Marsland Nash Associates

# Tax Wire

Summer Edition - Issue 18

Newsletter Date - July 2015

CONTENTS



## Why defer your State Pension?

From 6 April 2016 a single tier state pension of around £155 per week will replace the current basic state pension of just under £116 per week plus the various additional elements. However if you reach state pension age **before 6th April 2016** then you will be able to add to your current expected State Pension by putting off (deferring) claiming for at least 5 weeks.

Up until 6th April 2016 State Pension will increase by 1% for every 5 weeks deferral, working out to be an increase of 10.4% for every full year of deferral.

### Example

Jenni has worked and gained credits towards her state pension for the required 30 years and would get the full State Pension of £115.95 per week which is equivalent to £6,029.40 a year. By deferring for a year, Jenni will get an **extra 10.4%** of £6,029.40 making a total benefit of £627 per year, every year going forward.

But when the new state pension kicks in on 6 April 2016 this attractive rate is almost halved and from April 2016 should you defer your state pension you will only get the increase of 1% for every 9 weeks you put off claiming. This works out at just **under 5.8%** for every full year of deferral.

### Example

Julie has worked and gained credits towards her state pension but has not acquired credit for the required 35 years. As a result she gets less than the full State Pension, let's say she is entitled to £120 per week which is equivalent to £6,240 a year.

By deferring for a year, Julie will get just under 5.8% of £6,240, a total of an extra £360 per year every year.

This reduced rate of increase to your pension means that should someone choose to defer for one year they would need to survive for around 19 years in order to benefit from making the decision.

The primary reasons for deferring taking a state pension will be where someone is not reliant on this and is holding off in order to get a better pension, or where someone works past state pension age and wishes to manage their tax liabilities.

You may also have noticed that the number of years required to work or gain credits for national insurance contributions has increased from 30 to 35 years.

*If you are nearing state retirement age or are just interested in obtaining a projection for the future then please ask us and we will obtain this on your behalf.*

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## When is renting properties a business?

When you let properties the accounts are drawn up in exactly the same way as for other businesses however until recently there was never any question that the income from renting properties was in the main taxed as investment income.

HM Revenue and Customs (HMRC) will consider a property letting portfolio a business in certain circumstances and in these circumstances Class 2 National Insurance (NIC) will be charged on the profits.


In order to establish if a property letting portfolio is a business or an investment we use guidance which is around the normal duties which would be associated with being a landlord and would enable us to show HMRC that the rental does not constitute a business. According to HMRC being a landlord normally involves:

- undertaking or arranging for external and internal repairs
- preparing the property between lets
- advertising for tenants and arranging tenancy agreements
- generally maintaining common areas in multi-occupancy properties; or collecting rent

In order for a property owner to be a self-employed earner, their property management activities must extend beyond those generally associated with being a landlord. However no examples of what HMRC mean by this are given.

HMRC do give examples of what they would consider as pointers towards there being a business for NIC purposes. If the owner's intention is to be "constantly seeking to increase the number of properties owned for letting" and "having the letting of properties being the owner's main occupation".

You may not consider paying National Insurance on the rental of properties as a negative action and assume that by making the payments it would entitle the payee to obtain certain benefits, however sadly in a legal case some years ago it was found that for the purposes of claiming benefits the class 2 contributions made in connection with property rental where not allowable as the income was not considered a business for national insurance benefits purposes, a double standard which has yet to be overturned.

*We check to ensure that you pay the correct amount of national insurance on all of your income, however if you are planning to develop a property business please speak to us to ensure the correct treatment from the outset.*

## Quick Change on Company Cars

There is a tax charge on the value of a company car, which depends on things like how much the car would cost to buy and the type of fuel it uses. Its value is reduced if it is not available for the whole year or if there is a contribution made to the cost by the employee.

If the company pays for the fuel for personal use, tax is also charged on this.

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**Summer Edition - Issue 18**

**Newsletter Date - July 2015**

.....Continued from previous page

The amount of tax charged depends on the list price of the vehicle and the $CO_2$ emissions measured in g/km². The emission levels are available from the car dealer or online.

