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Bullimores Newsletter - October 2015

Business Rates and Oil

It is decades since Central Government decided to accumulate business rates into the general tax pot and redistribute them under Central Government control. This meant, for instance, that the business rates collected in Mole Valley and sent into Central Government, Mole Valley only got back between 10% and 12% of all of the business rates collected to assist with the infrastructure in the Mole Valley. We don't yet know whether the business rates will come back to Mole Valley but they may come back to Surrey County Council and this would be a huge change if it got on to the statute books. The Government would then have a significant funding problem for councils north of The Wash where the vast majority of the South of England business rates were redistributed. It would be nice to think that business rates in Surrey help to repair the poor roads and help productivity especially outside the towns in the South of England.

Charities with trading subsidiaries may have to watch out as Local Authorities were not that interested in collecting rates from them in the past since it was of no benefit to them. In future, it is possible, if not probable, that they will be pursued for the business rates.

The reduced oil price is helping to give confidence to the UK consumer, as a result of which, the economy is apparently one of the best in the world, and is forecast to remain so for the next 18 months. Unfortunately, there is likely to be a considerable amount of volatility in oil prices and it is possible to foresee a further fall as well as an eventual sharp increase.

We have seen forecasts that there will almost certainly be power cuts during the winter since the surplus production in the UK has reached a new low of 1% and we shall be importing power from The Netherlands of all places! It might be an idea to lay in a stock of candles and new woollies if you haven't already done so.

Tax changes to dividends and the decision to incorporate

You will be aware from our Budget Report in July that the system of taxation for dividends from 2016/2017 is changing, and whilst there are savings for some with a £5,000 allowance, this has tax implications for owner managed businesses and for higher rate taxpayers with dividend income.

Unfortunately, the Government have yet to finalise the Finance Act and in the initial Budget proposals there were absolutely no examples of how the allowance would work in conjunction with the current tax banding structure. This does suggest that it was a rushed decision by the Chancellor to shoehorn in this measure, probably because an outright majority was not anticipated.

Our advice to clients has to be generic at this stage. On the face of it, the owner manager of a limited company taking a small salary from the company with larger dividends up to their personal tax rate is going to pay more overall tax than 2015/2016, but still less than if he had been purely salaried or self-employed. The structure therefore does not need to change.

However, for those looking to start a business, the limited company structure no longer has the potential tax advantages of the past, given the extra costs involved in running a company, PAYE, company benefits and deadlines, than remaining self-employed, which may well be the better option. It means that the decision on whether to form a company is no longer a significant tax issue but a purely commercial decision in the structure of the business.

The anger at this tax rise by the entrepreneurs that own limited companies and have structured their business quite legitimately, has yet to surface, since the tax bills will not be payable until January 2017. Advice must be taken after the Finance Act but before the end of the tax year.

Tax-free Childcare

The new online accounts that were given so much press coverage in March 2014 will now open in early 2017.

The scheme works by setting up an account for every 80p paid in, the Government adds 20p up to £2,000 per child per year (£4,000 for disabled children). Anybody can pay in, it is not limited to parents. Children qualify up to the age of 12 (or 17 for disabled children).

To qualify, the parents will have to be in work, earning just over an average of £50 per week and not more than £150,000 per year. The scheme does not rely on employers offering it. Self-employed parents will be able to use the scheme but will have special rules.

The scheme will be available to parents on paid sick leave, maternity, paternity and adoption leave. Individuals must check eligibility before the claim and will need to re-confirm eligibility every 3 months.

Employer supported childcare will continue to run but there will be no new registrations.

Online petition launched by Buy-to-Let Landlords

An online petition has been launched calling on the Chancellor to reverse the proposals in the Summer Budget that restrict the tax relief given on property finance costs. Petitions of this nature require 100,000 signatures to be considered for a Parliamentary debate. http://saynotogeorge.co.uk

The petition will stay open until 27th January 2016 and it is likely that the required number of signatures will be received. Figures suggest that Buy-to-Let Landlords own around 15% of residential property in the UK.

