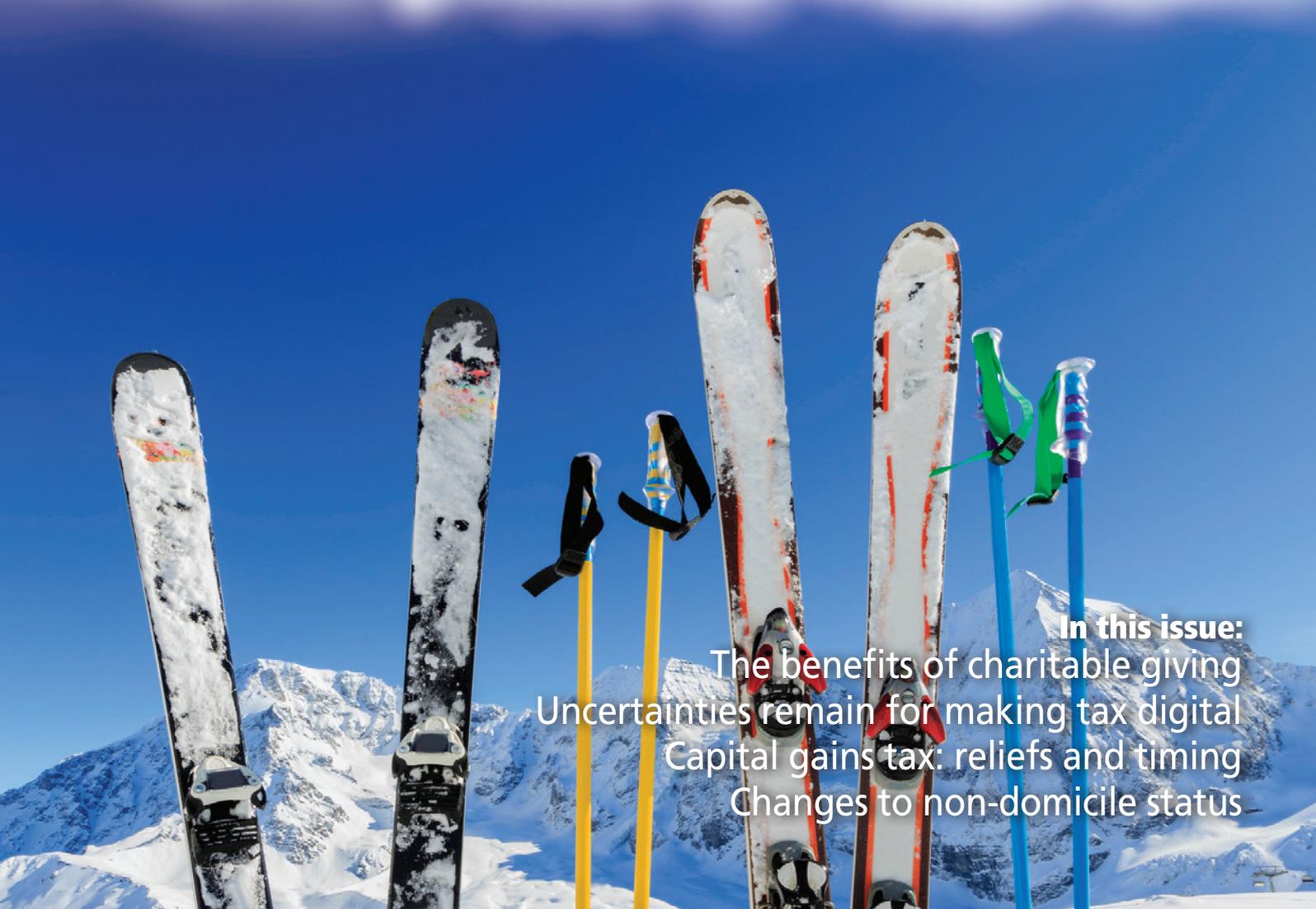


Winter 2016

# financial UPDATE



## Salary sacrifice for benefits: change down the road



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If you would like to discuss any issues raised in this newsletter please contact your usual DTE contact. Alternatively, call Natalie Noone on 0161 767 1293 or email [marketing@dtegroup.com](mailto:marketing@dtegroup.com)

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# The benefits of charitable giving

## Saving tax may not be the main concern when giving to charity, but you might as well benefit if you can.

**Gift aid:** Any donations should be made under a gift aid declaration. Although there is no tax relief as such for basic rate taxpayers, a donation of £100 will be worth £125 to the charity. Higher and additional rate taxpayers save tax, so for an additional rate taxpayer, the net cost of a £100 gift is £55. If you are in the position that your personal allowance is tapered away (income between £100,000 and £122,000), then the net cost drops to just £40. Donations can also help preserve entitlement to tax credits and limit the impact of the child benefit tax charge.

