GOLDWINS
CHARTERED ACCOUNTANTS

Telephone: 020 7372 6494 Email: info@goldwins.co.uk

75 Maygrove Road, West Hampstead, London NW6 2EG www.goldwins.co.uk

TAX MATTERS

Winter 2016/17
inside this issue...

Restriction of tax relief for residential landlords

There have been numerous changes to the buy-to-let tax rules in the last year, and the trend is set to continue, with interest relief due to be restricted from April 2017. Here we provide further information on the latest reforms, which could be unwelcome news for many residential landlords…

What's changing?

Under the existing rules, residential landlords can deduct all of their finance costs, such as mortgage interest, from their gross property income. However, starting from April 2017, relief for finance costs will be restricted to the basic rate of income tax. For the purposes of the restriction, finance costs include interest on mortgages, loans (including loans to buy furnishings) and overdrafts. Other costs that are affected include alternative finance returns, fees and any other incidental costs for getting or repaying mortgages and loans, and discounts, premiums and disguised interest.

The new rules only apply to individuals with residential property businesses. They do not apply to companies, landlords of commercial properties or furnished holiday lettings.

Timescale for the change

The change will be introduced gradually over a period of four years, as follows:

- In 2017/18, the deduction from property income will be restricted to 75% of finance costs, with the remaining 25% being available as a basic rate tax reduction
- In 2018/19, the deduction will be restricted to 50% of finance costs, with the remaining 50% given as a basic rate tax reduction
- In 2019/20, the deduction will be restricted to 25% of finance costs, with the remaining 75% given as a basic rate tax reduction
- From 2020/21, all financing costs incurred by a landlord will be given as a basic rate tax reduction (currently 20%).

Calculating the reduction

The reduction will be calculated at the basic rate value of the lower of:

- Mortgage interest and finance costs not deducted from rental income in the tax year (this will be a proportion of finance costs for the transitional years) plus any finance costs brought forward
- Property profits less any losses brought forward
- Adjusted total income (after losses and reliefs, and excluding savings and dividends income) exceeding the personal allowance.

The implications

The changes are likely to result in an increased tax liability for many residential landlords, but there may also be wider implications to consider. For example, the new rules will increase gross income, which may push an individual into a higher tax band. This, in turn, could have an impact on their ability to claim Child Benefit, which is currently clawed back for those with adjusted net incomes over £50,000.

Where this is the case, an individual might want to consider reducing their income, for example by increasing their pension contributions or making Gift Aid donations. However, it is essential to seek professional advice before taking any action.

For more information on the tax rules affecting residential landlords, please do contact us.

Flexible working: the pros, the cons and the technology

New online tools and the desire for a better work-life balance have made flexible working a realistic option for many people. But whether you want to work from home yourself, or are considering offering more flexibility to your employees, it is important to avoid some common traps.

Challenges for home workers

People who start working from home face several potential challenges, which often include a lack of structure and motivation – or conversely, a tendency to overwork. The keys to avoiding these pitfalls include:

- **Establishing a daily structure and routine** – to be productive it is helpful for people to feel like they are in 'work mode' rather than 'home mode', which usually means keeping to a disciplined routine
- **Taking proper breaks** – ensure the routine includes breaks and a time to stop at the end of the 'working day'
- **Having a proper work space** – a dedicated desk away from distractions can make the difference between being extremely productive and wasting hours of time.

Challenges for employers

If implemented properly, flexible working can help you to retain your best staff and even make them more productive. However, you should also be aware of the traps too, by:

- **Setting clear goals** – ensure that those working from home have clear objectives, so that they know exactly what they have to achieve and by when
- **Communicating effectively** – regular communication between the office and your network of homeworkers will enable you to monitor and encourage productivity, and also encourage collaboration.

Using the right technology

Fortunately, there is a now a proliferation of low-cost or free online tools to help with the challenges of flexible working, from cloud-based file-sharing to video conferencing. Here are just a few of the most popular ones:

- **Communication** – conference phone calls can be conducted easily via services like Powwownow, while video applications such as Skype and Google Hangouts enable you to hold virtual meetings across multiple venues. For real-time communication, apps such as Salesforce Chatter are an instant and less formal alternative to email
- **File sharing** – you can share and collaborate on word-processing documents, spreadsheets, presentations and more in real time with Google Drive, Microsoft OneDrive, Apple's iCloud or Dropbox.