The Government has refused the petition on the grounds that it is already being debated in the Finance Bill. This does not prevent further signatures to the petition.

HMRC publishes a list of instances when it does use email and SMS

HMRC now communicates with some taxpayers by email, SMS text or voice prompt and has published a list of its communications to help recipients separate the genuine from bogus phishing emails.

The list of genuine contacts includes:

- Marriage allowance registration and application - email
- Tax credits - SMS test or voice prompts
- VAT Mini one stop shop (MOSS) - email
- Employer alerts - important information for employers
- Agent online self-serve invites - email
- Annual tax summary - email alerts
- Self-assessment - email reminders
- Employer PAYE notices and reminders
- Educational emails

For more detail on each of the above contacts see the Government UK website at www.gov.uk where you will find links to examples of bogus emails, a link to report these phishing emails and guidance on how to tell if an email is fraudulent.

Please note HMRC says it will never send notification of a tax rebate by email or ask you to disclose personal or payment information by email

Forgetfulness comes to us all!

Several days ago as I left a meeting, I desperately gave myself a personal search. I was looking for my keys. They were not in my pockets. A quick search in the meeting room revealed nothing. Suddenly I realised I must have left them in the car. Frantically, I headed for the car park. My husband has scolded me many times for leaving the keys in the ignition. My theory is that the ignition is the best place not to lose them. His theory is that the car will be stolen. As I scanned the car park, I came to a terrifying conclusion! His theory was right. The car park was empty. I immediately called the police. I gave them my location, confessed that I had left my keys in the car, and that it had been stolen. Then I made the most difficult call of all. "Hello My Love", I stammered; I always call him "My Love" in times like these. "I left my keys in the car and it has been stolen." There was a period of silence. I thought the call had disconnected, but then I heard his voice. He barked, "I dropped you off!" Now it was my time to be silent. Embarrassed, I said, "Well, come and get me." He retorted, "I will, as soon as I convince this policeman I have not stolen your bloody car."

This is what they call, "The Golden Years!"

Corporation Tax payment dates for 'large' companies

This is an area where companies need to be careful. With effect from 1st April 2015 a company is classified as large if it has profits in excess of £1.5m. However, if the company is in a group with other companies that are not dormant, then the £1.5m is divided. The £1.5m is also reduced if it is an accounting period of less than 12 months.

This is a change from the existing rule of associated companies. In reality, for most companies 'group' will mean the same as 'associated' but not always. It is worth checking the disclosure on the corporation tax return and any calculations.

There will be date changes in 2017 that further accelerate the tax that large companies pay by instalments by a further 3 months. This is estimated to accelerate money to the Government by around £7.6bn by the end of 2018/2019. This is not a tax rise but an acceleration of payment. Just in time to reduce the surplus before the General Election in 2020.

30 days on disposal of property by non-resident individual

Changes in legislation mean that non-resident gains or losses may arise, if on or after 6th April 2015 you have disposed of a UK residential property. A return is required if you disposed of the whole or part of an interest in a UK residential property when non-resident, and must be notified to HM Revenue & Customs 30 days from date the property is conveyed confirming payment details. The taxable gain starts from 6th April 2015 so a valuation is required.

If you complete a Self Assessment, Trust and Estate or Corporation Tax Return, you should indicate on that return that you have made this notification.

You must complete a return for each disposal and if the interest in the residential property was held jointly, each individual must notify their own share separately.

Mandatory Direct Debits for Time to Pay

HMRC is making changes to the way in which payments due under the Time to Pay scheme are handled, with direct debits becoming mandatory from next month for any new arrangement set up.

Under Time to Pay, HMRC agrees to a payment of a debt by instalments after the due date, where the taxpayer is genuinely unable to pay by the due date and is able to commit to agreed payments to bring their tax up to date.

HMRC recognises that there will be 'exceptional circumstances' where people are unable to set up a direct debit, perhaps because their bank account will not allow it. In such cases, payment by other methods may be agreed.

