Marsland Nash Associates

Tax Wire

Autumn Edition - Issue 19

Newsletter Date - November 2015

CONTENTS

Wind of tax changes

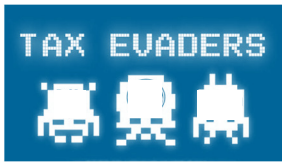
It is the politicians' prerogative to meddle with the tax law – and the larger the majority Government has, the greater its propensity to meddle! Cut free from the restraints of the Coalition, the Conservative Government is turning out corners of the tax fabric which have escaped scrutiny for decades.

In the next few years we will need to prepare for upheaval in the taxation of:

- residential property letting
- dividends
- travel and subsistence expenses
- interest received
- benefits in kind
- non-domiciled individuals

We address the first three of those topics in this newsletter, as if your business is affected you may need to restructure your financing, reconsider which contracts to accept, and review your profit extraction policies. We can help with all of these complex problems.

In the meantime, hang onto the straps, as there is a shake-up of IR35 on the way. The Government has asked for ideas for alternative approaches as it is clear that the current IR35 rules don't work. However, scrapping those controversial rules is not an option – the Government's goal is to strengthen them. We will keep you informed of changes in this area.



Finally, the moral march against tax avoiders shows no sign of slowing. Tax schemes which claimed to avoid Stamp Duty Land Tax (SDLT) on the purchase of property almost certainly didn't work, and now HMRC require the duty to be paid.

If you are caught up in such a tax tangle you should consider whether to pay up now. HMRC has new tax collection powers and is not afraid to use them. It can issue an estimated tax demand called an Accelerated Payment Notice (APN), which has to be paid without argument, before the tax disputed is determined by the Courts. This is a 'pay now, check later' approach.

We are here to help you through the tax jungle, but we need to start that journey together – talk to us about your future plans.

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

Registered in England number 4670160

Tax Wire
Marsland Nash Associates

Autumn Edition - Issue 19

Newsletter Date - November 2015

Future-proof your buy to let

The taxation of income from residential let properties is changing, and you may need to alter the financing of your lettings business to ensure you are not left out of pocket.

Currently you can deduct all of the interest you pay on loans related to your lettings business from the income received, giving you effective relief for that interest at your marginal tax rate: 20%, 40% or 45%.

From 6th April 2017 individual landlords (not companies) will see the amount of interest they may deduct for tax purposes restricted to 75% of the amount paid. Your tax-deductible financing costs for your lettings business will be reduced further each year until 2020/2021, when all financing costs will be blocked as a tax-deductible expense.

In place of the interest deduction you will get a credit against the tax due of 20% of the restricted amount of interest. Below is a simplified example of how the tax relief will work in 2020/2021 compared to 2016/2017 for a 40% taxpayer.

In 2020 your tax charge could almost double, depending on how much interest you pay out of your lettings business. The effect of this change will vary for different landlords, so we should discuss how it will affect you by crunching through the numbers for your business.

	2016/2017	2020/2021
Gross rental income	£20,000	£20,000
Interest paid	13,000	*13,000
Net actual profit	7,000	7,000
Taxable profit	7,000	20,000
Tax charge @ 40%	2,800	8,000
Tax credit 20% of interest	-	(2,600)
Cash in your hands	4,200	1,600
* not deductible		

Should you incorporate?

As a sole-trader you pay tax on all the profits made by your business, at rates that can vary from 20% to 45%. You also pay National Insurance Contributions (NIC) at 9%, or at 2% on higher profits. If you transfer your business into a company (an incorporation), the company will pay tax on all its profits at 20%, a rate which will drop to 19% in 2017.

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

Registered in England number 4670160

Tax Wire
Marsland Nash Associates

Autumn Edition - Issue 19

Newsletter Date - November 2015

.....Continued from previous page

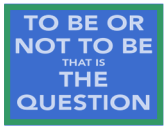
To Incorporate or Not to Incorporate

That looks like a no-brainer – you would save tax by operating through a company. But it's not that simple: you need to pay further tax and NIC when you take money out of the company. The exact amount payable depends on how you take your money – as salary, dividends, a combination of the two, or perhaps with benefits such as a car or van.

