YEAR END TAX
REVIEW

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Hidden tax rises

The Government claims it needs to raise funds to reduce the national deficit, and to supply the security services with the resources they need to fight terrorism. But the Chancellor limited the scope to raise mainstream taxes by writing into law his pre-election promise not to raise the rates of Income Tax, VAT or employee and employer National Insurance.

So tax revenue must be collected in less obvious ways. Duties are a good way to do this, as they tend to be imposed in circumstances which are difficult to avoid or on products that are addictive. For example, the duty on insurance policies was raised from 6% to 9.5% on 1 November 2015 and hardly anyone noticed.

New taxes are another way. From 6 April 2016 a new tax will be imposed on dividend income which will hit anyone who receives more than £5,000 of dividends per year. This will affect many owners of small companies, who will have a significant tax bill to pay on 31 January 2018.

Another way to increase taxes by stealth is to reduce the tax relief available for business expenses, such as travel costs or interest paid. Temporary workers who work through employment intermediaries or umbrella companies will see their travel expenses significantly restricted from 6 April 2016. Landlords of residential properties will also suffer a restriction in the amount of interest they can set against rental income from April 2017.

Existing tax charges may also be increased. Purchasers of residential properties, which are to be used as second homes or to be let, will have to pay an additional 3% supplement on top of the Stamp Duty Land Tax (SDLT) due from 1 April 2016. This supplementary charge is designed to hit individual landlords as it won't be payable by companies that invest in property.

This newsletter explains these tax changes in more detail. If you are likely to be affected, you may need to review how your company pitches for new contracts and rewards you with dividends. Landlords in particular need to assess whether their letting business will be economic once the interest relief changes are fully implemented in 2020.

We recommend you undertake an annual review of your financial affairs to check if you are paying more tax than you need to, and whether the structures you set up in the past are still appropriate. Under self-assessment, your personal return for 2014/15 must be submitted and the tax liability settled by 31 January 2016; between then and the end of the tax year (5 April 2016) is a good time to assess whether you are as well defended against the taxman as you can be.

Of course, the precise circumstances of each individual have to be taken into account in deciding whether any particular plan is suitable or advantageous – but these suggestions may give you some ideas. We'll be happy to discuss them with you in more detail. •

Tipping points

When your total income reaches certain thresholds it tips any extra income into a tax band where a higher rate of tax is charged. This happens at several points, such as at £100,000, when personal allowances begin to be withdrawn and at £50,000, when child benefit starts to be clawed back.

If your total income in this tax year or the next year is expected to hover around one of those tipping points, you could save money by moving income or deductions from one year to the other.

For example, if you are a 20% taxpayer in 2015/16, but expect that a bonus in March 2016 will tip you into 40% tax for this year, you could ask your employer to postpone the bonus payment to after 5 April 2016. You'll pay the tax on that income later, and you may stay out of the 40% band as the 40% threshold will be higher for 2016/17.

The main thresholds are (2015/16 figure first, then 2016/17):

- basic personal allowance: £10,600 rises to £11,000 – basic rate tax starts
- higher rate threshold for income: £42,385 rises to £43,000 – 20% rate rises to 40%
- transfer of some allowance between married couple/civil partners: where recipient has income less than £42,385, rises to £43,000
- child benefit clawback: income between £50,000 and £60,000, after pension contributions or charitable donations (no change for 2016/17)
- withdrawal of personal allowance: income between £100,000 and £121,200 (£122,000 in 2016/17), after pension contributions and charitable donations
- additional rate: income above £150,000 – 40% rises to 45% (no change for 2016/17)

If your income falls in the band in which your personal allowance is withdrawn, your marginal income tax rate is effectively 60%, plus 2% National Insurance. For child benefit clawback the marginal rate can be much higher, depending on the amount of benefit received. This makes the tax saving on shifting income or deductions even more valuable.

Income that can easily be moved from year to year includes:

- bonus or salary from your own company
- dividends from your company
- distributions from discretionary trusts

It's also possible to adjust the timing of deductions for Gift Aid charity donations or pension contributions from year to year, as these can increase the value of a threshold that tip you into the higher tax rate. •

ACTION POINT!
Consider moving income or deductions around 5 April 2016.

New tax on dividends

A new tax on dividend income received by individuals will be imposed from 6 April 2016.

This may mean you pay more tax on your dividend income, particularly if you receive most of your income as dividends paid out of your own company (see example below).

Currently, the dividends you receive are 'grossed-up' by a 10% tax credit for tax purposes. When you receive cash dividends of £900, you are taxed on £1,000 including the dividend tax credit. However, if your total income, including the gross dividend, falls within your basic rate tax band, you pay no tax on the dividend as the tax credit covers the tax due.

When you receive a dividend after 5 April 2016 the cash amount won't be grossed up, so the amount received will be the amount subject to tax. However, the first £5,000 of dividends received in the year will be taxed at 0%. Any excess dividend income above the £5,000 threshold will be taxed at 7.5%, 32.5% or 38.1%, depending on which tax band it falls into.

