A.C.MOLE & SONS CHARTERED ACCOUNTANTS

proactive

SPRING 2016

Making Tax Digital

In our last newsletter we highlighted HMRC's plans for Making Tax Digital.

A part of the plan is to make it compulsory for all businesses (including the self-employed and landlords) to keep their business records using apps and accounting software; spreadsheets will not be sufficient and hand written records will – from 2018 - be a thing of the past. We are opposed to making this compulsory but we are working with HMRC to try to ensure that the systems they design reflect the needs of small businesses. We have a great deal of experience in helping clients with accounting software and if you have yet to make the transition to digital records we are here to help.

New President

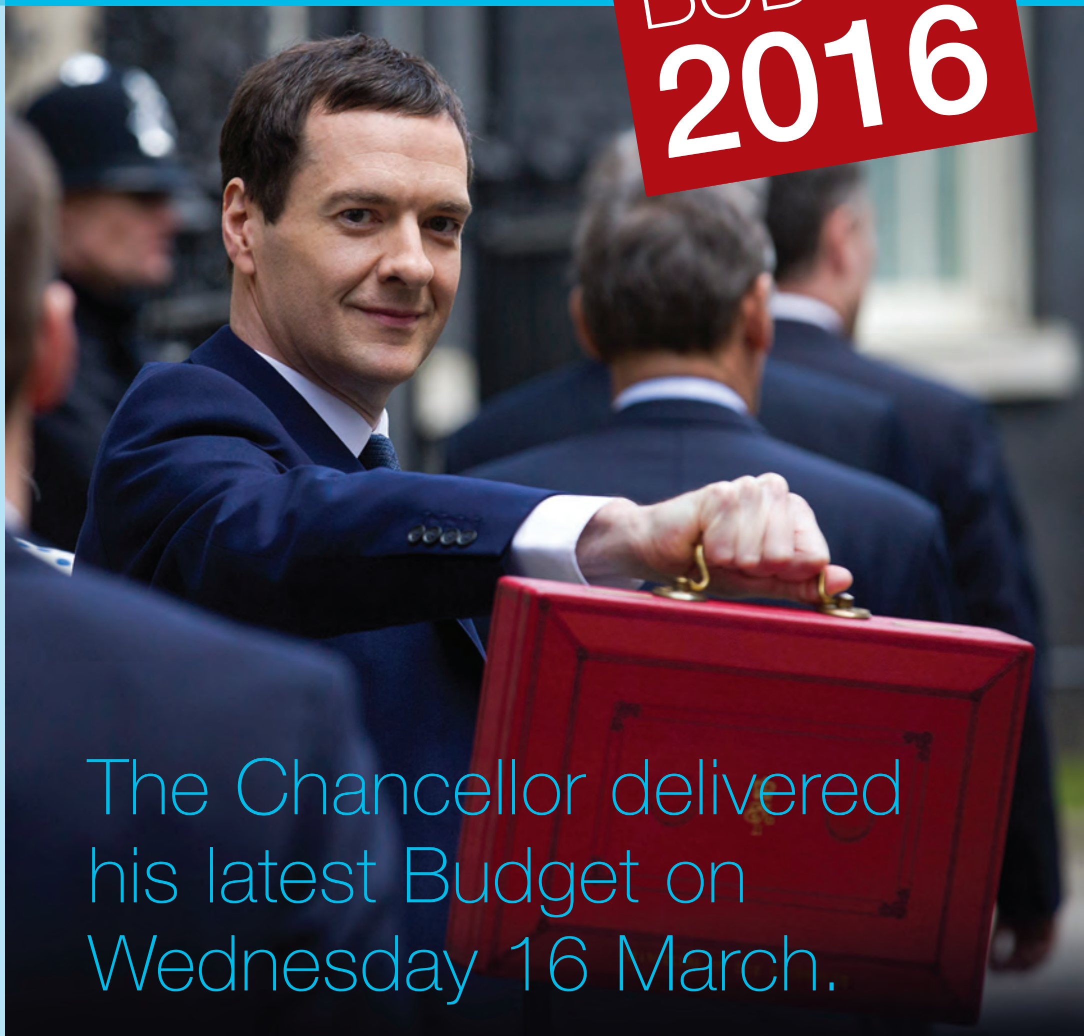
In January tax partner Paul Aplin was elected as the next Vice President of the Institute of Chartered Accountants in England and Wales.

