative fuel cars) will apply in each year. Only zero emission (i.e. electric) cars will continue to be exempt.

In addition, for expensive cars (over £40k) there will be a surcharge of £310 p.a. applying in years 2 – 6 (i.e. an extra total of £1,550 over the life of the car). In terms of determining whether the £40k cost threshold is met, the list price, delivery charge, and manufacturer-fitted options all count towards that limit (so choosing a few pricey options on a car with a list price of say £38,500 could tip you over the limit and be costly). In addition, when buying a plug-in hybrid car which qualifies for the Government grant, that grant is ignored for the purposes of the £40k limit (i.e. if the grant reduces the cost to less than £40k, it won't matter – you'll still be hit by the £310 p.a. surcharge).

Perversely, the higher emissions cars will benefit most under the new regime, whereas low emission cars will lose out compared to the old system.

Remember that the new system only applies to cars registered after 1 April 2017, so if you had intended to upgrade your low-emissions car for a newer model (also low-emissions) be prepared to be caught by the new rules or perhaps buy a second hand model instead.

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REDUCTION IN THE DIVIDEND ALLOWANCE

It was announced in the Budget that the Dividend Allowance will be reduced from £5,000 to £2,000 from April 2018.

Dividends received by an individual are subject to special tax rates. The first £5,000 of dividends are charged to tax

at 0% (the Dividend Allowance). Dividends received above the allowance are taxed at the following rates:

- 7.5% for basic rate taxpayers
- 32.5% for higher rate taxpayers
- 38.1% for additional rate taxpayers.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the £5,000 allowance.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

The government expects that even with the reduction in the Dividend Allowance to £2,000, 80% of 'general investors' will pay no tax on their dividend income. However, the reduction in the allowance will affect family company shareholders who take dividends in excess of the £2,000 limit. The cost of the restriction in the allowance for basic rate taxpayers will be £225 increasing to £975 for higher rate taxpayers and £1,143 for additional rate taxpayers.

Internet link: GOV.UK dividend allowance

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MAKING TAX DIGITAL FOR BUSINESS UPDATE

Extensive changes to how taxpayers record and report income to HMRC are being introduced under a project entitled Making Tax Digital for Business (MTDfB) .

MTDfB is to be introduced in stages and the government has confirmed in the Budget the deferral of some of the obligations for one year. The result of this announcement is that unincorporated businesses and unincorporated landlords with annual turnover:

- above the VAT threshold (currently £85,000) will need to comply with the requirements of MTDfB from the start of accounting periods which begin after 5 April 2018
- at or below the VAT threshold but above £10,000 will need to comply from the start of accounting periods which begin after 5 April 2019.

Companies (and partnerships with a turnover above £10 million) will not come within MTDfB until April 2020.

The government has decided how the general principles of MTDfB will operate. Draft legislation has been issued on some aspects and more is contained in Finance Bill 2017 although see our opening comments given the call for a general election on 8 June.

Under MTDfB, businesses, self-employed people and landlords will be required to:

- maintain their records digitally, through software or apps
- report summary information to HMRC quarterly through their 'digital tax accounts' (DTAs)
- make an 'End of Year' declaration through their digital tax accounts (DTAs). The End of Year declaration will be similar to the online submission of a self assessment tax return but may be required to be submitted earlier than a tax return. Businesses will have 10 months from the end of their period of account (or 31 January following the tax year - the due date for a self assessment tax return - if sooner)
- a tax return may also be required, which means there could potentially be up to 6 filings required for each year.

DTAs are like online bank accounts - secure areas where a business can see all of its tax details in one place and interact with HMRC digitally.

Businesses, self-employed people and landlords with turnovers under £10,000 are exempt from these requirements, as are other "digitally excluded parties".

Internet link: GOV.UK MTDfB

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PERSONAL TAX ACCOUNTS – GET YOURS NOW!

HMRC are gradually pushing taxpayers towards their Personal Tax Accounts (PTA) and, as of December 2016, they reported that 8 million people have already registered.

There are already a range of things that can be done via the PTA and as the push continues, more services will be added. In time, it is envisaged that this will become the major portal for dealing with HMRC.