How the new dividend tax will affect you will depend on the mix of income you receive. We should discuss whether bringing forward a dividend payment into 2015/16 will save you tax. That won't be the case in all circumstances. •

ACTION POINT!
Plan your dividend strategy for 2016/17 and beyond.

Example
In 2016/17 Harry takes dividends of £60,000 from his own company, and a salary of £8,000 which is covered by his personal allowance of £11,000, leaving £3,000 of allowance to set against the dividend income.

2016/2017	**Income**	**Tax rate**	**Tax payable**
Dividend received	£60,000		
Unused personal allowance	(3,000)		
	57,000		
Basic rate band: £32,000			
First £5,000 of dividend	5,000	0.0%	–
Residue of basic rate band	27,000	7.5%	£2,025
Taxed in higher rate band	25,000	32.5%	8,125
Total tax payable			10,150

If Harry had taken the same mix of dividends and salary from his company in 2015/16, when his personal allowance was £10,600, he would pay tax of £7,263:

2015/2016	**Income**	**Tax rate**	**Tax payable**
Dividend income grossed up	£66,666		
Unused personal allowance	(2,600)		
	64,066		
Basic rate band: £31,785			
Taxed in basic rate band	31,785	10.0%	£3,178
Taxed in higher rate band	32,281	32.5%	10,491
Tax credit	64,066	10.0%	(6,406)
Total tax payable			7,263

Harry will pay £2,887 more tax in 2016/17 on the same amount of income he received in 2015/16.

Letting a room

If you earn a little extra money by letting a room in your own home to a lodger or guest, that income can be tax-free if the total is within the rent-a-room relief of £4,250.

If the rent you receive is more than that you should declare the income and expenses on your tax return. Where more than one person receives the rent from the property, each person has a tax-free exemption for rent of £2,125. Any extra rental income above the first £4,250 or £2,125 is taxable.

From 6 April 2016 the rent-a-room allowance increases to £7,500, or £3,750 per person, which will allow you to earn a little more tax free.

The rent must be for a room in the home you also occupy, and it must be let as residential accommodation, not as an office or for storage. •

ACTION POINT!
Can you claim rent-a-room relief?

Give and save

Giving to charity under Gift Aid can result in a win/win for both the donor and the charity.

If your total income is above the higher rate threshold (£42,385 for 2015/16), making a Gift Aid donation will reduce your tax bill for the year in which the donation is made. However, you can shift the tax benefit of that gift back one year if the gift precedes the date when you file your tax return for the earlier tax year. This can be useful if your marginal tax rate is higher in the earlier tax year than in the later year.

Say you make a Gift Aid donation on 1 December 2015. If you submit your 2014/15 tax return after that date (it's due by 31 January 2016) you can include a claim in that return to carry back the donation made on 1 December 2015 to reduce your 2014/15 tax liability.

Gift Aid can reduce your income used to calculate the clawback of child benefit (income over £50,000) and the reduction in personal allowances (income over £100,000). It can also increase your higher rate threshold used to determine how much of a capital gain is taxed at 18% or 28%.

To make a valid Gift Aid donation, you must declare that you will pay sufficient tax to cover 25% of the value of your gift in the year the gift is made. If you give £80 under Gift Aid, you must pay Income Tax and/or Capital Gains Tax of at least £20. The 10% dividend tax credit counts towards the total tax paid.

The dividend tax credit will be abolished on 5 April 2016, so you may need other sources of tax to cover any Gift Aid donations made after that date. ●

ACTION POINT!
Do you want to make charitable donations before you complete your tax return?

North of the border

The Scottish rate of Income Tax (SRIT) will come into effect on 6 April 2016. It will replace 10% in each income tax rate (not the dividend tax rate), with a percentage set by the Scottish Parliament in late 2015.

The SRIT will only be paid by 'Scottish taxpayers'. These are people who live in Scotland, or whose main home is in Scotland. Where you have more than one home (not necessarily owned) and at least one home is in Scotland, your close connections to Scotland must be considered in deciding whether you are a Scottish taxpayer.

HMRC will write to taxpayers whom it believes are resident in Scotland to inform them they will be classified as Scottish taxpayers. If you receive such a letter, you will be able to challenge that decision by phone or online on the Gov.uk website. The 2016/17 tax return will also include a box to tick to confirm whether you consider yourself to be a Scottish taxpayer.

Employers will identify Scottish taxpayers by their PAYE code for 2016/17 which will begin with 'S'. All employers and pension providers will need to look out for S codes, which could apply to people who work in England/Wales/Northern Ireland but whose main home is in Scotland.

The PAYE software should cope with any variation between SRIT and the income tax rates applying to other non-Scottish taxpayers. However, as an employer you may be asked to explain why certain employees are paying tax at different rates. ●

ACTION POINT!
Look out for S codes issued for 2016/17.