Consider which family member will benefit the most from making donations – it will not necessarily be the highest earner.

**Assets:** Gifts of certain land, property and shares will save you both income tax and capital gains tax (CGT). The value of the donation is deducted from taxable income, saving tax at your marginal rate – which could be as high as 60%. The value for an outright gift will normally be the market value of the asset plus any incidental costs less the value of any benefit received from the charity in return for the gift. There is also relief from CGT, which could be as high as 28% for residential property. Obviously, the amount of relief depends on how much the asset has appreciated in value. Sales at less than market value also qualify for relief, so you can realise some money as well as save tax.

**Inheritance tax (IHT):** Any donations you make in your will reduce the IHT payable on your estate. So if you leave more than 10% of your estate to charity, then the rate of IHT on the remainder is reduced from 40% to 36%. The actual amount required might be much lower than you think. For example, suppose your estate is valued at £800,000 with 50% left to your spouse: the lifetime donation required would be £7,500 – 10% of £800,000 less spouse exemption of £400,000 and nil rate band of £325,000.

You can avoid the need to continually revise your will with a clause worded so that a specific legacy to charity will always meet the 10% test.

Be warned that the detailed rules can be quite complicated, so please contact us for advice.

# Uncertainties remain for making tax digital

**Most businesses, self-employed people and landlords will soon have to manage their tax affairs digitally and update HM Revenue & Customs (HMRC) at least quarterly.**

The radical reform will spell an end to the annual tax return by 2020 and the government is promoting it as a simplification of the tax system. But it has caused some confusion and concern among those affected.

Many of the details of how Making Tax Digital (MTD) will work have yet to be decided and have been subject to consultation. So far, HMRC has announced two exemptions from MTD and these are: all unincorporated businesses and landlords with turnover under £10,000, and anyone who is unable to use digital tools.

Whether MTD should be voluntary for charities and some others is being considered. MTD for income tax and national insurance will start in April 2018. However, to give smaller businesses more time to prepare, the government has postponed its introduction until 2019 for small unincorporated businesses with income between £10,000 and an upper threshold to be determined.

Although updating will be quarterly, businesses have been assured that there will be no need to prepare four sets of accounts a year that meet all tax requirements and accounting standards. HMRC has confirmed that quarterly updates need only be summary data.

## Areas of concern

One issue still subject to consultation is the continuation of 'three-line accounting', whereby businesses below the VAT registration threshold currently only have to report income, total expenses and profit, rather than provide detailed figures. The facility may be removed or restricted. However, HMRC is considering allowing more businesses to use the cash basis for income tax, and also simplifying some computational rules for small businesses. Cash basis accounting will also be extended to rental income.

Another concern is the cost to businesses of buying MTD-compatible software. HMRC has no plans to offer its own free software, but wants software developers to provide free and low cost software for businesses with the most straightforward affairs. More sophisticated software is unlikely to be free, for example a programme that uses a single transaction record for income tax

and VAT purposes, and also generates the summary data needed for each update.

Partnerships may benefit from MTD, because quarterly updates by the partnership could feed directly into each partner's digital tax account. Individual partners would then not have to maintain their own digital records or regularly update HMRC, unless they have other business interests or letting income. For members of the Construction Industry Scheme (CIS), HMRC is still exploring the interaction between a contractor's software, HMRC's systems and an unincorporated subcontractor's software.

MTD will also enable businesses and landlords to make voluntary tax payments towards their liabilities. Voluntary 'pay-as-you-go' (PAYG) sums would sit as credits on a taxpayer's digital tax account and be allocated against tax, including VAT, liabilities as they become due. There will be no set payment dates and amounts and therefore no penalties for late voluntary payments. PAYG will not change the statutory due dates for tax payments, and there will still be penalties for missing those dates.

