Abac Chartered Accountants

Newsletter Spring 2016

19 Mar	22 Mar	5 Apr	6 Apr	7 Apr
PAYE & NIC due for month end 5 Mar	Payment of PAYE, NIC & CIS to HMRC	Deadline for 15/16 ISA investments	Start of 2016/17 tax year	VAT returns & payments due for QE 28 Feb 16

The pros and cons of incorporation for buy-to-let landlords

Tax changes announced during 2015 will increase costs for many buy-to-let landlords, making some lettings unprofitable. But there may be ways of mitigating some of these costs.

The summer 2015 Budget ushered in the removal of higher and additional rate income tax relief on the costs of buying residential property for letting, the change will be phased in from 2017/18. At present, loan interest is deducted from rental income, together with other costs of letting, and tax is charged on the resulting profit. This means that owners receive tax relief for the interest at their highest rate or rates of tax.

Owners of commercial property and furnished holiday lettings will still be able to get full tax relief for interest, so one way of avoiding the restriction will be to diversify into these types of properties.

Holding properties in a company

Companies won't be affected by the restriction on interest relief and by 2020/21, the corporation tax rate will have fallen to 18% in the UK, with 12.5% rate due to apply to Northern Ireland from April 2018. A company with rental income of £30,000 paying interest of £20,000, will therefore pay tax of £1,800 in the UK. With this benefit there are some costs. There will be more tax to pay if income is drawn from the company, although from April 2016 every individual will have a tax free dividend allowance of £5,000. Dividends that an individual receives above that amount will be taxed at 7.5% basic rate, 32.5% higher rate or 38.1% additional rate. The corporation tax rate will normally also apply to a company's profits on selling properties. Furthermore, companies benefit from an indexation allowance which reduces their chargeable gains. However an individual who withdraws the profits will have to pay further tax, so the low corporation tax rate is most valuable if the profits end up being reinvested within the company.

A major downside to incorporation could be the capital gains tax (CGT) and stamp duty land tax (SDLT) charges on transferring properties to a company because these taxes will be based on the market value of the properties. A corporate structure is therefore likely to be most useful for new investment in residential property. A further downside would be the administrative burden is likely to be heavier where a company is used, and banks may charge a higher interest rate.

The 2015 Autumn Statement included two further changes that affect buy-to-let investors. From 2019 GCT payments on residential property will be brought forward to 30 days after completion, and by 2020 most landlords will have to keep track of their tax affairs digitally and update HMRC at least quarterly, these changes seem unlikely to apply to companies. However, the 3% added to SDLT rates on purchases of buy-to-let property will be imposed on both companies and individuals, though the government is considering some exemptions. Advice should always be taken before considering any changes.

Top up your pension income

Pensioners who will miss out when the new state pension is introduced have been given the chance to top up their pension entitlement by up to £25 a week.

The scheme will be of particular interest to those women and self-employed who may have little, or no, additional state pension entitlement. Those who reach state pension age before 6 April 2016 will qualify and will need to make a one-off lump sum class 3A voluntary national insurance contribution by 5 April 2017, they then can apply online or over the phone. Cost will depend on what age you are when you make the payment and rates are gender neutral. For example, the full £25 a week – £1,300 a year – costs £22,250 for a 65 year old, but only £16,850 for someone ten years older.

A surviving spouse or civil partner will inherit between 50% and 100% (depending on your date of birth) of the pension following your death in most cases. Children or other people cannot inherit the benefit. The top-up pension is inflation proofed and is guaranteed for life. However, it is taxable and so not such a good deal if you are taxed at higher rates. The additional income could also impact on income-related benefits. Ignoring tax and inflation proofing, a 65 year-old needs to live for 17 years to recover the contribution, and a few years more if tax is taken into account. So it's probably a good deal if you are in good health, not paying tax at higher rates and have a spouse or civil partner who will inherit when you die. It is not quite so good for single people, although women gain from a longer life expectancy. You should compare with other investments and annuities

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Employment Allowance: Increasing to £3,000

If you are an eligible employer, you can reduce the amount of employer National Insurance contributions (NICs) you pay by up to £2,000 a year through the Employment Allowance. From April 2016, subject to Parliamentary approval, the maximum value of the allowance will rise to £3,000 a year. This means that your employer National Insurance contributions could be reduced by a further £1,000 a year. If you already claim the allowance and continue to be eligible to claim, your claim will be ongoing and you just need to continue making the appropriate deductions from the amount of Class 1 secondary National Insurance contributions you would have paid to HMRC.

Budget 2016

The date of George Osbourne's 2016 Budget is Wednesday 16th March 2016. We provide an email and website update for all Budgets.

HMRC liabilities on Voluntary Arrangements

Many are still struggling to pay legacy debts to HMRC across all Taxes as we continue to come out of the recession, and so should be aware of HMRC's liabilities in an Individual Voluntary Arrangement ('IVA')/ Company Voluntary Arrangement ('CVA'). Outstanding liabilities and compliance to HMRC affects all types of individuals and businesses. General advice for those looking to come to a resolution in respect of their HM Revenue & Customs liabilities includes:

- Making sure all statutory returns are filed on time, even if payment can't be made
- Keeping HMRC fully informed as to your current payment capacity
- Consider setting up a formal payment plan
- Ensure that advice is sought to ensure the correct and accurate returns are submitted
- If you intend to continue to trade either as an individual or company it is important that a cash flow forecast is provided to show that the business is expected to be viable and can pay its liabilities as they fall due
- Seek professional advice to discuss your options and form a strategy.

End of permanent non-domicile status

Government proposals aim to bring permanent non-domicile status to an end from 6 April 2017, and a deemed domicile rule will be introduced instead. A person will be deemed to be domiciled in the UK for all tax purposes once they have been resident in the UK for at least 15 out of the previous 20 tax years. Deemed domicile status will apply from the 16th year of UK residence. For inheritance tax (IHT), a person will therefore be deemed to be domiciled in the UK one year earlier than is currently the case. The 15 out of 20 year rule means that some planning may be possible. For example, you could be UK resident for 15 years, then you could be non-resident for six years, and then resident for another 15 years without becoming deemed domiciled for any of these years.

Domiciled in the UK

If deemed to be domiciled in the UK, they will generally be taxed on the same basis as a person who is UK domiciled. They will have to pay income tax and capital gains tax on their worldwide income and gains – and the remittance basis of taxation for overseas income and gains will no longer be available to them. IHT will be payable on worldwide assets instead of just on a person's UK assets. However, the proposals include protection for offshore trusts provided the trust has been set up before a person becomes deemed domiciled. Income and gains within the trust will be protected from the tax implications of becoming deemed domiciled. Offshore trusts will also remain effective for IHT purposes. So if you have surplus assets, consider transferring them into trust before being deemed domiciled. Of course once you have been deemed to be UK domiciled, the exemption will not apply where you, your spouse or your children receive any benefit from the trust. If you are not UK domiciled but you are UK resident for 15 or more years, you might need to think about leaving the UK for a long enough period to reset the year count. If you are already overseas, you will now need to carefully plan the date you return to the UK .

Bank Holiday Closure

Our office will be closed on 17th March for St Patrick's day, Monday 28th and Tuesday 29th March for Easter.

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