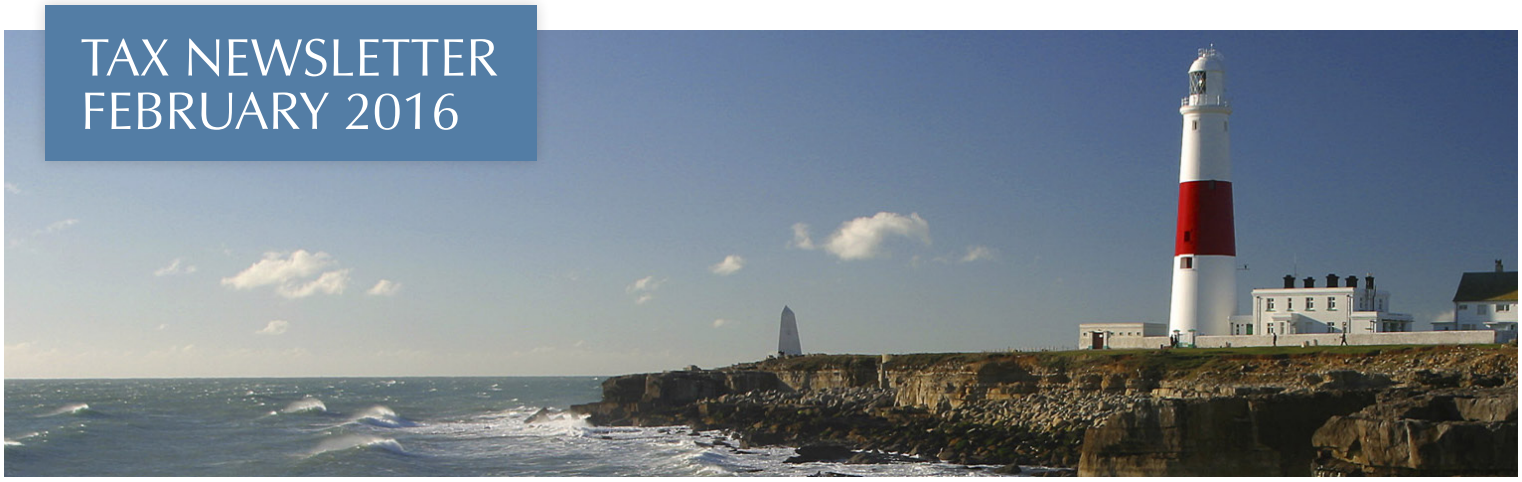
ALBERT GOODMAN

TAX NEWSLETTER FEBRUARY 2016



I am delighted to welcome you to this month's eNews, which is being written in the glorious sunshine, bringing a welcomed, and hopefully not too brief, respite from the recent battering of storms.

After a relatively quiet few years in tax, there are so many changes on the horizon that it's easy to feel a bit storm battered by them all. For example, challenges are being faced by the buy to let market with tax changes being announced at what almost seems like every time the Chancellor stands up; dividend tax changes are coming up which might not only increase tax charges for business owners operating through limited companies, but will also see a greater number of people having to complete tax returns and charities potentially suffering from reduced donations; further pension changes ahead will restrict relief again for higher earners and, of course, the digitalisation of the tax system will change the reporting landscape.

And this is all before any further announcements being made in the Budget 2017, which will be given on Wednesday 16 March. Who said Tax doesn't have to be taxing?!

Of course, whilst we can speculate on what those further changes might be, we can only really plan for what we know about and so now is the ideal time to take a step back from the storm and consider your tax position ahead of 5 April. If you would like to discuss your position with us, please do get in touch.

CONTENTS

PRE YEAR END TAX PLANNING – 5 APRIL 2016

Now that last year's tax return has been filed, please do take some time to consider whether you have made full use of any reliefs or exemptions that might be available. Here is a quick reminder on some of the more common areas to consider:

Income Taxes

Tax rates and personal allowances – An individual has a personal allowance of £10,600 in 2015/16, which means any income up to this amount is tax free. Any additional taxable income is taxed at between 0% and 60%, depending on the income source.

However, once your taxable income goes over £100,000, the tax free personal allowance is reduced by £1 for every £2 over £100,001. This means that income between £100,001 and £121,200 is effectively taxed at 60%, with income over £150,000 being taxed at 45%.

Making pension contributions or gift aid donations will reduce the rate at which your income is taxed and so well timed pension or charitable payments could save you tax of up to 60%.