For taxpayers who do not have business or letting income, MTD may remove the need to complete a self-assessment tax return. HMRC expects to use the information it receives from third parties more effectively and hopes to receive information about a greater range of income types, such as dividends.

Much of the detail remains uncertain, but as all gradually becomes clear we will be here to help you understand and comply with the new obligations.

“ There will be no set payment dates and amounts and therefore no penalties for late voluntary payments. ”

“ Now is a good time to review the tax effectiveness of current or proposed arrangements. ”

# Salary sacrifice for benefits: change down the road

**The use of a salary sacrifice arrangement can be a win-win for both employer and employee. But the government is proposing to introduce some new restrictions.**

The basic idea is that an employee gives up a portion of their salary in return for a non-cash benefit. This works particularly well if the benefit provided is wholly or partially exempt from tax and National Insurance contributions (NICs). Popular arrangements currently involve employer pension contributions, childcare vouchers, cycle to work schemes, low emission company cars, mobile telephones and workplace parking spaces.

For example, an employee with salary of £35,000 gives up £2,000 of this in return for the employer making £2,000 of pension contributions on their behalf. The employee's income tax is reduced by £400, and both the employee and the employer save NICs – £240 for the employee and £276 for the employer.

The saving is at an employee's marginal tax rate, so the employee above – as a basic rate taxpayer – benefited by an overall 32% saving, a higher rate taxpayer would save 42% and an additional rate taxpayer would save 47%.

Salary sacrifice can be especially beneficial where employees find themselves at just above one of the fault lines in the tax system, such

as the 60% marginal income tax rate applicable when the personal allowance is tapered away.

Employees should consider other factors before opting for salary sacrifice. Lower earnings can reduce the level of an occupational pension, affect their entitlement to earnings-related state benefits, impact on mortgage applications and reduce any life cover based on salary.

Of course, many benefits are not tax-free, so sacrificing salary for the likes of private medical insurance, home technology or a wine plan only saves employee NICs – which are just 2% where earnings exceed £43,000. The main advantage here comes from the employer being able to negotiate bulk discounts.

## **New rules from April 2017**

The government has become concerned about the increased popularity of salary sacrifice arrangements. Apart from the cost to the Exchequer, there is the matter of the uneven playing field which has developed. Lower-paid employees are often excluded because salary sacrifice cannot reduce cash earnings to below the rate of the national living



wage or national minimum wage. Also, smaller employers are unlikely to be able to offer the same range of benefits as larger employers.

The government is therefore proposing to restrict the use of salary sacrifice arrangements by removing most of the tax and NIC advantages. The change will be implemented from 6 April 2017, although the following benefits will NOT be affected:

- Employer pension contributions
- Employer-provided pensions advice
- Employer-supported childcare (including childcare vouchers)
- Cycles and cyclists' safety equipment provided under the cycle to work scheme

Where any other type of exempt benefit is provided in conjunction with salary sacrifice, the exemption will no longer apply. Income tax

and employer's class 1A NIC will then be payable on the greater of the salary sacrificed and the value of the benefit calculated using normal valuation rules. For example, salary of £600 is sacrificed for workplace parking. The taxable benefit will be £600.

For non-exempt benefits, the change is less drastic, but it does mean that tax and class 1A NIC will be due on the amount of salary sacrificed if this turns out to be higher than the normal benefit valuation. So there will be no advantage from company bulk discounts, but still an employee NIC saving.

The changes will not prevent you from providing employees with benefits using salary sacrifice arrangements, but now is a good time to review the tax effectiveness of current or proposed arrangements. Exempt benefits offered outside of a salary sacrifice arrangement will be unaffected by the change. We, as always, are happy to help.

## Class 2 NICs moved to self-assessment

**If you are self-employed, you will have noticed that HM Revenue & Customs is no longer taking class 2 NICs from your bank account. These are now paid annually under self-assessment, with NICs for 2015/16 due on 31 January 2017.**

**It is much easier to opt out if you are below the small profits threshold, although paying on a voluntary basis will often be beneficial. You need 35 years of contributions for maximum state pension, and at just £145.60 a year the cost is quite reasonable. Even if you have already achieved 35 years, further contributions can be worthwhile if you were previously in contracted out employment.**

# Capital gains tax: reliefs and timing

**Despite this year's reduction to the rates of capital gains tax (CGT), government figures show the expected tax take to be substantially higher than a few years ago.**

So it's important that wherever possible you meet the qualifying conditions for the various CGT reliefs, and carefully plan the timing of disposals.