Changes to savings income

As announced in the spring Budget this year, a new personal savings allowance will be introduced from 6th April 2016. **As a consequence, tax will no longer be deducted at source from bank and building society interest.** HMRC have launched a consultation to review whether changes should also be made to the rules on deduction of tax from other types of savings income.

The new personal savings allowance is a new 0% rate for up to £1,000 of savings income (as defined by ITA 2007, s. 18) received by a basic rate taxpayer, or up to £500 of savings income received by a higher rate taxpayer. The allowance will not apply to savings income received by additional rate (45%) taxpayers. Savings income includes interest, income from certain purchased life annuities, profits from deeply discounted securities, accrued income profits, and gains from certain life insurance contracts.

This does mean that taxpayers with significant bank interest will have tax to pay under self assessment (though not overall), since tax will not have been deducted at source.

An Obituary for Common Sense (*A modification version of a text originally attributed to Lori Borgman)*

Today we mourn the passing of a beloved old friend, Common Sense, who has been with us for many years. No one knows for sure how old he was, since his birth records were long ago lost in bureaucratic red tape. He will be remembered as having cultivated such valuable lessons as: knowing when to come in out of the rain; why the early bird gets the worm; life isn't always fair; and maybe it was my fault.

Common Sense lived by simple, sound financial policies (don't spend more than you earn) and reliable strategies (adults, not children, are in charge).

His health began to deteriorate rapidly when well-intentioned but overbearing regulations were set in place. Reports of a 6-year-old boy charged with sexual harassment for kissing a classmate; teens suspended from school for using mouthwash after lunch; and a teacher fired for reprimanding an unruly student, only worsened his condition. Common Sense lost ground when parents attacked teachers for doing the job that they themselves had failed to do in disciplining their unruly children. It declined even further when schools were required to get parental consent to administer sun lotion or an aspirin to a student.

Common Sense took a beating when you couldn't defend yourself from a burglar in your own home and the burglar could sue you for assault and gave up the will to live after a woman failed to realise that a steaming cup of coffee was hot. She spilled a little in her lap, and was promptly awarded a huge settlement.

Common Sense was preceded in death: by his parents, Truth and Trust; by his wife, Discretion; by his daughter, Responsibility; and by his son, Reason.

He is survived by his 5 stepbrothers: I Know My Rights; I Want It Now; Someone Else Is To Blame; I'm A Victim; Pay me for Doing Nothing.

Not many attended his funeral because so few realised his passing.

Changes to the Charity Annual Return for 2015

All Charities which complete annual returns, i.e. with income over £10,000, for financial periods ending in 2015, will be required to answer the following three new questions:-

- In the reporting period, how much income did you receive from:
  - Contracts from central or local government to deliver services?
  - Grants from central or local government?
- Does your charity have a policy on paying its staff?
- Has your charity reviewed its financial controls during the reporting period?

The Charity Commission will produce guidance to accompany these new questions.

Be aware - new pension scam

As you may have read in the press, fraudsters are attempting to use a new way to steal pension savings from advisers' clients. The fraud involves hacking into a client's email account, using it to contact the client's adviser by email (posing as the client), and requesting that investments be encashed and the proceeds paid to a specific bank account. This account will, of course, be different to any account nominated by the client previously to receive payments.

In light of this, we will be taking extra care when accepting email instructions from clients, especially instructions to change a nominated bank account and we will phone you to confirm instructions.

Employee P11Ds in 2016/2017

P11Ds will still exist for 2016/2017 but they are changing.

Accountants have lobbied for at least 10 years that the current P11D system does not work, which causes tax coding notices to be wrong and a whole heap of hassle for the employee, the employer and their agent. It is an extremely inefficient system.

HMRC have finally realised and the new regime will mean that only where there are taxable benefits will they need to be reported, not where there is a legitimate claim that expenses incurred were wholly, necessarily and exclusively for the purposes of the business. This means an end to the letters going with the P11Ds that HMRC forgot to process on tax codes and/or lose. It also means an end to the dispensation regime.