He will step down from his current role as Chairman of the ICAEW Tax Faculty Technical Committee and will be formally appointed to his new role at the beginning of June. He will serve a year as Vice President, a year as Deputy President and in June 2018 will take over as President. The ICAEW now has over 146,000 members in 160 countries and the role is as much international as it is national.

In the press (again)

We have been quoted extensively in the national press over recent weeks on subjects as varied as Making Tax Digital, tax "cliff edges", the proposals for changes to national insurance put forward by the Office of Tax Simplification and issues facing the farming community.

You can follow our tax and farming commentators on Twitter: @PaulAplinOnTax and @RobAtACMole



The Chancellor delivered his latest Budget on Wednesday 16 March.

The world economic outlook has become more uncertain in the three months since the 2015 Autumn Statement due to a number of factors including the falling oil price and the impending EU referendum. The scope for pulling rabbits from hats was therefore limited, but Mr Osborne still managed to find a few hiding in the corridors of the Treasury to lure into his topper.

The Office for Budget Responsibility has downgraded its growth predictions to 2.0% for 2016 rising to 2.2% in 2017 and then down to 2.1% for the following three years. CPI inflation is forecast to be 0.7% this year rising to 1.6% in 2017 and then to reach the Bank of England's target of 2.0% in 2018.

The deficit – the amount by which the government's annual expenditure exceeds its income – is expected to be £72.2 billion in 2015/16, £55.5 billion in 2016/17, £38.8 billion in 2017/18 and £21.4 billion in 2018/19.

These figures are higher than the OBR was predicting at the time of the Autumn Statement but a surplus is still forecast for 2019/20 of £10.4 billion (and a surplus of £11.0 billion the following year).

By the time the deficit is eliminated, the national debt will have reached £1,715 billion (and the government expects it to continue to rise, to £1,725 billion in 2019/20 and to £1,740 billion in 2020/21). The interest bill on that debt is close to £1 billion a month. If the public sector pension liability was factored in, the debt figure would double (and even then would not include the costs of nuclear decommissioning or other potential future costs).

A summary of the main provisions is set out on pages two and three.

Tax changes for individuals

The personal allowance will increase to £11,000 from 6 April 2016 and to £11,500 from 6 April 2017.The government's aim is to lift the allowance to £12,500 by 2020.

By 2017/18 the government estimates that there should be 585,000 fewer higher rate taxpayers than at the start of the parliament.

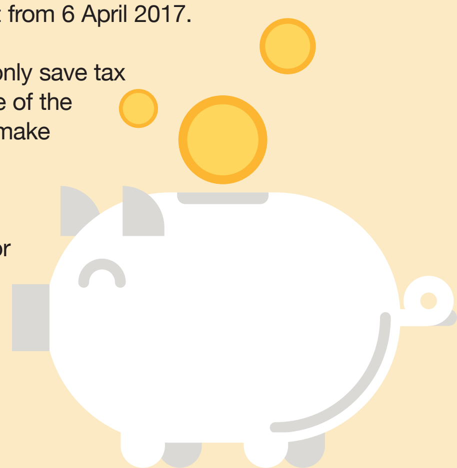
From 6 April 2017 the overall Individual Savings Account (ISA) limit will rise from £15,240 to £20,000. A new type of ISA – the Lifetime ISA or "LISA" - will be launched from 6 April 2017. Anyone aged between 18 and 40 will be able to open a LISA and save up to £4,000 a year, with the amount saved matched by a government contribution of 25% up to age 50. Savings - including the cash bonus - can be withdrawn to pay a deposit on a first home worth up to £450,000 at any time after twelve months from opening the LISA or for any purpose after age 60. There will be transitional rules for those with Help to Buy ISAs.

The government has also decided to legislate to allow the ISA accounts of deceased persons to retain their tax benefits during the estate administration period.

In addition to the exemption of the first £1,000 of savings income (£500 for higher rate taxpayers and nil for additional rate taxpayers) and the zero rate on the first £5,000 of dividend income both of which take effect from 6 April 2016, the Chancellor announced that the first £1,000 of income from property letting and the first £1,000 of self-employment income will also be exempt from 6 April 2017.

These allowances will not only save tax but will relieve many people of the need to file a tax return or make a declaration through their new digital tax account.

