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Client Newsletter

Winter 2015/16 inside this issue...

Automatic Exchange of Information, the Common Reporting Standard and Tax Disclosure Opportunities

The World Is Your Oyster – and Also HMRC's...

The well known and perhaps overused cliché 'the world is shrinking' springs to mind, but it cannot be more apt a description of the circumstances when one considers recent developments adopted by governments worldwide in their combat against real and perceived tax evasion.

The scene was set some years ago by the USA effectively forcing financial institutions worldwide to report on financial data relating to USA residents, citizens and taxpayers under what is known as the 'FATCA' regime. This concept has now been embraced by governments around the world. Over 100 countries have signed up to the Common Reporting Standard ("CRS").

The programme's principal aim is to stamp out the code of secrecy that might have hitherto been available to those who may have sought to maintain foreign bank and financial asset accounts in overseas jurisdictions. The new standards introduce 'information swapping' between countries that have signed up.

The UK is amongst 60 jurisdictions which have committed themselves to early adoption of the new reporting standard and will commence implementation of the CRS with the exchanging of information from the end of September 2017. Other countries including Israel and Switzerland have agreed to operate the regime with effect from September 2018.

The CRS provides for the annual automatic exchange between member governments of financial account information reported by financial institutions in their jurisdiction. This information relates to accounts held by individuals, companies, trusts and other structures.

Information to be exchanged will include the following details:

- Account and holder details;
- The reporting financial institution;
- Account balance or value; and
- Gross income and/or gross proceeds from sales from financial assets held in the account.

The message being delivered by HMRC and other Tax Authorities is clear – 'we want our taxes paid'. That said; HMRC recognises that it must be more efficient to invite voluntary disclosure from persons whose tax affairs are not up to date.

UK Account holders in overseas jurisdictions have numerous options including a new facility that HMRC are currently preparing for introduction – the details of which have yet to be published and which should be available in 2016.

However, existing disclosure routes remain rather more attractive, the most popular of which is the Liechtenstein Disclosure Facility ("LDF").

The LDF Opportunity

The principal features of the LDF provide that a person with overseas undeclared income and gains would open an account with a financial institution in Liechtenstein and transfer a material part of the sum to be disclosed into the account. The disclosure will protect the taxpayer from criminal investigation by HMRC for tax-related offences.

One cannot register if HMRC have already commenced enquiry proceedings in respect of the relevant account.

Tax liability computation is limited to tax years beginning on or after 6 April 1999 for individuals and 1 April 1999 for companies.

Tax rates on disclosed amounts are calculated at 40% (the 'composite tax rate') or usual UK tax rates, depending on the years in question and can cover taxes such as inheritance tax.

For tax years up to and including 2008-09, penalties are typically capped at 10% with the usual grade of penalties applying for later years. Interest applies on late payment of taxes.

The LDF is run by a dedicated HMRC team thus reducing the risk of protracted scrutiny by HMRC.

Persons wishing to enter into the LDF must take speedy action – registration must be made prior to 31 December 2015. The new disclosure facility to be released in 2016 will be less attractive and it is anticipated that criminal offences will be introduced for failure to report overseas income and gains.

Persons possibly affected by these measures should seek full and appropriate advice and we would be happy to assist those who wish to consider their potential exposure and explore how they may be best advised to act.

The world is truly shrinking.

Property tax relief: winners and losers

The Government has announced a number of changes to property tax reliefs, which are set to come into force over the coming years. Here we provide a round-up of some of the key reforms.

Wear and tear allowance

For furnished residential lettings an allowance is currently available to cover wear and tear on certain items (such as suites, beds, carpets, curtains, linen, crockery, cutlery, cookers, washing machines and dishwashers). For such items it is possible to claim an annual wear and tear allowance equal to 10% of the rents received (less certain expenses). However, subject to consultation, from April 2016 the wear and tear allowance will be replaced with a new relief that allows all residential landlords to deduct the actual costs of replacing their property furnishings.

HM Revenue & Customs (HMRC) has also proposed extending the tax break to properties regardless of whether they are partly furnished or unfurnished. This means that a broader number of claimants will benefit, as well as ensuring a more consistent way of calculating profits.

The new furniture replacement relief does not apply to furnished holiday lettings or letting of commercial properties, because those businesses receive relief through capital allowances. However, owners of all other residential properties can claim a deduction for the replacement cost of furniture, furnishings, appliances and kitchenware.