The tax system is currently unintentionally biased towards extracting most of your money as dividends, which are tax free within your basic rate band, and taxed at only 25% in your higher rate band. However, the system is about to change from 6th April 2016, when income tax will be charged on dividends at 7.5%, 32.5% or 38.1% as we explain in more detail below.

This will reduce the tax savings from operating through a company considerably, although there will be savings to be had at higher profit levels.

When weighing up the tax costs and savings you mustn't forget the extra administrative costs involved in running a company. These include filing accounts and annual returns at Companies House, and electronically filing the corporate tax return and accounts with HMRC. The company will also have to register for PAYE, and possibly VAT, which normally require monthly or quarterly online returns.



There are good reasons to incorporate, but also some disadvantages, so talk to us about all the implications first.

Taxation of dividends

There are three changes to the way the dividends you receive will be taxed from 6th April 2016:

- The cash amount of dividend income received will be the amount subject to tax and the 10% tax credit will not apply
- The first £5,000 of dividend income per year will be taxed at 0% – so - called 'dividend allowance'
- Dividends received in excess of £5,000 will be taxed at special rates for dividends depending on which tax band they fall into, but there won't be a tax credit to off-set the tax due

Dividend income will be taxed as the highest slice of your income, as it is now. So if your highest tax rate is 20% your dividends will be taxed at 7.5%; for 40% taxpayers dividends will be taxed at 32.5%, and for those with an income above £150,000 dividends will be taxed at 38.1%.

However, within the first tax band the dividend income falls into, the first £5,000 of dividends will be subject to tax at 0% rather than at the rate applicable to dividends. If you receive the majority of your income in the form of dividends from your own company, you will almost certainly pay more tax for 2016/2017 than for 2015/2016.

Say you take £60,000 from your company as dividends, with no salary and you have no other income:

.....Continued on next page

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

Registered in England number 4670160

Tax Wire

Marsland Nash Associates

Autumn Edition - Issue 19

Newsletter Date - November 2015

- For 2015/2016, with a personal allowance of £10,600 and basic rate band of £31,785, your tax liability will be £5,463
- For 2016/2017, with a personal allowance of £11,000 and basic rate band of £32,000 (figures already announced), your tax liability will be £7,550 – a tax increase of £2,087

Everyone will be affected differently according to the mix of dividends and other income received. Let's talk about how your tax position will be affected in 2016/17. The dividends received by your pension fund, ISA, or your company won't be affected.

Accelerated Payment Notice

This is a new type of trump-card which HMRC can use to demand payment of tax earlier than it would otherwise be payable. The APN is only issued in cases where the amount of tax due is disputed as a result of an investigation or court case.

If you receive an APN tax demand, don't ignore it, as the tax will be payable within 90 days. You should also closely examine the calculations sent as part of the APN as in many cases these are wrong. We can help you object to the calculation of tax due, but we need to act quickly as any objection must reach HMRC within 90 days of the date on the APN.

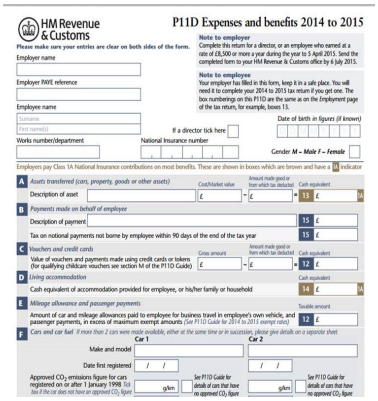
Under or overpayments of tax

If you receive a tax calculation from HMRC on a form P800, don't assume it is correct.

The P800 form is supposed to be sent to taxpayers who are not required to submit a self - assessment tax return form.

But some people have received both a tax return form for 2014/2015 (or a request to complete one online), and a P800 tax calculation for the same year. In those cases something has gone wrong with the HMRC computers, as the P800 form will generally only consider the section of a taxpayer's income which is taxed under PAYE, and ignore all other sources of income.

