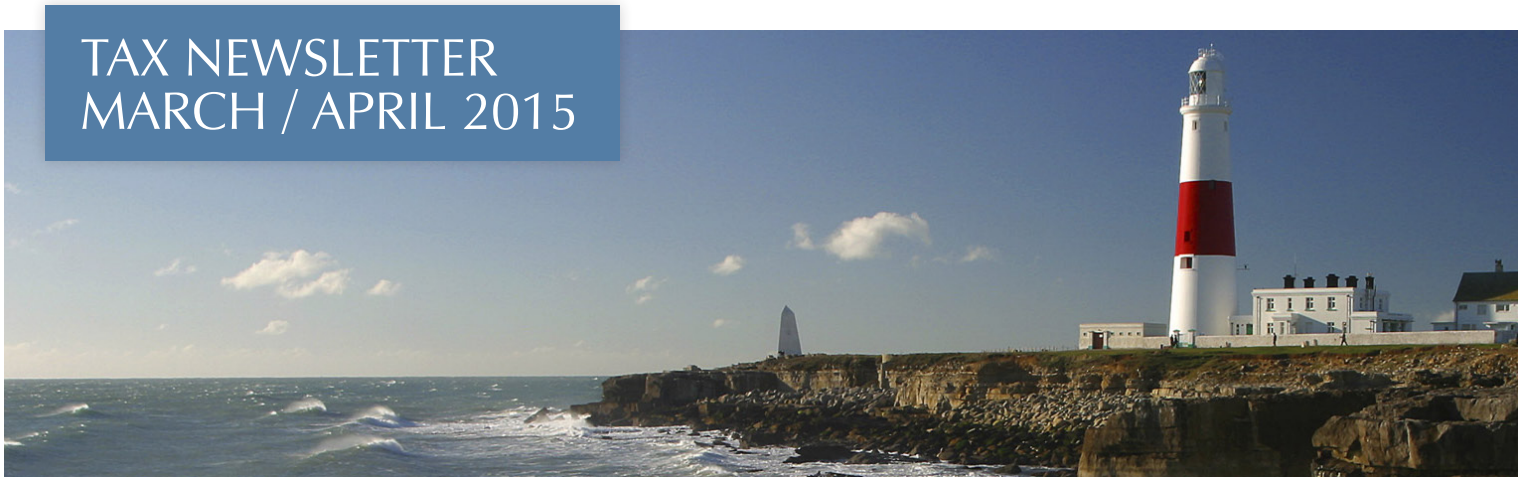
CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

ALBERT GOODMAN

TAX NEWSLETTER MARCH / APRIL 2015



Welcome to this month's Tax Newsletter in which we will take a look at some of the key changes that were announced in the recent budget.

In addition, if you are considering installing solar panels or a biomass boiler, please read our article on renewable energy, which sets out the fundamental issues that need to be considered before making such an investment.

Finally, if your company owns residential property valued at £500,000 or more, you may have additional tax and filing obligations under the ATED regime and we take a closer look at how this might affect you and your business.

Please do contact us if you would like more information on any of this month's articles.

CONTENTS

BUDGET 2015

George Osborne presented the final Budget of this Parliament on Wednesday 18 March 2015.

In his speech the Chancellor reported 'on a Britain that is growing, creating jobs and paying its way'.

Towards the end of 2014 the government issued many proposed clauses of Finance Bill 2015 together with updates on consultations. Due to the dissolution of Parliament on 30 March some measures have been legislated for in the week commencing 23 March, whilst others will be enacted by a Finance Bill in the next Parliament (depending on the result of the General Election).

The Budget proposed further measures, some of which may only come to fruition if the Conservative Party is in power in the next Parliament.

For full details, please see our recent **Budget Summary.**

Top of page

TRIVIAL BENEFITS EXEMPTION WITHDRAWN

Chocolates and flowers to say 'thank you'

We presented our budget updates recently and one of the topics covered was the trivial benefits exemption, due to come in from 6 April 2015. Eyes lit up in our audience at the thought of being able to give a box of chocolates, a bunch of flowers or a nice bottle of wine to staff, to say 'thank you' for all their hard effort - with the added bonus of not having to pay tax on the gift.

The exemption would have meant that non cash gifts with a value of up to £50 per person could have been made to employees tax free, with no reporting requirements for the employer. The measure was proposed by the Office of Tax Simplification and would have eased a burden for employers in having to keep track of small gifts to employees, particularly at Christmas.

Draft legislation

The draft legislation issued in December 2014 provided 2 protective measures: the exemption would not be available with salary sacrifice arrangements, and owners of close companies (controlled by 5 or fewer persons) would be restricted to an annual limit of £300.

Exemption withdrawn

However, on 24 March, just as the Finance Bill was published, the House of Commons issued a statement withdrawing the measure following 'recent discussions with the Opposition', announcing that the measure will now be delayed until the new Parliament. This means the provision of small gifts will technically be taxable although HMRC can sometimes exercise their discretion to allow some small gifts, although there is no set limit or type of gift permitted.

