Tax Matters

Winter 2016/17
inside this issue...

Restriction of tax relief for residential landlords

There have been numerous changes to the buy-to-let tax rules in the last year, and the trend is set to continue, with interest relief due to be restricted from April 2017. Here we provide further information on the latest reforms, which could be unwelcome news for many residential landlords…

What's changing?

Under the existing rules, residential landlords can deduct all of their finance costs, such as mortgage interest, from their gross property income. However, starting from April 2017, relief for finance costs will be restricted to the basic rate of income tax. For the purposes of the restriction, finance costs include interest on mortgages, loans (including loans to buy furnishings) and overdrafts. Other costs that are affected include alternative finance returns, fees and any other incidental costs for getting or repaying mortgages and loans, and discounts, premiums and disguised interest.

The new rules only apply to individuals with residential property businesses. They do not apply to companies, landlords of commercial properties or furnished holiday lettings.

Timescale for the change

The change will be introduced gradually over a period of four years, as follows:

- In 2017/18, the deduction from property income will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction
- In 2018/19, the deduction will be restricted to 50% of finance costs, with the remaining 50% given as a basic rate tax reduction
- In 2019/20, the deduction will be restricted to 25% of finance costs, with the remaining 75% given as a basic rate tax reduction
- From 2020/21, all financing costs incurred by a landlord will be given as a basic rate tax reduction (currently 20%).

Calculating the reduction

The reduction will be calculated at the basic rate value of the lower of:

- Mortgage interest and finance costs not deducted from rental income in the tax year (this will be a proportion of finance costs for the transitional years) plus any finance costs brought forward
- Property profits less any losses brought forward
- Adjusted total income (after losses and reliefs, and excluding savings and dividends income) exceeding the personal allowance.

The implications

The changes are likely to result in an increased tax liability for many residential landlords, but there may also be wider implications to consider. For example, the new rules will increase gross income, which may push an individual into a higher tax band. This, in turn, could have an impact on their ability to claim Child Benefit, which is currently clawed back for those with adjusted net incomes over £50,000.

Where this is the case, an individual might want to consider reducing their income, for example by increasing their pension contributions or making Gift Aid donations. However, it is essential to seek professional advice before taking any action.

For more information on the tax rules affecting residential landlords, please do contact us.

Tax planning tips for the year end

The end of the tax year may be in April, but it is never too early to start planning to make the most of the tax-saving opportunities available to you and your business.

Business

Are you getting the most out of capital allowances?

You might want to review your capital expenditure to maximise claims for capital allowances. Since 1 January 2016 the majority of businesses have been able to claim a 100% Annual Investment Allowance on the first £200,000 of expenditure on most types of plant and machinery, except cars (transitional rules apply). Please contact us before investing in plant and machinery as we can help to ensure you receive the maximum tax benefit from your purchase.

Time to review your business motoring?

It may well be worth carrying out a complete review of your company car policy, as year on year the percentages and therefore the taxable benefits on cars are increasing. It could prove more beneficial to pay employees for business mileage in their own vehicles at the statutory mileage rates, especially if their business mileage is high.

We can assist you in reviewing your company car policy and help you decide on the most tax-efficient way to organise your business motoring. For more information, please see our business motoring article below.

Individuals

Are you taking advantage of the 2016/17 ISA allowance?

Individuals can invest in any combination of cash or stocks and shares up to the overall annual subscription limit of £15,240 in 2016/17. However, a saver may only pay into a maximum of one Cash ISA, one Innovative Finance ISA and one Stocks and Shares ISA each year.

Increased flexibilities introduced from 6 April 2016 allow individuals to replace cash they have previously withdrawn from their ISA earlier in a tax year, without this payment affecting a saver's annual subscription limit.

Investments for the 2016/17 tax year must be made by 5 April 2017.

Can you avoid the 60% 'hidden' tax rate?

You will already be paying tax at 40% if your income exceeds £100,000 – however, your personal allowances are also clawed back by £1 for every £2 by which your adjusted net income exceeds £100,000.

This means that an individual with adjusted net income of £122,000 or more will not be entitled to any personal allowance, resulting in an effective tax rate on this slice of income of 60%!

If your income for 2016/17 is likely to fall within this band, you may want to consider strategies such as deferring some of your income, or increasing your pension payments to reduce your taxable income – please talk to us first about your particular circumstances.

Timing is crucial when planning for the year end. Please contact us for advice on the tax-saving strategies that may be available to you.