Tax free investments - Make sure you are making the best use of ISA/National Savings/Venture Capital Trust/ insurance bond investments to give tax free income sources, or a return of capital taxable at 28%. Remember there is now also a new **Help to Buy ISA** which the Government will add up to £3,000 tax free to help new savers get on to the property ladder.

Gifting assets - Alternatively, consider transferring income producing assets to your spouse/partner if they have lower income than you, removing income from your higher tax rates. Income earned from jointly owned assets is automatically taxed equally, even where the asset (other than shares in a family company) is not owned equally and so you only need to give away a 1% interest to your spouse for them to be taxed on 50% of the income.

High Income Child Benefit Charge – Where you or a partner receive child benefit income, a claw back of the benefit is made where either person has taxable income of more than £50,000. Income may be reduced in the same way as above to help minimise any claw back.

Pension contributions – Provided you have enough "relevant earnings" in the year, it may be tax efficient to make or increase pension contributions before 5 April 2016, especially where you have unused relief brought forward from the previous three years. Employers can also contribute to your fund which can be done under a salary sacrifice arrangement, saving you both tax and national insurance. Such contributions are not capped by relevant earnings.

Further changes to the pension relief rules are anticipated in the forthcoming Budget and so please do speak with our Financial Planning team to make sure you are maximising your pension reliefs.

Family pension contributions – not only can you or your employer pay contributions to your pension fund, but other family members can as well, such as your parents or grandparents.

Provided you have enough relevant earnings, family pension contributions will reduce your taxable income, which is a useful way to help keep your income below £50,000, retaining full child benefit entitlement where you do not have the funds spare to pay into your own pension pot.

These contributions also have the added benefit of saving your family member inheritance tax, either by being a gift out of normal income, or by being within the annual exempt amount.

Say you have taxable income of £60,000 and receive child benefit for 4 children totalling £3,213. If your parents paid £8,000 into your pension fund (grossed up in your fund to £10,000), your adjusted income falls to £50,000, meaning no claw back of your child benefit. This saves you tax of £5,213 and your parents £3,200 in inheritance tax: so a cash outlay of £8,000 will save you and your family tax of £8,413, which means your family makes a net saving!

Spouses/Partners – If you run a business, consider employing your lower earning spouse as a way to pass income across to them, saving you tax as a couple. Do make sure though that payments are physically made and are commensurate for work carried out by them, otherwise the arrangements may be challenged by HMRC.

You could also consider making your spouse either a partner or shareholder in your business, although if they are a shareholder, make sure they own at least 5% of the voting rights in the company and are either an officer or director to protect valuable entrepreneur's relief on any eventual exit from the business.

Dividends – Consider timing dividend payments so higher income is received in one year, and lower income is received in the following year. This measure could help protect against the loss of either your personal allowance or any child benefit in alternate years. Please read the separate article in this newsletter regarding the changes to dividend tax rates.

Repairs and capital – For unincorporated businesses, accelerate expenditure to help reduce profits to retain personal allowances and child benefit. Businesses may currently spend up to £200,000 on capital equipment in an accounting year and receive tax relief in full in the year of spend. This limit (the Annual Investment Allowance) reduced from £500,000 on 1 January 2016 and complex rules apply for periods straddling this date, so please do take advice before committing your business to a high capital investment.

Loss restrictions – Careful planning is needed on the use of losses due to restrictions on relief applying. Relief on trading and certain other losses is now restricted to the higher of 25% of net income and £50,000 per annum. Please do take advice if you anticipate making losses to ensure your relief is maximised.

Capital and Property Taxes

Gifting to Your Spouse – Each person can also dispose of capital assets with gains of up to the annual exemption amount (currently £11,100) being tax free. Consider gifting an interest in assets to your spouse/partner prior to any third party disposal in order to use their exempt allowance.

If one spouse has unused capital losses, these can only be used against gains incurred by the same spouse and a transfer of assets may therefore be appropriate before any third party disposal to reduce the overall tax liability for the couple.

While gifting assets to a spouse immediately before a disposal is acceptable, there are limits, and it is therefore important to seek advice if you intend to do this. Protecting entrepreneur's and other CGT reliefs should also be reviewed before any transfers are made.

Capital losses – Capital losses are offset against chargeable gains before calculating any reliefs, such as entrepreneur's relief, therefore try and delay crystallising losses until the following tax year, where appropriate. Crystallising losses can also mean wasting part of your annual exemption unless managed carefully.

Alternatively, if you have any capital losses to use either in the current or from earlier years, consider crystallising gains to use the losses thereby avoiding any unwelcomed tax charges.

