Quarterly
Update
Spring 2015 Issue

Welcome to our first digital newsletter available both electronically and by post. For those of you receiving this via email we hope the process has proved successful. If you would like to either opt in or out of the electronic version, please telephone us on our usual number, 01932 353165, or email mary@mwaccountant.co.uk.

Not surprisingly this edition of the newsletter focuses on the recent pre-election Budget however, following from our Autumn Issue, we have an update on the initial practical considerations concerning workplace pensions i.e. auto enrolment.

QUICK REMINDER

Tax return information – look out for, and keep, any information that you receive that is required for your tax return. In particular the banks are now issuing interest summaries and investment managers are preparing annual portfolio information. For those of you in employment, if you have not already done so, you will shortly be receiving your end of year P60 and in the next couple of months form P11D, if one is due.

MW&Co LLP
Chartered Accountants
01932 353165

Budget 2015

This was Mr Osborne's final budget before the General Election in May. As has become customary the majority of what was announced will take effect in future tax years, generally 2016-17 onwards, having already announced the detail for 2015-16 in his Autumn Statement. It was therefore somewhat of a surprise that the headline grabbing news related to the abolition of paper tax returns, for some tax payers, as early as 2016. We therefore kick off with what we know so far about the Chancellor's own intentions to "go digital".

Real-time online accounts to replace annual tax returns

The Budget confirmed plans to switch to "digital tax accounts" by 2020 by which time all businesses and individuals should be able to link their accounting software to their digital tax account, so they can feed in information directly throughout any given tax year.

The intention is to allow relevant information, including accounts, to be submitted on a real-time basis via computer, tablet or smartphone. It will be possible to link accounting software and bank accounts to individual digital tax accounts, removing the need to submit an end-of-year return and paying an annual tax bill in one go.

It will then be possible for tax to be paid at any point during the year, either in a single payment or by instalments.

Anyone wishing to file an annual paper return will be able to do so.

Following the announcement H M Revenue & Customs (HMRC) has said it will publish a timetable later in the year setting out the policy and administrative changes needed to implement the reform. Early indications are that the switch is expected to start with five million small businesses and the first ten million individuals in early 2016.

Whilst we have no real detail at present, our experience with, in particular, the move to real-time payroll reporting, suggests that it is optimistic to expect any significant new system to be up, running and reliable, by 2016. However, there is clearly a need and a will for the tax administration procedures to be reviewed and with the increasing general use of technology this is an obvious area to exploit.

Income Tax

The increase in the personal allowance is to continue with rises to £10,800 in 2016-17 and reaching £11,000 in 2017-18.

In something of a change in policy, the Chancellor announced that in order to make sure the full benefits of the personal allowance increase are passed on to higher rate taxpayers, the government will also increase, above inflation, the point at which higher earners start paying 40% tax. It will increase by £315 in 2016-17 to £42,700, and by £600 in 2017-18 - taking it to £43,300 in 2017-18.

Savers

Mr Osborne was keen to give some advantage to savers in what may well be his final budget. In an effort to encourage people to save he announced the following changes:

Personal savings allowance – this will be introduced with effect from April 2016 and, for basic rate tax payers, will remove the first £1,000 of interest earned from income tax. For higher rate tax payers this amount reduces to £500; for those earning over £150,000 the allowance disappears altogether. As a consequence of this change, also from next April, banks will no longer automatically deduct 20% tax from interest paid.

ISAs – a welcome reform will allow cash to be withdrawn from an ISA and then paid back in without losing the ISA tax benefits. To qualify the repayment must be made in the same financial year as the withdrawal and this dispensation will only apply to cash withdrawals, not to stocks and shares.

Budget (continued)

"Help to Buy" ISA – Autumn 2015 will see the launch of a new ISA aimed at first time buyers The intention is for the government to match savings by 25% up to a maximum of £3,000 per individual with the bonus "paid" on the purchase of the first home. This means for a maximum saving of £12,000 the government will give a bonus of £3,000 increasing the account to £15,000. In summary:

- These accounts will be available for four years although once opened there will be no time limit on how long they can be held for.
- They can be held by anyone aged 16 and over.
- An initial deposit of up to £1,000 can be used to open the account.
- No minimum monthly deposit, although there will be a maximum of £200.
- Accounts are limited to one per person rather than one per home.
- The bonus is available to first time buyers purchasing UK properties; minimum bonus size of £400 per person maximum bonus size of £3,000 per person.
- The bonus will be available on home purchases of up to £450,000 in London and up to £250,000 outside London and will be paid when you buy your first home.

