CHARTERED ACCOUNTANTS, TAX CONSULTANTS & FINANCIAL PLANNERS

ALBERT GOODMAN

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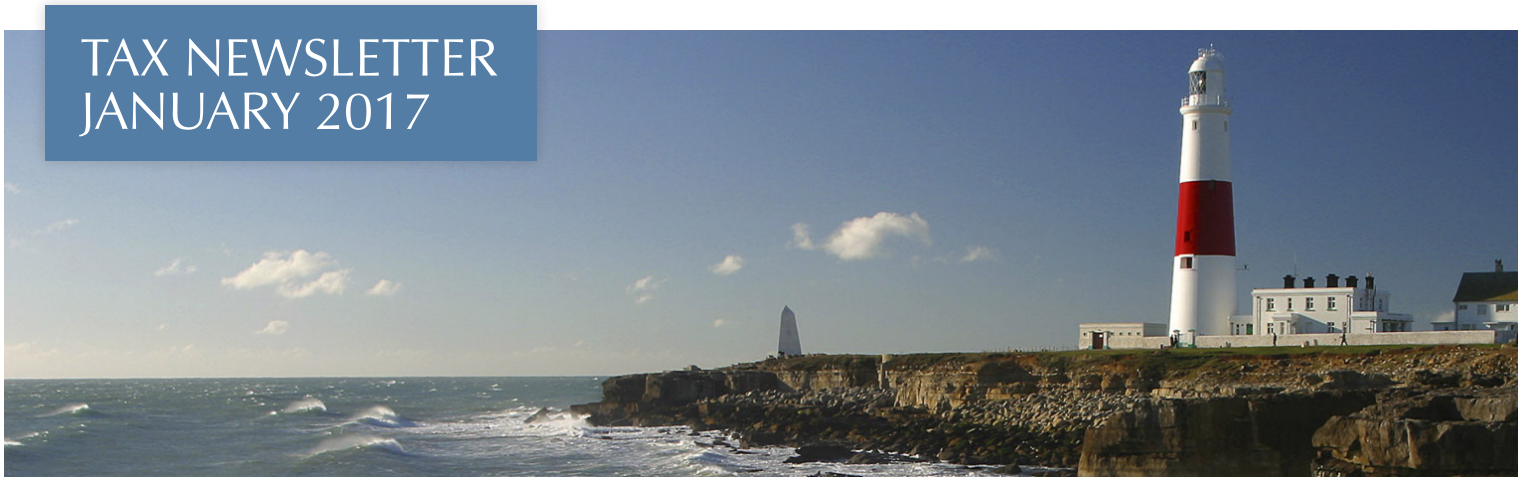

Welcome to this month's eNews in which we take a look at some year end tax planning ideas for you and your families, as well as providing you with an update on the latest on Making Tax Digitial. We also take a look at some upcoming changes to national insurance and to the latest round of 'nudge' letters being sent out by HMRC. Finally, the self assessment filing deadline is fast approaching and, if you have not already submitted your tax return and need any help with this, please do get in touch as soon as possible.

If you would like to discuss any of the articles in more detail, please do contact us.

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TAX YEAR END PLANNING – 5 APRIL 2017

As the tax year draws to a close, now is an ideal time to consider whether you have made full use of the reliefs and exemptions available to you:

Income Tax

Tax rates and personal allowances – An individual has a personal allowance of £11K in 2016/17, which means any income up to this amount is tax free. Any additional income is taxed at between 0% and 60%, depending on the income source.

However, once your taxable income exceeds £100K, the tax free personal allowance is reduced by £1 for every £2, which means that income of between £100,001 and £122,000 is effectively taxed at 60%, with income over £150,000 being taxed at 45%.

Making pension contributions and gift aid donations can not only help preserve your personal allowance, but can also reduce the rate at which your income is taxed. Consider whether income could be deferred where it is likely to take you into a higher rate of tax, or whether income yielding assets could be passed to a spouse with lower income levels. You should also ensure you make use of income tax free investments such as ISAs, National Savings and insurance bonds.

