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.

# Major changes in Accountancy which will affect all of you!

## New Dividend Tax!

The Chancellor announced a change to the way Dividends are to be taxed as part of the emergency Summer Budget.

From **April 2016** new rules are set to come into effect which will alter the way Dividends are taxed. At present Basic Rate Taxpayers are not required to pay tax on Dividends, but under the new rules that will change…

Initially all taxpayers will have a new tax-free Dividend Allowance of £5,000 a year. After this initial £5,000, tax is to be charged at new rates that are 7.5 per cent higher than current levels. The overall tax rate will depend on your income tax rate band.

If your Dividend Income pushes you from one income tax band into the next, you will then pay the higher dividend rate on that portion of income.

The table below compares this tax year with next.

| | **2015/16** | **2016/17** |
|---|---|---|
| Non-taxpayers | 0 per cent | 0 per cent |
| Basic rate taxpayer | 0 per cent | 7.5 per cent |
| Higher rate taxpayers | 25 per cent | 32.5 per cent |
| Additional rate taxpayers | 30.6 per cent | 38.1 per cent |

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Dividend Income is still qualifies for the Personal Allowance, so if next year you had £16,000 in Dividends (with no other income), then the first £11,000 would be covered by the Personal Allowance, and the remaining £5,000 by the new Dividend Allowance. As a result, you would still pay no tax.

However, you will be worse off if you have other income, such as Pensions, Employment Income/ Directors Salaries etc. and your Dividends exceed the £5,000 Allowance.

**Therefore, these changes will mostly affect Directors of Limited companies, or those with large Investment Portfolios.**

**2015/16 Vs 2016/17 Example:**

**2015/16**
Salary: £10,600 (Personal Allowance)
Dividends: £20,000
Tax Due: **Nil**

**2016/17**
Salary £11,000 (Personal Allowance)
Dividends £20,000
Tax Due: **£1125**

The above example shows how the taxpayer would be worse off year-to-year with the same/ similar income, with the gap/ liability increasing as the Dividend Income rises.

Whilst many will pay more, there are others, such as Higher Rate Taxpayers with £5,000 or less in Dividend Income, who will gain. Currently they would pay 25% on the whole sum (£1,250 tax, if using £5,000 as an example), while under the new regime there will be no tax due, thanks to the £5,000 allowance.

**These changes could have a massive impact on the tax you pay, but there are ways to limit the damage. We will therefore be running a seminar shortly to provide you with a greater insight into what you can do to reduce the impact, details across the page.**

# Staff News

As many of you will know; after 12 years of service **Rebecca Williams** has left our Accounts Department. We wish her all the best in her new endeavour.

Those of you who dealt with Becky will soon be allocated a new Portfolio Manager.

In other news; **Nilesh Mashru** & **Luke Green** have become the newest members of our Accountants Department, whilst **Jane Brownsey** has recently joined our Admin Team.

# VERY IMPORTANT SEMINAR – 4th February 2016

Our next Seminar will be at 6.30 on 4th February at Cleve RFC, we feel that you should attend and more details will be sent out shortly. We will be covering:

**Summer Budget and Autumn Statement**
The most radical budget for years has brought us the new Dividend Tax, Higher rate interest restrictions, changes to the Wear & Tear Allowance; expect further changes in the upcoming Autumn Statement.

**FRS102**
Major changes are happening to the way accounts are prepared and presented; we will update you as to what is happening and what needs to be done.

**Auto-Enrolment**
Update on this vital subject as more of you get close to your staging date.

**Pensions**
A refresher as to the new rules on making contributions, and then withdrawing benefit after retirement.

# New Office Hours

Please note; From Monday 19 October 2015 our Office Opening Hours will be changing. Our New Opening Times are as follows:

| | |
|---|---|
| **Monday – Thursday** | **8.30am – 5.30pm** |
| **Friday** | **8.30am – 4.00pm** |

# Tax Tip – Pension Contributions

With the changes in the way Dividends will be taxed in future there will be some knock-on effects, but also counter measures that can be taken…

It was previously beneficial to take a Dividend from your company, and then pay into a Personal Pension. This pension payment not only added to your Pension Pot to help you provide for retirement, but your Net Contribution was then Grossed up by 20% and also extended your Basic Rate Band, keeping you out of the Higher Rate of income tax.

The changes have made this approach less attractive, since the more you take out as a Dividend, the more tax you will pay as an individual.

One solution could be to look at your company paying into a pension scheme for you instead. This would enable you to reduce your Dividends, and therefore your Personal Tax bill, and you also get a deduction for Corporation Tax!

Please note that in order to keep the overall Contribution the same, the Company would have to pay the Gross Amount.

**Example**; a £200 Personal Contribution is grossed up to £250, whereas a Company would need to pay the full £250 instead, but then gets relief for Corporation Tax.

# UK Accounting Standards are changing – FRS 102

The Financial Reporting Council (FRC) has replaced current **UK GAAP** (Generally Accepted Accounting Practice) with **FRS 102** with effect from periods beginning on or after 1 January 2015.

FRS 102 is designed to provide a simplified accounting framework. Originally derived from **IFRS** for SMEs (Small and Medium Enterprises), FRS 102 has undergone many changes during the development process in order to reduce the number of accounting differences with existing UK GAAP.