Rent-a-room relief

Owner occupiers and tenants who let furnished rooms in their only or main residence may claim rent-a-room relief. Under the rent-a-room scheme, income from letting furnished rooms in your main residence will be exempt from tax if the gross annual rent does not exceed £4,250 (£2,125 if you share the income) in 2015/16. However, from April 2016 the level of rent-a-room relief will be increased to £7,500 per year.

If you are letting to lodgers who live as part of the family, there will be no loss of the capital gains exemption. Otherwise, there may be some restriction.

The move is expected to benefit those who rent rooms to long-term lodgers, and also short term stays. Users of online room letting platforms, such as Airbnb, will qualify for the relief.

Landlord tax reliefs

In a move which Chancellor George Osborne promised would 'level the playing field', landlord tax reliefs will see a phased change over four years from April 2017. Currently, buy-to-let landlords are able to claim tax relief on monthly interest repayments at their top level of tax – up to 45% – and this is to be eventually reduced to the current basic tax rate of 20%.

The impact on individuals will depend greatly on their specific circumstances. Contact us for help with planning ahead.

All change for dividends

The rules on the taxation of dividends are set to change substantially from 6 April 2016, which could have a significant impact on the amount of tax you pay. Here we outline the facts and figures which will form the basis of the reforms.

Under existing legislation, the taxation of dividends is made complicated due to a 10% tax credit being added to the cash amount of the dividend, with the tax credit then satisfying all or part of the income tax liability on the dividend. The practical effect of the system is that basic rate taxpayers have no further tax to pay on dividend income and a higher rate taxpayer will pay an effective 25% on the cash amount of the dividend receipt. However, this is soon to change: from 6 April 2016 this tax credit will cease, and all dividend income will be taxed as gross.

For the 2016/17 tax year the first £5,000 of dividend income will be taxed at 0%. Your subsequent rate of tax will be dependent upon any other taxable income you have. If your dividend income moves you from one tax band to another, then you will pay the higher dividend rate on that amount.

The old and new regime: a comparison

Depending on your overall income and dividends that you expect to receive, this change may have a greater or lesser impact on your finances. The following table shows a comparison between the current and prospective tax rates:

	Basic rate band	Higher rate band	Additional rate band
Effective dividend tax rate now	0%	25%	30.6%
Rate from 6 April 2016	7.5%	32.5%	38.1%

Case Study

Andy has non-dividend income of £6,500 and a dividend income of £12,000 outside of an ISA. In the current tax year, Andy will have no tax to pay on his dividend – some of the dividend falls into the basic rate band but the effective tax rate is nil.

In the next tax year, Andy's personal income tax allowance of £11,000 covers his non-dividend income plus £4,500 of his dividends. With the £5,000 dividend allowance, he will pay tax on £2,500, which is 7.5% as a basic rate taxpayer.

Minimising the tax impact

Be sure to make the most of your tax-efficient savings and pension options. Married couples could consider spreading their investment portfolios in order to maximise the dividend tax allowance, and also make use of their personal income tax allowances. Some of the other key points to consider include:

Trading as a limited company – if you are currently trading as a limited company, you will still benefit in tax terms. However, the tax saved by incorporation has been reduced.

Salary or dividend? – a director-shareholder is still likely to benefit from taking a dividend over a salary, although the amount of tax saved will be reduced.

Taking dividends before April 2016 – it may be worth increasing dividends before 6 April 2016. However, there may be other tax issues to consider, such as loss of the personal tax allowance if your total 'adjusted net income' exceeds £100,000.

Please note that this article is based on our current understanding of the new regime, with detailed legislation expected to be released in due course. Early planning can help save you money in the future, so please contact us for advice tailored to your particular circumstances.

Pension allowances: the next steps

Pensions have been the subject of major reform in recent years. This trend has continued into 2015/16, with further changes also planned from next April. Here we explore some of the changes in more detail.

Tapering the annual allowance

The annual allowance – the amount that can be contributed into a pension each year and still receive tax relief – is normally £40,000 (2015/16). However, from 6 April 2016 the Government will introduce a taper to the annual allowance for those with adjusted annual incomes (including their own and their employer's pension contributions) over £150,000. Under the changes, for every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000. To ensure this operates as the Government intends, pension input periods will be aligned with the tax year, although transitional rules are in place to prevent retrospective taxation (see below).

