2016-17

YEAR END TAX
REVIEW

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Making tax efficient

The Government is in a sticky position; tax revenues are not rising as expected and Brexit uncertainty hangs over the country like a cloud. In 2015 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.

Tax revenue therefore must be collected in less obvious and more cost-efficient ways. Automating the tax system so that more tax information is submitted digitally, and penalties issued by a computer, is an efficiency goal. Over the next five years the Government wants to 'make tax digital', which will affect almost every business and landlord.

Penalties for late submission of tax returns, or late payment of tax, are a sneaky way of raising more income without increasing tax rates. If you submit a return late an automatic penalty can apply, even when there is no tax to pay in respect of that return. HMRC has invented a number of new taxes and returns recently and each new return carries an additional risk of a late filing penalty.

Another way to increase taxes by stealth is to reduce existing tax reliefs. Individual landlords of residential properties will suffer a 25% restriction in the amount of interest they can set against their rental income from April 2017. From 6 April 2020 all the interest they pay will be blocked as a tax deduction, so landlords need to review the structure of their property businesses and financing with some urgency.

Further changes in April 2017 will see long-term UK residents, who claim non-domicile status, lose the ability to shelter worldwide income from UK taxes. Individuals who have flexi-accessed their money purchase pension pots since April 2015 may be caught out by a change to the pension annual allowance, designed to prevent pension recycling.

The tax reliefs available for specific categories of expenditure have to be claimed within a tight window, such as for the costs of research and development, or investing in the small companies.

This newsletter explains these tax changes in more detail. If you are likely to be affected, you may need to review the form in which you receive income, and the structures which you use to hold assets.

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 2015/16 must be submitted, and the tax liability settled, by 31 January 2017; between then and the end of the tax year (5 April 2017) 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 can also mean you lose part or all of your savings allowance, child benefit, personal allowance, or pension annual allowance.

The main trigger points are: £45,000, £50,000, £100,000 and £150,000. If your total income is expected to hover around one of those thresholds, you could save tax by moving income from 2016/17 to 2017/18, or by making certain payments in 2016/17 rather than in 2017/18.

Say you're a 20% taxpayer in 2016/17, but expect that a bonus due in March 2017 will tip you into the 40% band. If you ask your employer to delay paying the bonus until after 5 April 2017, you'll pay the tax on that income later. You will also retain all your £1,000 savings allowance, and may still stay out of the 40% band for 2017/18, as the threshold for that year will be higher.

The main thresholds are (2016/17 figure first, then 2017/18):

- basic personal allowance: £11,000 rises to £11,500 – basic rate tax (20%) starts
- higher rate threshold: £43,000 rises to £45,000 – 20% rate increases to 40% and savings allowance reduces from £1,000 to £500
- married couples allowance: transfer of 10% of personal allowance is possible where the higher earner has income of no more than £43,000, rises to £45,000
- child benefit clawback: income between £50,000 and £60,000 (no change for 2017/18)
- withdrawal of personal allowance: income between £100,000 and £122,000 (£123,000 in 2017/18)
- additional rate: income above £150,000 – 40% rate increases to 45% (no change for 2017/18), savings allowance removed, and pension annual allowance reduced

Gift Aid donations and pension contributions can increase the value of most of the above thresholds. You can elect for donations to be treated as being paid in the preceding year.

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

- bonus from your own company
- dividends from your company
- encashments of life assurance bonds
- withdrawal of taxable income from pension schemes in 'drawdown' ●

ACTION POINT!
Consider moving income or deductions around 5 April 2017.

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 (£43,000 for 2016/17), making a Gift Aid donation will reduce your tax bill for the year in which the donation is made. Alternatively, you can shift the tax benefit of some or all of that gift back one year, by telling HMRC on your tax return. This can be useful if your marginal tax rate was higher last year than in the current tax year.