Income earned from assets owned jointly with your spouse 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. If you would prefer to be taxed based on your underlying interest, remember to send your election to HMRC confirming the position.

Savings allowance - Allowances introduced from April 2016 mean the first £1,000 of savings income is tax free for basic rate tax payers (£500 for higher rate taxpayers).

Dividend tax rates – The rate of tax on dividend income has risen and the notional 10% tax credit has been abolished. However, a new dividend allowance has also been introduced, which means the first £5,000 of dividend income is tax free.

If you run your business through a limited company, consider shares being held by family members to make best use of their £5K exemptions, possibly using different classes of shares, although remember income sources gifted to minors will remain taxable on the parents.

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.

Child benefit high income charge – For individuals, where they or a partner receive child benefit income, a claw back of the child benefit is made where either person has taxable income of more than £50K. Income may be reduced in the same way as above to help reduce 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 2017, especially where you have unused relief to carry forward from the previous three years.

Pension contributions save tax at the higher and additional rates although tax relief is generally only available for pension contributions of up to £40K a year, including any contributions made by your employer or other third party. This limit can reduce to as little as £10,000 where incomes exceed £150,000.

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 £50K, 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 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 – Consider employing your lower earning spouse as a way to pass income across to them to save 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 the 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.

Married couple's allowance – Up to 10% of the personal allowance may be transferred to your spouse if neither of you pays tax at the higher or additional rates. This can help save up to £220 for lower earning couples.

Buy to lets – It has always been possible to claim tax relief on mortgage interest paid against rental properties. However, from 6 April 2017, this relief will be phased out and restricted to the basic rate of tax only for residential property lets.

There may sometimes be advantages in forming a limited company to take over the running of a property letting business, although you do need to consider other tax consequences before doing so. Alternatively, consider repaying debt or investing in commercial or furnished holiday let property instead, to avoid the interest relief restrictions.

Rent a room relief – This relief increased from £4,250 to £7,500 a year from 6 April 2016 so individuals can rent a room in their home for £144 per week tax free. The allowance is split between couples. If income exceeds £7,500, it will be taxable.

Property and trading income allowances – From 6 April 2017, a new £1,000 tax free allowance will be available for profits coming from trivial trading and rental activities, to help taxpayers avoid having to complete a tax return where they make a small amount of profit from trading or renting their homes, possibly through online sites such as eBay and Airbnb. Income of up to £1,000 per annum from trading or property activity will become tax free from next year or can be deducted as an allowance if your profits are higher, instead of claiming relief for actual costs incurred.

Carry back of income tax relief – where higher rates of tax were paid in the previous tax year, it is possible to make investments now and claim tax relief for the prior year. This can be achieved using Enterprise Incentive Scheme ("EIS") or Seed EIS investments, using trade losses or losses on unquoted shares, as well as by giving to charity.

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

Business Profit Reductions

Repairs and capital – For unincorporated businesses, accelerate expenditure to help reduce profits to retain personal allowances and child benefit. Businesses may also currently spend up to £200K on capital equipment in an accounting year and receive tax relief in full in the year of spend, so consider either bringing forward or delaying capital spending to make best use of the relief available, subject to business demands for the equipment.

Farm stock valuations - Many farm accounting years end in March or April and the amount and value of stock held at the year end can have a significant impact on profits and tax liabilities. Stock must be valued to identify and carry forward the costs incurred before the year end which will not give rise to income until a later period.

Stock should be valued at the lower of cost or net realisable value and guidelines used by most farms tend to provide for the following deemed costs:

- 75% of market value for harvested crops, sheep and pigs
- 60% of market value for cattle

However, there are other methods, including the actual cost of production or net realisable value if a profit is not expected to be made. Actual cost of production can result in valuations considerably less than deemed cost, so there is an opportunity to reduce the value of closing stock to bring down the tax bill.

If the deemed cost method is used, you should consider the timing of sales at the year end. If high profits are expected this tax year, delaying the sale of a crop until after the year end will result in the value being reduced by 25% in the accounts, with profits delayed until the following year.

