Thursfields
CHARTERED ACCOUNTANTS

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A new residential nil rate band for Inheritance Tax (IHT)

From 6th April 2017 a residence passed on death to a direct descendant will attract a new allowance. A direct descendant is a child (including a step-child, adopted child or foster child) of the deceased and their lineal descendants.

The amount of the main residence nil-rate band available will be the lower of the net value of the residential property (after deducting any liabilities eg. a mortgage) or the maximum amount of the band. The allowance will be phased in from £100,000 in 2017-18 to £175,000 in 2020-21 and will be limited to one residential property but personal representatives will be able to nominate which residential property should qualify if there is more than one. The property must have been a residence of the deceased and any other properties, such as a buy-to-let property, will not qualify.

If the estate is valued at over £2 million the additional nil rate band will be tapered away by £1 for every £2 that the net value exceeds that amount.

Where part of the main residence nil-rate band might be lost because the deceased had downsized to a less valuable residence or had ceased to own a residence on or after 8 July 2015, the amount which might be lost will still be available provided the deceased left that smaller residence, or assets of equivalent value, to direct descendants.

A claim will have to be made on the death of a person's surviving spouse or civil partner to transfer any unused proportion of the additional residential nil-rate band unused by the person on their death, in the same way that the existing nil-rate band can be transferred.

Shares with no value - HM Revenue and Customs update their list

HM Revenue and Customs have updated their list of shares which they accept have become of negligible value. If you subscribed for shares whose value is now next to nothing or negligible, it is possible to claim to recognise the loss of value.

The loss can then be set against other chargeable gains in the year or, in some circumstances, be set against income and so reduce your tax liability. If setting the loss against total income the amount is limited to the lower of £50,000 or 25% of your total income. The loss can also be claimed in the current year or the preceding tax year, giving an amount of flexibility.

It is also possible to claim the loss if an asset has been entirely lost, destroyed, dissipated or extinguished (but be aware that if compensation has been paid via an insurance policy or similar then there may be no claim to be made or a potential capital gains tax charge).

Getting credit for paying your taxes

HM Revenue and Customs have set a new charging structure for those taxpayers who choose to pay their taxes by credit card.

In the past there was a flat fee of 1.5% for making a payment by credit card to HMRC but this flat rate has been changed to take into account a new EU regulation capping the charge.

From 1st April 2016 personal credit card charges will reduce, for example, the personal MasterCard rate will fall to around 0.375% whilst using a company MasterCard to pay the tax owed will cost 2.406%. There is a sliding scale for other types of credit cards.

Taxing pension contributions for high earners

Everyone has an annual maximum contribution limit for payments into their pension pot. For 2016/17 this amount is £40,000 however, individuals who have adjusted income for a tax year greater than £150,000 will have this annual allowance reduced.

So what constitutes adjusted income? Adjusted income includes all taxable income i.e. earnings, investment income of all types and benefits in kind such as medical insurance premiums paid by the employer or the taxable value of cars provided by the employer.

Adjusted income also includes all pension contributions, **including** any employer contributions.

For every £2 of income over the adjusted income of £150,000, the annual allowance will be reduced by £1. The maximum reduction will be £30,000, so anyone with an adjusted income of £210,000 or more will have an annual allowance of only £10,000.

High income individuals caught by the restriction may therefore have to reduce the contributions paid by them and/or their employers or suffer an annual allowance charge.

The annual allowance charge is based on either the amount paid into the pension by the individual, their employer or any third party or it is based on the increase in the amount the pension provider promises to pay at retirement.

The pension company will send out a statement which will detail the basis for the annual allowance charge and any reduction in annual allowance will be calculated when the individuals Tax Return is completed. The charge is made at the individual's highest rate of tax.

To be certain you do not fall foul of these charges, please speak to your independent financial advisor (IFA) before making any pension contributions and ensure that your IFA discusses the potential for your employer or your company making payments into your pension prior to the company accounting year end.

If you have already made payments and wish to ensure these payments are within your allowances please speak to us, we will happily discuss any projections of contributions and the limits with you.

Furnished holiday lettings

The income received from letting a property or a number of properties is normally considered to be income from an investment and not from a trade and because of this some of the tax reliefs available for trading activities do not apply.

However, there are certain tax advantages from letting your property or properties as Furnished Holiday Lettings (FHL) and in a time when the loan interest which can be used as an expense against profits is being restricted by new legislation, it may be time to consider if your property letting qualifies for this treatment.

To work out if your property could be a FHL it is essential that these first 3 conditions are met:-

- **Is your property in the European Economic Community including Iceland, Liechtenstein or Norway?**
- **Is your property furnished to a standard for normal occupation and can your visitors use the furniture and furnishings?**
- **Do you let your property with a view to making a profit (let it commercially)?**

If you have answered yes to these questions then it may be possible to treat any property lettings you may undertake as a FHL business. The next conditions are around the number of days each year the property is let or is available to be let.