Emissions Scandal

About one third of the cars on UK roads are diesel powered, but over 80% of company cars are diesels. This is not surprising, as diesel vehicles are regarded as being more fuel-efficient, although their NOx emissions are more harmful. Hence the percentage of list price (used to calculate the car benefit) carries a 3% supplement for diesel cars.

That diesel supplement was due to be removed from 6 April 2016. However, following the VW emissions testing scandal, the Chancellor has decided to retain diesel supplement.

For all company cars the percentage of list price will rise by two percentage points in all years to 2018/19, then it will rise by three percentage points from 2018/19 to 2019/20. The maximum taxable benefit for a car (37% of list price) will be achieved for cars with emissions of 165g/km or more.

Say your employer provides you with a car costing £30,000 (CO_2:110g/km). The taxable car benefit is £5,100 (17% x £30,000) in 2015/16, but in 2019/20 the taxable benefit for the same car will be £7,800 (26% x £30,000).

The taxable benefit for electric cars will more than triple over the same period from 5% of list price in 2015/16 to 16% in 2019/20. ●

ACTION POINT!
Budget for the tax due on your company car in future years.

Charge up your NIC!

If you are under state pension age and have gaps in your National Insurance Contribution (NIC) record, you may not receive the full state pension when you retire. You need to have a minimum of ten years and a maximum 35 complete years of NIC to be eligible for a state retirement pension that starts on or after 6 April 2016.

You can make up gaps in your record by paying voluntary Class 2 or Class 3 NIC – which class is open to you depends on your specific circumstances and level of earnings. You normally need to fill in the NIC gaps within six years of the gap year. So if you missed paying NIC in 2009/10 you have until 5 April 2016 to pay the voluntary NIC.

However, if you have already reached state pension age, that six-year period has been extended to 2020. Paying voluntary contributions may well work out cheaper than using the state pension top-up (see below).

If you aren't earning but haven't reached state pension age, you may qualify for NIC credits, which will also secure your entitlement to the state pension. An NIC credit is given automatically in some cases, such as when claiming Carer's Allowance, but it needs to be claimed in other cases. ●

ACTION POINT!
Top-up your NIC record by claiming NIC credits or paying more contributions.

Travelling to work

A restriction on tax relief for the costs of travelling to work for certain contractors and temporary workers will apply from 6 April 2016.

This tax relief for travel and meal costs is denied to permanent employees as their travel would amount to ordinary commuting, which is not tax deductible. The Government wants to remove this cost advantage for temporary employees, as a minority of employment agencies and umbrella companies have been abusing the rules.

From 6 April 2016, temporary employees won't be able to receive tax-free reimbursement of travelling, and meal costs are subject to the supervision, or direction or control, of the customer (the engager) or any other person involved in the contract.

Contractors working through their own personal service company will also be denied tax relief or travel costs if the contract falls under IR35. If you are pitching for contracts which may be caught by IR35, build in the cost of your travel when you quote for the work. Note that contracts performed outside of the UK are not affected by these new rules. ●

ACTION POINT!
Check whether your contract will be caught by the IR35 rules.

Additional Stamp Duty

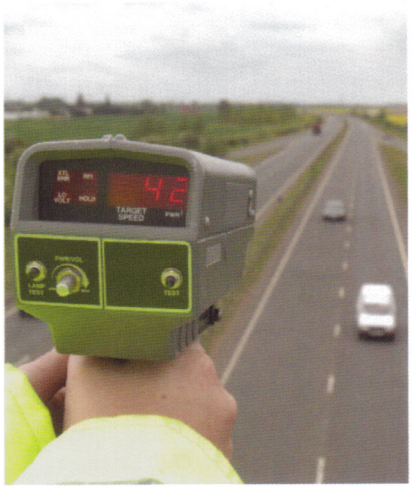
Buy-to-let property investors are blamed for rising house prices, which lock ordinary people out of the housing market. This may not be fair, but the Government wants to discourage individuals from buying and holding homes to let.

Where a purchase of residential property is completed on and after 1 April 2016, a supplemental Stamp Duty Land Tax (SDLT) charge of 3% will apply if the property is to let or used as a second home. The purchaser will be required to declare whether they will occupy the property as their main home.

It appears that this supplemental SDLT charge won't be payable on properties costing less than £40,000, or where the purchaser is a company or a fund which owns more than 15 homes. The details of these exemptions will have to be checked against the draft law when it is published.

SDLT doesn't apply in Scotland, as Scottish properties are subject to Land and Buildings Transaction Tax (LBTT). The Scottish Parliament will announce any new rates and rules for LBTT later in 2015. ●

ACTION POINT!
The purchase of a second home or investment property should be completed before April 2016.



Slowness fines

If you exceed the speed limit on the road in front of a speed camera, you will get an automatic speeding fine. Likewise, if you are slow in submitting your tax returns, you will get an automatic late filing penalty.

