Compass Accountants

Newsletter - August/September 2015

Helping you to shape your future… not just accounting for your past…

TaxAngles - For proactive tax planning

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Landlords

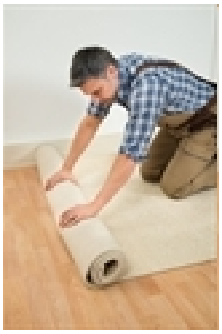
There were a number of measures in the Summer Budget that will impact the taxation of property income. These include:

- the abolition of the 10% wear and tear allowance (see details below);
- the restriction of tax relief to the basic rate (20%) for loan interest on funds raised to purchase residential property for letting. This will be phased in over four years from April 2017; and
- the current £4,250 rent-a-room allowance is to be increased to £7,500 from April 2016.

The abolition of the wear and tear relief will apply from April 2016. It will be replaced by a new replacement furniture relief. The new relief will be available to landlords of unfurnished, part furnished and furnished properties. The relief will not apply to 'furnished holiday letting' (FHL) businesses and letting of commercial properties, because these businesses receive relief through the Capital Allowances regime.

The new replacement furniture relief will only apply to the replacement of furnishings. The initial cost of furnishing a property would not be included.

Under the new replacement furniture relief landlords of all non-FHL residential dwelling houses will be able to claim a deduction for the capital cost of replacing furniture, furnishings, appliances and kitchenware provided for the tenant's use in the dwelling house, such as:



- movable furniture or furnishings, such as beds or suites,
- televisions,
- fridges and freezers,
- carpets and floor-coverings,
- curtains,
- linen,
- crockery or cutlery,
- beds and other furniture

Landlords of furnished residential let property considering the replacement of these qualifying items in the current tax year, 2015-16, may be advised to defer expenditure until after 5 April 2016. In this way they will still maximise their claim to the present wear and tear allowance of 10% of rents for 2015-16, and be able to claim the new replacement furniture relief from 6 April 2016.

Quote of the month…

"There is past, and there is the future. The present is never more than the single second dividing one from the other. We live poised on that second as it's hurtling forward - toward what?" - Laini Taylor, young adult fantasy author.

Homeowners and IHT

One of the tax issues that the Conservative Party promised to legislate for, a promise they made during the recent election campaign, was the easing of the Inheritance Tax charge for home owners in the UK. The much publicised change was to take family homes of up to £1m out of Inheritance Tax charge completely.

The Chancellor's announcement last month confirmed this intention, but it will not happen for some time. The mechanism to achieve this relief is to be called the **main residence nil-rate band** (MRNB).

This will be set at:

- £100,000 from April 2017
- £125,000 from April 2018
- £150,000 from April 2019
- £175,000 from April 2020

It will then increase in line with Consumer Prices Index (CPI) from April 2021 onwards. Any unused nil-rate band will be able to be transferred to a surviving spouse or civil partner.

The additional nil-rate band will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants.

There will be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2 million. This will be at a withdrawal rate of £1 for every £2 over this threshold.

The existing nil-rate band will remain at £325,000 from 2018-19 until the end of 2020-21.

The MRNB relief will be available to married couples and civil partners.

The £1m overall relief will not be achieved until April 2020. From this date, on the death of the first spouse or civil partner, if they leave their share in the family home to the surviving spouse or civil partner, this will pass IHT free and the deceased parties' unused MRNB will pass to the surviving spouse. If the rest of the deceased person's estate passes to the surviving spouse then their unused nil rate band of £325,000 will also pass to their surviving partner.

On the subsequent death of the survivor, if they leave their home to a direct descendant, their estate may be able to claim a combined MRNB of £350,000 (2 x £175,000) plus £650,000 combined nil rate band (2 x £325,000); a total relief of £1m.

Tapered pensions annual allowance

Legislation in Summer Finance Bill 2015 introduces a tapered reduction in the annual allowance from 6 April 2016, for those with an 'adjusted income' of over £150,000.

The 'adjusted income' definition adds-back any pension contributions, to prevent individuals from avoiding the restriction by exchanging salary for employer contributions.