Fuel Duty remains frozen for the sixth successive year. There was a small (0.5%) increase in insurance premium tax.

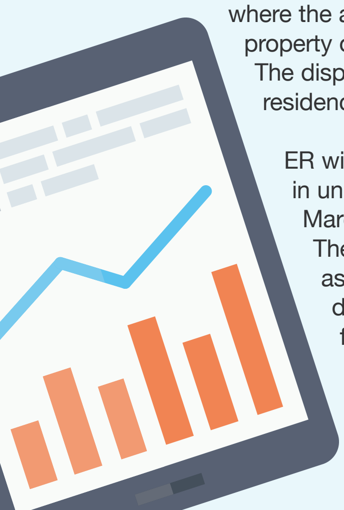


Capital gains tax (CGT)

While many commentators had expected the Chancellor to increase CGT rates and to narrow the scope of Entrepreneurs Relief (ER) he actually did the reverse.

Disposals on or after 6 April 2016 will attract a CGT rate of 20% (as opposed to the current 28%) insofar as they fall into the higher rate band and 10% (as against the current 18%) insofar as they fall into the basic rate band. The existing rates will however continue to apply where the asset being disposed of is residential property or in the case of "carried interest". The disposal of a person's principal private residence will still be exempt from CGT.

ER will be extended to cover shares purchased in unquoted trading companies on or after 17 March 2016 and held for at least three years. The rules for associated disposals (personal assets used by an individual's business and disposed of as part of their withdrawal from the business) will change backdated to 18 March 2015.



The government also intends to review the definition of "trading company" in connection with ER and has now said that it will permit ER claims – in certain circumstances – on transfers of goodwill on incorporation (backdated to cover disposals on or after 3 December 2014).

Other tax measures

Further measures were announced to counter tax avoidance and evasion and to change the way companies trading internationally are taxed.

Business taxation

The corporation tax rate will fall from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020.

There will be new rules to govern the way in which company losses can be used. These will take effect from 1 April 2017 and will broadly favour smaller companies and groups by allowing them to share losses and to use them in a more flexible way.

Class 2 national insurance will be abolished from 6 April 2018 and there will be changes to the rules for Class 4 national insurance.

From April 2018 employers' national insurance contributions will be due on termination payments in excess of £30,000 already subject to income tax.

The government remains concerned about salary sacrifice arrangements and is considering limiting the range of benefits attracting income tax and national insurance advantages through salary sacrifice (but will still favour pension saving, child care and cycle to work benefits).

Companies whose directors have loan accounts will face a higher tax charge. Currently tax is levied at 25% of the overdrawn amount and from 6 April 2016 this will increase to 32.5%. The tax is repayable to the company on the normal corporation tax payment date following the year in which the loan is repaid by the director.

The VAT registration threshold will increase to £83,000 from 1 April 2016.

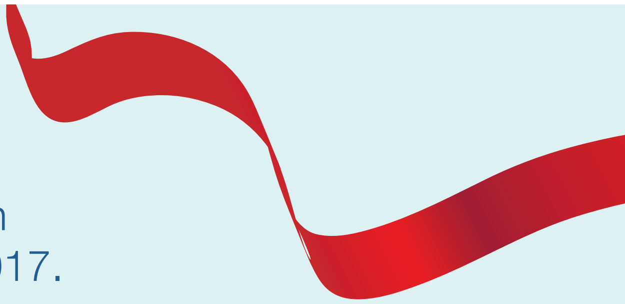
Further changes were announced to reduce the burden of business rates on the smallest businesses.

Stamp Duty Land Tax (SDLT)

SDLT is currently charged on commercial property transactions on a "slab" system: a single rate – rather than progressive rates - of SDLT is applied to the whole consideration and an additional £1 of consideration can tip the entire transaction value into the next tax rate band.

This system has already been scrapped for residential property and will be scrapped for commercial property transactions with effect from 17 March 2016. From that date the first £150,000 slice of consideration will attract no SDLT, the next £100,000 slice will attract SDLT at 2% and anything above that at 5%. Aligning the way residential and non-residential property is treated makes sense and taxing slices of consideration at progressive rates is much fairer than taxing the entire "slab" at the highest applicable rate.

Tax administration



HMRC will be investing an extra £71 million in call centres to deliver a 7 day service from 2017.