We do hope this will be dealt with quickly as this would have reduced some of the ever increasing compliance burden on small businesses, just looking to say 'thank you' to their staff.

Top of page

RENEWABLE ENERGY - WHY THE CHEAPEST ISN'T ALWAYS THE BEST

Have you received a quote for a biomass boiler or solar panels recently and thought that it looks too good to be true, or wondered whether you should sign on the dotted line? With biomass boilers for a farmhouse frequently costing in the region of £40,000 or more, it is not an investment decision to be taken lightly.

In providing a quote, installers usually give some indication of the expected income to be generated from the Feed in Tariff or Renewable Heat Incentive, together with electricity and heat savings and predicted payback periods and returns.

These financials can vary significantly between quotations depending on the assumptions made in the calculations. For example, indexing electricity costs at 9%, compared to another using 5%, will produce inflated projected savings. Likewise, the cost of installation can be dramatically different but may depend upon the quality of the technology used and what elements are included or excluded from the quote, such as trenching pipes from a biomass boiler to the property.

With this in mind we would always recommend you take the following action when considering an investment in solar or biomass:

1. Obtaining three or more quotes to compare;
2. Reading between the lines to understand what is or isn't included;
3. Understanding the key assumptions used and how they impact on the returns and payback being advertised;
4. Meeting the installer yourself and getting a feel for whether you want to deal with them;
5. Requesting references and speaking to previous clients to understand whether they are happy with their investment;
6. Identifying the financial backing of the installation company to gain comfort over their longevity, should anything go wrong.

Remember that this is an investment for technology which needs to operate for the next 20 years; you want to ensure that you have the best quality installation at the best price, as poor quality technology or installation can lead to costly ongoing repairs, maintenance and reduced returns. The cheapest isn't always the best!

We are able to provide a comparison of quotes using market assumptions to model overall returns and payback, whilst also providing guidance on other areas to consider which may impact upon your investment decision. If you are interested in this service, please contact Rachel Lawrence on 01823 286096 or rachel.lawrence@albertgoodman.co.uk

Top of page

ARE YOU AHEAD OF ATED?

The Annual Tax on Enveloped Dwellings (ATED) charge was introduced on 1 April 2013. ATED is a charge on residential property owned by 'non-natural persons' i.e. a company, a partnership with a corporate partner, or a collective investment scheme.

Previously the charge has only applied to properties valued at over £2 million but from 1 April 2015 the lower limit has been reduced to £1 million. The lower limit will be reduced further to apply to properties valued at more than £500,000 from 1 April 2016 and so more and more properties are likely to be caught by this.

The charge is based on a banding system. Assuming the property was owned by the company on 1 April 2012, it is the value of the property at that date which is used for the banding purposes. The property will then need to be re-valued every 5 years to check which band it falls in to.

The bandings and associated tax charge for the current year (YE 31 March 2016) are as follows:

Value of property	Annual tax charge
£1 million - £2 million	£7,000
£2 million - £5 million	£23,350
£5 million - £10 million	£54,450
£10 million - £20 million	£109,050
More than £20 million	£218,200

A return and payment of the ATED charge is due by 30 April at the start of each year. Therefore, those caught for the year ended 31 March 2016 must make a return by 30 April 2015. If property is acquired part way through the year and ATED applies to that property, the return and payment must be made within 30 days of the acquisition of the property.

There are some reliefs which can apply to reduce the tax payable to nil; however a return must still be filed to claim the relief. The most common reliefs are where the property is let to an unconnected third party or where it is used by an employee with no interest in the company. Farmhouses are also granted relief from the charge where it is occupied by a qualifying farm worker who farms the associated farmland.

HMRC may charge interest and penalties for late submission of returns and/or late payment of the tax. The late filing penalties can mount up quickly and become substantial and so it is important that returns are filed on time.

If you think you are likely to be caught by the charge or would like more information then please get in touch.

Top of page

UNEQUAL OWNERSHIP OF JOINT PROPERTY

By default, other than shares in a close company, HM Revenue and Customs (HMRC) always treat joint ownership of property by married couples as owned in a 50:50 split. This means each spouse is liable to income tax on 50% of the net income from the property each year. This is the case regardless of the actual underlying ownership split.

There is an election that married couples can make to HMRC on a Form 17 so that the income is taxed on the actual ownership proportions, however this must be made within 60 days of the ownership being transferred into unequal proportions, which is often dealt with under a declaration of trust. If no election is made, then each individual will be liable to tax on 50% of the net income.

For example, a buy to let property is purchased by a husband and wife. If no election is made they will be taxed on any rental profits in equal proportions. However, if the husband is a higher rate taxpayer and the wife is only a basic rate taxpayer it would make sense for the profits to be taxed mainly on the wife to use her basic rate band. They could draw up a declaration of trust to show that the beneficial ownership of the property is 1% to the husband and 99% to the wife. Provided they then submit Form 17 to HMRC confirming this, within 60 days of the declaration of trust being drawn up, this will be effective for tax purposes meaning the husband will only be taxed on 1% of the profits and the wife will be taxed on the remaining 99%.