## Property

Principal private residence relief (PPR) exempts one home from CGT provided it is used as your main residence. If a home has been your main residence, then certain periods of absence are also exempt. However, this is normally conditional on you taking up residence again following the period of absence.

There are various planning possibilities for people who own additional properties. If you live in two (or more) properties, you can elect which one should be treated as your main residence. If PRR is available, the final 18 months of ownership are always exempt. The decision about which property to elect as your main residence will depend on the amounts of potential gain, lengths of ownership and disposal plans. However, you only have two years after acquiring an additional residence to make the election. If a let property qualifies at some point for PRR, then a further letting relief (of up to £40,000) is available. It might therefore be worthwhile moving into a let property before you dispose of it.

## Disposal of a business

A disposal of a business qualifying for entrepreneurs' relief benefits from a 10% tax rate.

There is a general one-year qualifying condition, so it might be worth delaying a disposal if this is not currently met. However, where a sole trade or partnership is being disposed of, it is only the business itself which must be run for one year. Although you don't need to dispose of the whole business, it is necessary to dispose of a clearly identifiable part.

A sale of assets, without any

cessation of trade, does not qualify. If a shareholding is disposed of, the company must be a trading company for the preceding year. If this test is not met because surplus funds have been invested in property or other investments, it might be possible to rectify the situation before disposal.

## Replacing business assets

You can defer or roll over taxable gains on the disposal of certain business assets if you buy new qualifying assets. This must be done during the four-year period running from one year before the disposal to three years after.

The most common qualifying assets are land and buildings, fixed plant and machinery and goodwill (disposals by individuals). So plan carefully – it might be worthwhile bringing forward a disposal to match an acquisition within the previous year if you do not plan to make any further purchases.

## Timing

This is a good time to be planning any pre-5 April 2017 disposals. Aim to use your annual exempt amount of £11,100, although it may also be a good idea to make further disposals to use up your basic rate tax band and benefit from a lower CGT rate. Assets can be transferred to a spouse or civil partner before disposal, who can then also make use of exemptions and lower tax rates.

If you have already made gains this tax year, then maybe you should dispose of assets that will result in capital losses. The converse may be advisable if capital losses have already been made. However, you need to be careful that you do not waste your £11,100 exemption.

Be warned that CGT is far more complicated than this basic outline, so please contact us for more detailed advice.



# Changes to non-domicile status

## The government has revealed more details of how the proposed changes to non-domicile status will work.

A new consultation document also outlines how inheritance tax (IHT) will be charged on UK property held through an offshore structure and asks for ideas on how business investment relief could be made more attractive.

From 6 April 2017, UK residents will not be able to retain non-domicile status indefinitely. Instead, individuals will be treated as domiciled in the UK for income tax, capital gains tax (CGT) and IHT after they have been UK resident for at least 15 of the previous 20 years – the ‘15/20 rule’. This will include years during childhood. They will lose their deemed domicile status if they are non-resident for at least six consecutive tax years for income tax and CGT. However, the present four-year period will be retained for IHT.

### Make arrangements

Individuals will also be deemed domiciled if they were born in the UK with a UK domicile of origin and later return to the UK – returning non-doms. However, their worldwide assets will not become subject to IHT unless they were UK resident in one of the two preceding tax years. This means people who return to the UK for a short time will not have to rewrite their wills.

Individuals who become deemed domiciled under the 15/20 rule on 6 April 2017 can opt to rebase any of their assets to their market value on 5 April 2017 for CGT purposes. The protection will be restricted to assets that were foreign sited on 8 July 2015 and to non-doms who have paid the remittance basis charge in any year before 6 April 2017.

Non-doms will be able to rearrange their mixed offshore income and/or capital gains funds so the cash can be separated into capital,

income and gains to enable non-taxable capital to be remitted free of tax. They will have one year from April 2017 to do this. This will not be available to returning non-doms.