Alignment of pension input periods

The changes to pension input periods were announced in the Summer Budget on 8 July 2015 and came in with immediate effect. As a result, special rules apply during 2015/16 to determine whether the annual allowance has been exceeded.

All pension input periods open on 8 July 2015 are closed on that date, with the next pension input period running from 9 July 2015 to 5 April 2016. All subsequent pension input periods will be concurrent with the tax year from 2016/17 onwards.

The transitional rules are designed to ensure that individuals are not adversely affected during this alignment process by allowing an additional annual allowance entitlement for 2015/16. Consequently, savers may be able to receive tax relief on up to £80,000 of pension contributions for 2015/16, with a maximum of £40,000 being available for the post-Budget period. In addition, an individual may have unused amounts brought forward from 2012/13, 2013/14 and 2014/15 (see below).

The exact amount available will depend on a number of factors, such as the type of pension scheme, the pension input periods of each scheme and the timing of contributions. The rules are complicated and individuals should consult an expert for advice.

Carrying forward unused allowances

Where pension savings in any of the last three years' pension input periods were less than the annual allowance, the 'unused relief' is brought forward, but you must have been a pension scheme member during a tax year to bring forward unused relief from that year.

Therefore in 2015/16, unused allowance may be brought forward from 2012/13, 2013/14 and 2014/15. The annual allowance was set at £50,000 in both 2012/13 and 2013/14, and was reduced to £40,000 for 2014/15 onwards. The unused relief for any particular year must be used within three years, but only after using the current year's annual allowance.

Case Study

Alex is a self-employed plumber. In the three years prior to 2015/16 he has made contributions of £30,000, £20,000 and £30,000 to his pension scheme. As he has not used all of the £40,000 (2013/14 and prior years £50,000) annual allowance in earlier years, he has £60,000 unused annual allowance that he can carry forward to 2015/16.

Together with his current year annual allowance of up to £80,000 (dependent upon the transitional rules), Alex may be able to make a contribution of up to £140,000 in 2015/16 without incurring an extra tax charge.

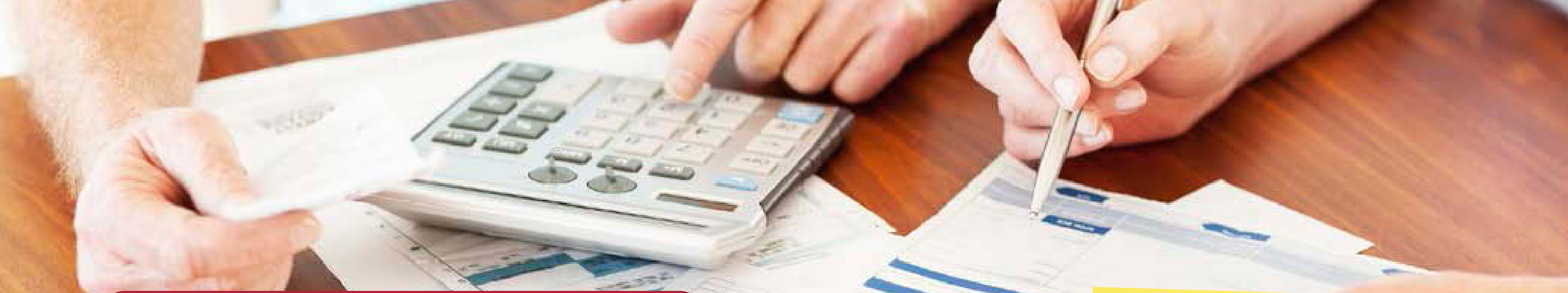
Changes to the lifetime allowance

In addition to the changes outlined above, the lifetime limit, which sets the maximum figure for tax-relieved savings in a pension fund, will be reduced from £1.25 million to £1 million from 6 April 2016. Where total pension savings exceed the lifetime allowance at retirement, a tax charge of up to 55% may apply. The lifetime allowance will be indexed annually in line with the Consumer Price Index from 6 April 2018.

However, where an individual has significant pension savings, it may be possible to apply for protection. Two types of protection are to be available. The first is known as 'fixed protection' and will be of benefit if total pension savings are expected to exceed £1 million when the savings are accessed in the future. Fixed protection retains the £1.25 million lifetime allowance. A critical condition for this protection is that no further benefit accrual (i.e. further contributions) can occur from 6 April 2016.