Some of the P800s for 2014/2015 were issued before the P11D forms for that year were processed by HMRC, in which case the P800 tax computation will omit benefits and expenses, or include benefits and expenses for 2013/2014 instead of 2014/2015. In other cases inaccurate amounts of tax underpaid for earlier years may be included.



HM Revenue & Customs

P11D Expenses and benefits 2014 to 2015

Please make sure your entries are clear on both sides of the form.

Note to employer
Complete this return for a director, or an employee who earned at a rate of £8,500 or more a year during the year to 5 April 2015. Send the completed form to your HM Revenue & Customs office by 6 July 2015.

Note to employee
Your employer has filled in this form, keep it in a safe place. You will need it to complete your 2014 to 2015 tax return if you get one. The box numberings on this P11D are the same as on the *Employment* page of the tax return, for example, boxes 15.

Employer name
Employer PAYE reference
Employee name
Surname
First name(s)
Works number/department
If a director tick here
National Insurance number
Date of birth *in figures (if known)*
Gender *M – Male F – Female*

Employers pay Class 1A National Insurance contributions on most benefits. These are shown in boxes which are brown and have a ✓ indicator

A *Assets transferred (cars, property, goods or other assets)*
Description of asset | Cost/Market value £ | Amount made good or from which tax deducted £ | Cash equivalent £ | 15 £ ✓

B *Payments made on behalf of employee*
Description of payment | 15 £
Tax on notional payments not borne by employee within 90 days of the end of the tax year | 15 £

C *Vouchers and credit cards*
Value of vouchers and payments made using credit cards or tokens (for qualifying childcare vouchers see section M of the P11D Guide) | Gross amount £ | Amount made good or from which tax deducted £ | Cash equivalent | 12 £

D *Living accommodation*
Cash equivalent of accommodation provided for employee, or his/her family or household | 14 £ ✓

E *Mileage allowance and passenger payments*
Amount of car and mileage allowances paid to employee for business travel in employee's own vehicle, and passenger payments, in excess of maximum exempt amounts *(See P11D Guide for 2014 to 2015 exempt rates)* | Taxable amount | 12 £

F *Cars and car fuel* *If more than 2 cars were made available, either at the same time or in succession, please give details on a separate sheet*
Car 1 | Car 2
Make and model
Date first registered / / | / /
Approved CO_2 emissions figure for cars registered on or after 1 January 1998 *Tick box if the car does not have an approved CO_2 figure* g/km *See P11D Guide for details of cars that have no approved CO_2 figure* | g/km *See P11D Guide for details of cars that have no approved CO_2 figure*

If you have received a P800 calculation you may also receive a cheque for a tax repayment.

Please don't cash that cheque until you have checked the tax calculation carefully against your P60 and P11D for 2014/2015, and asked us about any odd figures.

HMRC won't send us a copy of the P800, so we will need sight of your personalised tax calculation to check the figures.

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

Registered in England number 4670160

Tax Wire
Marsland Nash Associates

Autumn Edition - Issue 19

Newsletter Date - November 2015

Wages - plan ahead

With luck the employees you take on now will stay with your business for at least six months, so you need to look ahead to the payroll charges and discounts that will apply to wages from April 2016 onwards.

The wages of young workers aged under 21 are already free of employer's National Insurance Contributions (NIC), as long as they earn no more than £815 per week.

The wages paid to apprentices will also be free of employer's class 1 NIC from 6th April 2016, while the individual is aged under 25. There will be a similar cap for the NIC exemption on the apprentice's pay of around £800 per week.

As announced in the Summer Budget, the National Minimum Wage (NMW) for those aged 25 and older will be set at £7.20 per hour from April 2016. All other NMW rates increase from 1st October 2015. The main NMW rate, for those aged 21 and over, rises from £6.50 to £6.70 per hour.