These calculations are complex but you would be required to have made the property available for letting for in excess of 210 days and the periods where it has been let on a rental in excess of 31 days must not exceed 155 days. If the figure of available days exceeds the long term let days by 105 days or more then you have a furnished holiday let.

If you have more than one property and in some cases one of the properties does not fully meet the 105 days condition then it is possible for us to claim an election to have all of the properties' occupancy averaged to see if the conditions are then met.

There are a number of tax benefits from letting FHL.

When the property is sold and a gain in the value is achieved there is the potential to claim to have a relief usually reserved for trading gains. Entrepreneur's relief allows theses gains to be taxed at a lower rate of 10%.

There is the ability to claim capital allowances on the capital expenditure incurred in the FHL business. This can be for items like furniture, soft furnishings and white goods. Capital allowances are not available under the normal investment income rules of property letting.

The profits from a FHL business count towards your earnings and so count towards relevant earnings for pension contributions.

If the FHL business is operated by a married or civil partnership couple then the profits can be allocated in any proportion required and not divided along the lines of the proportion of the ownership of the property.

It is possible to run a FHL business alongside a rental business but both profit and loss income and expenditure must be kept as separate businesses.

If you consider the FHL option is an area you would like to explore, please speak to us to see if the letting profile of the property could meet the criteria.

HM Revenue and Customs unveil their new simple assessment

From April 2016 it is possible for HM Revenue and Customs (HMRC) to raise an assessment on an individual's income and gains without that individual first being asked to complete a Self-Assessment Tax Return. This could have wide ranging implications for many clients. A Simple Assessment is an assessment of the income and capital gains chargeable in the year based on information relating to the individual which is held by HMRC irrespective of whether the information comes from the individual or not. The amounts included will be net of any allowances or reliefs applicable.

It is possible that where bank interest or dividend information is given directly to HMRC by the company or the bank then HMRC can raise the assessment without the individual stating that this income is correct or even exists. A simple assessment can be made where HMRC considers there is sufficient information about the individual to make the assessment.

The assessment must state the details of any income or gains assessed and any allowances or reliefs taken into account, the amount payable, the due date and the method of payment.

HMRC cannot issue a Simple Assessment if the individual has been asked to file or has already filed the SA return, however HMRC can give notice of a Simple Assessment at the same time as withdrawing the requirement to file an SA return.

If you, or a family member receive a Simple Assessment then it is important to check this immediately for correctness and should you receive a Simple Assessment please let us have it as quickly as possible as there is no guarantee that HMRC will forward a copy to us.

File your Tax Return by 30th December and gain a cash flow advantage

Most clients know that the very latest their 2015/16 Tax Return can be filed with HM Revenue and Customs (HMRC) is Tuesday 31st January 2017 however, in waiting until the very latest date those clients with PAYE income lose the opportunity to pay any tax they owe by installments through their PAYE deductions.

If you have tax to pay and it is under £3,000 then, provided the Tax Return is with HMRC by Friday 30th December 2016, we can ask for this tax to be deducted from the following years PAYE, giving you the cash flow advantage of keeping the tax in your pocket until April 2017 and then paying a proportion each pay day from your salary or wage until March 2018!

Disincorporation Relief

At the start of the new millennium, corporation tax rates fell to 10% and at one point were as low 0% on the first £10,000 of profit, this was an incentive in many cases for partnerships and sole traders with modest profits to incorporate their businesses.

Of course there are very many other reasons for a business to be incorporated: to separate the owner from the business, to allow for external investment, to claim other reliefs only allowable to limited companies, for example Research and Development (R&D) tax credits, but a financial driver was often the reason.

The tax world has changed considerably since the early 2000's and a new relief was introduced a short while ago which may be an option to some smaller companies.

Normally when a business transfers its assets it is treated as taking place at market value irrespective of the amount paid for the assets. If the market value is greater than the amount originally paid for the assets then a capital gain arises on the increased value of the assets. The gain is charged to corporation tax within a company.

Disincorporation can now be undertaken in a tax advantageous way in certain circumstances which prevent these charges arising. Disincorporation relief can be claimed jointly by the individual shareholders and the company if they have goodwill, land and buildings used in business which are not valued in excess of £100,000. Plant and machinery which is unlikely to give a capital gain is excluded from the lists of assets and so would be transferred at market value to the individual.

The result is the gain on the transfer of the assets from limited company ownership to ownership by the individual with the value of the assets transferred being restricted to the lower of the acquisition value or the market value at the time of transfer. The result is the value of the asset in the hands of the new individual owner is never more than the base cost.

The charge to tax arises in the hands of the individual when they subsequently sell the asset.

The window to achieve this Corporation Tax benefit is limited and expires on 31 March 2018.

There will be corporation tax to be paid on any profits up until cessation but there is not requirement for the company to be struck off.

As cash is excluded from the disincorporation relief the shareholders would still be required to pay income tax on any distributions of cash out of the company.

A joint claim between the company and the shareholders will be necessary, so please speak to us to assess if you would benefit from making this election to change the nature of your business.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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