TAX E-NEWS

Welcome to our monthly tax newsletter, designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter and remember - we are here to help you so please contact us if you need further information on any of the topics covered.

DOWNSIZE (OR UPSIZE) TO SAVE INHERITANCE TAX?

From 6 April 2017 an additional Inheritance Tax (IHT) Residence Nil Rate Band (RNRB) starts being phased in to enable individuals to pass on their family home to direct descendants. The additional nil rate band starts at £100,000 and rises to £175,000 for deaths after 6 April 2020. When fully phased in the additional nil band will enable a married couple to pass on a family home valued up to £1 million free of IHT, although the additional relief is restricted if they have assets worth more than £2 million. The proposed new legislation, if enacted, will provide relief even if the individual downsizes to a smaller property where the downsizing takes place after 8 July 2015. Like the £325,000 IHT nil rate band, the unused residence nil band can be transferred to the surviving spouse and used on the second death.

Example:

A widow sells a home worth £400,000 in August 2020 for cash and moves to a home worth £210,000. At the time of the sale the available RNRB is £350,000 as, had she died at that time, her executors would be able to make a claim to transfer all the unused RNRB from her late husband. The new downsizing relief will entitle her to an additional £140,000 (£350,000 - £210,000) nil rate band. This would be added to her nil rate band (up to £650,000 (2 x £325,000) and can be set against any of her assets including cash and investments.

If the replacement property was worth £225,000 on her death then the additional nil band would be reduced to £125,000 if the allowance remains at £350,000. The new inheritance rules are complicated so please get in touch if the changes impact on your family's tax position. It may even be worth considering upsizing before you downsize to maximise this new relief!

NEW RULES FOR DIVIDENDS FROM 2016/17

In the Summer Budget Newsletter we outlined the new rules for the taxation of dividends that will apply from 6 April 2016. Further guidance has now been published by HMRC setting out how the new rules will operate and it seems the rules don't work as many people expected. As previously reported, there will be no 10% credit against the tax on dividends which means there will be a 7½ % increase in the rate of tax on dividends once the £5,000 dividend allowance has been used up. Currently dividends falling into the basic rate band are effectively tax free.

However the £5,000 allowance needs to be taken into consideration in determining the rate of tax on your dividends. For example if you have salary and other non-dividend income of £40,000 next year and £9,000 in dividends, the £4,000 of taxable dividends are taxed at 32.5%, not £3,000 at 7.5% then £1,000 at 32.5%. This is because the £5,000 is added to the £40,000 income pushing the taxable dividends into the higher rate band.

If you own your own company it may be beneficial to bring forward dividend payments from next year to save the additional 7½ %. However, it would be important to consider all of the tax implications of such actions so come and talk to us to discuss your options.

VAT ON MIXED SUPPLIES

Care needs be taken when invoicing if your business makes supplies, some of which are standard rates and others which are potentially zero rated or exempt for VAT. A recent VAT Tribunal case has reinforced the rule established in the *Card Protection Plan* case that if the supply comprises a single service from an economic point of view it should not be artificially split. In the recent case a company provided marketing and promotional services including brochures and other publications.

It was held that the supply of printed matter (potentially zero rated) was merely ancillary to the principal supply of marketing and promotional services so the entire services should follow the principal supply and be standard rated, even if separately invoiced. Please get in touch with us if these rules potentially affect your business and you need advice on your invoicing.

RESTRICTION OF BUY TO LET INTEREST

In the Summer Budget it was announced that mortgage interest relief for buy to let landlords would start being phased out from 2017/18 onwards and restricted to basic rate only from 2020/21. Now that the Finance Bill has been published the full impact of this change is starting to emerge and for some landlords this will result in a significant increase in the tax payable as their rental profits will now be taxed at higher rates. This is because mortgage interest will no longer be an allowable deduction in arriving at rental profits. For example a landlord with £60,000 of gross rental income, £6,000 of agent's commission, £8,000 of repairs and other expenses and £40,000 of interest would currently have £6,000 of net rental profits. However, from 2017/18 the interest relief will start being restricted, and from 2020/21 there will be no deduction for interest, which would mean that, assuming the rent and expenses remain the same, the taxable rental income would be £46,000. For many landlords this will mean that the rent will fall into the higher rate tax bands and the £40,000 interest will result in a £8,000 basic rate tax reducer to set against the tax liability.

TRANSFER OF TAX LOSSES

Where a company makes a trading loss that cannot be relieved against other profits that year, or the previous year, the unrelieved loss can be carried forward against future profits from the same trade that incurred the losses. This carry forward also applies where the trade is transferred to another company under common control (basically 75% common ownership before and after the transfer).

A recent case before the First Tier Tribunal has held that where the trade is transferred to another company under common control carrying on the same trade, the brought forward losses may be set against the future profits of the merged trade as it was successfully argued that the loss making trade was subsumed into the profitable trade. The two companies concerned were both trading as department stores and the similarity of the two trades and rebranding of the stores into the same trading name was seen to be critical. In the particular case (*Leekes Ltd v HMRC*) the loss making trade was hived up following the acquisition of a competitor and merged with a profitable trade.

HMRC may yet appeal the court's decision but it may be something to take into consideration if you are considering an acquisition or reorganising your group structure. Feel free to contact us for further advice.

TAX DIARY OF MAIN EVENTS FOR TAX DIARY OF MAIN EVENTS FOR NOVEMBER/DECEMBER 2015

Date	***What's Due***
1 November	Corporation tax for year to 31/01/15
19 November	PAYE & NIC deductions, and CIS return and tax, for month to 5/11/15 (22 November if paid electronically)
1 December	Corporation tax for year to 28/02/15
19 December	PAYE & NIC deductions, and CIS return and tax, for month to 5/12/15 (22 December if paid electronically)
30 December	Deadline to file 14/15 SA tax return online if unpaid tax up to £3000 is to be collected via 15/16 PAYE code

E-mail contacts

Partners

geoffk@knightandcompany.co.uk
tracya@knightandcompany.co.uk

Personal Tax
joyc@knightandcompany.co.uk

Payroll
christines@knightandcompany.co.uk