ATED – The Annual Tax on Enveloped Dwellings (ATED) is a tax charge on residential property owned by 'non-natural persons' i.e. a company, a partnership with a corporate partner, or a collective investment scheme. From 1 April 2016 the charge will apply to many more properties as the limit reduces and applies to properties valued at more than £500,000, reduced from £1m. If your property is caught, a return must be submitted to H M Revenue and Customs by 30 April 2016. Reliefs are available from the charge but these must be claimed via a return.

SDLT – When you buy a residential property from 1 April 2016 (or complete a deal where contracts were

exchanged after 25 November 2015), if you own more than one residential property at the end of that day, higher stamp duty land tax charges will apply unless you are replacing your main residence that you have disposed of, or will dispose of, within an 18 month period. The increase will be by 3 per cent points and will greatly increase the SDLT cost for owners of multiple residential properties, which will include main residences, buy to lets and furnished holiday lets. For example, a second property purchase of £250K will cost £7.5K more in SDLT from 1 April 2016. The move will not be limited to individuals, as originally thought, and will include all purchases made by companies and other entities.

Inheritance Tax

Wills – Ensure your Will is up to date and works to minimise tax whilst giving your family flexibility and protection for the future, for example by using trusts.

Annual Exemption – Take advantage of the IHT annual exemption which permits gifts of up to £3,000 per annum to be made tax free. Any unused amount can be carried forward one year only.

Gifts out of Normal Income - You can also make gifts to your family as "normal expenditure out of income" with these gifts being covered by your income, leaving you enough income to cover your normal living expenses.

This can be a useful way for grandparents to pay school fees for their grandchildren provided there is sufficient income to support this level of generosity.

Next steps - Many of the above tax reliefs and exemptions are on a 'use it or lose it' basis requiring you to take action before 5 April 2016. All will rely on the circumstances of each individual therefore, if any of the above points interest you, please do get in touch.

Top of page

CAN YOU SAVE £212 A YEAR?

There has reportedly been a very low up take of the transferrable tax allowance, which was introduced in April 2015 to help save couples up to £212 per annum where neither are higher nor additional rate tax payers. The relief is fiddly to claim but if you or your spouse do not have enough income to cover their personal allowance of £10,600 (for example because either one of you does not work, or has only a small amount of part time or pension income), up to £1,060 of your tax free personal allowance can be transferred to the other person, and used to save you as a couple tax at 20%.

If you would like to make a claim to transfer your allowances, please click on the link to complete the online form which, once processed, will back date your claim to 6 April 2015.

Top of page

LIFE AFTER BUY TO LETS

Although the ink is still drying on the Government's recently announced changes to restrict tax relief on mortgage interest against rental income from residential investment property, many individuals, especially higher earners are already considering alternatives.

The eventual impact of the changes, which will be phased in over three tax-years from 2017/18 onwards, is difficult to predict. However, most commentators believe that 'wealthy 50-somethings' won't be looking to add to existing Buy-To-Let (BTL) portfolios and those with multiple properties may look to off load all or part of their portfolios to clear the associated borrowing.

The phased introduction of the forthcoming tax changes was expected to see the number of BTL properties coming to the market increasing only gradually, year-on-year, lessoning the impact on capital values, however

the market has already announced a sharp increase in properties being sold ahead of the SDLT rises from April of this year.

Some investors believe the changes will 'drive up' rents, as landlords see their net yield dwindling.

Clearly, the prospect of lower value housing stock coming back onto the market over a period of three tax years will be music to the ears of both the Government and first time buyers, especially given the current shortage of more modestly priced residential property.

A number of BTL investors may look to gradually replace their 'encumbered' residential properties with furnished holiday lets (FHLs), which will not currently be subject to the interest relief restrictions, or to move residential properties into corporate structures (property companies).

Both of these trends however, as well as the decision to simply 'sell-off' encumbered (mortgaged) properties, will give rise to a need for advice on capital gains tax, as any such transactions will be deemed by HMRC to be a 'chargeable event'.

One possible solution, especially for individuals keen to reduce the value of their (taxable) estates for Inheritance Tax (IHT) purposes, might be to replace a large BTL portfolio with a large pension portfolio.

Tax relief available on pension contributions, even if limited in future to a 'flat rate' of say 20% or 25%, could be used to offset any liability to capital gains tax arising from the sale of BTL properties. Further, funds moving into pensions can fall immediately outside of an individual's estate for IHT purposes, without the usual two year or seven year survival requirement, in certain circumstances.

Individuals therefore with multiple BTL investments will benefit from seeking advice in this complex and changing area, and contributions into pensions may soften the impact of the forthcoming changes for some.

If you'd like to find out how we can help, please do get in touch.