It is essential that you identify when an employee has moved into a new age band in order to pay the full NMW due from that point, as the maximum penalty for failing to pay the right amount is now £20,000 per worker.

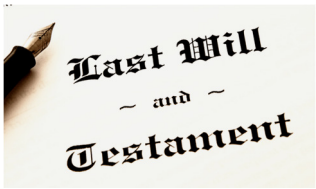
Till death us do part

The unexpected death of a colleague always makes one pause for thought.

If you have delayed thinking about how such an event would affect your business, perhaps now would be a good time.

Key-man insurance can provide financial support to a business on the death or incapacity of the main fee earner, but other practical matters need to be considered.

For instance: Who would take control of the bank accounts and access the passwords to operate your computer systems? If your business provides a personal service to your customers, who would be available to step in and cover the essential service you provide? Have you appointed an 'alternate' for your business responsibilities and does your spouse or partner know who that is?



Your family's finances will be eased if you have made suitable provision for them in your Will. Is that Will up to date, and do the executors know where to find a copy?

If you are not married to your partner, consider the benefits and tax reliefs which will be denied to your partner on your death, including:

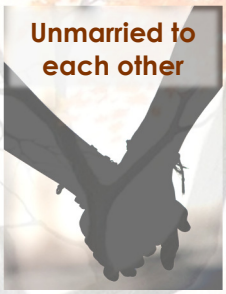
.....Continued on the next page

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

Tax Wire
Marsland Nash Associates
Autumn Edition - Issue 19
Newsletter Date - November 2015

- The survivor of an unmarried couple has no rights to state bereavement benefits based on their late partner's National insurance Contributions
- The unmarried partner may not be able to receive a pension from their deceased partner's employer, although that will depend on the terms of the pension scheme.
- Assets passed to the bereaved unmarried partner may be subject to Inheritance Tax (IHT), where the value of the deceased's estate exceeds the nil rate band of £325,000



There is no transfer of the unused IHT nil rate band to the survivor of an unmarried couple.

The pension issue may be solved in advance by making a nomination in favour of a named individual and ensuring the pension trustees have a copy of that nomination.

The other issues can only be avoided by marrying or not dying.

Distribution of printed products

Most services, including delivery and marketing services, are standard rated for VAT, so they carry 20% VAT. Printed goods such as leaflets, newsletters and pamphlets are zero-rated for VAT. Where delivery is part of the service of supplying printed matter to the customer, the whole cost can be zero rated.

However, if the delivery of printed items is part of a direct marketing service the cost should generally be standard rated. Direct marketing can include posting or arranging the posting (including door drops) to customers of publicity materials. Many businesses have been zero rating services which involve the delivery of printed materials as part of a marketing campaign.

In HMRC's view, supplies of printed matter which are combined with other services such as marketing, should be categorised as a single supply of standard rated direct marketing services. It updated its guidance on 15th July 2015 concerning postage, delivery and printed items.

If your business relied on the previous HMRC guidance, you need to adjust your VAT treatment.

HMRC has said that it will not take retrospective action for supplies made before 1st August 2015, where that supply was delivery of addressed or unaddressed mail. However, in other circumstances HMRC will take action and it expects those businesses to pay up the additional VAT due.

If you are confused by the new HMRC guidance - which is not exactly crystal clear - please do not hesitate to ask us to clarify things for you.

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

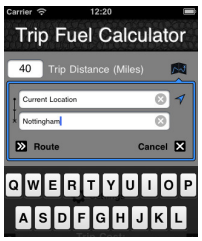
Registered in England number 4670160

Tax Wire
Marsland Nash Associates

Autumn Edition - Issue 19

Newsletter Date - November 2015

Travel costs may not be tax free



Currently, if you work through your own company and need to travel to a customer's site to perform a task, you can receive a tax-free reimbursement of the travel costs for that journey. This applies where you expect to, and actually do attend, that customer's site for no more than 24 months.

Permanent employees at the same site can't claim tax-free travel expenses to get to the same place, as their journeys are considered to be 'ordinary commuting' in relation to their normal workplace.