The new exemption depends on two conditions to protect it from abuse:-

1. The payer operates a system for checking that the employee is, in fact, incurring the expenses and paying, AND that it is wholly, necessarily and exclusively for the purposes of the business.
2. That neither the payer or anyone operating the system knows, expects or could be reasonably expected to know, that the employee has not incurred or paid for the expense, or that a deduction would not have been available.

An employer will be able to apply to HMRC to reimburse expenses at a flat rate, which, subject to HMRC approval, will not have to be included on the P11D return.

HMRC waives £100 late filing penalties

Back in June a story in the national media was about HMRC’s decision to write off £100 self assessment late filing penalties for some 890,000 people.

This does not help tax compliance, since those that had already paid a penalty could not get it refunded! Our advice is to get your tax return in early and not get involved with penalties.

HMRC turns attention to horsebox owners in evasion clampdown

Horsebox owners claiming horseboxes worth hundreds of thousands of pounds as company expenses, are set to be the subject of HM Revenue & Customs’ investigation as it continues to clampdown on tax evasion.

Horseboxes can be valuable assets, and HMRC suspects some farmers and rural business owners of buying horseboxes through their company, either falsely claiming the whole cost as a business expense for tax purposes, or failing to declare personal use of the horsebox and not paying tax on the benefit.

Job Descriptions

A woman walks into an accountant's office and tells him that she needs to file her taxes.
The accountant says, "Before we begin, I'll need to ask you a few questions.
"He gets her name, address, National Insurance Number, etc, and then asks,"What's your occupation?"
"I'm a **lady of the night**," she says.
The accountant is somewhat taken aback and says, "let's try to re-phrase that.
"The woman says, "Ok, I'm a **high-end call girl**".
"No, that still won't work. Try again.
"They both think for a minute; then the woman says, "I'm an **elite chicken farmer**."
The accountant asks, "What does chicken farming have to do with being a prostitute?"
"Well, I raised a thousand little peckers last year."
The accountant says, "**Chicken Farmer** it is."

Charities urged to test their resilience against fraud

The Charity Commission is encouraging larger charities to make use of a free tool aimed at helping them assess their resilience against fraud.

The Self-Assessment Fraud Resilience (SAFR) Tool allows an organisation to establish how well it is protected against fraud:

- how well it understands the nature and cost of fraud
- whether it has an effective strategy to address the problem
- whether it has a counter-fraud structure which helps it implement its strategy
- whether it takes a range of pre-emptive and reactive action to counter fraud
- the extent to which fraud is addressed and managed like any other business issue

The commission has circulated the SAFR tool to all registered charities with an annual income of over £1m - of which there are around 6,700. The tool is available for others to use.

Charities completing the self-assessment will receive instant results, giving them a fraud resilience rating and an estimate of how much they lose to fraud each year.

The regulator stresses that charities' responses will be strictly confidential. The commission will have no access to individual responses but will see an overview of outcomes, which will allow it to identify areas of particular strength or weakness, and thus help it focus and improve its guidance for charities.

The Charity Finance Group has developed a guide to help charities prevent and disrupt fraud; the guide was developed in collaboration with the commission and other partners (www.cfg.org.uk/resources/Publications/cfg-publications.aspx)

Regulations for Landlords - Smoke and Carbon Monoxide

As of 1st October, all landlords in England, or agents acting on their behalf, will be required to install smoke alarms on every floor of their property. Carbon monoxide alarms need to be fitted in rooms with a fuel appliance, which includes wood burners and open fires.

Landlords and agents will then have to ensure that the alarms work by keeping a receipt or record of demonstration at the start of each new tenancy.

Those not abiding by the regulations face fines of up to £5,000.

Let property campaign

HMRC have updated their detailed guidance for the let property campaign, which is an opportunity for landlords who owe tax through letting out residential property, in the UK or abroad, to get up to date with their tax affairs under the best possible terms.

