Copson Grandfield
CHARTERED ACCOUNTANTS

NEWSLETTER

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Inside:

Welcome to the Copson Grandfield Newsletter.

Inside you will find topical comments, & more useful tax tips.

Loan Interest: Buy to Let Landlords

From **6 April 2017** the amount of relief available to Buy-to-Let Landlords will change. Previously; Buy-to-Let Landlords could claim Tax Relief on their Loan Interest repayments/ other finance costs at the top level of tax they pay, meaning the wealthiest received Tax Relief of up to 45%.

From 6 April 2017, rental profits must be computed **without** including Interest payments; a new Tax Reduction Relief will apply instead, restricting relief to the level of the Basic Rate. Relief will be given by way of a 'Tax Reducer', equal to 20% of the allowable Loan Interest.

These changes will be phased in over time, starting from 6 April 2017, with the new rules applying to 25% of the relevant interest in the first year, 50% in the second and 75% in the third. They bite in full on all relevant interest payments from 6 April 2020.

These new rules only apply to individuals with residential property businesses; they do not apply to companies. Additionally; these changes also do not apply to land and property dealing, development businesses, commercial lettings, student lets or furnished holiday lets.

Although the relief will be restricted to the level of the Basic Rate, Basic Rate Taxpayers could still be affected, as they could be pushed into the Higher Rate as a result! To make matters worse, the new system can also over inflate the individuals' income for Tax Credit / Child Benefit purposes, which may also reduce entitlement.

The impact of these changes will vary depending on your personal circumstances and long-term intentions; we therefore suggest that you discuss the above with your Portfolio Manager, so that we can tailor a practical solution that can minimise your liabilities and meet your needs.

The Pensions Advice Allowance: a £1,500 Tax Break

People planning for retirement will be able to take out up to £1,500 tax free from their pension pots, in three stages, to pay for financial advice.

The new Pension Advice Allowance will allow people to withdraw £500 on up to three occasions from their pension pots, tax-free, to put towards the cost of pensions and retirement advice from April 2017.The tax-free move means that individuals will no longer risk a potential 55% tax liability over advice taken.

Under current tax rules, using this method to pay for holistic retirement advice on all of an individual's pension products is treated as an unauthorised payment and can incur a tax charge of at least 55%. This is because, currently, the advice given must only relate to the pension product the fee is taken from.

Following an eight-week consultation on the plans, the Treasury has confirmed the details for use of the £500 allowance:

- It can be used up to three times, but only once in a tax year, allowing people to access retirement advice at different stages of their lives.
- It can be redeemed against the cost of regulated financial advice, including 'robot advice' as well as traditional face-to-face advice.
- The allowance will be available to holders of 'defined contribution' pensions and hybrid pensions with a defined contribution element.
- Not eligible for holders of 'defined benefit' or final salary type schemes.
- There will be no maximum or minimum age limit on the allowance; and no limit on use of the allowance, regardless of the individual's.

The allowance excludes advice that is not 'strictly related to retirement', for example inheritance tax planning or advice linked to investment funds that will not be used for retirement income.

Pension providers will be able to offer the allowance to their members from April 2017, however there will be no statutory obligation for pension providers to tell their customers about the allowance.

Despite calls for an increase to the £500 figure from a number of stakeholder responses, the government will not raise the one-off limit, although it 'acknowledges respondents' concerns that £500 is not likely to be sufficient to cover the costs of a full, face-to-face holistic retirement advice process,' stating that 'it would be counterproductive to adopt a higher limit for the Pensions Advice Allowance which may discourage advice providers from offering their services for less than £500'.

VAT: Flat Rate changes for 'Limited Cost Traders'

From 1 April 2017, the rate of VAT for 'Limited Cost Traders' will change.

Currently under the Flat Rate Scheme (FRS) a Business chooses the appropriate Flat Rate Percentage according to its sector, ranging from **4% – 14.5%.** The trader will then use that % to compute the amount of VAT it pays to HMRC.

Under the new regime a business must perform a calculation in order to determine whether they are a 'Limited Cost Trader'. Those who meet the criteria are required to use a Flat Rate of **16.5%**.