The gift to be carried back must be made before you file your tax return for the earlier tax year. Say you make a Gift Aid donation of £2,000 on 1 December 2016. If you submit your 2015/16 tax return after that date (it's due by 31 January 2017) you can include a claim in that return to carry back up to £2,000 of the donation you made on 1 December 2016, which will reduce your 2015/16 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 allowance (income over £100,000). It can also increase your higher rate or additional rate threshold, which determine whether you receive a personal savings allowance of £1,000, £500, or nil for 2016/17.

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 £800 under Gift Aid, you must pay Income Tax and/or Capital Gains Tax of at least £200. ●

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

Top up your state pension

To receive any UK state retirement pension on retirement after 5 April 2016, you need at least ten complete years on your National Insurance Contribution (NIC) record. The full state pension is paid to those who have 35 or more complete NIC years.

You may not receive the full pension if you were contracted out of the second state pension or State Earnings Related Pension (SERPs) for part of your working life. You can check how much state pension you are due to receive on gov.uk under 'check state pension', or through your personal digital tax account. We can help you with this.

It is possible to plug gaps in your NIC record by paying voluntary class 2 or class 3 NIC. This payment generally needs to be made within six years of the gap year, but there are a number of exceptions which extend that period.

You may also qualify for NI credits for some years if you were claiming state benefits, child benefit or were a foster carer. The NI credits were not always applied automatically, so it's worth checking your own NI record.

If you attained state pension age before 6 April 2016, you can boost the value of your state pension by up to £25 per week by paying voluntary class 3A NIC. You choose how many extra £1/week units to buy, and make a lump sum payment determined by your age at the time you make the payment.

This is like buying a state-backed annuity but, unlike most annuities, the amount payable is identical for men and women, and there is no adjustment for the health of the annuitant. This opportunity to pay class 3A NIC closes on 5 April 2017.

As with any investment, you should consider other uses for your money and the returns you could achieve elsewhere. ●

ACTION POINT!
Consider topping up your NIC record by claiming NIC credits or paying more contributions.

Interesting savings

All bank and building society interest is now paid without tax deducted, but you are still taxed on the interest you receive, unless the account is designated as tax free, such as an ISA. However, most taxpayers are eligible to be taxed at 0% on their savings income (excluding dividends), so no tax is payable.

This zero tax rate applies if your savings income falls within your Savings Rate Band (SRB), which is worth up to £5,000, or within your Personal Savings Allowance (PSA), which is worth £1,000 for basic rate taxpayers or £500 for higher rate taxpayers. Any savings income which falls outside the SRB or PSA is taxed at your marginal income tax rate (20%, 40% or 45%).

The available SRB depends on how much taxable non-savings income you receive in the tax year. Any salary, pensions, trading profits or rent you receive which exceeds your personal allowance eats up your SRB. ●

ACTION POINT!
Review your mix of income to maximise your savings allowance for 2016/17.

Example
Harry receives a salary of £16,000 from his company, and interest from a bank of £1,500. After deducting his personal allowance, he has £5,000 of taxable non-savings income that entirely eats up his SRB. His PSA is £1,000 as he is a basic rate taxpayer.

2016/2017	Non savings	Savings	Tax payable
Pension/interest	£16,000	£1,500	
Personal allowance	(11,000)		
Taxed @ 20%	5,000		1,000
Savings allowance		(1,000)	
Taxed @ 20%		500	100
Total tax payable			1,100

Harry has considerable undrawn funds in his company, so he signs an agreement that states the company will pay him interest at a commercial rate, which amounts to £7,940. To compensate he reduces his salary to £8,060.

2016/2017	Non savings	Savings	Tax payable
Salary	£8,060		
Interest (company & bank)		9,440	
Personal allowance	(8,060)	(2,940)	
Taxable	nil	6,500	
SRB		(5,000)	
PSA		(1,000)	
Taxable @20%		500	100

Harry's tax bill has reduced from £1,100 to £100 on the same level of income in 2016/17. The company must deduct tax at 20% from interest paid, but this can largely be reclaimed by Harry.