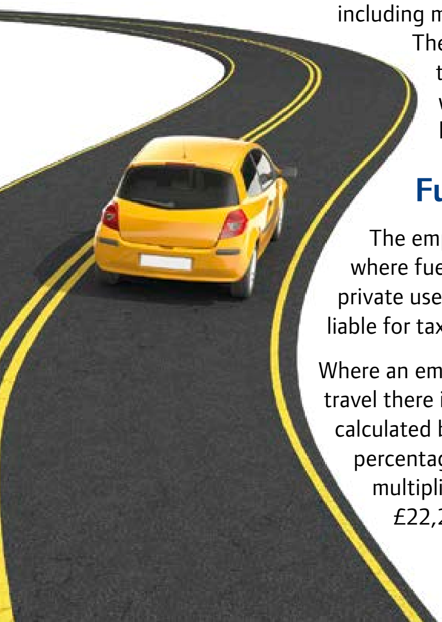
Are business motoring costs driving up your tax bill?

Although there have been increases in the taxable benefit rates over the last few years, the company car remains a popular business tool for many. Here we outline some key aspects to consider.

The company car

Employees and directors pay tax on the provision of the car and on the provision of fuel by employers for private mileage. Employers pay Class 1A national insurance contributions (NICs) at 13.8% on the same amount, which is payable by 19 July following the end of the tax year.

The amount on which tax and Class 1A NICs are paid in respect of a company car depends on a number of factors. Essentially, the amount charged is calculated by multiplying the list price of the car, including most accessories, by a percentage. The rate is dependent on the fuel type and the car's CO_2 emissions, which will be somewhere between 7% and 37%.



Fuel for private use

The employer is liable for Class 1A NICs where fuel is provided to employees for private use. Meanwhile, the employee is liable for tax on the full benefit.

Where an employer provides fuel for private travel there is a taxable benefit. This is calculated by applying the appropriate percentage to the car fuel benefit charge multiplier, which for 2016/17 is set at £22,200.

Employees can avoid the car fuel charge either by paying for all fuel themselves and claiming the cost of fuel for business journeys at HMRC's fuel-only advisory rates, or by reimbursing their employer for fuel used privately using the same rates.

Company vans

Where a company vehicle is appropriate, you might want to consider opting for a van over a company car. Company vans give rise to a £3,170 taxable benefit for unrestricted use. A further £598 of taxable benefit is charged if fuel is provided by the employer for private travel purposes. The maximum tax on a company van will therefore be £1,426.50, plus up to an additional £269.10 for fuel for the employee or director if applicable. Restricting the employee's private use of the van to home-to-work travel only, however, may potentially reduce these figures to zero.

Employees using their own vehicles

For employees who use their own vehicles for business travel purposes, HMRC's approved mileage allowance payments will apply. These can be used to reimburse employees for the costs of fuel used during business journeys. The rates are 45p per mile for the first 10,000 miles and 25p per mile above this. If you use your motorbike the rate is 24p per mile, whilst those using a bicycle can claim 20p per mile.

We can help you to understand the tax implications of a company car and review the alternative options that may be available. Please speak to us for advice.

Q&A: Tax-Free Childcare

The new Tax-Free Childcare scheme will be rolled out in early 2017. Here we answer some key questions on the new initiative.

Q. What is 'Tax-Free Childcare'?

A. Tax-Free Childcare is a new Government scheme designed to help parents with the cost of childcare. Under the initiative, tax relief worth 20% will be available for childcare costs up to a total of £10,000. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). Eligible parents will be required to open an online account, into which they can contribute money to pay for childcare. The Government will then 'top up' payments at a rate of 20p for every 80p that families pay into the account. The scheme will be available for children aged under 12, or up to 17 for children with disabilities.

Q. Who qualifies?

A. To qualify for Tax-Free Childcare all parents in the household must:

- meet a minimum income level based on working 16 hours per week at the National Living Wage
- each earn less than £100,000 a year; and
- not already be receiving support through Tax Credits or Universal Credit.

Unlike the current system of Employer-Supported Childcare, the new Tax-Free Childcare scheme will be available to self-employed parents. To support newly self-employed parents, the Government is introducing a 'start-up' period. During this period a newly self-employed parent will not have to earn the minimum income level.

Q. When is this being introduced?

A. The Government has confirmed that Tax-Free Childcare will be rolled out gradually 'from early 2017', with parents of the youngest children able to apply first. All eligible parents will be able to join the scheme by the end of 2017 if they so choose.

Q. What about the existing scheme?

A. The existing Employer-Supported Childcare scheme (through which childcare vouchers are commonly provided) will remain open to new entrants until April 2018. Those parents already receiving Employer-Supported Childcare can choose to remain in the current scheme, assuming their employer still offers it, or they may switch to Tax-Free Childcare.

Q. Will I be better off under the new scheme?

A. This really depends on your individual circumstances, employment status and income. Potential winners of Tax-Free Childcare include self-employed parents and working single parents with annual childcare costs in excess of around £5,000. Unlike the current scheme, Tax-Free Childcare is not reliant on employers offering the scheme.