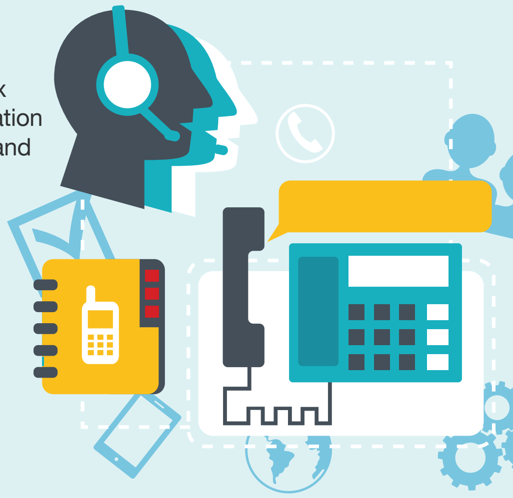
There is also a proposal to give mid-sized businesses a named HMRC contact (large businesses already have this facility).

Self-employed people and landlords who keep their records digitally will from 2018 have the option to adopt a "pay as you go" tax payment system. Full details are yet to be announced and it must be stressed that the self-employed, landlords and businesses will have no choice but to keep their records using apps and accounting software under the government's Making Tax Digital project: digital business records will be compulsory from 2018.

We remain concerned that this will add a further burden to many small businesses already struggling with government red tape.

The government has committed to fund further studies by the Office for Tax Simplification into simplification of small business taxation and into the potential to more closely align the operation of income tax and national insurance.

This work has the potential to radically change the way small businesses are taxed and in which PAYE is operated.



Final thoughts

The Budget winners were small businesses and savers; the losers - on balance - were large and multinational companies.

Farming matters

Associate Rob Selley looks at two topical issues for the farming community. Rob is regularly quoted in the farming press and you can follow him on Twitter @RobAtACMole

Surviving Tough Times

With milk prices continuing to suffer, delays in BPS payments and other farming sectors facing uncertain times it is fair to say that farming is in the middle of some very tough economic times.

If you are suffering from cash flow pressures or falling profitability then it is important to confront these issues head on to ensure your business survives. Opening up a dialogue with your bank and putting them in the picture at an early stage is the first essential step. They need to fully understand the situation you are in if they are to help with short and long term solutions.

Looking at your business as a whole is vital to ensure that all areas are generating the required return on the effort and investment you are putting in. Cash flow forecasts are very useful tools in identifying when money will be in short supply. A profit and loss forecast can also highlight where potential cost savings can be made and identify inefficiencies within the business.

Selling off parcels of land or underutilised farm machinery is always a good way to bolster cash reserves, but be wary of the potential tax consequences: the CGT rules have changed many times over the years and have changed again in the 2016 Budget.

Many farmers are sitting on valuable assets but the return on capital can be low. Ultimately the farm should be working for you and not you working for the farm. Renting out buildings, converting redundant barns and considering other diversification projects can often provide a lucrative supplement to your core farming operations.

When is a farmhouse not a farmhouse?

The farmhouse is generally considered to be the hub of the farm business operation with decisions being taken around the kitchen table and a large room normally dedicated as the farm office. For these reasons Agricultural Property Relief (APR) is available on farmhouses and cottages.

The main condition for claiming APR on a farmhouse is that it is occupied for agricultural purposes and is of a "character appropriate", which is to say that the farmhouse needs to be proportionate in size and nature to the scale of the farming activities. A large mansion surrounded by 25 acres is unlikely to qualify whereas a more modest dwelling accompanying 150 acres would stand a better chance. In recent years, HMRC have taken an increasing interest in claims for APR on farmhouses and they use the 'elephant test' - you may not be able to define a farmhouse but you know one when you see it.

Occupation is another area of particular interest to HMRC when reviewing claims for APR: Is the farmhouse actually being used to accommodate an active farmer? This can be particularly relevant when an older member of the farming business moves out of the farmhouse and into a care home.

Ownership is also an important area to consider. Do the farmhouse, buildings and surrounding land all belong to the same person? Having different parts belonging to different members of the same family is very common, but this could potentially jeopardise future claims for APR.

Every farm business is different and a review of your individual circumstances is vital to ensure the best chance of securing the reliefs that may be available.

If you have any questions or concerns, we are here to help.

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