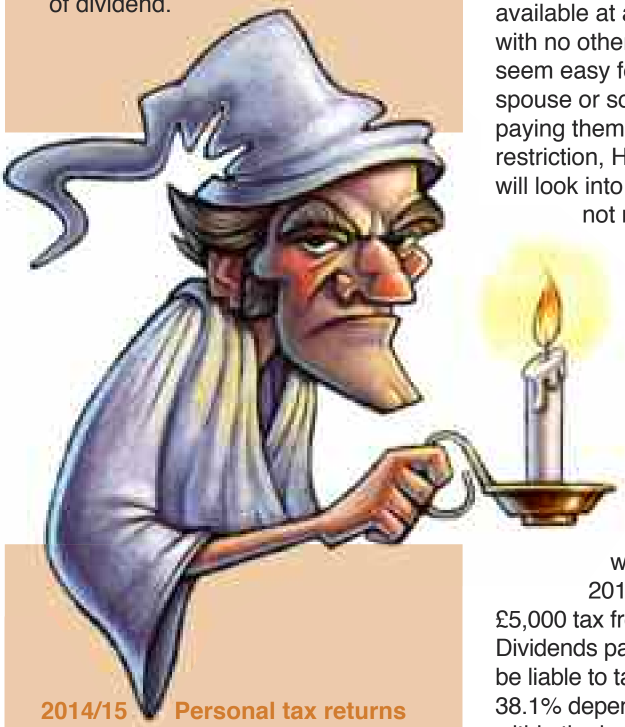
Quarterly Update

Autumn 2015 Issue

Now that the dust has settled following the Conservative Government Summer Budget we provide a summary of the changes that will most affect our clients. The changes announced in the budget were mostly aimed to raise further tax and by and large had not been trailed in the run up to the May election or were less generous than had been implied at that time. In particular, the Chancellor has targeted one director/shareholder companies where remuneration is mostly taken by way of dividend.



2014/15 Personal tax returns

These are due by the 31st January 2016 as usual. Please let us have any information required to complete these well before this dead-line to avoid penalties for possible late submission.

MW&Co LLP

Chartered Accountants

01932 353165

Budget 2015 Summary

Company Tax

The changes to company taxation announced in July are, with one exception, intended to raise the tax paid by companies. The one exception is the fall in the corporation tax rate paid by companies, reducing by 1% to 19% from April 2017 and by a further 1% a year later.

Employment Allowance

Whilst the employment allowance is increasing from £2,000 to £3,000 pa from 6th April 2016, the allowance will not be available at all to single director companies with no other employees. Whilst it may seem easy for such companies to add a spouse or someone else to the payroll paying them a notional sum to avoid this restriction, HMRC have indicated that they will look into any changes made which are not made for commercial reasons.

Dividends

The summer budget also announced fundamental changes to the taxation of dividends. Whilst dividends will remain free of national insurance and therefore remain attractive compared to salaries, the 10% tax credit currently applied to dividends will disappear from 6th April 2016. This will be replaced by a £5,000 tax free dividend allowance. Dividends paid in excess of £5,000 pa will be liable to tax at either 7.5%, 32.5% or 38.1% depending on whether they fall within the basic rate band (currently income between £10,600 and £42,385), the higher rate band (currently £42,385 to £150,000) and the additional rate band (currently income greater than £150,000) respectively. It should be noted that the first £5,000 of dividend income is still included when calculating a tax payers total income and may therefore push other income into the higher rate band causing such income to be taxed at 40% (or even 45%) rather than 20%. From 6th April 2016 therefore, for £5,000 of dividend income to be truly tax free a taxpayer's total income including the dividend must not exceed £43,000.

Goodwill

When a company acquires a business the amount paid over and above that paid for tangible assets such as stock, plant and debtors is known as goodwill and represents the additional value of the business due to its reputation or good name. Like other assets, goodwill is written off or amortised over its useful life, typically 5 years or less. Up until December 2014 this amortisation was allowed as a business expense in most circumstances including the incorporation of a sole trader business or partnership. In his 2014 autumn statement the Chancellor restricted this tax relief to business acquisitions from unconnected third parties thereby ruling out the relief on incorporations. In his summer budget the chancellor went further and abolished the relief altogether.

Personal tax

Buy to let mortgage interest

Mortgage interest currently incurred on loans used to buy let property is fully deductable as an expense. Where a substantial loan is taken out to acquire such property it is not uncommon for the interest on the loan to almost be as much as the rental income received giving rise to little profit or even a loss. The rationale for such arrangements being the potential long term capital growth that the property may enjoy. From April 2021 the tax relief on such interest will be restricted to the basic rate (currently 20%) being phased in over the preceding 4 years. Higher-rate tax payers, therefore, may be liable to pay tax on let property from which they receive no net income after paying the mortgage interest. The restriction does not apply, however, to furnished holiday let property where full tax relief remains on the interest incurred.

Rent-a-room relief

This is an exemption for property owners from paying tax on rooms let in their only or main home. The chancellor announced a welcome increase in the level at which such income becomes taxable from £4,250 to £7,500 from April 2016.