The Government says it wants to 'level the playing field' between temporary workers provided by intermediaries and permanent staff by removing the tax-free travel expenses for certain workers (see below). However, the real reason for acting now is to stop the abuse of the travel and subsistence rules by a minority of employment agencies and umbrella companies.

If the Government's proposals are written into law, from 6th April 2016 contractors working through an 'intermediary' won't be able to receive tax-free travel expenses if all of the following apply:

- The business of the intermediary is substantially a supply of labour
- The worker is subject to the supervision, direction or control of the engager or any other person involved in the contract, or the right of supervision, direction or control exists in the arrangements
- The contract is performed within the UK – tax relief for the costs of travelling to workplaces situated overseas is not affected

One-person companies are considered to be intermediaries for these rules, alongside employment agencies and umbrella companies. However, professional service firms that second staff to clients will be excluded from the new rules. So large management consultancies won't be caught, but a one-man consultancy business may be.

If you can show that any of the conditions above don't apply to your contracts, you will still be able to claim tax-free travel expenses and any associated subsistence costs. We should discuss whether 'supervision, direction or control' will be a factor in the contracts you take up now which are likely to run beyond 6th April 2016.

Stamp Duty Land Tax now due

When you buy a new home your conveyancing solicitor will normally handle the land registration and Stamp Duty Land Tax (SDLT) forms. In the past some conveyancers offered schemes to help purchasers avoid paying the SDLT.

If you took up such an SDLT avoidance scheme it is advisable to contact HMRC without delay and pay the SDLT liability due. There is likely to be interest due on any late paid SDLT, and possibly penalties. The quicker you contact the tax office, the lower the level of penalties that are likely to be charged.

You may believe you were sold a 'watertight' SDLT avoidance scheme, so you shouldn't pay up until HMRC have proved that your particular scheme doesn't work. Unfortunately, the Government can change the tax law with retrospective effect, and a recent case has shown that taxpayers have no grounds on which to argue against that where SDLT is at stake.

Replacing the furniture

Currently, landlords with fully furnished properties can deduct the 'wear and tear' allowance from their rental income before tax. This is worth 10% of the rents every year, and can be claimed irrespective of whether they have replaced any of the furnishings.

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

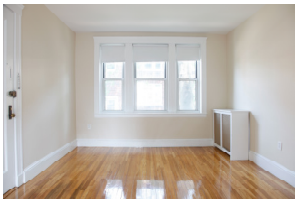
Registered in England number 4670160

Tax Wire
Marsland Nash Associates

Autumn Edition - Issue 19

Newsletter Date - November 2015

.....Continued from previous page



Landlords who let partly or unfurnished properties can't claim this allowance, and are prevented from claiming a deduction for replacing loose items such as curtains and floor coverings.

From 6th April 2016 the wear and tear allowance will be abolished. In its place will be a new rule allowing a deduction for the actual cost of furnishings replaced in all let properties. This will align the tax rules between furnished and unfurnished properties.

Claim your tax relief!

There are some very generous exemptions from Capital Gains Tax (CGT) if you invest in small companies using either Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) or Social Investment Tax Relief (SITR). If you hold the shares for at least three years any gain you make on disposal should be free of CGT.

However, that exemption doesn't apply automatically. Income tax relief must first be claimed for the investments made under EIS, SEIS and SITR.

The CGT exemption on disposal of the shares is only given if the income tax relief has been claimed and not withdrawn. If you are not bothered about the income tax relief – perhaps you have little taxable income in the year in which the investment was made – you still need to claim it or your CGT relief will be lost.

The deadline for making a claim for income tax relief on an enterprise investment scheme is five years from the tax return filing date for the year in which the investment was made. So for investments made in 2009/2010 the period to make a claim will run out on 31st January 2016.

In a recent case HMRC refused to accept a late claim for EIS income tax relief, to unlock the CGT relief, and the Tax Tribunal said they couldn't force HMRC to accept a late claim.

