

GH NEWS

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General

We have now completed filing of our Employer Client return forms P11D and are now able to concentrate on personal Tax Returns for 2015/16.

These need to be filed by 31 January 2017 to avoid penalties. Any balance of tax due for 2015/16 must be paid by the same date, as does any first payment on account for 2016/17.

Clients should therefore start sending in to us the information necessary to complete their Returns. We will in due course be contacting clients to remind them of what is required.

We are using a new platform to prepare the 2016 Returns, so the p.d.f. versions that clients will see will be a little different to those of previous years.

In particular, due to problem with the Government "Gateway" any written explanations cannot include certain symbols etc. Hence you may note some strange written explanations as we try to comply with these restrictions. In particular and rather surprisingly, it cannot accept the £ symbol.



Editorial

Welcome to this new edition of the George Hay and Company newsletter.

Now that Brexit is a reality, we are anticipating many changes but as of today, there is nothing concrete and much will depend on the deal between the UK and the EU. One thing is certain, tax and other aspects are likely to change and we will keep a close eye on how our clients are affected.

In this edition, you will find the usual articles and in addition, we will look at the new tax developments that we believe will affect our clients. Issues such as the new stamp duty land tax, IR35 and Employer national insurance contribution will be covered. We will also cover the budget updates.

We hope you enjoy reading this newsletter and if you require further information on any of the subjects covered here or indeed you have a general question, we would love to hear from you.

Norman Christy - Editor



Time to pay

Clients should perhaps be aware that if they are likely to be unable to make payment of their tax liabilities in full by 31 January 2017, then it should be possible to make a "time to pay" arrangement with the Revenue. If done before the due date, this should result in no surcharge for any tax still unpaid at the end of February.

However, since August 2015 any time to pay arrangement must be done by Direct Debit.

Anti Slavery Statement

It may be interesting to know although probably would not apply to many of our readers that for financial years ending on or after 31st March, 2016 larger businesses are required to publish an anti-slavery statement to publicly state the steps they have taken to ensure their business and supply chains are slavery free.

Stamp Duty Land Tax 3% Surcharge

Clients will be aware that, with effect from 6th April 2016, a 3% SDLT surcharge will apply on purchases of "second homes and/or buy to let properties".

However, the detailed rules are complex and contain a number of pitfalls including the following:

1. If a new family home is purchased but the former main residence is retained, then the SDLT 3% surcharge will apply to the purchase of the new main residence.

The SDLT surcharge can be reclaimed if the former main residence is



sold but only if the sale of the former main residence takes place within 36 months of the purchase of the new main residence.

2. If an individual, living in rented accommodation or with parents, already owns a buy to let property, then purchases a new main residence, then the 3% SDLT surcharge will apply to the purchase of the new main residence.
3. When two individuals who already own separate residences, agree to marry or live together and purchase a new main residence, then, unless both previously owned properties are sold at the same time on or before the purchase of the new main residence, then the SDLT 3% surcharge will apply to the purchase of the new joint main residence.

This is subject to the possibility of selling both of the old main residences within 36 months, in which event the SDLT surcharge of 3%

on the new main residence can be reclaimed.

Circumstances in which the 3% SDLT Surcharge Will Not Apply

The SDLT 3% surcharge will not apply in the following sorts of circumstances:

1. Purchase of a property which is not residential property, thus, purchase of a buy to let commercial property will not attract the 3% SDLT surcharge.
2. Transactions under £40,000 will not bear the 3% SDLT surcharge. There must be very few residential property transactions under £40,000.



3. The Purchase of a First Property - Where no other property is owned for instance, an individual (or a married/cohabiting couple) who do not own any other property whatsoever could purchase a main residence or buy to let residential property and would not suffer the 3% SDLT surcharge.

4. Replacement of the Former Main Residence - An example here would be a couple with a main residence and a portfolio of buy to let properties, who sell the former main residence and buy a new main residence, with completion taking place on the same day.

The SDLT 3% surcharge will not apply because they have replaced the old main residence with a new main residence.

Again, if the former main residence is retained, the 3% SDLT surcharge must be paid but can be reclaimed if the old main residence is sold within three years.