For example, if you miss the deadline for filing your self-assessment tax return (31 January for online filing) you will be charged a £100 penalty. Where the tax return is for a partnership, each and every partner must pay £100.

If the return is filed more than three months late an additional £10 per day is charged, and after six months another penalty is imposed as the higher of £300 or 5% of the tax due. Those penalties will stand even if the tax return shows no tax is payable.

A similar £100 penalty applies for a late corporation tax return, which is due a year after the end of the accounting period. If you make a habit of submitting late company returns, the penalties rise to £500 each time.

Employers are subject to penalties ranging from £100 to £400 (depending on the size of the payroll) if they file their RTI reports late. These penalties apply for every month the RTI report is late, so can quickly mount up to a very significant sum.

Pay attention to any warning notices or letters you receive from the taxman about penalties due for late filing, as the mistake could be at HMRC's end of the computer system.

A 'reasonable excuse' will get you out of penalties, but the taxman is not sympathetic. Fire, flood, plague and death may be accepted. 'The dog ate my tax return' will not. ●

ACTION POINT!
Help us to help you, by providing information to complete your tax returns in good time.

A family view

In the UK everyone is taxed as an individual, but social security benefits, including Tax Credits and Universal Credit, are awarded on the basis of the family's total income. This is contradictory and leads to some unfairness.

Families with an unequal distribution of income will often pay more tax than couples who earn enough each to cover their basic personal allowance (£10,600 for 2015/16) and basic rate band (£31,785 for 2015/16). The thresholds for restricting child benefit (£50,000), personal allowances (£100,000), and pension annual allowance (£150,000 for 2016/17), all operate for the individual, so disadvantage families where the income is concentrated in one person's hands.

Consider the Browns – they have two children and claim child benefit. In 2015/16 George Brown earns £80,000 and pays higher rate tax, but Sally Brown has no income. Because George's income is over £60,000, the family's child benefit is clawed back from him as a tax charge.

If Sally and George each earned £40,000 they would keep their child benefit, and pay less Income Tax as their highest marginal tax rate would be 20%. Sally would also make use of her full personal allowance and basic rate band.

David and Cam are in a worse tax position. David's total income is £160,000 and his employer contributes £40,000 into his pension scheme. David and Cam have no effective personal allowances as Cam has no income to set her allowance against, and David's personal allowance is entirely withdrawn as his income exceeds £121,200.

If David's income and pension contributions remain at the same level for 2016/17, he will be treated as having income of £200,000 (£160,000 + 40,000), for pension relief purposes. His pension annual allowance will be reduced to £15,000, and he will suffer an annual allowance charge at 45% on £25,000 of pension contributions.

These examples show that it makes sense to transfer some income from the higher earner to the lower earner in order to take advantage of the tax-free allowance, lower tax bands and avoid the clawback of allowances. This is not always easy to do, but the following methods are possible:

- an outright gift of savings and investments which produce taxable income
- putting savings and investments into joint names and sharing the income
- employing the spouse or partner in a business
- taking the spouse or partner into partnership

HMRC can challenge some of these if they think the transfer is not genuine – it's important to take advice to be sure that the plan will work. ●

ACTION POINT!
Can you transfer income to reduce your family's tax and save your allowances?

File on time

The primary purpose of Real Time Information (RTI) is to provide timely data on employees' earnings to the DWP, so payments under Universal Credit can be adjusted to accurately reflect each claimant's income.

This can only be achieved when employers file their RTI returns on time each month – by the date their employees are paid. This is not the date that the PAYE deductions must reach HMRC, which is the 22nd of each month if paying electronically, or 19th if paying by cheque.

If you have filed any full payment submissions (FPS) late for periods since 6 March 2015, you may have accrued late filing penalties you aren't yet aware of. Employers with 50 employees or more may receive late filing penalties for periods from 6 October 2014.

There are some concessions which allow employers to file late. For example, a new employer can submit the first FPS within 30 days of paying an employee for the first time. In 2015/16 if any FPS is filed within three days of the payment date it will not be regarded as late – but that concession only applies until 6 April 2016.

If you have not paid any employees in the tax month (and your PAYE scheme is not 'annual') you need to submit a nil employer payment summary (EPS). When HMRC doesn't receive an FPS or EPS for the tax month, it may estimate the PAYE due and charge that to your PAYE account as a 'specified charge'. This charge should be removed when the RTI return for the tax month is submitted.

Your online PAYE account on HMRC's PAYE service will show you what charges and payments have been allocated to your PAYE scheme. It will also show any penalties charged.

No penalty is imposed for the first time you file an FPS late in the tax year, as long as the FPS reaches HMRC within three months of the day it was supposed to. Subsequent late submissions attract a penalty of £100 to £400, depending on the number of employees on the payroll, for each tax month.

The penalties for late filing are issued quarterly, so you may not know about the apparent late submission until some weeks have passed. If you receive a penalty you don't agree with, it is essential to appeal within 30 days. This can be done online, or we can do the appeal for you. ●

ACTION POINT!
Are you aware of any late submitted RTI returns?

