Compass Accountants

Newsletter -July/August 2015

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

TaxAngles - For proactive tax planning

In this month's edition…

- Summer Budget 2015
- Scottish Rate of Income Tax
- Under and over payments of tax 2014-15
- Business Start- ups
- Seven ways to reduce tax on dividends
- Capital Allowance Update 2015
- Tax diary July/August 2015.

The Summer Budget 2015

George Osborne presented the first Budget of this Parliament on Wednesday 8 July 2015. The speech set out his plans for the next five years "to keep moving us from a low wage, high tax, high welfare economy; to the higher wage, lower welfare country we intend to create".

Main Budget tax proposals

- New taxation system for dividend receipts for individuals.
- Proposals to restrict interest relief for 'buy to let' landlords.
- Extension to the inheritance tax nil rate band available.

Other tax changes

- An announcement of the amount of the Annual Investment Allowance available to businesses from January 2016.
- Removal of the tax relief available on the acquisition of goodwill and customer related intangibles.
- An increase in the amount of the NIC Employment Allowance.

The government also announced a number of changes to tax credits and Universal Credit as part of the welfare reforms aimed at reducing the growing expenditure in this area.

Our summary focuses on the tax issues likely to affect you, your family and your business. To help you decipher what was announced we have included our own comments. If you have any questions please do not hesitate to contact us for advice.

To access our summary of the Chancellor's July Budget go to our website compassaccountants.co.uk and click on the news tab.

Quote of the month…

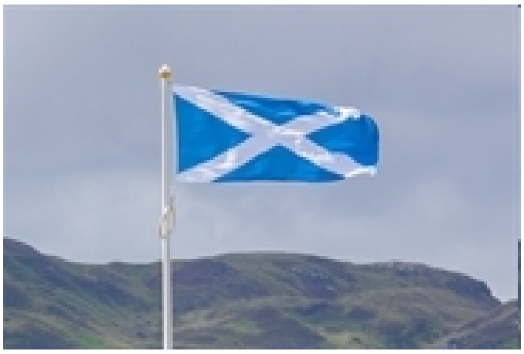
The man in the arena

"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better.

The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."

-Theodore Roosevelt

Scottish Rate of Income Tax



From April 2016, the Scottish Parliament has devolved powers to set the Scottish Rate of Income Tax (SRIT). Within the last few weeks it has been widely publicised that this may mean a higher rate of Income Tax in Scotland as compared to the Income Tax rates in other parts of the UK.

HMRC have also issued a technical statement that clarifies who will be subject to SRIT.

According to the statement issued, a Scottish taxpayer will be defined using a simple test:

“For the vast majority of individuals, the question of whether or not they are a Scottish taxpayer will be a simple one – they will either live in Scotland and thus be a Scottish taxpayer or live elsewhere in the UK and not be a Scottish taxpayer.”

Factor in the possibility that Income Tax rates in Scotland will be higher than the rest of the UK and tax payers living and working in the border areas may need to reconsider their living arrangements.

For example, a business person living and working in Edinburgh will pay the SRIT from April 2016. If they relocated their family home to say Berwick on Tweed, and continued to work in Edinburgh, they would pay the UK Income Tax and not be subject to SRIT.

Turning this example on its head; consider a person living in Scotland and working in England. They would be subject to SRIT even though their income was earned in England.

Does this mean the north of England will become the UK’s Monte Carlo as wealthy Scots seek to establish tax residence in England to avoid SRIT?

Under and over payments of tax 2014-15

HMRC have started the process of sending formal statements to taxpayers who may have under or over paid Income Tax for 2014-15.

In a recent press release they said:

“We are sending P800s that show an overpayment of tax first, followed by a cheque around a fortnight later. You don’t need to do anything. The whole process should be completed in October.

This automated process ensures those who have had a change in circumstances during the last tax year (2014-15) that was not captured in their tax code have paid no more or less than they should. Any discrepancy could be because the taxpayer changed jobs, had more than one job for a time, a change of company car or received investment income that was not reported during the year.

The vast majority of PAYE taxpayers will have paid the right amount of tax for the year and will not be contacted by HMRC.”

