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Tax E – News

01302 311777

info@ar-accountants.co.uk

www.ar-accountants.co.uk

Welcome to our Budget 2015 tax newsletter, designed to keep you informed of the measures taken effect from 6 April 2015. We hope you enjoy reading this; and remember - we are here to help you so please contact us if you need any further information on any of the topics covered.

BANK AND OTHER INTEREST TO BE PAID GROSS FROM APRIL 2016

As announced in the spring 2015 Budget, a new personal savings allowance will be introduced from 6 April 2016. This will be £1,000 a year tax free for basic rate taxpayers and £500 a year for higher rate taxpayers, but nil for those with income over £150,000.

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 such as "peer to peer" loans.

Remember also that the first £5,000 of dividend income will be tax free from 6 April 2016, but it remains to be seen whether this will apply to directors of their own companies

TAX RELIEF FOR REPLACING FURNITURE IN LET PROPERTIES

The government announced in the Summer Budget that from April 2016, the current 10% Wear and Tear Allowance for furnished lettings will be replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings in the property. This will give relief for capital expenditure to a wider range of property businesses. The proposals are being consulted on during summer 2015 and will give greater consistency and fairness across the residential property letting sector. The new relief will apply to all landlords of residential dwelling houses, no matter what the level of furnishing. Those operating furnished holiday lettings businesses will continue to claim capital allowances instead of the new replacement basis. If enacted, the new rules will apply from 6 April 2016 for income tax purposes and 1 April 2016 for corporation tax. The new replacement furniture relief will only apply to the replacement of furniture, furnishings, appliances and kitchenware provided for the tenant's use in the dwelling house. The initial cost of furnishing a property would not be included.

This will put the old concessionary basis that applied up until 5 April 2013 on a statutory footing, and is welcome news for those letting properties unfurnished and providing white goods, carpets and curtains, where relief had been withdrawn for a three year period. It is also good to see the government responding to lobbying from the accounting profession and letting sector to restore the tax relief. Please contact us if you are potentially affected by these changes.



EMPLOYMENT INTERMEDIARIES CONSULTATION ON WORKERS' TRAVEL

The government is also proposing to remove tax relief for ordinary commuting (in general, home-to-work travel) for workers who are:

- supplying personal services
- engaged through an employment intermediary (including PSCs); and
- subject to (or to the right of) the supervision, direction or control of any person

The effect of this will be that individuals whose relationship with their engager is such that they look and act like employees **cannot claim relief on the everyday cost of travelling to work**, when employed through an intermediary.

This is intended to ensure a level playing field for access to tax relief for travel and subsistence and, if enacted, will take effect from 6 April 2016.

CONSULTATION ON CHANGES TO PERSONAL SERVICE COMPANIES (IR35)

In the Summer 2015 Budget the government announced that HMRC would start a dialogue with businesses on how to improve the effectiveness of the existing intermediaries legislation. HMRC will engage with stakeholders over the next few months to explore options to make the legislation more effective in protecting the Exchequer and leveling the playing field between direct employees and those who work in a similar manner but through their own limited companies. HMRC and the Government issued a Discussion Document on 17 July 2015 which seeks to make the existing rules more effective. They have identified that there is a growing body of evidence which suggests there is significant non-compliance with the current rules.

One option being considered would be for engagers to take on more of a role in ensuring that the right amount of employment taxes are paid. As now, the objective would be to ensure that where a worker would have been an employee if engaged directly, then the tax consequences would follow that. Under such an arrangement, those who engage a worker through a PSC would need to consider whether or not IR35 applies (in the same way as they would need to consider whether a worker should be self-employed or actually be an employee), and, if so, deduct the correct amounts of income tax and NICs as they would for direct employees.



VAT IS DUE ON CLOTHING GIVEN TO EMPLOYEES

The high street retailer French Connection has recently lost a case before the Tribunal concerning whether or not VAT is due on the supply of clothes to their employees. The retailer required employees in their shops to wear clothes from the current range and these were supplied free of charge.