Pensions

This was the area that saw the most change in 2014 but this time the changes are less widespread. Nonetheless for those affected they will be significant.

The first change has been made to allow those people who already have an annuity to be able to sell it on, so that they too can benefit from the pension freedoms announced at last year's Budget.

Currently, people who have bought an annuity are unable to sell it without having to pay at least 55% tax on it. From April 2016, the tax rules will change so that people who already have an annuity can sell it when they choose for a lump sum and pay their usual rate of tax whatever that may be, not 55%.

The second change is a reduction in the lifetime allowance. On the basis that he believes it to be unsustainable going forward, Mr Osborne is to cut the lifetime allowance for pension savings that can be accumulated free of tax from £1.25m to £1m from April 2016.

Capital Gains Tax

Entrepreneurs Relief (ER) - This is a continuing focus for this government with a number of tweaks to the legislation. The most significant change for our clients had already been announced in the Autumn Statement and came into effect on 3 December 2014.

This change prevents individuals from claiming ER on disposals of the reputation and customer relationships associated with a business ('goodwill') when they transfer the business to a related close company. This may more commonly be recognised as occurring on the incorporation of a sole trader and removes one of the key advantages to taking this step.

Private Residence Relief (PRR) – Two changes have been announced which we consider worthy of highlighting herein. The first relates to the disposal of UK residential property by a non-UK resident with Mr Osborne confirming that from 6 April 2015 these transactions will be subject to Capital Gains Tax. Tax will be charged on gains accruing after that date, for individuals at the same rates as UK taxpayers (28% or 18% on gains above the annual exempt amount), for non-resident companies at the same rates as UK corporates (20%).

The second change relates to claims for PRR on properties located outside of the UK. PRR will now be restricted where a property is located in a jurisdiction in which a taxpayer is not tax resident. In those circumstances, the property will only be capable of being regarded as the person's only or main residence for PRR purposes for a tax year where the person meets a 90-day test for time spent in the property over the year.

Charities

The amount of small donations charities can get an extra 25% top up payment on in gift aid without needing any paperwork is increasing from £5,000 to £8,000 a year with effect from April 2016.

Other matters

There were no new announcements from the Chancellor in respect of Business Tax, Value Added Tax or Inheritance Tax. Should the Conservative Party remain in power post-May Mr Osborne did indicate their intention to abolish Class 2 National Insurance and review Class 4. He also stated that they would undertake a review of business rates.

Auto-enrolment

Following on from our last newsletter and the article on Workplace Pensions we are beginning to have more practical experience of Auto-Enrolment. We set out below those matters where further information has begun to come through.

Nominating a contact

The Pensions Regulator has begun to write to small businesses to advise them of their staging date and requesting that they nominate a contact for auto-enrolment purposes. A deadline is given for this nomination to be made, seemingly the end of the month following the month in which the letter was sent. The process has to be completed online at www.tpr.gov.uk/letter.

There is the option to provide a secondary contact and our advice would be, should you wish to do so, to nominate ourselves as the secondary contact with someone directly involved with the business being the primary contact.

Single person companies

It has been clarified that companies which have just a single director, and no other employees, are exempt from automatic enrolment and those of you in this position should receive a letter confirming that this is the case.

If, however, you receive a letter of the type referred to above showing a staging date and requesting that you nominate a contact then you will need to formally advise The Pensions Regulator that you should be exempt. Once again this needs to be done online, guidance is available at www.tpr.gov.uk.

Choosing a scheme

As you are aware we are not able to give investment advice and therefore cannot assist directly in the selection of a pension scheme. However, we too need to comply with the auto-enrolment regulations but, as a small employer find ourselves largely unwanted by pension advisers. In this capacity we are looking at various options and making general enquiries so, to the extent that they may prove useful, we share here the information we have gathered.

NEST – As we have indicated previously the government have set up the National Employment Savings Trust to accept all employers wishing to use it.

Federation of Small Businesses – The Federation are offering a pension scheme for member businesses run by Scottish Widows.

True Potential – Our own connections have advised us to look at this scheme which maintains funds with Legal & General.

MW&Co LLP

01932 353165