Employers – Salary Sacrifice Schemes

Salary sacrifice changes – Tax benefits on certain benefits provided under salary sacrifice schemes will be lost for salary sacrifice schemes put in place after 6 April 2017. If you provide such arrangements to employees, consider bringing forward schemes that would otherwise be put in place after this date, to grandfather in the preferential tax rates for a further year.

Capital Gains Tax ("CGT")

Annual exemption and CGT rates – Every taxpayer has an annual exempt amount which is lost if not used. For 2016/17, the exemption is £11,100. Gifting an interest in assets to your spouse prior to a third party disposal can help use their exempt bands.

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

CGT rates for individuals dropped from 28%/18% to 20%/10% (28% to 20% for trustees) from 2016/17 for disposals other than on residential property and the timing of capital gains and losses can help minimise CGT and maximise the rate of relief for losses.

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 tax charges.

Once losses have been claimed on your tax return, any losses not set against gains in the same year can be carried forward indefinitely to be set against capital gains in future tax years to reduce your potential CGT liabilities, but remember no relief will be given unless the loss is claimed on your tax return in the first place.

If one spouse has unused 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.

Let your home - When you sell your home, main residence relief can mean there is no CGT payable on any gain. If you move out before the house is sold, the relief extends for 18 months after moving out. However, if the property is not to be sold within the 18 month period, letting it can help to minimise CGT, as lettings relief may then be available.

Annual Tax on Enveloped Dwellings ("ATED")

ATED – There is now an annual 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 2017 the charge applies to properties valued at more than £500K. If your property is caught, a return must be submitted to HM Revenue and Customs by 30 April 2017.

Inheritance tax ("IHT")

Annual exemption – Take advantage of the IHT annual exemption which enables gifts of up to £3,000 per annum to be made tax free. Any unused amount can be carried forward for 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 provided you are left with enough income to cover your normal living expenses, and the gifts can be shown to have a regular pattern.

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.

IHT and your home - From 2017/18, an additional IHT nil rate band of £100K is available on death where a residence is passed to a direct descendant. It is tapered away for estates with a net value of more than £2m (before reliefs and exemptions). Estates and wills should be reviewed to ensure the relief will be available.

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

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 2017. All will rely on the circumstances of each taxpayer and therefore, if any of the above points are of interest, please do get in touch.

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MAKING TAX DIGITAL UPDATE

As our tax team is once again deep in the midst of fighting to get all tax returns out to clients and then on to HMRC, ahead of the self assessment filing deadline at the end of this month, I really do question how quarterly filing will be physically possible if this is mandated under Making Tax Digital, and how useful the tax estimates issued by HMRC based on these figures will be to businesses.

Under the **Digital Road Map** published by HMRC, unincorporated businesses will be the first to transition under the new ideas, which have yet to be legislated for, despite the transition date being as early as April 2018.

HMRC consulted on its proposals last year, although the consultation on companies remains outstanding, despite this being promised by the end of 2016, and the responses from HMRC are now eagerly awaited later this month.

Many professional bodies have commented on the overly ambitious timeline and HMRC's lack of success in introducing significant IT programmes. It was therefore with some hopeful relief that we read the House of Commons' Treasury Committee's **report** released on 14 January, which included a call for a delay in the timeline and for the system to be introduced only on a voluntary basis.

Whilst the Committee supports the idea of digitalising tax reporting, it does not support the mandating of keeping digital business records or of quarterly reporting and it has also urged HMRC to carry out a full test over the term of a full year's quarterly reporting and year end submissions, before introducing the changes, and has also called for businesses below the VAT threshold to be excluded, which will take out significantly more taxpayers than HMRC had planned for at its suggested threshold of only £10,000.

The Committee has been quite clear that it does not understand what the net benefits will be and that these remain unproven, and have stated that the additional costs to businesses and their agents may well exceed any benefits to the exchequer, with the overall impact of PTD possibly even being negative.