We advise taxpayers who receive a statement, and they are unsure if the figures are correct, to take professional advice – get the numbers checked.

Business start-ups

If you are an old hand at setting up a new business most of the content of this article will be a timely reminder of the issues you need to cover in your project to-do list. For first timers, use this article as a guide to see you through what can prove to be an exhilarating and challenging adventure.

Planning and research

Your planning and research should at least cover the following issues:

- What does it take to run your own business?
- What skills will you need?
- What do you know about your competitors?
- How much capital will you need to raise?
- What resources will you need, plant, equipment, computers etc?
- Could you start on a part-time basis and delay leaving the day job?
- Can you run your business from home?

Also be aware that none of us operate in a vacuum. What special considerations do you need to look out for taking into account the present economic conditions?

Red tape

There is no doubt that at times you will just have to deal with it. Here are a few tips that may make the process less painful.

- Find out exactly what is required, what forms need to be filled in and when they need to be submitted.
- If you feel that a particular process is beyond your abilities find a professional advisor to help, the cost will generally be recovered by time that you are able to free up to work on your business.
- If you want to complete the online filing or form filling make sure you read the fine print...

Red tape seems to be a necessary evil in our highly organised society. If you do find yourself beating your head against a brick wall, save yourself the headache, get some help.

Tax planning

Whatever you do, don’t underestimate the UK tax system. Be very clear what your obligations are and the ways you can organise your business affairs to save tax. There is no point in planning for your tax liabilities after the event! The time to plan is before you act. This is a really important point. Tax specialists, us included, take no joy in advising tax payers that they could have saved themselves tax if only they had acted in a certain way at some time in the past. The tax system is riddled with deadlines that once passed, deny you tax saving opportunities.

SIX WAYS TO REDUCE TAX ON DIVIDENDS

1. **Married couples**

Spread your taxable share portfolios between two people to make full use of each spouse's £5,000 allowance. Also make full use of your personal allowances and basic-rate tax bands where applicable, so that taxable dividends are paid in the name of the spouse who pays the lowest tax rates.

2. **Use tax wrappers…**

Sheltering taxable investments in an ISA will become more important as unlimited dividends can be withdrawn from an ISA tax-free. There is also no capital gains tax to pay in this wrapper. You can shelter £15,240-worth of existing investments in an ISA this tax year.

For retirement savings where money is not needed until age 55, self-invested personal pensions (SIPPs) offer tax-free dividends, while most people can invest up to 100 per cent of earnings effectively capped at £40,000 in this tax year and receive tax relief of up to 45 per cent.

3. **...but be clever with tax wrappers**

A diverse portfolio will have shares and funds that generate different levels of dividend income yield. Shelter those that generate the higher yields in an ISA to maximise the dividend income tax allowance. For example, a taxable portfolio of £125,000 with a yield of 4 per cent will generate £5,000 a year and use up the dividend allowance. However, a portfolio of £500,000 yielding 1 per cent generates the same £5,000 a year.

In most cases, the income from fixed-interest funds and corporate bonds is subject to interest tax, not dividend tax. From April 2016, the first £1,000 of interest income from these holdings will be free of income tax under the new personal savings allowance, or £500 for higher-rate taxpayers. This provides the opportunity for tax-free income in addition to the dividend allowance and ISA income - so use this to offset the income from bonds and cash. The personal savings allowance also applies to taxable cash interest so ensure you don't exceed £1,000 a year or £500 if you are a higher-rate taxpayer.

Seven ways to reduce tax on dividends - continued

4. Reduce taxable income

After the new dividend allowance, dividend tax is linked to the rate of income tax you pay. So reducing your other taxable income could also reduce the amount of dividend tax you pay. You might be able to reduce taxable income for a particular year by transferring income-bearing assets such as cash deposits to a lower earning spouse, or deferring withdrawals from a drawdown pension until a new tax year.

Offset with pensions tax relief:
A pension contribution can be used to reduce dividend tax liabilities by taking advantage of the tax relief on the contribution. Effectively the basic-rate tax band is increased by the amount of the pension contribution, meaning larger gains might be realised before the higher rate of dividend tax is payable. For example, a pension contribution of £3,600 will extend the basic-rate tax band from £43,000 to £46,600 for the 2016-17 tax year. Then, providing other taxable income and taxable dividend income total less than £46,600 in this tax year, the dividend tax will be paid at 7.5 per cent rather than 32.5 per cent.