As agents, Albert Goodman can access a range of details about our clients' tax affairs via our Agent portal and, although this access will continue in the short term, there are a number of services that the taxpayer can access via their PTA which we cannot access via our Agent portal.

Why do I need one?

HMRC's aim is for everyone to have online access to their tax accounts. There will therefore be a continuing push towards having a PTA and, in time, there may be more things that can only be done by the taxpayer through their PTA rather than by us as Agents on our clients' behalf.

How do I get one?

If you've already used any HMRC online services and have a Government Gateway account, you can log in using those details.

If you don't already have a Government Gateway account, you can set one up. There are two ways in which this can be done. The first involves a delay whilst you wait for a code to be posted to you which then needs to be entered to complete the set up process.

The alternative is to sign in with the Gov.Uk Verify service. This set-up process can be dealt with online in about 15 minutes if you have access to certain other information (including access to your online banking account). If you do set one up using this method, you'll need to sign in this way each time via Sign in with Gov.UK Verify rather than via the Government Gateway login.

What can I do with one?

The main things that can be done with a PTA at present include:-

- Filing a self-assessment tax return (although we may currently handle this for you), paying your tax liability and viewing your Annual Tax Summary or SA302 tax calculation.
- Check your tax code (and get it amended if necessary) or see your annual tax summary – this is primarily for people on PAYE and does not include details of other income. Current year PAYE income is updated on here as your employer submits RTI data.
- Check your NIC record and get an estimated forecast of your state pension (including when you can start drawing this).
- If you've had an automated tax calculation for 2015/16 showing a refund due to you, you can claim it via your PTA (otherwise a cheque will be issued to you after 45 days).
- Manage your Tax Credits claim or Child Benefit claim by reporting details of changes which affect either of these.
- If applicable you can initiate a claim for any Marriage Allowance to be transferred to your spouse or civil partner via your PTA.

The full list of current services can be seen at **PTA - all services**

HMRC have also produced some webinars to help you set up a PTA or make use of the services which can be seen at **Webinars about the HMRC Personal Tax Account - GOV.UK**

Should I get one?

As mentioned above, there is a continual push towards the digitalisation of tax services which isn't going to go away. As the service expands in future, the benefits to you as an individual taxpayer should outweigh the hassle factor of

the initial set up. We would recommend that you do set this up given the implications of Making Tax Digital, and if you are having any problems with this please do get in touch.

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MINIMUM WAGE RISES AGAIN

Employers need to ensure they are paying their employees at least the appropriate National Minimum Wage (NMW) or National Living Wage (NLW) rate. The rates increase from 1 April 2017.

	From 1 October 2016	From 1 April 2017
NLW rate for workers aged 25 and over	£7.20*	£7.50
the main rate for workers aged 21-24	£6.95	£7.05
the 18-20 rate	£5.55	£5.60
the 16-17 rate for workers above school leaving age but under 18	£4.00	£4.05
the apprentice rate **	£3.40	£3.50

* introduced and applies from 1 April 2016

**for apprentices under 19 or 19 or over and in the first year of their apprenticeship

Going forward the NMW and NLW rates will be reviewed annually in April.

What are the penalties for non-compliance?

The penalties imposed on employers that are in breach of the minimum wage legislation are 200% of arrears owed to workers. The maximum penalty is £20,000 per worker. The penalty is reduced by 50% if the unpaid wages and the penalty are paid within 14 days. HMRC also name and shame employers who are penalised.

Internet link: GOV.UK NMW

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EQUALITY - GENDER PAY GAP REPORTING

The government has introduced new requirements for all private and voluntary sector employers of over 250 people relating to equal pay reporting from April 2017.

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 (SI 2017/172) mean that large employers must calculate and publish the difference in mean and median pay and bonuses between the men and women they employ. In addition, information must be given about the proportion of men and women receiving a bonus payment and the proportions of men and women in each quartile of their pay distribution.

Key stages for this are:

- 5 April every year, starting in 2017 - take a snapshot of the data
- bonus data is based on the previous 12 months leading up to 5 April 2017
- by 4 April 2018 - the results must be published on the organisation's website with a signed statement confirming their accuracy
- both the results and statement must remain on the website for 3 years.

Organisations might choose to add some narrative with the results, but this is not part of the requirement.

Internet link: GOV.UK gender pay gap

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