If it moves – tax it

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.

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 diesel cars with emissions of 175g/km or more from April 2017.

Say your employer provides you with a petrol-powered car costing £30,000 (CO_2:110g/km). The taxable car benefit is £5,700 (19% x £30,000) in 2016/17, 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 double over the same period from 7% of list price in 2016/17 to 16% in 2019/20. ●

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

Innovate to accumulate

Research and Development (R&D) tax relief allows your company to claim an enhanced deduction of 230% of qualifying R&D costs. If the company makes a loss after this deduction, that loss can be surrendered for a 14.5% payable tax credit.

In spite of these attractions, many small companies don't apply for R&D tax relief. If you don't ask, you don't get!

HMRC has set up a special unit to help small companies to apply for R&D tax relief. You can check whether your company, and its R&D projects, will meet the requirements for this relief by asking for advance assurance from HMRC. We can help you do this.

The main benefit of advance assurance is that HMRC won't raise further questions about your initial R&D claim, and for R&D claims submitted for the next two accounting periods. It's effectively a guarantee that your R&D claims will be accepted for three consecutive years.

The advance assurance procedure can only be used by companies which haven't claimed R&D tax relief before, and which have fewer than 50 employees and turnover of no more than £2 million.

The deadline for applying for R&D tax relief is two years from the end of the accounting period in which the R&D costs were incurred. So, if your company has been innovative in the recent past, don't delay your application for R&D tax relief! ●

ACTION POINT!
Check what R&D expenses your company can claim an enhanced deduction for.

New allowances

From 6 April 2017 there are two new allowances of £1,000 each, for rental income (for any land or building) and for trading income. These will allow you to earn a little more tax free, if your income from those areas does not exceed those allowances.

Rent-a-room relief, which covers income from letting a room in your own home as residential accommodation (not as an office), has been around for some years. Since 6 April 2016 the tax-free limit of this relief has been set at £7,500. Where more than one person receives the rent from the property, each person has a tax-free exemption for rent of £3,750.

Any extra rental income which exceeds this relief is taxable, and must be declared on the recipient's tax return, along with any related expenses. ●

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

Public sector contractors

Contractors who work through their own personal service company need to assess each of their contracts against the IR35 tests. If the contract falls within IR35, the net income, after deducting a 5% allowance, should be paid out of the company, with PAYE deducted. Otherwise, a deemed salary calculation must be performed at the end of the tax year, on which PAYE must be paid.

From 6 April 2017, the IR35 rules will change for contractors working in the public sector. The final customer, or the agent who arranged the contract, will have to determine whether IR35 applies to the contract. They will use an online tool on gov.uk (which hasn't been finalised yet) to make this decision.

If IR35 does apply, the payment to the personal company will be subject to PAYE and NIC, with no 5% deduction for costs. This change only applies to public sector contracts. ●

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

Deemed to be domicile

If you were born in another country and claim to have a foreign domicile for tax purposes (i.e. a 'non-dom'), you need to be aware of changes in the tax law which will apply from 6 April 2017.

People who have lived in the UK for at least 15 of the last 20 tax years will be deemed to be domiciled in the UK for all tax purposes. Also, any current UK residents who were born in the UK with a UK domicile, but subsequently lived abroad and became domiciled overseas, will be deemed to be UK domiciled, irrespective of the period for which they have recently been resident for tax purposes in the UK.

If you are affected by this change, you will be subject to UK taxes on all of your worldwide income and gains from 6 April 2017. You won't be eligible to claim the remittance basis, which keeps foreign income or gains out of the UK tax net.

The years to count for the 15 out of 20 test are all years of UK residence, including split years and periods when you were aged under 18. To shake off the deemed domicile treatment for income tax and CGT you will have to become non-resident for six complete tax years.