Reduce the pain

January is the worst month of the year for the self-employed. No one has any money to pay you, and the taxman wants his pound of flesh.

Tax and Class 4 NIC on your self-employed profits for 2015/16 are paid in two payments on account (POA) on 31 January 2016 and 31 July 2016. These amounts are based on the tax liability reported in your 2014/15 self-assessment tax return.

If your final tax liability for 2014/15 is more than the total of POA paid in January and July 2015, you pay the rest on 31 January 2016, plus any Capital Gains Tax you owe for the year. So the amount due on 31 January 2016 is half your normal tax bill as a POA for 2015/16, plus your CGT, plus any balance due for 2014/15 – ouch!

If your tax liability for 2015/16 drops compared to 2014/15, you'll get some of your POA for 2015/16 back when you send in your 2015/16 return (due by 31 January 2017) – but you'll be out of pocket in the meantime.

Instead, you can claim to reduce the POA for 2015/16 where you think your tax bill for that year will be less than for the previous year, before you send in your tax return. You don't need a precise calculation, but you can usually tell when POA will be too large.

Say your business has had a bad year in 2015/16, or you've taken a job that's taxed under PAYE and so reduced your self-employed income. These factors could mean the tax due under self-assessment for 2015/16 will be lower than for 2014/15. It's worth reducing your POA so the money is in your bank account rather than the Government's. ●

ACTION POINT!
Do you need to discuss reducing your payments on account for 2015/16?

Payroll changes

There are a number of changes to payroll taxes and employee pay arriving in 2016/17.

From 6 April 2016 no employer's NIC will be due on the earnings of apprentices who are aged under 25, up to £827 per week. The pay of all employees aged under 21 is also free of employer's NIC, whether they are apprentices or not, as long as their pay falls under the same threshold.

In addition to the existing National Minimum Wage (NMW) rates that apply to apprentices, those aged 18 to 20, and aged 21 and over, a new NMW rate will be introduced in April 2016 for those aged 25 and over. You will need to keep a sharp eye on the birthdays of your younger employees to ensure they are paid the correct NMW rate for their age. The penalty for failing to pay the NMW is up to £20,000 per employee.

The pay threshold from which plan 1 student loans must be repaid through the payroll will increase to £17,495 from £17,335 on 6 April 2016. However, some former students will be due to repay loans under plan 2 when their pay reaches £21,000. The employee should tell you if they have a plan 1 or plan 2 student loan. If they don't' know, use the plan 1 threshold. ●

ACTION POINT!
Are you up to speed with payroll changes looming just around the corner?

Planning to sell

Some business owners love their work so much that they never want to retire, while others can see the attraction of casting-off business responsibilities. If you lean towards the latter view, you should form a plan to sell or pass on your business.

The sale of a successful trading company will generate a capital gain, which would normally be taxed at 28% after deduction of the annual exemption of £11,100. Entrepreneurs' Relief can reduce this tax rate to 10%, but all of the following conditions must be met for at least 12 months ending with the date of the sale:

- you held at least 5% of the ordinary shares and voting rights of the company
- you were an employee, director or company secretary of that company or of another company in the same group

If you step back gradually from your company, retiring from your role as director before you sell your shares, you may miss out on valuable tax relief.

If you would like to pass on your company to your employees but they can't afford to buy it, an employee ownership trust can be used. The trust acquires enough shares to control the company, and holds those shares on behalf of the employees. You escape CGT on the shares you pass to the trust as long as the controlling shares are transferred within one tax year. ●

ACTION POINT!
Allow at least 12 months to prepare to sell your company.

Your clear intention

When you die your relatives need to sort out your affairs. This is a very stressful time, but you can make it easier for those you leave behind by having a clear and up-to-date Will, which has been drafted with tax in mind.

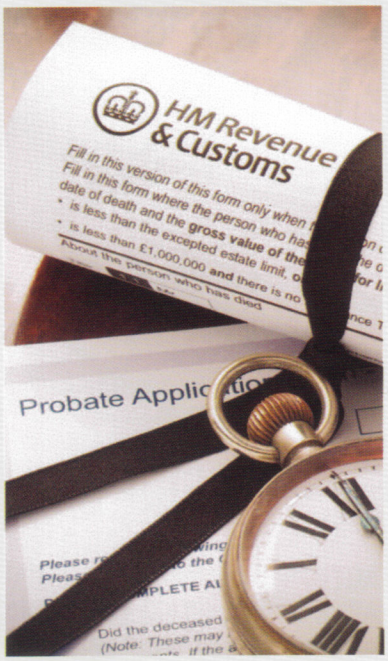
This is particularly important if the total value of your assets, including your home and any insurance policies that pay out on your death, will exceed £325,000, which is the current starting point for inheritance tax (IHT).