The introduction of FRS 102 will lead to a change in accounting for most UK companies unless they currently apply and stay with EU IFRS or they are under the FRSSE.


FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015 so for a December year end, 1 January 2014 would be the 'transition date', the start of the comparative period in the first mandatory FRS 102 accounts.

Although a number of changes have been made as a result of consultation, there remain some key differences compared to current UK GAAP.

Consequently it is important that some initial planning is undertaken, in particular if key transactions are expected before the transition date that could be impacted by the transitional rules under FRS 102.

Some of the more common areas to consider include; Debt covenants, Management agreements, Remuneration and share based payment schemes. Plus, agreements may also need to be rewritten or renegotiated.

Furthermore the adoption of FRS 102 may also have an impact on distributable reserves (to declare a dividend a company needs to have sufficient distributable reserves) and the company will need to be able to estimate the impact and plan accordingly.

FRS 102 is not just an issue for the annual accounts, it could also have consequences for budgets and forecasts and tax planning strategies.

As mentioned on **Page 2** we will be running a seminar concentrating on the impact of these changes, which we strongly advise you attend. In the interim, if you would like any further information, please do not hesitate to contact your Portfolio Manager.

# HMRC U-Turn on Wear & Tear Allowance

HMRC has revealed the scope of its proposed changes to the Wear & Tear Allowance as announced in George Osborne's recent Budget.

Osborne stated that from April 2016 the formal Wear & Tear Allowance - which allows 10% of rental profits to be written off for 'notional' Wear & Tear, will be replaced with a relief that enables all landlords to deduct the costs they actually incur on replacing furnishings in the property.

This effectively reinstates the 'Renewals Basis' which was abolished back in April 2013.

These changes will have a serious impact on Landlords of Furnished Lettings:

**Example**; If you had Property Income of £40,000 (Furnished), under the old rules you could claim 10% of the Rental Income as an expense, a deduction of £4,000, even if no actual expenses had been incurred, leaving taxable income of £36,000.

From April 2016 this allowance will no longer be available; in which case the full £40,000 would be taxable (assuming no actual replacements/ expenditure).

For a taxpayer paying tax at the higher or additional rate of tax, this would cost a further £1600 (40%), or even £1800 (45%) in tax!

On a lighter note; the old Wear & Tear tax break applied only to Fully-Furnished properties. The changes will mean that agents and landlords will no longer need to decide whether their property is sufficiently furnished to claim the new replacement furniture relief.

This is because the new relief will apply to all landlords of residential dwelling houses, no matter what the level of furnishing.


## Sage Software

For those of you thinking about either purchasing or updating **Sage Accounting Software**; please be aware that we are able to obtain a discount for our clients, so we may be able to offer you a better deal.

Before contacting Sage directly (or if Sage contact you), please speak to us before making a purchase.

## Self-Assessment

It's that time again…. As winter approaches and the pubs begin to take Christmas bookings, it can only mean one thing….. Tax Season!!!

If you haven't yet filed your 2014/15 Tax Return, please be aware that time is running out. The deadline for submission to HM Revenue & Customs is **31 January 2016**.

Failure to meet the deadline will result in an automatic £100.00 penalty, regardless of whether you owe tax or not!

Continued failure to submit your return may also result in daily penalties, which can become very expensive, very quickly.

If you are unsure of what details you need to provide, or need any help/ advice obtaining the required information, please do not hesitate to contact either your Portfolio Manager, or a member of our Personal Tax Team.

## Loan Interest Changes for Land & Property

The recent Budget announced plans to restrict tax relief available on Finance Costs/ Loan Interest for individual buy-to-let landlords (of residential property) to the Basic Rate of tax.

This comes as a huge blow to landlords who have previously been able to obtain relief at their top level of tax.

**Landlords need to be both a Higher Rate Taxpayer and a UK Resident to be within the scope of these changes, Basic Rate Taxpayers will not be affected.**

This restriction will be phased in over four years, starting from **April 2017**. Consequently, this measure will affect Finance Costs/ Loan Interest incurred on or after 6 April 2017.

These changes will be gradually introduced, and taxpayers will be able to obtain relief as follows during transitional period:

**2017-18**: The deduction from property income (as is currently allowed) will be restricted to 75%, with the remaining 25% available as a Basic Rate Tax reduction.

**2018-19**: 50% finance costs deduction (in the Accounts) and 50% given as a Basic Rate Tax reduction.

**2019-20**: 25% finance costs deduction and 75% given as a Basic Rate Tax reduction.

**2020-21**, and beyond: all financing costs incurred by a landlord will be given as a Basic Rate Tax reduction.

As illustrated above; once fully implemented, individuals will only be able to claim relief at the Basic Rate, which is currently 20%.

This is a significant reduction considering that the wealthiest amongst us can currently claim the full amount, and obtain tax relief worth up to 45%.

**As this is another area that will affect a large number of our clients, we will also be addressing this issue during our next seminar.**

## Accountants Are A Joke!

1. What does an Accountant say when boarding a train? 'Mind the GAAP'.
2. What's grey and not there? An Accountant on holiday.
3. Why did the cannibal Accountant get disciplined? For buttering up her clients