Personal tax (continued)

Pensions

Having previously announced radical reform of the pension system the Chancellor announced some restrictions to the tax relief available for the very wealthy. Prior to the summer budget all taxpayers could get tax relief on their pension contributions up to £40,000 pa provided they had an equivalent level of earnings. Following the summer budget tax relief will be restricted on pension contributions for taxpayers with annual income greater than £150,000.

Direct Recovery of Debt

The summer budget confirmed that HMRC are to be given powers to recover tax arrears directly from a taxpayer's bank account in certain circumstances under a process called Direct Recovery. This was originally proposed in May 2014 but after consultation will now go ahead with additional safeguards added. The safeguards originally proposed meant that Direct Recovery by HMRC would only be possible if the tax owed exceeded £1,000 and HMRC were to ensure that the taxpayer be left with at least £5,000 across their accounts. The following additional safeguards have now been added:

A guarantee that every taxpayer affected will have a face-to-face meeting with HMRC before Direct Recovery is considered;

Funds will be frozen but not taken for a period of 30 days (previously 14 days) to give the taxpayer time to lodge an objection;

The right of the taxpayer to appeal to the courts where Direct Recovery would cause hardship or adversely affect a third party.

Marriage allowance

From April 2015 married couples and civil partners will be able to transfer part of their unused personal allowances to their partners. Up to 10% of their unused allowance can be transferred in this way giving rise to a maximum tax saving of £212 for 2015/16. To be eligible to receive the unused allowance the higher-paid spouse or civil partner must be a basic rate taxpayer and not be in receipt of the married couples allowance available to taxpayers born before 1935. To claim the marriage allowance the lower-paid spouse or civil partner should apply on-line using the HMRC web-site. The higher-paid spouse or civil partner will then receive an uplift in their PAYE code if employed or else will claim the additional allowance on their tax return. We are happy to provide assistance with the application process if required.

Inheritance tax

Nil rate band

In the May general election the Conservatives promised to increase the nil rate band to £1 million. The Chancellor has now implemented this policy but with some significant conditions. Currently an individual can leave, on death, an estate worth up to £325,000 without incurring any inheritance tax (IHT). Furthermore, transfers to a surviving spouse or civil partner on death do not attract IHT and any unused nil rate band is also transferred to the surviving spouse so that on their death they can have an estate valued up to (£325,000 x 2) £650,000 before paying any IHT. As a result of this it is estimated that at present only 8% of deaths result in any IHT being due.

The Chancellor has announced a new nil rate band from 6th April 2017 applicable only to a taxpayer's main residence, the main asset held for the vast majority of individuals. Provided this is left to a direct descendant (including foster children and step children) then in addition to the existing nil rate band a further nil rate band will be available called the main residence nil rate band (MRNRB). This will start at £100,000 rising gradually to £175,000 by April 2020 and can also be transferred to a surviving spouse or civil partner if unused on the death of the first spouse or civil partner. The relief will be restricted, however, for homes worth more than £2 million. From April 2020 therefore, a tax payer can leave an estate of £1 million free of IHT provided the estate includes their main residence worth at least £350,000, the main residence is left to a direct descendant and they inherited both the nil rate band and the MRNRB in full from their pre-deceased spouse or civil partner.

Other Recent Developments

Tax-Free Childcare: In the spring 2014 issue of our newsletter we announced the introduction of a new tax-free childcare scheme to replace the existing scheme. Following a legal challenge the new scheme was delayed and despite satisfying the courts as to its legality, the new scheme will not now be introduced until 2017. The conditions of the new scheme are as originally reported and in most cases will be more beneficial than the existing scheme.

Under the existing scheme the employer can pay for the childcare of its employees directly to the nursery or childcare provider or else issue childcare vouchers to be exchanged for such services. Such childcare payments are not taxable on the employee provided they do not exceed £55 per week where the employee has earnings taxable at the basic rate but are restricted to £28 and £25 per week for earnings taxable at the higher and additional rate respectively.

The existing scheme will not be open to new joiners once the new scheme has been introduced and taxpayers will only be eligible to use one scheme but employees can remain in the existing scheme for the foreseeable future if they wish. Because the level of tax-free childcare is currently based upon the level of taxable earnings, dividend income is ignored. A director/shareholder running his or her own company and being paid a modest salary topped up by dividends would therefore receive the maximum allowance of £55 per week and may prefer to remain in the scheme beyond 2017 as this is more generous than the new scheme.

National Minimum Wage

The national minimum wage rates increased with effect from 1 October 2015 to:

Main rate (21 years and over)	£6.70 per hour
Youth rate (18-20 year olds)	£5.30 per hour
Development rate (16-17 year olds)	£3.89 per hour
Apprentice	£3.30 per hour

Note: the apprentice rate applies to apprentices under the age of 19 and to those over 19 but in the first year of apprenticeship. The government has also announced its intention to increase the main rate to £9 per hour (the so-called living wage) by the end of the current parliament in 2020.

MW&Co LLP

01932 353165