From April 2017 there will be an additional tax exemption (eventually worth up to £175,000 per person) for passing on your home to your direct descendants. If that is your wish it should be written into your Will, as it will only apply if the value of the home is transferred on death.

There are a number of other measures you can take to save very significant amounts of IHT. For example:

- leave 10% or more of your chargeable estate to charities, so that the balance of your estate carries IHT at 36%, not 40%
- check that proceeds from your life assurance policies flow directly to a beneficiary – if the money lands in your estate on your death, there may be unnecessary IHT to pay
- ensure your pension fund managers know to whom to pay any undrawn funds – those funds should pass free of tax if you die aged under 75
- give away surplus assets as early as possible – those gifts will fall out of the IHT calculation if you survive seven years after the date of the gift
- make regular gifts out of your surplus income rather than accumulating income – the lifetime gifts may escape IHT •

ACTION POINT!
Have you considered how much IHT your executors might pay?



Auto-enrolment

Over the next two years all employers, including individuals who employ domestic staff, will be required to enrol their eligible employees into a qualifying pension scheme. This is called pension Auto-enrolment.

There is an exemption for companies that only employ the directors who do not have employment contracts with the company. If you have other employees you should start planning for providing access to a pension scheme now. Doing nothing is not an option as there are stiff penalties for that – including jail terms.

You will be given a 'staging date' which is your compulsory starting date for Auto-enrolment. For many small businesses this will be in 2016 or 2017. There are lots of tools on the Pensions Regulator website which can help you choose a pension scheme, and start making contributions for your staff.

As an employer you will be required to contribute at least 1% of your employee's pay (within a defined range), rising to 3% by April 2019. However, this amount must be supplemented by contributions from the employee or employer, so the minimum total contribution is 8% by the same date.

The exact amount on which the pension contribution is based will vary according to the employee's employment contract, and the options chosen by the employer. We can help you work out the financial cost for each option, and whether a salary sacrifice in favour of pension contributions would help bring down the total cost.

The employees who must be auto-enrolled are those who meet all of these criteria:

- aged 22 or over, but under State pension age
- earning more than £10,000
- working in the UK; and
- not already in a suitable workplace pension

This excludes very low paid workers, but those who pay at least some National Insurance on their earnings will be able to opt in to the pension scheme, as will workers aged up to 75.

All employees will be able to opt out, but the employer must not encourage this, or do anything to discourage membership of the pension scheme – on pain of penalties of up to £10,000 per day for the largest employers.

The Auto-enrolment process requires a good deal of record keeping – to prove you have given each employee the correct information at the right time. Again, penalties apply if your compliance is not up to scratch. •

ACTION POINT!
Ask us to help you plan for Auto-enrolment to ensure you have time to implement the changes.

Investing for the future

When investing, there is always a trade-off between risk and return. The higher the risk you are prepared to take, the greater the return you could make. But equally, there is a greater chance of losing your money.

The Government encourages certain high-risk investments in small trading companies or charities by providing income tax relief for investors in the following schemes:

- Social Investment Tax Relief (SITR): 30% relief on up to £1 million
- Enterprise Investment Scheme (EIS): 30% relief on up to £1 million
- Seed Enterprise Investment Scheme (SEIS): 50% relief on up to £100,000
- Venture Capital Trust (VCT): 30% relief on up to £200,000

These limits apply for the 2015/16 tax year. For EIS, SEIS and SITR, the amounts invested can be treated as made in the previous tax year, if the limit for the earlier year has not been reached.

Reinvesting a gain into EIS shares or SITR shares or bonds can defer the Capital Gains Tax on that gain. A gain reinvested in SEIS shares can halve the tax on that gain.

These various tax reliefs won't turn a bad investment into a good one, but they will make a good one better and will reduce the risk involved in investing. If you are a higher rate taxpayer who reinvests a capital gain of £100,000 in 2015/16 into SEIS shares, that £100,000 will cost you just £36,000 after income tax relief of 50% and CGT relief of 14%.

You should take advice from a qualified financial adviser on where to put your money, as well as understanding how it will reduce your tax bill. If you are thinking of investing in one of these schemes, you may want to do so before 5 April 2016 to maximise the benefit. •

ACTION POINT!
Are tax-favoured investments worth discussing with your advisers?

Restricted interest

If you let residential property in your own name (not through a company) you need to prepare for a change in the tax law which could make your lettings business unsustainable in its current form.

From 6 April 2017 you won't be able to deduct all of your finance costs (including mortgage interest) from your rental income. The change from full deduction of loan interest to no deduction at all will be phased in over four years from 2017/18 to 2020/21. In place of the blocked interest you will receive a 20% tax credit to reduce your tax bill.

The net effect is that you will be taxed on the rents you receive less running costs, rather than on the real profit/loss made by your residential lettings business (furnished holiday lettings are not affected). If you currently make a loss after interest deductions you may end up paying tax on your rental income.