If you believe you have non-domicile status, we need to talk as soon as possible, as there are a number of transitional reliefs to consider.

ACTION POINT!
Check how many years you have been resident for tax purposes in the UK.

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. Child benefit is also withdrawn based on the income of the highest earner of a couple, irrespective of who claimed it.

Families with an unequal distribution of income will often pay more tax than couples who earn enough each to cover their basic personal allowance (£11,000 for 2016/17) and basic rate band (£32,000 for 2016/17). The thresholds for restricting child benefit (£50,000), personal allowance (£100,000) and pension annual allowance (£150,000) 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 2016/17 George Brown earns £82,000 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.

In contrast, John and Joy Green each earn £41,000, so they keep their child benefit, and pay less Income Tax as their highest marginal tax rate is 20%. Both Greens make use of their full personal allowance and basic rate bands.

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 £122,000.

David is treated as having income of £200,000 (£160,000 + 40,000) for pension relief purposes. His pension annual allowance is therefore reduced to £15,000, so he suffers 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 personal allowance, lower tax bands and to 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?

Slowness fines

If you exceed the speed limit while driving 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.

Penalties for paying VAT late are particularly nasty, as they can amount to up to 15% of the delayed payment, even if the payment was only one day late.

Pay attention to any electronic warning notices or letters you receive from the taxman about penalties due for late filing or late payment. Mistakes can occur at HMRC's end of the computer system, but their policy is 'issue penalty now, argue later'.

A 'reasonable excuse' will get you out of penalties, but the taxman is not sympathetic. Fire, flood, plague and death may be accepted. 'I haven't got the money' will not. ●

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

Saving for retirement

Saving for a pension is encouraged, with tax relief given at your highest tax rate for contributions to registered pension funds. However, the amount you can contribute with tax relief is capped by your annual allowance.

This is nominally set at £40,000, which covers contributions made by both you and your employer on your behalf. Any annual allowance not used can be carried forward for up to three years.

Where your total income, including pension contributions made by your employer, tops £150,000, your annual allowance is usually reduced by £1 for every £2 over that threshold, down to a minimum of £10,000.

Your annual allowance is also reduced to £10,000 exactly (not tapered down), if you have started to access your pension savings built up in a money purchase (defined contribution) pension scheme. This is to prevent you from drawing funds from your pension scheme and replacing the money in the same or another pension scheme with additional tax relief.

The latter £10,000 limit will be reduced further to £4,000 per year from 6 April 2017. Also, this type of restricted annual allowance can't be carried forward to future tax years.

You can continue to save for retirement in other ways, such as using an ISA. But don't forget to use your ISA allowance for each tax year, as any unused ISA allowance can't be carried forward. The ISA allowance for 2016/17 is £15,240. For 2017/18 it will be £20,000.

A new lifetime ISA will be launched in April 2017 for savers aged under 40. This ISA can be used as a deposit for the saver's first home or to access on retirement from age 60. The Government will provide a bonus of 25% of the savings contributed by the taxpayer, which are capped at £4,000 per year and contribute towards the overall £20,000 ISA limit. ●

ACTION POINT!
Review the level of your pension contributions before 6 April 2017.

Budget for tax

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

Tax and NIC due on your self-employed profits for 2016/17 is paid in two Payments on Account (POA), on 31 January 2017 and 31 July 2017. These amounts are based on the tax liability reported in your 2015/16 self-assessment tax return.

If your final tax liability for 2015/16 is more than the total of POA paid in January and July 2016, you pay the rest on 31 January 2017, plus any Capital Gains Tax you owe for the year. Thus, the amount due on 31 January 2017 is half your normal tax bill as a POA for 2016/17, plus your CGT, plus any balance due for 2015/16 – ouch!

If your tax liability for 2016/17 drops compared to 2015/16, you'll get some of your tax back for 2016/17 when your 2016/17 return is submitted (due by 31 January 2018) – but you'll be out of pocket in the meantime.

