A.C.MOLE & SONS CHARTERED ACCOUNTANTS

proactive

Inside:
More on Tax Changes...

WINTER 2016

New Year Hat Trick

Tax Partner Paul Aplin has been included in the Accountancy Age Financial Power List of the 50 major influencers in tax and accountancy for the third year in a row. He has also been included in two recent polls of top influencers on social media run by Economia magazine and the ICAEW. For commentary on the latest developments, you can follow Paul on Twitter **@PaulAplinOnTax**.

Paul and Associate Rob Selley from our farming team have been widely quoted in the national and technical press over recent months on subjects as diverse as HMRC's plans to scrap the annual tax return and succession issues for farmers. You can follow Rob's views on tax and business issues for the farming community on Twitter at **@RobAtACMole.**

Employers Beware

In December the government announced that the easement allowing micro employers not to report payroll payments on or before the date they are made under the PAYE Real Time Information regime will end in April 2016. We think this is regrettable and demonstrates a lack of understanding of the problems small businesses face in complying with tax obligations.

Employers also need to be aware of the new auto enrolment pension regime which we described in the last edition of proactive.

We would also advise employers to take care to comply with the National Minimum Wage legislation which HMRC is becoming increasingly active in enforcing. The penalties for non-compliance can be substantial.

Finally some good news: the Employment allowance which can be set against an employer's national insurance bill is set to increase from £2,000 a year to £3,000 from April 2016.

New Year, new challenges

2016 will be a year of challenges.

In his Autumn Statement delivered in December the Chancellor set out an encouraging summary of the UK's economic position. Growth is forecast to be 2.4% in 2016 and 2.5% in 2017 with inflation remaining low. The deficit – the amount by which the government's annual expenditure exceeds its income – is expected to be £73.5 billion this year and to remain in deficit until 2019/20 when the economy will at long last return to surplus. By the time the deficit is eliminated though the national debt will have reached a staggering £1,702 billion, with an interest bill of around £1 billion a week. The Chancellor has more recently warned that in the current world economic environment, with stock market turmoil around the globe, nothing can be taken for granted. Add the EU referendum to the mix and uncertainty is likely to remain a feature right through the year making it difficult to plan with confidence.

Economics aside, one clear trend is the steady march to a digital world and in this edition of Proactive we look at two aspects: firstly HMRC's ambitious plans to abolish the annual tax return and to scrap handwritten business records and secondly the measures you should take to stay secure when 90% of large organisations and 74% of small businesses now report that they have experienced an IT security breach.

We also look at some new and potential tax changes impacting both individuals and businesses. We expect even more changes in the March 2016 Budget.

And we would like to introduce you to our new associate, Jamie Rudge who joins us from a major London firm.

THE DIGITAL TAX REVOLUTION

If you keep handwritten business records, you are a landlord or you file a tax return, the next few years will bring some dramatic changes.

This year, the ten million individuals who currently file tax returns will have access to a personal online tax account. HMRC will "pre-populate" this with information it already holds such as income from employment and from private and state pensions. Next will come details of interest from banks and building societies. Over the years, more and more information will be added, leaving less and less to be supplied by the individual. The government aspires to make the annual tax return a thing of the past, though we think that many people – those with significant stock market portfolios, overseas income or capital gains for example - will find that they still have to supply detailed information for some years to come.

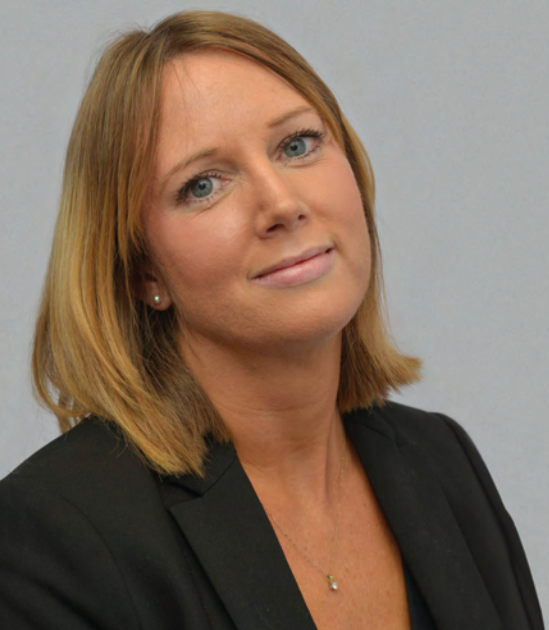
Businesses will also be given digital tax accounts which will enable them to track their tax affairs online. You may have read that HMRC plans to force businesses to file four tax returns a year instead of one. There is in fact no such plan, but what is actually being proposed is in many ways even more radical.