Top of page

PROTECTING THE GOLDEN GOOSE

A recent survey amongst business owners suggested that the majority maintain adequate insurance protection for their business premises, equipment, vehicles and visiting customers. However, far fewer have taken any steps to protect against the greatest risk to their business: the sudden death or permanent incapacity of the business owners themselves, or of their key employees.

Fewer still regularly review their shareholder or partnership agreements (many still don't even have them) and even fewer have appointed an Attorney to deputise for them, should they suffer a serious accident, say.

None of these risks are especially expensive or difficult to mitigate. The majority of the cost can also, in certain circumstances, be offset against trading profits, and most solutions don't adversely affect the personal tax position of the business owners.

There are also a number of concessionary business protection arrangements, Relevant Life Plans for example, which can provide tax-deductible employer-funded personal life cover for business owners and key employees, with no associated P11D benefit in kind tax charge.

If you'd like to find out more about how we can help you 'protect the golden goose', please do get in touch.

Top of page

PENSION REFORM – PROCEED WITH CAUTION!

What follows is a guide to **3 key aspects** of pension reform that you should now be considering.

Reduced lifetime allowance (LA)

From 6 April, the maximum value of pension assets that an individual can amass, tax-free, during their lifetime is set to reduce from £1.25m, down to £1m. You can still potentially benefit from the current £1.25m LA but to do so, you must:

- Cease contributions to all pension arrangements by 5 April;
- Not make (or receive) any further pension contributions after 5 April;
- Not take any benefits from any of your pension funds between 6 April and the end of July;
- Register online with HMRC for Fixed Protection 2016 (after July) before taking benefits from any pension scheme, for the first time

Introduction of tapered annual allowance

From 6 April, the maximum amount that an individual can pay (or receive) tax-free into pension schemes each tax-year will be reduced, for higher earners, from £40,000, gradually down to just £10,000, for those with total income (from all sources) of over £210,000. As now, regardless of who pays the contribution, individuals who exceed the annual allowance will suffer a personal income tax charge on excess pension contributions, at their marginal rate.

We therefore recommend that if you are likely to have total income (from all sources and before tax) in excess of £110,000 in 2016/17, that you limit your total pension contributions to a maximum of £10,000 per tax-year, or £833.33 per month. However, if you are currently using a salary sacrifice arrangement and are already paying/receiving pension contributions of more than £10,000 pa, please contact us before amending your contributions.

Reduced tax relief

There is commentary in the press that on 16 March (Budget Day) we will see a 'flat rate' of tax relief for all (of 25-30%) introduced, for all post 16 March pension contributions as well as, potentially, the introduction of notional tax charges for those making/receiving company/employer contributions, equal to the new flat rate.

Therefore, if your marginal income tax rate is 40% or 45% currently and you wish to benefit from tax relief at these rates, provided you have sufficient 'relevant UK earnings' (i.e. salary, income from trade etc, but not rent or investment income), you may wish to make a one off pension contribution (ensuring that the funds paid are cleared) before 16 March.

If you would like to discuss any of the known or anticipated changes, please do get in touch.

Top of page

NEW ATED RATE BAND

From 1 April 2013, the Government introduced the Annual Tax on Enveloped Dwellings (ATED) charge which levys an annual tax charge on residential property held by 'non-natural persons' including companies and partnerships with a corporate partner.

When the charge was first introduced, the charge only applied to properties valued at £2 million or more as at 1 April 2012. Since then, the threshold has been lowered to catch properties valued at £1 million or more and from 1 April 2016 the threshold is lowered further to £500,000.

Properties falling within the new lower band of £500,000 to £1 million will have an annual charge for 2016/17 of £3,500. An ATED return must be filed, and the tax charge paid across, by 30 April 2016. Penalties for late submission of the return can mount up quite quickly.

There are various reliefs available to reduce the charge to nil such as properties held as trading stock, properties

let on a commercial basis, and some farmhouses. If one of the reliefs applies, an ATED return must still be filed in order to claim the relief.

If you think you may be caught by the ATED rules and would like any advice or assistance to complete the return then please get in touch as soon as possible.

Top of page

THE END OF 'WEAR & TEAR'

As previously announced, from April 2016, landlords of fully furnished residential property will no longer be able to claim the 10% 'wear & tear' allowance as a deduction against their taxable rental profits. The relief will be replaced with a new 'replacement furniture relief' which will be available to landlords of all residential property, including those which are unfurnished or part furnished.

A consultation was launched in October 2015 and the summary of responses was published in December. The measure will go ahead broadly as drafted with no transitional rules. The new deduction will be given for the actual cost of replacing items used in the property only, less any net sale proceeds for any old items.