5. Sale of One Property on or Before Purchasing Another - If an individual or couple sell a buy to let property and purchase another buy to let with completion taking place on the same day, then the 3% SDLT surcharge will not apply.

Possible Tax Planning

There can be SDLT planning opportunities. For instance, if a couple currently own a portfolio of buy to let properties but live in rented accommodation, then if they were to purchase a new main residence, they will suffer the 3% SDLT surcharge on the purchase.

However, if the couple, instead, moved into one of the buy to let properties, occupying this as the main residence for a reasonable period of time, before selling this and purchasing a new main residence, the SDLT 3% surcharge on the purchase of the new main residence could be avoided, so long as the former main residence was sold at the same time.

Treatment of Married/Cohabiting Couples as One Unit

It should be mentioned that the SDLT 3% surcharge rules do treat married and cohabiting couples as one unit so that only one property can be the main residence of the couple at any given time.

Forward Planning

Clients do need to be aware that the new SDLT 3% surcharge rules are complex and thus, it is always prudent to consider these rules in advance of any transactions. Clients should therefore contact Paul Craik or John Flanagan in the Tax Department and/or their normal contact Partner concerning these matters.

Lifetime Allowance for pension savings

Clients may be aware of the reduction in the Lifetime Allowance for pension savings from 6 April 2016. It was reduced from £1.25 million to £1 million.

There are two types of protection available (Individual and Fixed Protection) for those with existing pension savings but the rules are quite complex. However, clients may be interested in "Individual Protection 2016". This would be available if the value of the pension savings on 5 April 2016 was over £1 million. This particular type of protection preserves the lifetime allowance at a value equal to the pension savings at 5 April 2016, subject to an overall maximum of £1.25 million.

If any clients believe they would benefit from this protection, please do contact us. The ability to make the claim online should now be available.

Landlords

At a recent tax lecture, we were advised that the Revenue now appear to be actively visiting every estate agent in the country, requesting details of all management and residential lettings that they deal with, in order to discover the names of the landlords involved and the income received. The intention is then to check on their own computer records whether these landlords have declared themselves and the income.

Any client worried about this should contact us. There is currently a disclosure facility for landlords, which should result in a reduced penalty charge for the original non-disclosure.

Indeed, landlords will have further responsibilities under the new Energy Efficiency (Private Rented Property) Regulations 2015.

From 1 April 2016 tenants of domestic private rented property can ask their landlords to give consent to them making prescribed energy efficiency improvements to the property.

From 1 April 2018 a landlord will be unable to grant a new tenancy of such property if its energy performance is below band E.

From 1 April 2020, landlords will be unable to continue letting property that fails to meet that energy performance threshold.

Landlords may need to take remedial action in advance of these changes to ensure that they can continue letting their properties. For example the E.P.C. ratings can be improved by carrying out cyclical or planned replacement works e.g. insulating a building, secondary glazing or upgrading heating controls.

Interest taxation changes

From 6 April 2016 all interest from banks and building societies will be paid gross.

There is a personal savings allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. In addition there is the 0% starting rate.

The rules governing these reliefs are quite complex but if a taxpayer's non savings income exceeds the personal allowance, plus the starting rate band, currently £5,000, then as a basic rate taxpayer, if the gross interest received exceeded £1,000, there would be a liability to inform the Revenue and pay any tax due.

If the taxpayer's taxable income exceeded the basic rate threshold by even a small amount, the savings allowance reduces from £1,000 to £500.

Trusts

These changes have caused disclosure problems for Interest in Possession Trusts (Life Interest). Neither the new dividend tax allowance nor personal savings allowance will apply to Trustees.

In the past, Trustees of Life Interest Trusts did not have any liability if the only income received was taxed at source. This was the case previously with dividends and interest. The Revenue was therefore happy not to demand Returns from Trustees in these circumstances.

However, it is not clear what their approach will be now that Trustees may have a liability on dividends and interest income paid gross.

It may be that they will continue not to demand Returns in situations where the income is directly mandated to the beneficiary, who would then pay the tax. However, Trustees of Life Interest Trusts with dividend and/or interest income should be aware that they may well now be in a position whereby they have to inform the Revenue of the possible liability and prepare Tax Returns.