Instead of waiting until 2018, you can ask to reduce the next two POAs if you believe your total tax bill for 2016/17 will be less than for 2015/16. We can help you calculate whether your POA will be too large.

You can opt to pay regular monthly or weekly amounts towards your tax bill by setting up a Budget plan with HMRC. You decide how much to pay as a regular direct debit. If the total paid is not sufficient to cover the tax due by 31 January or 31 July, you need to make up the shortfall, but this may be far less painful than finding a large sum in one go. ●

ACTION POINT!
Do you need to discuss reducing your payments on account for 2016/17?

Payroll changes

There are a number of changes to payroll taxes and employee pay starting in 2017/18.

The apprenticeship levy applies from 6 April 2017, calculated at 0.5% of all payroll costs. However, the levy is only payable to the extent that it exceeds the annual levy allowance of £15,000. This allowance will have to be claimed on your RTI returns in a similar fashion to the employment allowance.

The National Living Wage (NLW) that applies to those aged 25 and over, will increase to £7.50 per hour on 1 April 2017. The National Minimum Wage (NMW) rates that apply to workers aged between 16 and 24 are due to increase on 1 April 2017, which will be the second pay increase in just over six months for those individuals.

You need to keep a sharp eye on the birthdays of your younger workers to ensure they are paid the correct NLW or NMW rate for their age. The penalty for failing to pay these minimum wage rates can be up to £20,000 per employee. HMRC will proactively review employers who are likely candidates for ignoring the minimum wage rates. ●

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

Planning to sell

For many business owners, their work is their life. They never plan to retire, but everyone has their price! At some point an offer for your business assets or company will be too good to refuse, so even if you don't expect to sell immediately, having a back-up plan of how to dispose of your business is a sensible option.

The sale of a successful trading company will generate a capital gain, which would normally be taxed at 20% after deduction of the annual exemption (£11,100 for 2016/17). Entrepreneurs' Relief can reduce this tax rate to 10%, but both of these 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 this 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.

Planning gains

Most people have an annual exemption for Capital Gains Tax (CGT) of £11,100 for 2016/17. This is wasted if you don't make capital gains in the tax year. You can't carry forward any unused exemption to a different tax year, or transfer the exemption 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 is easy to do if your assets can be split into separate chunks, like shares. Each sale can then be calculated to produce a gain of less than £11,100.

If the asset must be sold in one go, you could reinvest part or all of the gain in EIS shares (if you are prepared to take a risk). This will defer the gain until the EIS shares are sold. You can sell sufficient EIS shares in later years, so the gain is covered by your annual exemption.

When you give a valuable asset to a relative, the disposal is treated like an open market sale, and the deemed gain is taxable. However, gifts to your spouse or civil partner don't create immediate taxable gains, as the recipient takes over the transferor's CGT cost. You can use this transfer to share the ownership of a property, and hence the gain, between two people and thus 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?

Money for miles

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 2012/13 must reach the tax office by 5 April 2017.

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?

Prepare to go digital

The taxman believes that delays in recording business transactions leads to lost receipts and forgotten income. This leads to underpaid tax, contributing to the national 'tax gap'. To resolve this problem the law will be changed to require businesses and landlords to record their expenses and income digitally, as near to the date of payment or receipt as possible. HMRC call this 'making tax digital.'

Accounting software, such as an app on your smartphone, may make the recording of income and expenses easier to do. HMRC has promised that a simple version of this accounting software will be available for sole traders (not companies or partnerships) to use for free.

From April 2018 or April 2019 most unincorporated businesses and landlords will have to report a summary of their income and expenses to HMRC, within one month of the end of each quarter. The accounting software should help you do this, but we can check that the correct information is submitted.

Those with low levels of income (we don't know the minimum threshold yet), won't be required to make quarterly reports to HMRC. Also, slightly larger unincorporated businesses won't need to make quarterly reports until after 5 April 2019.