However, some people might be better off under the existing system. As a general rule, two-parent families with one child where both work are likely to be financially better off under Employer-Supported Childcare. And remember, Tax-Free Childcare is not available to families where either parent earns in excess of £100,000, or to two-parent families where one parent does not work. Where this applies, individuals might want to consider applying for Employer-Supported Childcare before the scheme closes to new entrants in April 2018.

Q. I am a parent – what do I need to do?

A. Eligible parents will need to open an online account, into which they can contribute money to pay for childcare. Anyone will be able to make contributions to the account, not just the child's parents. Further details on online accounts are expected in due course. In the future, eligible parents will also be able to apply online for both Tax-Free Childcare and the 30 hours extended entitlement for childcare for three and four-year-olds, through a new joint digital service being developed by HMRC.

Q. Will it affect employers?

A. Tax-Free Childcare is an arrangement between the Government and parents, so employers are not directly involved in the new initiative. However, with some parents likely to be better off under the existing arrangements, employers offering Employer-Supported Childcare should be prepared for any additional uptake of childcare vouchers before the scheme closes to new entrants.

We can help you plan for a more prosperous future for you and your family – please contact us to discuss your individual circumstances.

Tax Round-Up

21st century tax: HMRC's digital drive

Following a delay to the Government's plans for its Making Tax Digital (MTD) initiative, in the aftermath of Brexit, HMRC recently consulted on its proposals to create a 'transparent and accessible tax system' for the digital age.

When the new system is introduced, businesses will be required to keep digital records and to make regular updates regarding income tax and NICs. A number of exemptions apply, however, and the Government has now confirmed that the exemption from quarterly returns applying to individuals with secondary incomes of less than £10,000 a year (from self-employment or property) will be extended to all unincorporated businesses and landlords with annual incomes below £10,000.

The Government has also proposed a deferral of the introduction of MTD for additional businesses until 2019, to allow them extra time to comply with the new requirements, and is looking at options to provide financial support for businesses during the digital transition.

New Pensions Advice Allowance

The Government recently consulted on its plans to introduce a new Pensions Advice Allowance, which will enable those nearing retirement to withdraw up to £500 from their defined benefit contribution pension pots, tax-free, for the purpose of obtaining regulated financial advice.

First recommended by the Financial Advice Market Review, the aim of the new allowance is to give individuals access to professional advice on the range of financial products available to them, helping them to make effective and appropriate decisions regarding their retirement income.

The new allowance is set to come into effect in April 2017.

The Government also subsequently announced the creation of a new financial guidance service, which will combine the Money Advice Service, the Pensions Advisory Service and Pension Wise into one governing body.

Self Assessment deadline – don't be late!

The deadline to complete your 2016 Tax Return online is midnight on **31 January 2017**. You may receive a penalty of £100 if you miss this deadline, and further penalties will be issued for continued payment failures.

We can assist you with this process by preparing and filing your Tax Return on your behalf, and advise you on any payments due. Contact us today for assistance.

Tax Tip

NIC-saving strategies

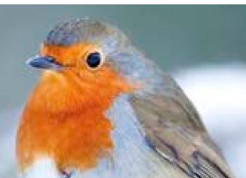
When extracting profits from your business, the tax-efficient use of benefits can save income tax and could also reduce your NIC liability.

Some strategies which may help to save NICs include:

- increasing employer contributions into company pension schemes (within the prescribed limits)
- utilising share incentive plans
- operating as a sole trader or partnership
- paying dividends instead of bonuses to owner-directors; and
- paying a bonus in place of an increased salary to reduce employee contributions.

We can provide advice on all aspects of tax planning – please contact us for more information.

Reminders for your Winter diary



December 2016

1 New advisory fuel rates for users of company cars applicable from this date.

30 Last day for online submission of 2016 Self Assessment Tax Return for HMRC to collect tax through clients' 2017/18 PAYE code, where they owe less than £3,000.

31 End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2015.

January 2017

1 Due date for payment of Corporation Tax for period ended 31 March 2016.

14 Due date for income tax for the CT61 quarter to 31 December 2016.

19/20 Quarter 3 2016/17 PAYE remittance due.

31 First self assessment payment on account for 2016/17.

Capital gains tax payment for 2015/16.

Balancing payment – 2015/16 income tax, Classes 2 and 4 NICs.

Deadline for amending 2014/15 Self Assessment Tax Return.

Last day to file the 2015/16 Self Assessment Tax Return online without incurring penalties.

February 2017

1 £100 penalty if 2016 Self Assessment Tax Return not yet filed online. Additional penalties may apply for further delay. Interest starts to accrue on 2015/16 tax not yet paid.

2 Submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2016/17.