Where your property business is supported by borrowing, your taxable income will increase such that your marginal tax rate could jump from 20% to 40% or 45%. When your total income crosses the £50,000 or £100,000 thresholds you may lose some or all of your child benefit or personal allowances.

The example below compares Sally's tax position when she receives a deduction for all interest paid in 2016/17 and after that deduction is fully removed in 2020/21. The amounts of personal allowance and basic rate band are estimated for the later year.

In 2016/17 Sally is a basic rate taxpayer and receives child benefit. In 2020/21 she is a higher rate taxpayer and has lost her child benefit because her total income is over £60,000. The tax credit is calculated as 20% of the lower of:

- finance costs not deducted from income (£30,000)
- profits of the property business (£34,000)
- total income exceeding allowances (56,500)

Between now and 2017 you should review your property financing and consider restructuring your lettings business in one or more of these directions:

- sell residential property and reinvest in commercial buildings
- let the residential property as furnished holiday lettings
- transfer the properties into a company

The last option is not easy as the lender will have to agree to transfer your property loans to a new company. The transfer of properties is likely to incur stamp duty land tax charges (LBTT in Scotland), and may well generate a taxable capital gain in your hands.

We can help you model the financial future for residential property lettings. •

	2016/17	2020/21
Salary	£35,000	£35,000
Rents less running costs	34,000	34,000
Interest deduction	(30,000)	nil
Total net income	39,000	69,000
Personal allowance	(11,000)	(12,500)
Taxable income	28,000	56,500
Basic rate band limit	32,000	37,500
Tax charged at 20%	5,600	7,500
Tax charged at 40%	-	7,600
Tax credit on interest at 20%	-	(6,000)
Total tax payable	5,600	9,100

ACTION POINT!
Review your borrowings to ensure a sustainable future for your lettings business.

Claim your expenses

If you need to use your own car for a business journey, perhaps to travel to a customer, you can claim mileage expenses for that journey. Many employers pay the full tax-free amount of 45p per mile, dropping to 25p for miles in excess of 10,000 in one tax year.

If your employer doesn't pay the full rate, you can claim tax relief on the shortfall, either on your tax return, or on form P87. You need to submit your claim within four years of the end of the tax year in which you made the business journey.

Claims for 2011/12 must reach the tax office by 5 April 2016.

Once the taxman has accepted your mileage claim for one tax year, subsequent claims for up to £1,000 per year can be made by phoning the tax office on 0300 200 3300. •

ACTION POINT!
Are you due a tax refund for business journeys?

Planning gains

Most people have an annual exemption for Capital Gains Tax (CGT) of £11,100 for 2015/16. This is wasted if you don't make capital gains in the tax year. You can't transfer any part of your unused exemption to a different tax year or pass the benefit of it to another person.

If you are planning to dispose of assets which will create capital gains, you can save tax if the disposals are spread over several tax years. This only works if the assets you hold can be split into separate chunks, so that each sale produces a gain of less than £11,100.

A gift of an asset will create a taxable gain when the recipient is connected to you, such as a relative. However, you can make gifts to your spouse or civil partner without incurring CGT. You can use this tax-free transfer to share the ownership of a property, and hence the gain, between two people and use two annual exemptions in one tax year.

Legal advice should always be taken when giving away land or buildings, or a share in such property. Stamp duty land tax may be payable if the property is mortgaged. •

ACTION POINT!
Are you taking full advantage of the CGT exemption?

Earlier years

There are many elections and claims you can include in tax returns, but sometimes you don't have the correct details to make the claim before the filing date for the return. The law allows you an extra year in which to make the claim, and sometimes longer.

Claims and elections you may need to make by 31 January 2016 for the 2013/14 tax year include:

- wear and tear allowance for furnished lettings
- treating a property as continuing to qualify for furnished holiday letting treatment if it qualified in 2012/13
- averaging of profits for farmers or authors
- trading losses to be set against your other income

Some tax reliefs, eg, for investments under EIS or SEIS, have longer claim periods. Corporate tax claims generally need to be made within two years of the end of the accounting period. We can help you check what claims you need to make. •

ACTION POINT!
Have you made all the necessary tax claims?

State pension changes

People who reach State Pension Age (SPA) on or after 6 April 2016 will receive the flat-rate (or single tier) state pension. The amount won't be the same for everyone, so if you are due to reach SPA in the next ten years, you should request a pensions forecast to help assess your total income on retirement.

If you have already achieved SPA, or will do so before 6 April 2016, you can now boost the value of your state pension by up to £25 per week. This top-up opportunity has been introduced to help older pensioners who may be disadvantaged compared to those who will receive the flat-rate state pension.

To make the pension top-up you pay a lump sum to the Government, and 28 days later your state pension will increase. The amount you need to pay depends on your age at the time you make the payment. It is just like buying a state-backed annuity, but unlike most annuities the amount payable is identical for men and women aged 65 or over, and there is no adjustment for the health of the annuitant.