The current timetable envisages that companies will be making quarterly reports from April 2020. However, HMRC has not specified exactly what information will have to be reported by companies or by complex partnerships, so we expect this timetable to slip.

The best way to prepare for this digital revolution is to get into the habit of recording your income and expenses using accounting software. We can help you choose and implement the right software for your business. •

ACTION POINT!
Are you prepared for making tax digital or will it make tax more difficult?

Investing for the future

The Government encourages individuals to make high-risk investments in small trading companies or charities by providing income tax relief for investors in the following schemes (limits for 2016/17):

- 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

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.

When the investor disposes of the shares acquired under these schemes, any capital gains realised will be free of capital gains tax (CGT) if the investment has been held for at least three years (except VCTs, where there is no minimum period).

Shares acquired on or after 17 March 2016 that qualify for the new Investors' Relief are also free of CGT if they are held for at least three years and disposed of after 5 April 2019.

Where you have already made capital gains, you can defer tax on those gains by reinvesting under the EIS or SITR within three years of making the gain. Reinvesting the gain in SEIS shares will halve the tax on that gain, if the income tax limits and conditions are not breached.

These 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.

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 2017 to maximise the benefit. •

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

Restricted interest

As a landlord, you expect to be able to deduct all the interest you pay in respect of your property business from the profits of that business. This won't be permitted for individuals who let homes from 6 April 2017.

All finance costs, including mortgage interest, will be blocked for individual residential landlords (not companies) from 2020/21. This change will be phased in over four years, starting in 2017/18. In place of the blocked interest you will receive a 20% tax credit to reduce your tax bill.

You will be taxed on the rents you receive, less running costs, rather than on the real profit/loss made by your lettings business. 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 allowance.

The example above compares Sally's tax position in 2016/17 (when she receives a deduction for all interest paid) with the position after that deduction is fully removed in 2020/21. The amounts of personal allowance (£12,500) and basic rate band (£37,500) 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 interest.

You need to urgently 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 homes as Furnished Holiday Lettings (which are not affected)
- transfer the properties into a company

	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
Tax charged at 20%	5,600	7,500
Tax charged at 40%	-	7,600
Tax credit on interest at 20%	-	(6,000)

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 your residential property lettings. ●

Don't miss the election!

Life is full of surprises – as 2016 has shown us. Sometimes you need to wait for the outcome of a later event to judge whether you want to elect to change the tax treatment of income or gains which arose in an earlier tax year.

This is why the law allows you extra time, after you have submitted your tax return, to submit an election. The elections you may need to make by 31 January 2017 for the 2014/15 tax year include:

- trading losses to be set against your other income
- averaging of profits for farmers, authors or artists
- treating a property as continuing to qualify as commercial Furnished Holiday Letting if it qualified in 2013/14

Electing for a second home to be treated as your main residence for capital gains purposes must be done within two years of starting to use the property as a home. You need to wait for a certificate to arrive before making a claim for your investment under the venture capital schemes, so the claim period is longer. 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?

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 by leaving behind a clear and up-to-date Will, which has been drafted with tax in mind.

This is important if the net value of your assets, including your home and any insurance policies that pay out on your death, will exceed £325,000. This is the starting point for Inheritance Tax (IHT), which is charged at 40%.

There is an additional tax exemption (starting at £100,000 per person) when the value of your home is passed on to one or more of your direct descendants. If that is your wish, you need to ensure your Will is clear about who receives the value of your home. This home-related exemption can only apply where that value is transferred on a death occurring on or after 6 April 2017.

There are other things you can do to save significant amounts of IHT. For example:

- leave 10% or more of your chargeable estate to charities, which reduces the rate of IHT on the balance of your estate to 36%
- 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 (but you need to be careful not to trigger CGT charges on the gifts)
- make regular gifts out of your surplus income rather than accumulating income – those lifetime gifts may escape IHT. ●

ACTION POINT!
Is your Will up to date and do your executors know where to find it?