From 2018 all businesses - including the self-employed - and most people with income from letting will be required to keep their tax records digitally and to upload information to HMRC at least once a quarter. That will mean the end of hand written records. It will be a huge change for many smaller businesses.

The idea is that businesses will use accounting software or apps on smartphones to capture and record business transactions. The government believes that this will improve the quality of record keeping, make it easier for businesses to comply with their tax obligations and reduce their costs. Many small businesses and representative bodies have expressed concerns and over 110,000 people have signed an online petition to protest. The plans were debated in Parliament on 25 January.

As a firm, we fully support the idea of digital tax accounts, but we share the widespread concern about forcing businesses with manual records to change to digital. If there are advantages – which based on many years of experience with accountancy software and Information Technology we believe there are for many businesses – then people will do this as a matter of choice. They should not be forced.

If you are in business and currently keep hand written records you will have no choice but to change to digital. You will either need to use apps or software yourself – and HMRC say they will ensure that free apps and software are available – or else you will need someone to do it for you. We will of course guide and support you if you need help.



New Associate

We are pleased to announce that Jamie Rudge joined the firm as an associate in January.

Jamie is a member of the Institute of Chartered Accountants in England and Wales and qualified as a Chartered Accountant in 2008. She spent thirteen years working for a Central London firm, specialising in financial reporting, SME issues and general business advice.

Jamie specialises in providing compliance services and solutions and business advice to professional partnerships and corporate clients. Her wide range of experience and skills on business, accounting and compliance issues gives her the knowledge to deal with the ever growing range of challenges faced by our clients.

She is married with a young family and enjoys travelling and keeping fit.

Tax Changes on the Horizon

We did not produce a newsletter in December covering the Autumn Statement as there were few new tax measures to report. This is however a good time to cover a number of recent measures that will affect many readers of Proactive.

Buy to let landlords and those buying second homes will suffer a 3% hike to Stamp Duty Land Tax rates from1 April 2016. This represents a further blow for landlords who are already faced with a significant restriction of tax relief on mortgage interest announced in the 2015 Summer Budget. Currently landlords are able to deduct interest at all tax rates, as long as the loan does not exceed the cost or market value of the property when first let. From 6 April 2017 the relief will be reduced with 75% of the interest allowable at all rates and 25% only allowable at the basic rate; from 6 April 2018 the amount allowable at all rates will fall to 50% and from 6 April 2019 the amount allowable at all rates will fall to 25%. From 6 April 2020 interest will only be allowable at 20%. The impact of these changes will be considerable but it may be possible to take action to mitigate the effect.

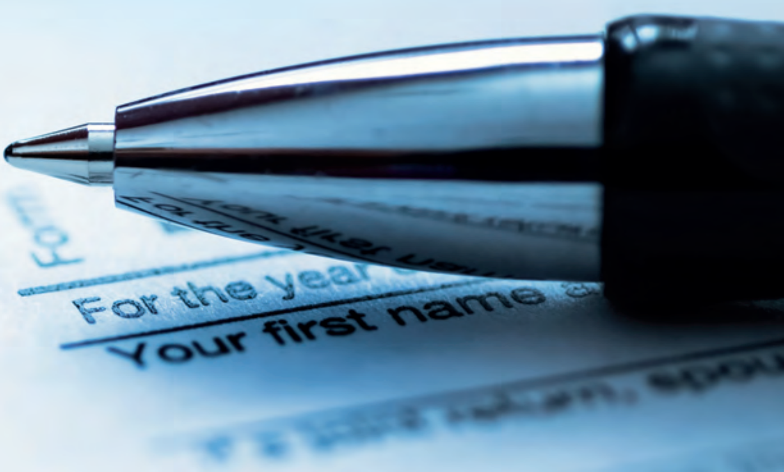
Farmers averaging relief which currently allows averaging of profits over two years (where the results are sufficiently different) will, from April 2016, allow averaging over five years. The existing two year averaging period can still be used if preferred.

