

# Tax E-News

Welcome to our monthly newswire. We hope you enjoy reading this newsletter and find it useful.

February 2017



## MAKING TAX DIGITAL TO BE DELAYED?

The Treasury Select Committee has reviewed the proposals for the introduction of "Making tax digital" (MTD) and have agreed with the various professional bodies that if the new systems are introduced too quickly there could be a disaster. It would significantly increase burdens on small businesses. In their report they comment that the overall benefits of mandating the digitising of record keeping and quarterly reporting, as is currently envisaged, have yet to be proven.

The Select Committee further note that the cost to business of introducing MTD, as well as the continuing costs of maintaining digital records and submitting quarterly updates are of further concern to the Committee, as is the availability and functionality of the free software that has been promised.

At the time of writing we are awaiting the Government response to the November 2016 consultation and we will keep you updated about the implications for your business. Remember that the proposals as they are currently drafted will apply to property rental businesses as well as trading businesses.

## DO YOU HAVE ENOUGH SHARES TO QUALIFY FOR CGT ENTREPRENEURS' RELIEF?

Entrepreneurs' Relief reduces the rate of CGT to 10% on the first £10 million of gains on the disposal of qualifying business assets. This would include sole traders disposing of their business and partners disposing of their interest in a partnership carrying on a business. With many businesses operating as limited companies these days it is important to appreciate that not all shareholdings qualify for this generous relief.

Shareholdings qualify for Entrepreneurs' Relief provided the company is a trading company or the holding company of a trading group. There are additional conditions that the shareholder is an officer or employee of the company and holds 5% or more of the company's ordinary share capital and votes. All of these conditions must be satisfied throughout the twelve months up to the date of disposal.

A couple of recent tax tribunal cases have considered the 5% test and the HMRC view is that most shares except for certain preference shares need to be considered. Always contact us first if you are considering issuing additional shares in your company as it may have a detrimental effect on other shareholders' entitlement to CGT Entrepreneurs' Relief.

## SHAREHOLDERS MUST ALSO BE OFFICERS OR EMPLOYEES

In order to qualify for CGT entrepreneurs' relief on the disposal of shares, the shareholder must have been an officer or employee of the

trading company or group throughout the twelve months up to the date of disposal. Although there is no minimum number of hours, it is important that there is evidence that this condition is satisfied, so for example the employee/director should not resign before the disposal of shares takes place.

HMRC are known to request such evidence and recent tax tribunal cases have resulted in Entrepreneurs' Relief being denied.

## NEW GOVERNMENT SAVINGS SCHEME STARTS IN APRIL 2017

From April 2017, adults under the age of 40 will be able to open a Lifetime ISA (LISA) and pay in up to £4,000 each tax year. They will be able to continue making contributions up to the age of 50. The government will add a 25% bonus to these contributions. This means that individuals who save the maximum will receive a £1,000 bonus each year from the Government.

The tax-free funds, including the Government bonus, can be used to help buy a first home worth up to £450,000 at any time from 12 months after first saving into the account. The funds, including the Government bonus, can be withdrawn from the LISA from age 60 tax-free for any purpose. LISA holders will also be able to access their savings if they become terminally ill.

If savers make withdrawals before age 60 for other purposes a 25% charge will apply to the amount of withdrawal. This returns the bonus element of the fund (including any interest or growth on that bonus) to the Government.

"Help to Save", aimed at supporting people on low incomes to build up their savings will follow in 2018. That scheme will add a 50% Government bonus on savings up to £50 a month

for up to four years. Help to Save will be available through NS&I to any adult who is receiving working tax credit or universal credit with minimum household earnings equivalent to 16 hours a week at the National Living Wage.

## DON'T FORGET YOUR 2016/17 ISA ALLOWANCE

The current ISA allowance is £15,240, rising to £20,000 for 2017/18. Remember that there is no longer a 50% restriction on the amount that you can invest in a cash ISA; the £15,240 annual limit covers all ISA investments which could be in shares, bonds, cash or certain other investments.

## AND MAKE PENSION PAYMENTS BEFORE 6 APRIL

The current annual pension limit remains at £40,000. In addition, unused relief from the previous three tax years may be utilised once the current £40,000 limit has been used. However, the relief from 2013/14 will lapse on 6 April 2017.

If, for example, you have £10,000 unused allowance from 2013/14 you would need to make pension contributions of at least £50,000 by 5 April 2017 to avoid losing your 2013/14 relief. Remember also that pension savings continue to qualify for higher rate tax relief and may help to reduce your payments on account.

## PROPERTY SALES – TRADING OR CAPITAL GAIN?

In the December edition of this newsletter we flagged up that new anti-avoidance legislation in Finance Act 2016 will tax certain transactions in UK land as trading transactions instead of capital gains.

Just before Christmas, HMRC issued guidance to clarify the scope of the new rules. The legislation as enacted in Finance Act 2016 was drafted in such a way that it could be interpreted as catching certain disposals by buy to

let landlords. The HMRC guidance states that the new rules do not apply to businesses which acquire and repair properties in order to generate rental income, even if those businesses also enjoy capital appreciation from those properties. So the average buy-to-let landlord should not be subject to income tax on the gains he makes when he sells properties which were acquired for letting.

The HMRC guidance also makes it clear that the new transactions in UK land rules are directed at businesses which conduct a trade consisting of property development or property dealing.



This is a complex area and you should contact us so that we can help you ensure that the sale is treated correctly for tax purposes.

## SCOTTISH INCOME TAX RATES AND THRESHOLDS

The Scottish Government has the devolved power to set certain tax rates, principally income tax and land transaction tax (equivalent to SDLT in England and Wales). Although it proposes to freeze the basic, higher and additional rates at 20%, 40% and 45% respectively, the thresholds will not be the same as the rest of the UK.

The higher rate income tax threshold will increase by inflation to £43,430 in 2017/18. Whereas the higher rate threshold for the rest of the UK will be £45,000.

Scottish income tax applies to Scottish taxpayers who are UK resident but who live for most of the year in Scotland. Where they work is irrelevant but workers who live in Scotland are liable to Scottish income tax on their non-savings income. If you employ staff who live in Scotland they should have a special PAYE code so that the correct tax is deducted. This will be particularly important when there is a lower, higher rate threshold in Scotland.

On the land and buildings transaction tax (LBTT), the equivalent of stamp duty land tax in the rest of the UK, rates have been kept on hold for 2017/18 at their current 2016/17 levels.

## DIARY OF MAIN TAX EVENTS

### FEBRUARY/ MARCH 2017

Date	What's Due
1/02	Corporation Tax payment for year to 30/4/16 (unless quarterly instalments apply)
19/02	PAYE & NIC deductions, and CIS return and tax, for month to 5/02/17 (due 22/02 if you pay electronically)
28/02	Surcharge of 5% on 2015/16 self-assessment tax still unpaid.
1/03	Corporation Tax payment for year to 30/5/16 (unless quarterly instalments apply)
19/03	PAYE & NIC deductions, and CIS return and tax, for month to 5/03/17 (due 22/03 if you pay electronically)

Please contact a member of our team if you would like to discuss any of the issues raised.

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