To provide certainty for individuals with lower salaries who may have one off spikes in their employer pension contributions, a net income threshold of £110,000 will apply. If the individual's net income is no more than £110,000 they will not normally be subject to the tapered annual allowance. However, anti-avoidance rules will apply so that any salary sacrifice set up on or after 9 July 2015 will be included in the threshold definition. The rate of reduction in the annual allowance is by £1 for every £2 that the adjusted income exceeds £150,000, up to a maximum reduction of £30,000.

All pension input periods open on 8 July 2015 are closed on that date, with the next pension input period running from 9 July 2015 to 5 April 2016. All subsequent pension input periods will be concurrent with the tax year.

To prevent retrospective taxation, individuals will have an £80,000 annual allowance for 2015-16, but subject to a £40,000 allowance for savings from 9 July 2015 to 5 April 2016. To achieve this, the 2015-16 tax year will be split into two notional periods: 6 April 2015 to 8 July 2015, the 'pre-alignment tax year' and 9 July 2015 to 5 April 2016, the 'post-alignment tax year'. All individuals will have an annual allowance of £80,000 for the 'pre-alignment tax year'. Where this amount has not been used in the 'pre-alignment tax year', it will be carried forward to the post-alignment tax year, subject to a maximum of £40,000. In addition, any unused annual allowance from the previous 3 years can be added to these amounts in the normal way.

The transition arrangements for 2015-16 mean that taxpayers who paid sizeable pension premiums in the period to 8 July 2015 (perhaps in anticipation of Budget changes) may be able to have a second bite at the cherry.

As readers will appreciate these are complex changes. Taxpayers who feel they may be affected should take professional advice.

Small business changes

Some of the key changes that will impact small businesses in particular are set out below:

- Taxation of dividend income from April 2016. The present 10% dividend tax credit is being abolished from April 2016. In its place an annual dividend tax allowance of £5,000 is being introduced. Dividends received will be free of further charge to Income Tax up to this limit. Above the £5,000 limit dividend income will be taxed as follows:

    - Basic rate tax payers at 7.5%
    - Higher rate (40%) tax payers at 32.5%, and
    - Additional rate (45%) tax payers at 38.1%

Shareholder directors of small companies that pay limited salaries and high dividends may be affected by this change and should review their dividend strategy.

- National Insurance Employment Allowance. From April 2016 the present £2,000 allowance is being increased by 50% to £3,000. The Chancellor has also announced that the allowance will be withdrawn for one person shareholder/employee companies.
- Annual Investment Allowance (AIA). The annual limit for this generous tax allowance, presently up to £500,000 of qualifying expenditure can be written off against taxable profits, was due to revert to £25,000 from 1 January 2016. It has been confirmed that the £25,000 limit will instead increase to £250,000 with no further changes currently tabled

It was also announced that Corporation Tax rates would fall to 19% in 2017 and 18% in 2020.

A number of counter measures will also be introduced to curb tax avoidance. This continues HMRC's strategy to root out and penalise businesses that continue to misuse tax legislation in a way not intended by parliament.

Look out for the VAT registration trap

Registering a business for VAT has never been straightforward. But now you need to monitor any applications for VAT registration or you could fall foul of HMRC's aggressive new attitude to penalties. What's to know?

Applying for VAT registration

You can apply for VAT registration either online or using the paper forms but in either case the process should normally be completed in two to three weeks. However, in 10%-15% of cases HMRC requests additional information or decides to "make further enquiries" before it registers a business. This can happen if your business is in a sector that HMRC thinks is prone to fraud, such as agencies supplying staff or wholesale importers.

Sad case of delayed application

One subscriber ran an employment agency and applied for VAT registration. They had formed their company but had not found permanent premises when they applied for VAT registration so put the registered address of the company formation agents on the application for VAT registration. As they were an employment agency HMRC had supplementary questions regarding the application for VAT registration so wrote to the registered address - the company formation agents did not forward the letter and so they did not reply to the enquiries. HMRC rang the contact number on the application form, a company mobile phone, and left a message which was not picked up.

We're waiting. HMRC waited a week and wrote to the registered address saying that the application for VAT registration had been rejected - again this was not received by the business.

We're doing nothing. The business assumed there was a delay in processing the registration and did nothing. The director suffered a bout of ill health so the matter slipped their mind and they continued to issue invoices showing VAT and saying that the VAT registration had been applied for, as per HMRC guidance.