So far, HMRC have only stated that they will carry out a full end-to-end test of the system and so we eagerly await the full response to the consultations later this month….but we might have to wait until February to actually read it!!

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SELF-ASSESSMENT DEADLINE APPROACHING

There are just a couple of days left to submit your 2015/16 tax return and, based on last year's figures, approximately 43% of returns will be submitted during January before the deadline at the end of the month.

Last year, there were still around 870,000 returns not filed on time. Although it can be amusing to read some of the excuses for late submission, with some of the best unsuccessful appeals including 'I had an argument with my wife and went to Italy for 5 years' and 'my husband ran over my laptop', it is, of course, best to avoid being in this position by filing on time.

The deadline for the submission of your tax return is 31 January 2017, the same due date for payment of any tax owed. If you need assistance with your self-assessment tax return, please let us know before it is too late!

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PERSONAL TAX ACCOUNTS 'FIRST BIRTHDAY'

The government are celebrating the 'first birthday' of their award winning Personal Tax Account which recently won Digital Project of the Year at the annual UK IT Industry Awards (really!)

HMRC have announced that in its first year, the Personal Tax Account has attracted more than seven million users and there have been millions of transactions including:

- 1.6 million Income Tax repayments, worth more than £800 million
- 1 million tax credit renewals
- 100,000 people checking or updating their company car details
- 1.6 million people checking their tax estimate
- 2 million people checking their state pensions.

The press release also states that the Personal Tax Account is designed to be one stop shop for all customer interactions with HMRC and taxpayers using it can:

- check their state pension
- complete and return a Self Assessment tax return
- update tax credits circumstances as they change throughout the year to prevent under and overpayments
- claim an Income Tax refund that will be paid straight into their bank account
- check and update their Marriage Allowance.

If you would like advice on your personal tax affairs please contact us.

Internet link: GOV.UK news

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LATEST ROUND OF 'NUDGE NUDGE'

HMRC has sent out its latest round of "nudge" letters, writing to savers and asking them to carefully check their submitted returns, as these "may well include errors in the level of saving interest reported to HMRC".

The letters are not targeted very well and are not copied to agents, with many being received by elderly taxpayers who are easily confused over any communication from HMRC.

We have already had a number of concerned clients contact us, worried that they "must have done something wrong if HMRC are writing to them", and have spent time going through their affairs with them to reassure them that all sources of income have correctly been reported on their returns. However, despite this, some still remain concerned that they have got something wrong, as they view HMRC as being infallible.

HMRC must target these more carefully and inform the professional bodies when nudge letters are being sent, so we can properly discuss these with clients and help reassure those who already take their tax affairs seriously and do their utmost to get their returns right.

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NATIONAL INSURANCE CHANGES - WINNERS AND LOSERS

Tax campaigners have warned that the abolition of Class 2 National Insurance contributions (NIC) from April 2018 could result in the lowest earners among the self employed being hardest hit.

Class 2 NICs are flat-rate weekly contributions paid by the self-employed to gain access to contributory benefits. The self-employed also pay Class 4 NICs on profits above the Lower Profits Limit. Class 4 NICs do not currently give access to contributory benefits. At Autumn Statement 2016 the Chancellor confirmed that Class 2 contributions would be abolished from 6 April 2018.

At present, self-employed earners whose profits exceed £5,965 a year, the small profits threshold (SPT), are required to pay Class 2 NI contributions at £2.85 a week. These contributions then count towards their state retirement pension and entitlement to certain other contributory benefits. If their profits fall below the SPT, they have the option to make voluntary Class 2 payments.

When Class 2 is abolished, payment of Class 4 NI contributions will count towards state benefits. In order to protect some people on low incomes, Class 4 contributions will not be payable until annual profits reach £8,060. However, as long as profits exceed the SPT, the self-employed will be given Class 4 credits, so they will be treated as making contributions even though none was actually paid.

A point to note though is that, unlike Class 2, Class 4 NI cannot be paid on a voluntary basis meaning that the only way that self-employed people on profits below the Class 4 threshold will be able to build up a contribution record, if they did not obtain NI credits through receipt of other benefits, eg tax credits, child benefit or Universal Credit, will be by paying Class 3 voluntary contributions at £14.10 a week.