5. VCTs

Taxpaying, sophisticated investors happy to take higher risks could consider venture capital trusts (VCTs), which generate tax-free dividends - in addition to tax-free dividends from an ISA and the forthcoming £5,000 dividend allowance.

6. Offshore bonds

Dividend income within an offshore investment bond grows almost free of taxation, although there may be a small amount of withholding tax. Investors only pay tax when profits are withdrawn, although withdrawals of up to 5 per cent of the original capital a year can be taken without immediate tax charge. Dividend income can therefore be deferred and timed to when lower rates of tax might be paid. For example, a higher-rate taxpayer will pay 32.5 per cent dividend tax after the dividend allowance, whereas if deferred until the investor is a basic-rate taxpayer, withdrawals from an offshore investment bond would be taxed at 20 per cent.

• Broker Hargreaves Lansdown has set up a dividend tax calculator to help people work out what they will have to pay after 2016. It is available at http://www.hl.co.uk/shares/dividends-tax-calculator

JULY 2015 BUDGET - Have you overlooked past capital expenditure contained in the building?

In his second budget for 2015 announced this month The Chancellor changed the rates for Annual Investment Allowance (AIA). Whilst the amount of relief remains at £500,000 until 31 December 2015 the amount of relief is increased from £25,000 to £200,000 per annum from 1 January 2016.

This signifies the Government's desire to encourage businesses to invest and expand in the future. But it also highlights the opportunities that are there already for clients to gain significant cash flow benefits by claiming capital allowances that may have been missed on earlier capital expenditure as well as planning for new expenditure now.

This especially applies to expenditure incurred on commercial property where there are significant costs which can be apportioned to the fixtures and integral features contained in the building.

So, whilst considering the tax savings that can be made by you if you're planning to invest in capital assets either before or after 31 December 2015 now is also a prime time to consider whether you might benefit from the tax savings possible in claiming Capital Allowances on the fixtures in your commercial buildings, especially for historic expenditure which may contain **previously unclaimed qualifying assets.**

Claiming **NOW** could secure you **a tax refund and savings into future years** so, by acting now, you could secure a significant cash flow boost if you qualify,**so don't miss out!**

Changes in the Capital Allowances Act which became fully effective in April 2014 have highlighted the importance of identifying and pooling all these allowances because a failure to do so could mean they become lost forever. In particular, it will usually be necessary for a property vendor to pool all such expenditure when a commercial property is now sold. So, in many cases, it will make sense for the current owner to do this sooner rather than later and get the benefit of the tax reliefs for themselves **instead of leaving them for the purchaser to claim.**

We can help you to identify the properties that might benefit.

Claiming these allowances is a legal right under CAA 2001 and it is possible to claim capital allowances and utilise the same costs for allowable CGT expenditure.

Please contact **Kerry Lawrance on 01329 844145…………NOW!**

Tax Diary
July/August 2015

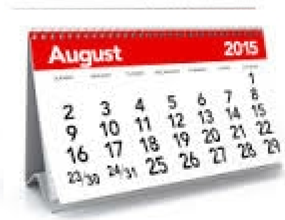
1 July 2015 - Due date for Corporation Tax due for the year ended 30 September 2014.

6 July 2015 - Complete and submit forms P11D return of benefits and expenses and P11D (b) return of Class 1A NICs.

8 July 2015 – The second Budget Day for this year.

19 July 2015 - Pay Class 1A NICs (by the 22 July 2015 if paid electronically).

19 July 2015 - PAYE and NIC deductions due for month ended 5 July 2015. (If you pay your tax electronically the due date is 22 July 2015)



19 July 2015 - Filing deadline for the CIS300 monthly return for the month ended 5 July 2015.

19 July 2015 - CIS tax deducted for the month ended 5 July 2015 is payable by today.

1 August 2015 - Due date for Corporation Tax due for the year ended 31 October 2014.

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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.

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