HMRC visit

A couple of months later HMRC made a visit to look at the NI records and asked why the business wasn't VAT registered. They said they had applied for registration but HMRC had no record as it had cancelled the application. The next thing the business knew they had received a penalty for the unauthorised issuing of invoices bearing VAT totalling more than £50,000. Although an extreme example, it's worth noting that HMRC will not only use the late registration penalty but also the more severe "wrongdoing" penalty for the unauthorised issue of invoices. We have heard of other examples of HMRC using this penalty with delayed VAT registrations.

Look out for the VAT registration trap (continued)

What should you do?

If you are applying for VAT registration be sure to use an address and telephone number where you can be easily contacted - if necessary a director’s home if trading premises have not been obtained.

Tip 1. Apply online and retain the acknowledgement of the application in your records. If you have heard nothing after three weeks contact HMRC and see what the delay is. If there are any queries clear them up as soon as possible.

Tip 2. If you do issue invoices while awaiting your VAT registration number make sure you comply exactly with HMRC’s requirements, and in particular do not show the VAT separately on your invoice.

Fraud Alert courtesy of a friendly bank manager

We want to give you a heads up to the latest scam where 2 customers have been caught out in the past month.

This is where your accounts department get an E mail from a senior member of staff, the MD in each of these cases, asking for a faster payment to be made to an account for a valid reason.

The department acts on the E mail either without checking directly with the MD or as they were unable to get hold of them send the funds as the E mail address and details all appeared correct but this is a fraud as the Email address has either been cloned or disguised in some way to look correct.

We urge you to insure that you have a risk process in place covering this situation and that staff know they have to follow it. The process can be as simple as getting verbal confirmation from the member of staff but importantly that everyone knows the payment will NOT be made unless it is followed.

In these cases the businesses lost £20k and £10k each! Beware! You have been warned!

A elegant (and humorous) solution to The Greek Debt Crisis

It is a slow day in a little Greek Village. The rain is beating down and the streets are deserted.

Times are tough, everybody is in debt, and everybody lives on credit.

On this particular day a rich German tourist is driving through the village, stops at the local hotel and lays a €100 note on the desk, telling the hotel owner he wants to inspect the rooms upstairs in order to pick one to spend the night.

The owner gives him some keys and, as soon as the visitor has walked upstairs, the hotelier grabs the €100 note and runs next door to pay his debt to the butcher.

The butcher takes the €100 note and runs down the street to repay his debt to the pig farmer.

The pig farmer takes the €100 note and heads off to pay his bill at the supplier of feed and fuel.

The guy at the Farmers' Co-op takes the €100 note and runs to pay his drinks bill at the taverna.

The publican slips the money along to the local prostitute drinking at the bar, who has also been facing hard times and has had to offer him "services" on credit.

The hooker then rushes to the hotel and pays off her room bill to the hotel owner with the €100 note.

The hotel proprietor then places the €100 note back on the counter so the rich traveller will not suspect anything.

At that moment the traveller comes down the stairs, picks up the €100 note, states that the rooms are not satisfactory, pockets the money, and leaves town.

No one produced anything.
No one earned anything.
However, the whole village is now out of debt and looking to the future with a lot more optimism.

And that is how the bailout package works !

Tax Diary
August/September 2015

1 August 2015	-	Due date for Corporation Tax due for the year ended 31 October 2014.
19 August 2015	-	PAYE and NIC deductions due for month ended 5 August 2015. (If you pay your tax electronically the due date is 22 August 2015)
19 August 2015	-	Filing deadline for the CIS300 monthly return for the month ended 5 August 2015.
19 August 2015	-	CIS tax deducted for the month ended 5 August 2015 is payable by today.

1 September 2015	-	Due date for Corporation Tax due for the year ended 30 November 2014.
19 September 2015	-	PAYE and NIC deductions due for month ended 5 September 2015. (If you pay your tax electronically the due date is 22 September 2015)
19 September 2015	-	Filing deadline for the CIS300 monthly return for the month ended 5 September 2015.
19 September 2015	-	CIS tax deducted for the month ended 5 September 2015 is payable by today.

Contact us

For further information on any of the stories in this month's newsletter, or for any other matter that Compass Accountants can assist you with, please contact Jeff Walton on 01329 844145.