A Limited Cost Trader is one who's VAT Inclusive Expenditure on Relevant Goods is either:

Less than 2% of their VAT Inclusive Turnover in a prescribed Accounting Period, or **Greater than 2% of their VAT Inclusive Turnover, but less than £1,000 if the prescribed Accounting Period is one year (apportioned accordingly).**

'Goods', for the purposes of this calculation, must be used exclusively for the purpose of the Business, but exclude a number of items, namely; Capital Expenditure, Food/ Drink (for consumption by the Business or its Employees), Vehicles, Goods for resale, leasing, letting or hiring, Goods for disposal as promotional items, gifts or donations, plus other services, such as; Accountancy Fees, Advertising Costs etc

You may be affected if you are VAT Registered and already using the Current Flat Rate Scheme, or your Business is one that is labour intensive with little spent on goods, such as; IT Contractors, Bookkeepers, Consultants, Hairdressers, or 'labour only' Construction Workers.

HMRC have introduced an online calculator to determine whether or not you will be classified as a Limited Cost Trader, however, Copson Grandfield will undertake this calculation on your behalf, using either last quarters VAT Return as prepared by us, or your most recent Accounts (if you prepare your own VAT Returns).

If your results determine that you are a Limited Cost Trader, then there are further options that you need to consider, such as deregistering from VAT (if below the threshold), or deregistering from the Flat Rate Scheme and registering for the Standard Scheme instead.

If you are likely to affected by these changes, your Portfolio Manager will be in touch with you shortly in order to advise you and to discuss the best option(s) for your business.

Self-Employment: National Insurance Contributions

The Low Incomes Tax Reform Group (LITRG) is urging Self-Employed workers to check their National Insurance Contribution (NIC) record and make up any deficiencies before voluntary contributions increase.

From April 2018, Voluntary Class 3 Contributions will cost **£14.10** a week.

Self-Employed workers whose profits are below £5,965 are not obliged to pay Class 2 NIC, which builds up entitlement to benefits such as; State Pension, Bereavement Benefits, Maternity Allowance and Contribution-Based Employment & Support Allowance (ESA). However the LITRG advises them to pay this voluntary contribution of **£2.80** a week, which can be back-dated for up to six years to reduce deficiencies.

The LITRG, said Self-Employed workers on low profits should seriously consider paying Class 2 voluntarily for the last two years of its existence, if they are not already doing so, to secure a full state pension and other benefits. They should also carefully check their NICs Insurance record for the past six years to ensure any gaps are plugged by exercising their right to make back-payments.

Tax Tip: Self-Assessment Tax Calculations

When applying for Loans & Mortgages, most lenders ask Self Employed Individuals/ Company Directors for an 'SA302' or Tax Calculation, which provides proof of earnings for a particular tax year.

Whilst we can provide you with the necessary figures, many lenders insist on actual HMRC copies, which we need to formally request, and then wait for HMRC to send via the post, delaying the application.

In recent months the revenue have become increasingly reluctant to provide this information, advising that lenders should accept 3rd party copies, however this is not always the case.

After submission of your Tax Return, HMRC usually issue you with a 'Self-Assessment Tax Calculation', these forms now bear the following statement: "Please keep this copy of your calculation it may be used as proof of income reported to HMRC – for mortgage or loan purposes"

If you receive such a form, we suggest that you keep it in a safe place, as doing so could help speed up any future loan application(s).

Off-Payroll working in the Public Sector: reform of legislation

The off-payroll rules (known as IR35, or 'the intermediaries legislation'), ensure that individuals working through their own Personal Service Company (PCS) pay employment taxes in a similar way to employees (where they would deem to be employed were it not for a PSC or other intermediary).

Up until now, contractors have had to provide assurances to the relevant public sector body that they are outside of IR35.

As from **6th April 2017**, the responsibility for assessing a worker's employment status will shift to the public authority, agency or third party paying the intermediary. They will also be responsible for deducting and paying the PAYE Tax & NIC to HMRC.