Direct recovery of debts

If you are being chased by HMRC to pay any amounts due, ignoring those demands soon won't be an option. From mid-October HMRC are to be given new powers to directly recover debts owing to them from any bank accounts, including ISA accounts and business accounts.

The debt can be made up of tax, penalties or interest, including estimated amounts of tax demanded on an Accelerated Payment Notice (APN), although only debts of £1,000 or more will be considered for direct recovery, but that is a very low threshold. You can rack up penalties of £1,300 by failing to file just one personal tax return.

If you receive aggressive letters demanding payment of tax, don't ignore them, as those demands could be one of the four 'contacts' HMRC are required to make before they access your bank accounts. The final contact must be a face-to-face meeting to establish that the right taxpayer is being targeted and the debt belongs to them. Do not refuse an offer to meet with HMRC, or their appointed debt collector, but ask us for advice before you speak to them.

Your bank should inform you if they receive a notice to pay funds directly to HMRC, and you can lodge an objection against any notice. You will also be able to appeal to a County Court to stop the debt collection procedure.

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

Registered in England number 4670160

Tax Wire
Marsland Nash Associates

Autumn Edition - Issue 19

Newsletter Date - November 2015

Employment allowance

Almost all private sector employers can claim the annual employment allowance, worth up to £2,000, to set against employers' NIC in 2015/2016.

There are exceptions for people who employ helpers in their own homes, such as nannies or gardeners.

The good news is this allowance will increase to £3,000 for 2016/2017.

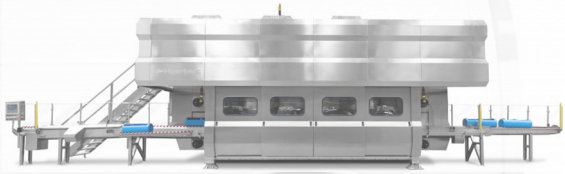
The bad news is that very small companies, where the owner is the only employee, won't be able to claim the allowance from 2016/2017 onwards.

This may affect the amount you will want to draw from your company as a salary in 2016/17 to minimise the tax and NIC payable. If this applies to you, please contact us and we can talk about the right salary and dividends for your situation.

Annual Investment Allowance

This annual allowance (AIA) is set against your expenditure on business equipment, and allows you to claim 100% of the cost in the year of purchase. Most categories of equipment qualify, including many fixtures in buildings and commercial vehicles, but cars are excluded.

The AIA has been set at £500,000 since April 2014, but it will reduce to £200,000 on 1st January 2016. This is a very high level for an annual allowance, but you need to time any large purchases very carefully as any unused allowance can't be carried into another accounting period.



If your accounting period straddles 31st December 2015, and you want to buy an expensive piece of equipment in that period, ask us to check the timing to ensure you are not disadvantaged by the transitional rules. For example, if your accounting period is the year to 31st March 2016, the maximum AIA limit is £425,000 for the year; but if the expenditure is all incurred after 31st December 2015 the AIA limit will be restricted to only £50,000. It may be possible to avoid this potential pitfall by taking advice now.

Mileage allowance

Many people use their own cars for business journeys, as company cars are an increasingly expensive perk. When you use your own car you can claim a mileage allowance at 45p per mile for the first 10,000 business miles per tax year, and 25p for any additional miles.

That mileage allowance can either be paid by your employer, or if you are self-employed include it as a deductible expense in your business accounts. If your employer doesn't pay you the full 45p or 25p per mile you can claim the unpaid amount on your tax return, or on the relief for expenses form P87.

MILEAGE ALLOWANCE
45P

Where you use more than one car in the year for business journeys you can still only claim the mileage allowance at 45p for up to 10,000 miles.

The mileage cap is per person not per vehicle used.

Marsland Nash Associates, Unit 4, Brunel Buildings,
Brunel Road, Newton Abbot TQ12 4PB
tele: 01626 334 989
www.marslandnash.com

Marsland Nash Associates t/a TABS, 7a Dartmouth Road.
Paignton TQ4 5AA
Tele: 01803 527 599
enquiries@marslandnash.com

Registered in England number 4670160