The let property campaign, launched in September 2013, is aimed at residential property landlords - from those that have multiple properties, to single rentals, and from specialist landlords such as student or workforce rentals, to holiday lettings - who may owe tax, whether through misunderstanding the rules or deliberate evasion. These landlords are invited to tell HMRC about any unpaid tax on rents, and pay what they owe, including any penalties and interest due. Penalties will be lower than if HMRC comes to them first.

Young men likeliest to miss tax return deadlines

Young men working in the communication industry are the most likely to miss tax return deadlines. Those aged between 18 and 20 and living in London were the worst offenders and the over-65s were the most punctual.

Interestingly, lawyers and accountants were not the most punctual - with 219 late filers per 10,000 submitted. Those in agriculture, fishing and forestry were more efficient, with 109 per 10,000 filing late.

Increasing productivity at work

Productivity is firmly on the agenda of the UK. CABA has recently suggested a few ideas that might help:

- **Sleep more than seven hours -** A recent study by Cambridge University on 21,000 employees found that those who slept between seven and eight hours a night were more productive than those who slept for six hours or less.
- **Exercise more -** The NHS recommends that individuals try to achieve 10,000 steps a day. Perhaps introduce a lunchtime walking club at work?
- **Healthy eating -** What we eat can play an active part in reducing symptoms of depression, anxiety and lower stress levels.
- **Provide a colleague support network -** Providing a good supportive network to your fellow colleagues has been linked to improved workplace wellbeing.

Rent a Room

The level of rent-a-room relief will be increased from the current level of £4,250 to £7,500 in April 2016. This means that from 6th April 2016, an individual will be able to receive up to £7,500 tax-free income from renting out a room or rooms in their only or main residential property. This is a long overdue increase to the relief.

To qualify, the accommodation has to be furnished, and the scheme doesn't apply if the building is converted into separate flats. The relief is for living accommodation only, not business premises.

Any payments for extras such as cleaning etc must be added to the basic rent and must fall within the limit.

There are two options if the individual is receiving more than the rent-a-room limits:

- The first £4,250 (£7,500) is counted as tax free. Tax is paid on the remaining income with no deductions.
- Pay tax on a profit using normal income and expenditure rules.

You can switch the method of calculation to pay the lowest amount of tax.

Help to Buy ISA

The scheme will launch on 1st December 2015 and will enable first-time buyers to save up to £200 per month, with the Government adding 25%. The maximum the Government will pay is £3,000 over 5 years.

A number of High Street banks are setting up the accounts ahead of the launch. These are separate accounts from other ISAs and have special rules.

The minimum amount to be saved to qualify is £1,600 (meaning a £400 bonus). To open the account an additional investment of up to £1,000 can be made and this qualifies for the Government bonus.

The ISA is available to each first-time buyer, so a couple buying their first home can each have a Help to Buy ISA.

The Government bonus does not sit in the ISA account and earns no interest. It goes straight to the mortgage lender when the home is bought.

- It is only open to first-time buyers aged 16 or over.
- Limited to homes worth under £250,000 outside London (£450,000 in London).
- Not available for rental properties.
- Not available for overseas properties.
- A Help to Buy ISA and a normal Cash ISA cannot be opened in the same year.

Transfer of ISAs on the death of a spouse

For deaths on or after 3rd December 2014, a surviving spouse or civil partner is able to make a one-off contribution to an ISA of the value of the deceased's ISA in the estate. The legislation takes effect in 2015/2016 and there is a proposal to extend the tax exemption on the ISA to the period of administration.

Accountant jokes

Q. What is the difference between tax avoidance and tax evasion?
A. Jail.

Q. What's the definition of an accountant?
A. Someone who solves a problem you didn't know you had in a way you don't understand.

Q. When does a person decide to become an accountant?
A. When they realise they don't have the charisma to succeed as an undertaker.

Q. Why did the auditor cross the road?
A. Because they looked in the file and that's what happened last year.

Q. What do accountants suffer from that ordinary people don't?
A. Depreciation.