The submission of Form 17 by a married couple implicitly means that the beneficial ownership of the property is that of 'tenants in common' (not 'joint tenancy'). This has the consequence that, on the death of one spouse, the other spouse does not automatically inherit the deceased's spouse's share of the property, in which case a will needs to be drawn up by each spouse to deal with their share of the property. The joint tenancy ownership also applies for capital gains tax purposes and so on disposal of the property the gain will be taxed in the proportions of actual ownership.

If you would like any advice on the tax consequences of jointly owned property or property income in general, then please do get in touch.

Top of page

INCOME CERTIFICATION FOR MORTGAGE PURPOSES

Historically mortgage lenders would only accept form SA302 from HMRC as proof of income for a mortgage application for the self-employed. Given the number of calls HMRC receive to request these they have been working towards taxpayers being able to 'self-serve' and download/print their own computations.

Where an individual has their own HMRC log in and used HMRC's software to submit their tax return, the individual will now be able to log in and obtain the relevant information for the mortgage provider. However, where third party software was used to submit the return, for example if Albert Goodman submitted the tax return on your behalf, neither the individual nor the agent can log in and obtain this information.

HMRC have been in talks with the Council of Mortgage Lenders to come up with a solution so that agents can use third party software to generate online tax documentation as acceptable evidence of an individual's earnings.

For the time being however, form SA302 will still need to be obtained from HMRC.

Lenders will now ask for both the tax calculation and the tax year overview, both of which are online documents. It is however important to check in advance with each lender what they will accept, as the process is only just being introduced. HMRC will still provide paper copies on request.

If you are unsure about how to obtain the information required to support your mortgage application then please get in touch.

Top of page

NATIONAL MINIMUM WAGE RISES

The National Minimum Wage (NMW) is a minimum amount per hour that most workers in the UK are entitled to be paid. NMW rates increases come into effect on 1 October 2015.

From 1 October 2015:

- the adult rate will increase by 20 pence to £6.70 per hour
- the rate for 18 to 20 year olds will increase by 17 pence to £5.30 per hour
- the rate for 16 to 17 year olds will increase by 8 pence to £3.87 per hour
- the apprentice rate will increase by 57 pence to £3.30 per hour

Penalties

Penalties may be levied on employers where HMRC believe underpayments have occurred and HMRC 'name and shame' non-compliant employers.

If you have any queries on the NMW please get in touch.

Internet links: GOV.UK News

Top of page

AUTO ENROLMENT GUIDANCE FOR SMALL EMPLOYERS

The Pensions Regulator (TPR) has launched a new step-by-step guide to help small businesses get ready for their automatic enrolment duties.

According to TPR the online guide has been written specifically for employers with between one and 50 staff.

The guide which is broken down into 11 steps, considers the legal requirements and what employers need to do to comply with their obligations.

Executive director for automatic enrolment Charles Counsell said:

'We are determined to do all we can to reach out to all small and micro businesses preparing for their automatic enrolment duties. We want to make the process as simple as possible so that employers can avoid the risk of non compliance.'

'Our new online 11-step guide is a key part of a wide package of measures we are rolling out to give more than a million employers all the information they need, written and produced in a way they makes sense to them.'

'Our message to employers is ensure you know when your automatic enrolment duties begin and start planning in good time. The regulator's website should be the first port of call for all employers and their advisers as it offers essential information about each task an employer will need to accomplish in order to comply and avoid penalties.'

If you would like help with Auto Enrolment please do get in touch.

Internet links: step-by-step guide | Press release

Top of page

BUSINESS RATES SYSTEM - HAVE YOUR SAY

The government has launched a wide-ranging review of national business rates in England.

HM Treasury's 'wide-ranging review' of England's non-domestic rates system will report its findings before the 2016 Budget. The Treasury's discussion paper invites responses from a wide range of stakeholders on issues such as commercial property use, how the rates system can be modernised, and whether business rates should continue to be based on property values.

Written responses will be accepted from the beginning of April until 12th June 2015.

Chief Secretary to the Treasury Danny Alexander said:

'Our system of business rates was created nearly 30 years ago. Since that time, the worlds of commerce and industry have changed beyond recognition. I've been impressed by the representations made by the business community and I know that business rates are a considerable cost.

The government has taken measures to help businesses by capping rates and introducing reliefs for smaller businesses. But now the time has come for a radical review of this important tax. We want to ensure the business rates system is fair, efficient and effective.'

Internet link: GOV.UK News

Top of page

Tracey Watts, Tax Partner

T: 01823 286096 E: tracey.watts@albertgoodman.co.uk

Tara Hayes, Tax Manager

T: 01823 286096 E: tara.hayes@albertgoodman.co.uk