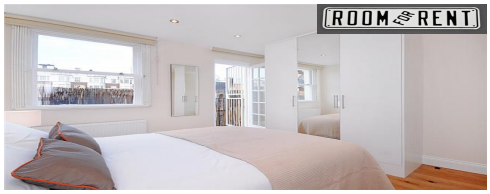
In the current tax year 2015/16, based on a vehicle with a list price of £20,000 a change from a vehicle with emissions of 210g/km² to a car with 140 g/km² could amount to savings of tax **£1,120** for a 40% tax payer. In addition the employer would save **£386.40** in class 1A national insurance. If the employer also pays for fuel for the employee's private use then the tax savings could be even more! An additional tax savings of **£1237.60** for a 40% tax payer plus a further **£426.97** in national insurance savings for the employer.

## Rent-a-Room


The amount which can be received tax free from renting out a room or rooms in your only or main residential property, is set to increase from £4,250 to £7,500 per year – **that's £625 per month tax free**! This scheme is designed for individuals who rent out furnished residential accommodation in their only or main home. This would apply to a lodger for example.

The increase to the rent-a-room limit will apply from 6th April 2016 and covers any amount received as rent and payment for services (laundry, shopping, cooking etc.)

together with any payments made for any provision of food or heat and light.




The level also increases if you rent out rooms in a guest house, Bed & Breakfast or similar, providing that it is your own main residence.

The exemption is halved if the room being rented out is in a property in joint ownership.

Under the Rent a Room scheme the home owner cannot claim any expenses to be set off against the rental income.

## HOT OFF THE PRESS

The introduction of the Tax Free Childcare Scheme is to be delayed until 2017 following a ruling in the Supreme Court.

The challenge by two of the largest providers of existing Employer sponsored Childcare Vouchers focused on the costs and the implementation of the new scheme. The courts found in favour of the Government's new scheme but the action has caused a delay in the schemes implementation.

What does this mean to you?

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Tax Wire
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Summer Edition - Issue 18
Newsletter Date - July 2015

.....Continued from previous page

It's bad news if you have children under 12 years old and are self-employed as there remains no tax incentivised childcare. The new scheme will be open to all working couples in the UK irrespective of being employed or self-employed.

For the employed it gives a longer period to assess the financial implications of the introduction of the new scheme.


Many employed workers or directors may find themselves significantly disadvantaged by the new scheme and so have until 2017 to check the position and if necessary introduce a childcare voucher scheme into the workplace. *This additional time is particularly good news for expectant parents who would have missed out on childcare vouchers.*

Research carried out on over 5,000 working parents found that two-thirds will be worse off under the new scheme, with many families and children ineligible for tax-free childcare.

*Most important to note is the new scheme only gives help with childcare up until the child's 11 birthday whereas the old scheme gives help until the September before the child's 16th birthday - a major tax incentive to check the figures to see if you will be a loser or winner in the child care stakes.*

*Please do not hesitate to ask a member of the team.*

## Employment Allowance

HM Revenue & Customs


Since 6th April 2014 employers have been able to claim a National Insurance Contribution (NIC) allowance of up to £2,000 to set against their employer's NIC bill. The allowance is given as a reduction in the employer's NIC paid to HMRC,

rather than by way of cashback. The allowance is available to most employers, including one-man companies, until April 2016 but thereafter the allowance will be withdrawn from companies where the director is the sole employee.

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Newsletter Date - July 2015

## Class 2 National Insurance Contributions

The way Class 2 National Insurance Contributions is collected will be changing.


Up to April 2015 Class 2 was collected by monthly direct debits or a six monthly billing.


To make the system more manageable, from April 2016 Class 2 NICs will be calculated based on the number of weeks of self-employment in the year and collected via your Self-Assessment tax return. This will be in conjunction with any tax and Class 4 National Insurance that is due as normal.

Those whose profits are below the threshold will no longer have to apply in advance for an exception from paying Class 2 NICs and they will have the option to pay voluntarily at the end of the year.
For those who need to make payments on account then additional payments will also be needed towards the following year's liability. An additional 50% of the amount due will also be payable on 31st January 2016 with the remainder on 31st July 2016.

It will be possible for those affected to apply for a 'budget payment plan'. This will allow them to make regular advance payment of Class 2 NICs to spread the cost over the year. HMRC will retain a facility for them to make regular payments throughout the year.

You should make sure no further direct debit collections are made after July 2015.

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