There will be significant changes to the pension rules for those earning over £150,000 and for those with substantial pension funds taking effect from April 2016. More changes are expected to be announced in the March 2016 Budget and it is highly likely that further restrictions will be placed on the amount of relief available to higher rate taxpayers. For some people, the £40,000 pension contribution allowance is doubled to £80,000 in the current tax year giving a one-off opportunity to make additional savings.

The government will also consult on the company distribution rules. While this may sound like a technical measure it could have significant consequences for many business owners. We will monitor developments and the government has already announced one major change where, after 5 April 2016, a shareholder in a private company receives a distribution in a winding up and then within a period of two years continues to be involved in a similar trade. If the main purpose or one of the main purposes is deemed to be obtaining a tax advantage, the distribution will be taxed as income, not (more favourably) as capital.

We had expected the government to announce changes to entrepreneurs' relief which reduces the capital gains tax rate on certain business disposals to 10% last year, but the relief was left largely untouched. We still believe that this is a likely target for change and if you are considering retiring from or selling your business (or shares in or assets used by your business) it would be prudent to discuss your plans with us.

We think that 2016 will be another year of significant tax changes.



Is IT Safe?

Last October, phone company Talk Talk made the headlines when its website was attacked. What was less widely reported was the scale of IT security threats that all businesses now face.

The government's 2015 Information Security Breaches Survey reported that 90% of large organisations and 74% of small businesses had experienced a security breach (up from 80% and 60% respectively in 2014). The average cost for large businesses was put at between £1.46 million and £3.14 million and the average cost for small businesses at between £75,000 and £311,000. Over half of the worst breaches were ascribed to inadvertent human error. The message is clear: no matter how large or small your business is, you are at risk.

There are a number of things you can do to protect yourself.

The first thing to do is protect your equipment from electronic threats, whether it is a desktop computer, laptop, tablet or smartphone: all are vulnerable. Good anti-virus software is essential. You should also install a firewall to monitor and block threats. The firewall can be configured to block access to social media sites and other potentially unsafe websites. All protection should be kept up to date, ideally daily.

Next you should protect your equipment from unauthorised access. You should always set strong passwords (using a mix of letters, numbers and characters but never obvious dates or names of individuals or pets). Physical access should be restricted and prompt action taken if a device is lost or stolen. Mobile phones and other mobile devices should be capable of being wiped remotely if they are lost or stolen and everyone must be aware of the need to report loss or theft immediately, irrespective of the time of day or night.

If others can connect to your system then you need to have measures in place to ensure that they too take IT security seriously and use good firewalls and anti-virus software.

Data should be encrypted.

You are particularly at risk when you load data from disks or USB memory sticks. Ideally you should only import data from storage devices you own and they should only be used on other devices with strict controls.

There is always the risk of importing malware (which can take over and control software and devices) or some other infection.

You should keep regular backups of your programs, data and documents. These should be kept securely, away from your main devices. You should also have a disaster plan: if a piece of equipment is lost or broken or if your security is breached and data is stolen, what would you do? In the event of one of these things happening, action would have to be taken very quickly and having a pre-prepared plan will help greatly.

All equipment should be insured and it is worth exploring insurance for cyber-attack and data loss.

Beware of scam emails. Many people receive emails purporting to be from HMRC inviting them to apply online for refunds apparently owed to them: these are not genuine and should never be replied to. HMRC publishes advice on its website.

Scam emails do not just relate to tax. It is relatively easy for a hacker to send an email that appears to come from someone you know or indeed from within your own business. If there is any doubt in your mind, always take time to check that the email is genuine.

If you would like to know more you can find a wealth of information on the ICAEW IT Faculty website at **www.icaew.com/en/technical/information-technology** and there is further security advice at **www.getsafeonline.org** and at **cyberstreetwise.com**.

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