This will be a great deal of perhaps unnecessary work but failure to get this right, could result in penalties.

New advisory fuel rates from June 2016



HMRC have announced new fuel rates for company cars. They apply to all journeys on or after 1 June 2016

until further notice.

For one month from the date of change, employers may use either the previous or new rates. Petrol hybrid cars are treated as petrol cars for this purpose. The amounts can be used for VAT, but clients will need to retain receipts.

Engine size	Petrol	LPG
1,400cc or less	10p	7p
1,401cc to 2,000cc	13p	9p
Over 2,000cc	20p	13p

Engine size	Diesel
1,600cc or less	9p
1,601cc to 2,000cc	10p
Over 2,000cc	12p

Rogues Gallery

A tax adviser to the media industry was recently convicted of evading more than £6 million in tax.

Mr David Lunn operated an accountancy firm Christopher Lunn & Co with over 7,000 clients, including many from the media and entertainment industries.

The Revenue discovered a range of serious offenses, including inflating accountancy fees and fraudulent use of trading losses and he was found guilty on four charges of "cheating the public revenue".

The first successful prosecution of a company under the Bribery Act has recently taken place.

Sweett Group, a company listed on the AIM, made payments to an influential Arab executive to secure work on a luxury hotel project in Dubai and the Company was fined £1.4 million with a £857,000 confiscation order.

The payments had been made as supposedly "hospitality development services", that were never delivered. These had been highlighted by the Auditors but the Company did nothing about it.

The sentence was actually quite severe as the Company only had a market capitalisation of £13.7 million and had made a trading loss of over £1 million in the previous year.

The Revenue recently won a Tribunal case against a taxpayer who traded as an Off-Licence/Grocer.

The Revenue, in an unannounced visit, took away a number of till rolls and discovered the "no sale" button had been used rather excessively. The Revenue concluded from this that the taxpayer was making several off-record sales when he entered customers cash in the till but not recording them as positive sales in order to avoid VAT.

The Revenue raised an assessment for over £100,000 and the taxpayer was unable to provide an explanation for the large number of "no sales". Hence the Tribunal concluded that the Revenue had used their "best judgement" in assessing the under declared VAT. Very expensive for the taxpayer.

Real Time Information (RTI)

Those readers who employ staff and obviously have to file RTI monthly reports will be pleased to know that the Revenue have now renewed the concessions on reporting of RTI in that penalties will not be enforced if the report is no more than three days late. This concession is now extended to the 5th April, 2017.

Living Wage

One of our readers has pointed out to us a problem which could occur with the minimum living wage where an employee is paid just at the level of living wage, but is paid monthly.

This can lead to a situation where there is a five week month the employee may be slightly under the minimum living wage for that month.

It is vital, therefore, that the Contract of Employment is stated for hours per year and the rate, which will then cover this situation.

Landlords - New Tenants

Those readers who are Landlords should note that where a tenancy starts on or after 1st February, 2016 within 28 days before the commencement of the new tenancy, landlords must make checks for people aged 18 and over living in the property, whether they are named in the tenancy agreement or not and irrespective of the type of tenancy agreement (written or oral) that they must not authorise any adult to occupy a property under a residential tenancy agreement unless they have a 'right to rent' (i.e. they are at present lawfully in the UK in accordance with the immigration laws) or they are British citizens or an EEA or Swiss national.

Making tax Digital

The Government intends to force all businesses, both large and small, to keep records electronically and make quarterly Returns.

This will affect unincorporated business with income of £10,000 per year or more. Those which currently do not use software to keep financial records will be required to do so. However, it seems Limited Companies will have to use digital record keeping, no matter what the level of income.

This new regime will also include landlords who receive rents of more than £10,000 per year.

These new rules are to be phased in from April 2018, when certain businesses will be required to update the Revenue, at least quarterly, with their financial information digitally. The Revenue intend to have all businesses in the new regime by 2020.

It is also intended that individual taxpayers and small business should have access to a digital tax account.