Furnished holiday let properties will not be affected by the new rules and will continue to be able to claim capital allowances in respect of relevant items within the property.

The intention is to level the playing field between landlords of fully furnished and part furnished properties. It will also even out fluctuations in the relief which landlords are able to claim in different parts of the country where they may have incurred the same expenditure but one property commands a higher rent due to its location, and therefore receives a higher wear and tear allowance.

You may therefore want to consider delaying replacing any furnishings ahead of 5 April 2016 and make full use of the wear and tear allowance now, before then replacing items post 6 April and benefitting from the new replacement furniture relief.

Top of page

DIVIDEND TAX CHANGES – THE UNINTENDED HIT TO CHARITABLE GIVING

As we all now know, dividend income will no longer carry the notional 10% tax credit from April 2016. Unfortunately the removal of these credits may have an unintended hit on individuals donating to charity under the gift aid scheme.

When you sign a gift aid declaration you are confirming that you will pay a sufficient amount of basic rate tax to cover the tax that will be reclaimed by the charity from the government. Currently, the notional tax credits attaching to dividends can be used to cover this.

However, given the credits will be removed from April, donors with low non dividend income (such as pensioners), with their income being topped by with dividend savings, may find they do not pay enough tax for the gift to qualify for relief. This means the donor will have to pay a tax charge over to HMRC to balance the books.

How this will be checked up on is not known as the change will affect mainly unrepresented tax payers who will not realise what impact the new rules will have on them and their well intended gift and it will be interesting to see if the Government offer any relief here or whether we'll see the less well off charged with tax, interest and penalties for not completing tax returns and notifying HMRC of the shortfall.

It may well make donors want to think twice about making their gift.

There is also a window of opportunity to make an election to carry back charitable donations made in 2016/17 and treat them as if they were made in 2015/16 to make full use of any dividend tax credits while they do still exist. To do

this, the donation must have been paid and the carry back claim made before the 2015/16 tax return is submitted. Those who normally file their return early should bear this in mind as early filing may mean they miss out on some or all of the relief available.

If you are concerned about how the new dividend rules may affect your personal tax position, please do get in touch.

Top of page

INCORRECT TRUST RETURN PENALTIES

HMRC have identified a problem with some trust tax returns which were filed online after 31 October. A software glitch has meant that some e-filed trust returns have been sent a late filing penalty. This is because they were logged as paper returns rather than online returns.

The problem was identified and fixed on 29 December and any returns filed after that date should not be affected. HMRC are trying to identify all those cases affected and if you believe you have received an incorrect late filing penalty you should contact the HMRC Trust and Estate Helpline on 0300 123 1022.

Top of page

SIMPLIFICATION OF THE CONSTRUCTION INDUSTRY SCHEME GROSS PAYMENT CONDITIONS

Sub-contractors meeting certain conditions can apply to have payments made to them gross, that is, without the contractor deducting basic rate tax from any payments made to them. However, the conditions, relating to the business, turnover and compliance, have been onerous in the past, particularly for small businesses.

Measures will be introduced from April 2016 for the compliance test to be simplified, with applicants now only needing to meet obligations to file monthly returns in respect of the construction industry scheme, self assessment and any corporation tax returns, and to have paid to HMRC any CIS or PAYE tax, on time in the last 12 months.

Top of page

OFFICIAL RATE OF INTEREST

HMRC have confirmed that the official rate of interest, used to calculate tax due on beneficial loan arrangements, will remain unchanged from 6 April 2016 at 3.0 per cent.

Top of page

PAYROLL SIMPLIFICATIONS FROM APRIL 2016

From April 2016, there are new rules for allowing the pay rolling of certain benefits in kind in year, rather than having tax collected after the year end through an adjustment to the coding notice once the P11D has been submitted. This means that where benefits are pay rolled in year, they will not need to be included on a P11D, although they will still be reported on the P11D(b) in order to collect the Class 1A NIC due from the employer, which is meant to simplify the administrative process for employers.

To benefit from the simplification, employers need to register with HMRC before 6 April 2016 in order for pay rolling to apply for 2016/17. However, it will advance tax payments in some cases, and information will still need to be

reported at the year end, as well as employers now needing to remember to include the benefits each month via the payroll. Not sure this sounds like a massive simplification, and so it will be interesting to see how this works.

Please also note that dispensations cease to apply from April 2016 and if you would like any advice here, please do get in touch.

Finally, new rules allowing trivial benefits in kind (£50 or less) will apply from April 2016, capped at £300 per annum for directors and their families of close companies (controlled by 5 or fewer persons and their associates).

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