Anthony Thomas, Chairman of the Low Income Tax Reform Group commented:

‘Some parts of these proposals are good news for self-employed workers on low earnings, but by no means all. Those with profits between £5,965 and £8,060 will be better off because they will pay no NI but be credited with contributions. Our concern is for those with lower earnings than £5,965 who would have to pay voluntary Class 3 contributions in the future to protect their benefits entitlement if they did not obtain NI credits through receipt of other benefits, for example tax credits, child benefit or Universal Credit. Class 3 contributions will cost almost five times the amount they are paying now (£14.10 per week compared to £2.85 per week) and may mean the cost is unaffordable, leading them to rely more on means-tested benefits in the future.’

Internet links: **GOV.UK policy paper** | **Low income tax group**

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WORKING TAX CREDITS FOR THE SELF-EMPLOYED

From 6 April 2015, HMRC introduced a new ‘commercial basis’ test to sole traders claiming Working Tax Credits (WTC). HMRC’s aim is to identify individuals who are not carrying on their trade with a view to making a profit and therefore may not be entitled to WTC.

Although HMRC has not issued full guidance on how the test works, it appears that the test is based on income, divided by the number of hours that the individual states they are working. If the effective profits per hour are less than the national minimum wage, HMRC have been seeking further information concerning the trade.

Despite the new test coming into effect over a year ago, we are just starting to see an increase in the number of tax credit checks issued by HMRC under this test. The information that HMRC is requesting is extensive and includes details of income and expenditure, such as invoices and receipts, as well requesting business plans and profit projections. Individuals usually have 30 days to compile and provide this information.

For a number of traders who are already putting long hours into their business, the list of information required can be daunting and time consuming. It may be possible to negotiate with HMRC in order to extend the deadline for providing the information, or to decrease the level of information required, but you should contact HMRC before the given deadline to discuss this.

If you have had a tax credit check notification from HMRC and would like assistance responding to this, please contact us.

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CHARITY FINES

An investigation by the Information Commissioner's Office (ICO) has revealed that two national charities, the RSPCA and the British Heart Foundation, secretly screened millions of their donors so they could target them for more money. The ICO said that this practice breached the Data Protection Act as the charities failed to handle donors' personal data in accordance with the legislation.

The charities also traced and targeted new or lapsed donors by piecing together personal information which was obtained from other sources. In addition, they traded data with other charities to create a pool of donor data which was available for sale. As the donors were not informed of these practices, they could not give their consent or object.

The investigation was one of a number by the ICO into the fundraising activities of charities sparked by media reports about pressure on donors to contribute. The Information Commissioner, Elizabeth Denham, fined the RSPCA £25,000 and the British Heart Foundation £18,000.

The ICO can take action, including penalties of up to £500,000, against organisations and individuals that collect, use and keep personal data. Anyone who processes personal information must comply with the eight principles of the Data Protection Act which make sure personal data is:

1. fairly and lawfully processed
2. processed for limited purposes
3. adequate, relevant and not excessive
4. accurate and up to date
5. not kept for longer than is necessary
6. processed in line with an individual's rights
7. secure and
8. not transferred to other countries without adequate protection.

Internet link: ICO news

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SDLT ONLINE REFUND PROCEDURES

HMRC have introduced an online service to apply for a repayment of the higher rates of Stamp Duty Land Tax (SDLT) for additional properties if the property sold was previously a main home.

From 1 April 2016 higher rates of SDLT are charged on purchases of additional residential properties.

The main target of the higher rates is purchases of buy to let properties or second homes. However, there will be some purchasers who will have to pay the additional charge even though the property purchased will not be a buy

to let or a second home. The 36 month rules set out below will help to remove some transactions from the additional rates (or allow a refund).

Care will be needed if an individual already owns, or partly owns, a property and transacts to purchase another property without having disposed of the first property.