The ATED trap

The Annual Tax on Enveloped Dwellings (ATED) applies when a company (and certain other bodies) owns a UK residential property worth over £500,000. The chargeable period for ATED runs from 1 April to 31 March, but the ATED return, and any payment due, must reach HMRC by 30 April within that period (i.e. not a year in arrears).

If your company holds residential property to let it out or develop on a commercial basis, it may be eligible for 100% relief from ATED, but that relief must be claimed on an ATED relief form by 30 April within the chargeable year.

There are steep penalties for late submission of ATED returns, which are payable even if there is no ATED charge to pay because a relief applies. It is easy for HMRC to check whether an ATED return is due, as it can access the Land Registry database to see who owns which properties, and make a reasonable estimate of the values.

All properties which are potentially subject to the ATED should be revalued as at 1 April 2017. The property's value at that date will determine which ATED charge band it falls into for 2018/19 to 2023/24. ●

ACTION POINT!
Remember to claim ATED relief when developing or letting high value homes owned by a company.

Flat rate VAT restricted

The VAT Flat Rate Scheme (FRS) is used by small businesses to simplify VAT reporting, and it can also provide a cash advantage.

Under the FRS, you charge normal rates of VAT on your sales, but ignore VAT incurred on purchases, except for goods costing £2,000 or more. The VAT payable to HMRC is a flat-rate percentage of your gross turnover, which varies from 4% to 14.5% depending on your trade sector. A business which incurs few VATable expenses will pay less VAT to HMRC under the FRS than it would outside the scheme. The Government plans to remove this cash advantage by requiring low-cost businesses to use an FRS percentage of 16.5% from 1 April 2017.

A low-cost business spends less than 2% of its turnover on goods, or less than £1,000 on goods per year. Any expenditure on capital items, motor expenses, or food and drink for consumption by the business, will be ignored when working out the 2% or £1,000 threshold.

This emphasis on goods will hit businesses in the knowledge and service sectors whose purchases are largely services.

You should review whether you will continue to make a cash saving using the FRS from April 2017. You may wish to deregister for VAT. We can advise on the best option for your business. ●

ACTION POINT!
Will the VAT flat-rate scheme still be a good fit for your business from April 2017?

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.

All of the cost of qualifying assets which fall within your Annual Investment Allowance (AIA) is relieved as a capital allowance in the year of purchase. The AIA is worth up to £200,000, but it can't be claimed for the last period in which the business trades, or by partnerships where a member is a company.

Cars don't qualify for the AIA, but new electric cars qualify for 100% allowances until April 2018. Charging points for electric cars also qualify for 100% allowances until April 2019.

If you have acquired a commercial property within the last two years, you should check whether the value of the 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

The VAT rules can be tricky, and there are stiff penalties if you get them wrong. It's essential to get the timing of your VAT registration right. For UK sales, you must register when the cumulative total of your VATable sales (including zero-rated items) reaches £83,000 for any 12-month period.

If you register earlier than required, you must account for VAT on sales made after your registration date, which could have been VAT-free. If you register later than the law demands, you can suffer a penalty.

You need to check your cumulative turnover (ignoring exempt sales) at the end of every month, counting sales of the preceding 12 months every time. If the total exceeds £83,000, you must apply for VAT registration within 30 days. When you tally-up your sales once a year for your accounts, you may miss this 30-day deadline. If your sales suddenly take off, you may be too busy to remember to register for VAT within 30 days.

For this reason, you may wish to register for VAT earlier than needed. Early registration also allows you to claim back VAT on your start-up expenses. You can reclaim VAT on services used within the six months before your VAT registration date, and on goods acquired within four years before that date (if they are still held at the date of registration). The VAT paid on an expensive shop refit 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 deal with the overseas VAT 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.