Public sector bodies include; Universities, Local Authorities, Parish Councils and the NHS. The changes do not affect workers and PSC's who provide their services to Private Sector organisations.

These changes are being introduced in order to improve fairness in the tax system by ensuring that individuals are not able to sidestep employment taxes or NIC's by working through a PSC.

In addition to the above, there was previously a 5% allowance to cover unspecified expenses; this will also be removed, however the intermediary will still be able to claim allowable business expenses.

Legislation will be introduced in Finance Bill 2017; and sets out the following rules for those using a PSC:

- The Public Sector engager is treated as an employer for the purposes of Tax & NIC's
- The amount paid to the worker's intermediary for the worker's services is deemed to be a payment of Employment Income (or earnings for Class 1 NIC's) for that worker.
- The Public Sector engager is liable for secondary Class 1 NIC's and must deduct Tax and NIC's from the payments they make.
- The person deemed to be the employer for Tax purposes is obliged to remit payments to HMRC and to send HMRC information about the payments using Real Time Information (RTI).

The government says it has no immediate plans to extend the new rules beyond the Public Sector.

If you are likely to be affected by the proposed changes, or would like any further information in relation to the above, please do not hesitate to contact your Portfolio Manager, who will be happy to discuss the impact of these changes in more detail.

Budget 2017: A Brief Rundown

Following the 2017 Budget, first announced on 8 March 2017, we provide a brief rundown of some of the key points:

Class 4 National Insurance
The Budget initially announced plans to increase National Insurance Contributions for Self-Employed Individuals from the current rate of **9%** to **10%** in **April 2018** and then **11%** in **April 2019.**

The Chancellor has since performed a U-Turn on this measure.

Dividends
The £5,000 Tax Free Allowance for Dividends will reduce to £2,000 from April 2018.

This reduction will ultimately result in a further £225.00 Tax Liability (£3,000 x 7.5%) for Basic Rate Taxpayers, whilst potentially costing higher rate taxpayers £975 and additional rate taxpayers £1,143 a year.

Corporation Tax
The Rate of Corporation Tax is set to reduce from 20% to 19% on 1 April 2017. It has been confirmed that the Corporation Tax Rate will also receive a further cut, reducing to 17% in 2020.

Personal Tax
The Personal Allowance will increase from £11,000 to £11,500 from 6th April 2017.

The Higher Rate Threshold will also increase from £32,000 - £33,500 Individuals can now earn up to £45,000 before they go into Higher Rate.

IHT – Residence Nil Rate Band (RNRB)
From 6 April 2017 an additional 'Residence Nil-Rate Band' of £100,000 per person will be introduced, boosting the existing NRB from £650,000 for married couples (2 x 325,000) to a maximum of £850,000.

This new allowance only applies to wealth tied up in your main residence, and is set to increase to £175,000 by 2020/21, effectively bringing a Married Couples Nil Rate Band up to £1 Million.

The 'RNRB' therefore has the potential to reduce future IHT liabilities by £80,000 (200,000 @ 40%) from 6th April 2017, increasing to £140,000 (350,000 @ 40%) by 2020/21.

Staff News

From May 2017 **Lorraine Banks** will be reducing her hours in order to focus on **Credit Control**, whilst handing over the role of **Office Manager** to **Neil Townsend**. We wish them both the best of luck in their new roles.

We also are sad to announce that **Frank Hoskins** in our Accounts Department will shortly be leaving us. For those of you who deal with Frank; rest assured that you will be allocated a new Portfolio Manager shortly. In the interim, our existing team will be on hand to provide advice, or to help you with any queries that you may have.

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Other News

Congratulations to Richard Pearce who won the recent prize draw for completing our Client Satisfaction Questionnaire; receiving a £50.00 Amazon Voucher. Be sure to keep an eye out for future competitions; the next winner could be you!

Accountants Are A Joke!

1. What's the difference between an accountant and a lawyer? The accountant knows he's boring.

2. What do you call an accountant without a calculator? Lonely

3. Did you hear about the constipated Accountant? He couldn't Budget!