The state pension top-up opportunity will be open until 5 April 2017. As with any investment, you should consider other uses for your money and the returns you could achieve elsewhere. ●

ACTION POINT!
Talk to us about the tax implications of increasing your state pension.

Should VAT be flat?

The VAT flat rate scheme (FRS) is a good fit for some small businesses, but you need to know if it is right for you.

Once accepted onto the FRS you charge VAT as normal on your sales, but you don't have to worry about the VAT on most of your purchases – large value assets are an exception.

You pay a percentage of your gross sales to HMRC – this is the flat rate. The exact percentage to use (between 4% and 14.5%) depends on the trade sector you choose when you apply for the scheme. You must pick the trade sector which best fits the activities that generate the majority of your sales.

A downside to the FRS is that the flat rate percentage must be applied to all your UK sales, including zero rated and exempt sales, as well as to standard rated sales. Thus, the FRS does not suit builders who sell new residential properties (zero rated) or mortgage advisers (exempt). Buy-to-let landlords can also be caught out by the FRS, as their rental income must be included in the income subject to the flat rate.

The FRS is self-assessed: HMRC won't tell you whether you will save money under the scheme or not. If you are in any doubt whether the FRS is for you, we'll be happy to check. ●

ACTION POINT!
Could you save time and money under the VAT flat rate scheme?

Timing is everything

The end of the accounting period for your business is a key point for tax planning. You can save or delay tax by moving income and expenditure between accounting periods.

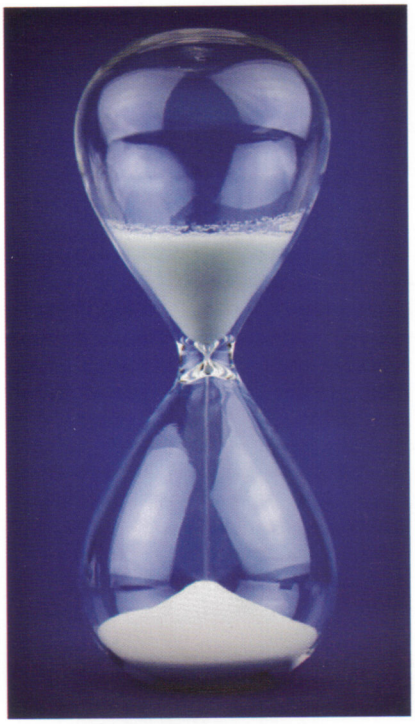
For instance, advancing the acquisition of assets to just within your current accounting period will mean the capital allowances associated with those assets can be claimed earlier. However, beware of the reduction in the Annual Investment Allowance (AIA) to £200,000 on 1 January 2016. If your accounting period straddles that date, a large purchase early in 2016 may not qualify for the AIA.

If you have acquired a commercial property within the last two years, you should check whether the value of any fixtures within that building have been formally agreed with the building's previous owner. Without this formal agreement you could lose the right to claim capital allowances on those fixtures.

If your current year profits are looking very healthy, you may want to advance the payment of repairs, training costs, bonuses or pensions contributions.

An accrued salary payment, such as a bonus voted before the year-end, is deductible for the period if it is actually paid within nine months after that year-end. However, a pension contribution must be paid within a company's accounting period to be deductible for that period. ●

ACTION POINT!
Review spending plans and likely profit levels before your year-end.



A good start for VAT

VAT has lots of pitfalls, and stiff penalties if you get it wrong. The first important thing is to get the timing of your VAT registration right. For UK sales you must register when the 12-month cumulative total of your VATable sales (including zero-rated items) reaches £82,000. If you register earlier than required, you must account for VAT on sales that could have been VAT-free. If you register later than the law demands, you can suffer a penalty.

Before you become VAT registered you should check your cumulative turnover (ignoring exempt sales) at the end of every month, counting sales of the last 12 months every time, no more, no less. If the total exceeds £82,000, you must apply for VAT registration within 30 days. If you tally-up your sales just once a year for tax purposes, you could easily miss this 30-day deadline. If your sales suddenly take off, don't let the success distract you from the possibility that you might need to register for VAT within 30 days.

You might want to register for VAT before you have to, so that you can claim back VAT on your start-up expenses. You can only reclaim VAT on services used within the six months before your VAT registration date, and on goods acquired within four years before that date. So the VAT paid on an expensive shop refitting could be lost if you delay VAT registration too long.

You can't change the VAT registration date requested once you've applied to register. It's very important to plan ahead for your VAT registration, to ensure the registration date falls at the optimum time for your business.

A complication applies if you sell digital services (such as eBooks or software) to non-business customers in other EU countries. You are supposed to register for VAT in the countries where those customers belong, even if you make only one sale. To avoid dealing with the tax authorities of up to 27 other EU countries, you can register through VAT MOSS (Mini One Stop Shop) on the Gov.uk website. We can help you with this. ●

ACTION POINT!
Check your total sales on a 12-month rolling basis.

This newsletter is written for the benefit of our clients. Further advice should be obtained before any action is taken.