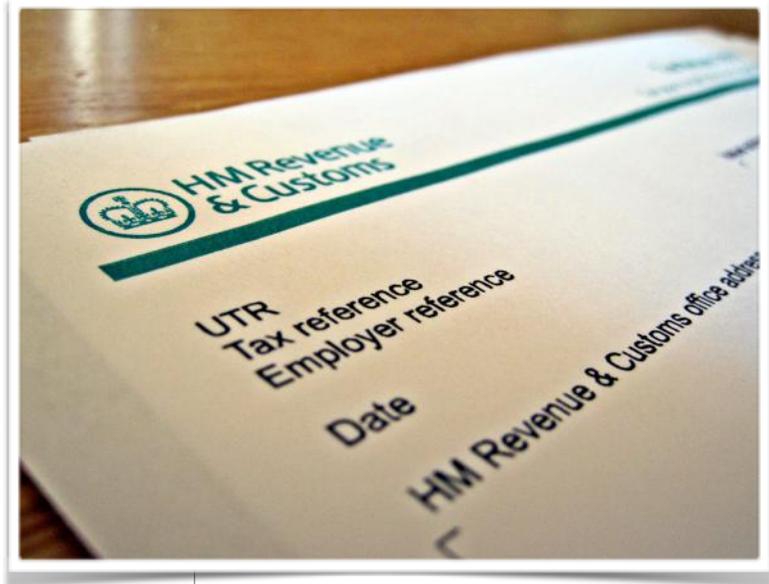
These digital accounts are supposed to present individual taxpayers with a personalised picture of their tax affairs.

By 2020, it is the Revenue's intention that taxpayers will be able to see their complete financial picture in their digital account, similar to their online banking account. To quote from the Revenue "they will be able to set an overpayment of one tax against the underpayment of another: it will feel like paying a single tax".

Given our past experiences of dealing with the Revenue as various new systems have been introduced, we are all slightly apprehensive to say the least.

Obligations to notify chargeability to tax and dividend taxation

One of the perhaps unforeseen consequences of the recent change in the taxation of dividends for 2016/17 and the fact that interest is now paid gross



is that these changes will make more individuals and Trusts liable to tax and thus require them to notify the Revenue and probably have to prepare Tax Returns each year.

Dividend taxation changes also mean that there is no longer a deemed tax credit attached to dividends. Instead for 2016/17 onwards for individuals there will be a £5,000 dividend allowance, which should result in no tax payable on dividends up to that level.

However, whereas in previous years, taxpayers with further dividends up to the basic rate band would have had no further tax liability, these will now be chargeable at 7.5%.

Hence, clients who currently are not required to prepare Tax Returns, may now find themselves with a liability and the requirement to inform the Revenue.

Competition

Congratulations to the two lucky recipients of champagne who were selected from a number of replies that we had this time.



The answer was none; you won't find ex-directory numbers in a phone book.

We now come to the next Competition and this is as follows:

There are seven words listed below all of which have something in common. Can you figure out what the words below have in common with each other?:

1. Banana
2. Dresser
3. Grammar
4. Potato
5. Revive
6. Uneven
7. Assess

We look forward to your answers.

Staff

We welcome Peter Stevens as our new Audit and Accounts Manager.

Peter is a Man of Kent and continues to live in the county. After attending Maidstone Grammar School, Peter graduated from Lancaster University with a degree in Accounting and Finance.

He initially trained with a three partner firm in the City of London and joins us having most recently worked at a firm in the West End specialising in the music and entertainment industry.

In his spare time, Peter is a local parish councillor while he is also active within the Campaign for Real Ale, helping to run a local beer festival each September.

In May 2004 Jean McGranaghan commenced employment with George Hay & Company and she has now decided, in her wisdom, that she should enjoy retirement and retired from the employment of George Hay & Company on Thursday, 24th March, 2016.

We wish her every success in the future.

We are pleased to welcome Julia Heard who has replaced Jean McGranaghan. Julia was born in Beckenham and went to school in Anerley.

She started her career at the BBC working for the Programme Correspondence Section dealing with queries regarding children's programmes and then Radio 2 Contracts.

Her greatest achievements were a solo parachute jump for MIND, and two 5k runs, one for Breast Cancer and one for the animal charity WSPA. She also recently interviewed a wonderful 96 year old soldier who was a No. 3 Commando in World War II, for a local magazine. She loves music from the 60s and 70s and seeing live bands.

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