The case concerned whether or not there was a taxable supply for VAT purposes. The retailer relied on VAT Notice 700 which states *"You do not make a supply if you provide goods (such as overalls or tools) to employees solely for the purpose of their employment and make no charge."*

The Tribunal held that the clothes did not qualify as a uniform and as the value of the clothes gifted in one year exceeded £50 then output tax was due on the value of the clothes supplied (cost to the employer).

Note that VAT may be due on many employee benefits such as private petrol and is something that is frequently checked by HMRC if they make a visit to examine your records.



TERMINATION PAYMENTS UNDER REVIEW

A further consultation taking place this summer is into the simplification of the tax and national insurance treatment of termination payments.

There is a widespread but mistaken belief amongst employees and employers that the first £30,000 of any pay-off is not subject to income tax and NICs. This often leads to difficulties when employees discover that the exemption does not apply to their circumstances and that income tax and NICs are due on the full amount.

Please contact us before you make any workers redundant as it is still possible to structure termination payments in a tax-efficient way if you get the documentation correct.

TAX DIARY OF MAIN EVENTS FOR SEPTEMBER / OCTOBER 2015

Date	What's Due
1 September	Corporation tax for year to 30/11/14
19 September	PAYE & NIC deductions, and CIS return and tax, for month to 5/9/15 (due 22 September if you pay electronically)
1 October	Corporation tax for year to 31/12/14
19 October	PAYE & NIC deductions, and CIS return and tax, for month to 5/10/15 (due 22 October if you pay electronically)

INHERITANCE TAX AND THE FAMILY HOME

As mentioned last month the Chancellor has confirmed the introduction of an additional inheritance allowance that will be available in addition to the current £325,000 nil rate band which will, when fully phased in, allow a couple to pass on the family home tax free up to a value of £1,000,000. The additional allowance, which will also be transferrable to the surviving spouse, will start at £100,000 for 2017/18. The allowance will then increase to £125,000 in 2018/19, £150,000 in 2019/20, and £175,000 in 2020/21.

Unfortunately the Chancellor also announced that the inheritance tax nil rate band will be frozen at £325,000 until 6 April 2021.

The main residence nil band is subject to a taper where the amount being left is more than £2,000,000 with £1 of the family home allowance being lost for every £2 of estate value over £2,000,000. This clawback is based on the value of the estate before reliefs such as business property relief and agricultural property relief and may result in some additional complications and redrafting of Wills.

If this change is likely to affect your family circumstances you may wish to arrange a meeting with us to consider the impact on your Will and your family's inheritance tax position.



CHANGES AFFECTING NON-DOMICILED TAXPAYERS

The Chancellor announced a number of important changes to the tax treatment of individuals who are resident but not domiciled in the UK. Such individuals currently benefit from a number of tax advantages such as exemption from UK inheritance tax (IHT) on assets situated outside the UK and in some cases only being taxed on overseas income and gains if those amounts are remitted to the UK.

From April 2017, IHT will be payable on all UK residential property owned by non-domiciles, regardless of their residence status for tax purposes, including property held indirectly through an offshore structure.

From April 2017, individuals who are born in the UK to parents who are domiciled here, will no longer be able to claim non-domicile status whilst they are resident in the UK.

The government will also legislate so that from April 2017 anybody who has been resident in the UK for more than 15 of the past 20 tax years will be deemed to be domiciled in the UK for all tax purposes. This is being reduced from the current 17 year deemed domicile rule for IHT.



TAX DIARY OF MAIN EVENTS FOR AUGUST / SEPTEMBER 2015

Date	What's Due
1 Aug	Corporation tax for year to 31/10/14
19 Aug	PAYE & NIC deductions, and CIS return and tax, for month to 5/8/15 (due 22 August if you pay electronically).
1 Sept	Corporation tax for year to 30/11/2014
19 Sept	PAYE & NIC deductions, and CIS return and tax, for month to 5/9/15 (due 22 September if you pay electronically).