The higher rates are three percentage points above the normal SDLT rates. The higher rates potentially apply if, at the end of the day of the purchase transaction, the individual owns two or more residential properties.

Some further detail:

- where a new main residence is purchased before disposing of a previous main residence the higher rate will be payable. They then have 36 months to dispose of their previous main residence and claim a refund.
- purchasers will also have 36 months between selling a main residence and replacing it with another main residence without having to pay the higher rates
- a small share in a property which has been inherited within the 36 months prior to a transaction will not be considered as an additional property when applying the higher rates.

The online refund process will allow those affected to apply for a repayment of the higher rate of SDLT if the property sold was a previous main home.

Internet Link: GOV.UK SDLT repayment of Higher Rate

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SCOTTISH BUDGET

On 15 December, Finance Secretary Derek Mackay delivered the 2017/18 Scottish Draft Budget setting out the Scottish Government's financial and tax plans.

Scottish Rate of Income Tax

On 6 April 2016, a fundamental change was made to the taxation system for Scottish resident individuals. The main UK rates of income tax were reduced by 10p for Scottish taxpayers and in its place the Scottish Rate of Income Tax (SRIT) was applied equally to all Scottish taxpayers. As the SRIT was set at 10p, the overall income tax rates are currently the same as in the rest of the UK. So, those who are resident in Scotland are currently liable to two types of income tax and pay SRIT at 10% on most mainstream sources of income such as PAYE income, pensions, rental profit and profits from self-employment.

The SRIT does not apply to income from savings such as building society interest or dividends. These rates are the same for all taxpayers across the UK.

The SRIT is in place for one transitional year and will no longer apply from 6 April 2017 as the Scottish Government have exercised their powers to set the tax rates and bands (excluding the personal allowance) on non-savings, non-dividend income of Scottish taxpayers.

Tax bands 2017/18

For 2017/18, the Scottish Government is proposing to freeze the Scottish basic rate of income tax at 20% and also to freeze the Scottish higher and Scottish additional rates at 40% and 45% respectively. In addition, the higher rate income tax threshold will increase by inflation to £43,430 in 2017/18. The Scottish Government also confirmed that the higher rate income tax threshold will increase by a maximum of inflation in all future years of this Parliament.

The Scottish Government has therefore not followed the UK Government's plans to extend the threshold for paying the higher rate level of income tax of 40% from £43,000 to £45,000 for 2017/18. This means that a Scottish higher rate taxpayer will pay £314 more tax in 2017/18 than a UK higher rate taxpayer, being £1,570 at the marginal rate of 20% (40% - 20%).

Internet link: Scottish Draft Budget 2017/18

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2017 BUDGET SEMINARS

When Philip Hammond steps up to deliver the 2017 Budget in March, he will do against a backdrop of intense posturing and speculation as the Government looks to finalise its position over Brexit.

With Theresa May having promised that Article 50 will be triggered no later than the end of March, the Budget will need to be analysed closely for any update on the Government's goals in negotiations and the likely effect these will have on businesses and individuals.

Philip Hammond's 2016 Autumn Statement showed signs of a deliberate effort to tackle some of the complexities of the UK's tax system. It will be interesting to see if he continues this theme in the 2017 Budget. Join us at our 2017 Budget seminars where our tax experts will analyse all of the key tax changes that could impact upon you and your business in the coming year.

Join us for Live Analysis and Buffet Lunch

Wednesday 8th March 2017 12:30pm - 2:30pm - Somerset County Cricket Club, County Ground, St James St, Taunton, TA1 1JT

Or alternatively see us for breakfast at:

Friday 10th March 2017 8:00am – 10:30am Cerne Abbas Village Hall, Cerne Abbas, DT2 7GY

Friday 10th March 2017 8:00am – 10:30am The Hive, 6 Beaufighter Rd, Weston-super-Mare, BS24 8EE

To book your place please contact **Kerry Hake, Albert Goodman Chartered Accountants, Mary Street, Taunton, Somerset TA1 3NW or email kerry.hake@albertgoodman.co.uk**

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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