Residential properties owned indirectly through an offshore company or partnership will be brought within the charge to IHT. This will be effective for all IHT ‘chargeable events’ after 5 April 2017. Relevant debts, such as a mortgage, will be deductible.

The consultation confirms that the income and gains of offshore trusts created before an individual became deemed domiciled will not be taxed. This will be achieved by amending existing anti-avoidance rules rather than through a new regime linked to benefits received from the trust.



### Expanding business relief?

Since April 2012, individuals who use the remittance basis have been able to bring overseas income and gains into the UK without a tax charge if they do so to make a commercial investment. To date, this business investment relief (BIR) has attracted £1.5 billion for UK businesses. There are no restrictions preventing investment in businesses in which the investor has an interest, but anti-avoidance rules are aimed at preventing funds being diverted to personal use. The consultation makes no specific proposals, but seeks views on how BIR can be expanded to increase take-up, while ensuring it cannot be used as a means of tax avoidance.

If you stand to be treated as deemed domiciled from April 2017, or will be returning to the UK after that date, please discuss your plans with us well in advance.

## New advisory fuel rates show slight increase

The latest update to HM Revenue & Customs’ (HMRC) advisory fuel rates sees a few 1p increases, although all LPG rates are unchanged:

Engine size	Petrol	Diesel	LPG
1400cc or less	11p	9p	7p
1401cc to 1600cc	13p	9p	9p
1601cc to 2000cc	13p	11p	9p
Over 2000cc	20p	13p	13p

Hybrids are treated as either petrol or diesel. HMRC’s rates can be used where an employee is reimbursed for business mileage driven in their company car, or where the cost of private travel is reimbursed. Current rates can be used until the end of the year, although they will be reviewed from 1 December.

# Calling HMRC – is anybody there?

**Only half of mid-sized businesses that contact HM Revenue and Customs (HMRC) by telephone and email felt that their problem was resolved correctly, according to a customer survey, and only 35% thought the time taken was acceptable.**

The telephone helplines were rated particularly poorly – just 32% of customers who used them were positive about their experience and 44% were negative. And fewer than half of businesses thought finding information was easy.

One business expressed frustration at having repeatedly to explain a PAYE problem to a different person each time they phoned and how they were on hold 20 to 30 minutes before anyone answered. Another described how lack of information from HMRC had cost them time and money.

The business had contacted HMRC by letter to ask what documentation their customer needed to provide for the removal of goods to another EU member state. HMRC was not prepared to answer the questions, so the business had to pay professional advisers. Businesses were more positive about online services and felt confident that the systems are secure.

You don't have to waste your valuable time getting nowhere with HMRC. Whatever your tax problem, we have probably been there before and are here to help.

## Tax calendar 2016/17

### Every month

If the due date for payment falls on a weekend or bank holiday, payment must normally be made by the previous working day.

**1** Annual corporation tax due for companies (other than large companies) with year ending nine months and a day previously, e.g. tax due 1 October 2016 for year ending 31 December 2015.

**14** Quarterly instalment of corporation tax due for large companies (month depends on accounting year end).

**19** Pay PAYE/NIC and CIS deductions for period ending 5th of the month if not paying electronically. Submit CIS contractors' monthly return.

**22** PAYE/NIC and CIS deductions paid

electronically should have cleared into HMRC bank account.

### Month end

Submit CT600 for year ending 12 months previously. Last day to amend CT600 for year ending 24 months previously.

File accounts with Companies House for private companies with year ending nine months previously and for public companies with year ending six months previously.

### November

**2** Submit employer forms P46 (car) for quarter to 5 October 2016.

### December

**30** Deadline to submit 2015/16 tax return online to have underpaid PAYE tax of up to

£3,000 collected through the 2017/18 tax code.

### January 2017

**14** Due date for CT61 return for quarter to 31 December 2016.

**31** Submit 2015/16 self-assessment tax return online. Pay balance of 2015/16 income tax, Class 2 NIC and CGT plus first payment on account for 2016/17.

### February 2017

**1** Initial £100 penalty imposed where the 2015/16 tax return has not been filed or has been filed on paper after 31 October 2016.

**2** Submit employer forms P46 (car) for quarter to 5 January 2017.

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