The other protection is 'individual protection'. This will enable savers to fix their lifetime allowance at the value of the fund at 6 April 2016, provided the fund has reached at least £1 million in value at that date. However, the value to be protected cannot exceed £1.25 million. Further contributions are allowed under this protection. The deadlines for a claim under either of the protection routes are currently being reviewed and may in fact be removed.

The pension rules are notoriously complicated and individuals should seek expert advice to ensure that their savings are as tax-efficient as possible.



Tax Round-up

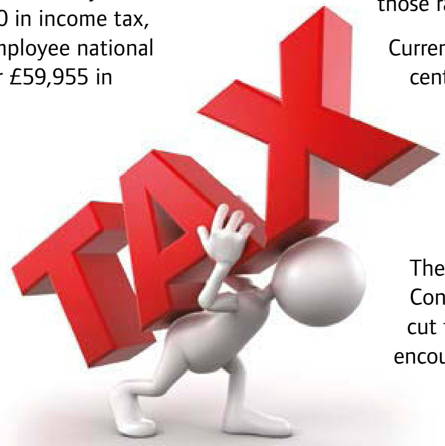
Lifetime tax bill for average family 'reaches £734,240'

A recent study has indicated that the average British family will pay almost three-quarters of a million pounds in tax over the course of a lifetime. The research has suggested that an average household will pay £734,240 (in 2013/14 prices) in direct and indirect taxes during their lifetime.

The figure, based on data obtained from the Office for National Statistics, equates to a 2.3% increase on the amount calculated for 2012/13 (£717,650). According to the study, over a lifetime the average household pays £253,040 in income tax, some £146,775 in VAT, £92,795 in employee national insurance contributions, and a further £59,955 in council tax.

The UK tax system is notoriously complicated, but with sensible tax planning it is possible to minimise your tax liability whilst remaining compliant with your legal obligations.

Please contact us for further advice and assistance.



Business rates to be devolved

The Government recently confirmed plans to give councils in England the authority to alter the level of business rates in their area, and the opportunity to keep all of the proceeds of those rates.

Currently, businesses pay a uniform business rate set by the central Government, which is calculated by multiplying the rental value of a property by either the standard rate (49.5p) or the lower rate (48p), and then subtracting any rate relief. Councils retain 50% of the earnings, with the Treasury redistributing the rest of the revenue to compensate areas with fewer businesses.

The new proposals, announced by the Chancellor at the Conservative Party Conference, will mean that councils can cut these rates and effectively compete with each other to encourage enterprise and attract businesses to their area.

The self assessment deadline is approaching!

The deadline for filing your 2015 tax return online is 31 January 2016. Returns not filed by 31 January could result in a £100 penalty, with further fines payable for prolonged payment failures.

We can prepare and file your tax return with HMRC, as well as advise you on which payments are due and when you should pay them.

Tax Tip

Could you lower your national insurance bill?

With the new National Living Wage set to be introduced from April 2016, businesses will need to prepare for the financial effects of the change. As part of this process, firms should ensure that their tax liability is kept to a minimum. This may include making the most of tax reliefs such as the Employment Allowance.

The Employment Allowance currently enables eligible businesses and charities to reduce their national insurance liability by up to £2,000. However, from April 2016 the Allowance will increase by 50%, meaning businesses could save up to £3,000 on their national insurance bill.

Please talk to us for further advice and strategies to help minimise your business's tax exposure.

Reminders for your Winter Diary

December 2015

30 Last day for online submission of 2015 Tax Return for HMRC to collect tax through clients' 2016/17 PAYE code, where they owe less than £3,000.

31 Last day for non-EU traders to reclaim recoverable UK VAT suffered in the year to 30 June 2015.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2014.

January 2016

1 Due date for payment of Corporation Tax for period ended 31 March 2015.

14 Due date for income tax for the CT61 quarter to 31 December 2015.

19/22 Quarter 3 2015/16 PAYE remittance due.

31 First self assessment payment on account for 2015/16.

Capital gains tax payment for 2014/15.

Balancing payment – 2014/15 income tax/ Class 4 NICs.

Last day to renew 2015/16 tax credits.

First payment due date for 2015/16 Class 2 NICs.

Last day to pay any balance of 2013/14 tax and Class 4 NICs to avoid an automatic 5% late payment penalty.

Deadline for amending 2014 Tax Return.

Last day to file the 2015 Tax Return online without incurring penalties.

February

1 £100 penalty if 2015 Tax Return not yet filed online. Additional penalties may apply for further delay. Interest starts to accrue on 2014/15 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 2015/16.