You may find that you increasingly need to offer flexibility to attract and keep the best staff, so it is worth considering ways to make it as productive as possible.

Scaling your business – identify and meet the challenges

There is often plenty of help and advice available for start-ups, but for businesses that have entered a 'scale-up' phase of rapid growth, success can bring a new set of challenges.

If you have ambitions for your business to achieve scale, there are a number of key areas that raise unique challenges, and which may require different approaches to the strategies that worked in your start-up phase.

Hiring the right people

In the early days each member that joins your small, tight-knit team is heavily scrutinised because their impact on the whole business is so great. But as you grow, the dynamics of recruitment change and it is easier for people less well-suited to your company culture to slip through the hiring net.

You will increasingly require specialists and middle-managers, and you will need to plan ahead, thinking across the business to achieve the right balance. For example, hiring a team of expert salespeople will only cause problems if you haven't got the warehouse equally well-staffed and managed.

Having a long-term plan and investing in a proper recruitment process are crucial to help you find the right people, and avoid 'knee-jerk' hiring to fix short-term issues in problem areas.

Finance and cashflow

When it comes to funding, the level and sources available are likely to be very different to the ones you used to start the business. Whether you choose to raise funds by taking on debt (and the associated pressures of meeting repayment demands) or releasing equity (and thereby possibly relinquishing full control), this is a complex matter that will require careful thought and professional advice.

Scaling up can also be very cash-consuming, and as you deal with bigger customers, suppliers and volumes you could be handling very different credit limits and cashflow challenges, meaning the business models you used in the start-up phase no longer apply.

Systems and IT

Having the right IT systems in place is essential, otherwise an increase in orders can quickly become a major headache. As a business owner, you will also find it much harder to keep track of how the business is doing than you did in the early stages and you will increasingly rely on good data and management information systems.

Sales and marketing

As you scale upwards you may find that your focus has to move away from straightforward sales and order-taking and towards indirect marketing and promotional activities, geared towards educating your customers and building your brand.

Vision and leadership

In a scale-up phase you may need to delegate a great deal of the day-to-day running of the business. As well as the additional time pressures, it is essential that you have the energy to maintain the business's values and culture, and the flexibility to seize new opportunities.

If you'd like to talk about any aspect of growing your business, please contact us.

Tax-efficient planning for you and your family

Proper planning can help you to build a secure financial future for you and your family. Here are some strategies to consider as part of your personal financial plan.

Make full use of your allowances

The basic personal allowance for 2016/17 is set at £11,000. Children also have their own personal allowance, so income up to £11,000 escapes tax this year as long as it does not originate from parental gifts.

If your spouse or partner has little or no income, you might want to consider transferring income (or income-producing assets) to them to ensure that they are able to make full use of their personal allowance. However, please speak to us before taking action as you need to take into account the settlements legislation governing 'income shifting'.

Certain married couples and civil partners may also be able to make use of the Transferable Tax Allowance. This allows couples to transfer 10% of their personal allowance to their spouse, where neither pays tax at the higher or additional rate.

Preserving your entitlement to Child Benefit

If you have adjusted net income of £50,000 or over and either you or your partner receive Child Benefit, you may have to pay the High Income Child Benefit Charge. The income tax charge applies at a rate of 1% of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid.

However, it may be possible to reduce or even eliminate the charge by equalising or reducing income between you and your partner, for example by increasing contributions to a registered pension scheme or swapping your cash salary for tax-free benefits, such as childcare vouchers, under a salary sacrifice arrangement.

Tax-efficient savings options

The sooner you can begin saving for your children's future, the better. Although interest rates have been relatively low over recent years, ISAs can still be a valuable part of the savings portfolio. Up to £15,240 can be invested in an ISA for 2016/17 in any combination of cash or stocks and shares. Junior ISAs are available to all UK-resident children under the age of 18 and allow contributions up to a maximum of £4,080 (2016/17).

Meanwhile, the Help to Buy ISA provides a tax-free savings option for those wishing to save for a first home, with savings of up to £12,000 attracting a 25% bonus from the Government (capped at a maximum of £3,000). Various rules apply.

The new Personal Savings Allowance (PSA), which came into effect in April 2016, allows basic rate taxpayers to earn up to £1,000 each year in tax-free savings income, while higher rate taxpayers can receive up to £500 before paying tax on their savings income.

Skipping a generation

Think carefully about how you wish to pass on your wealth to your family. If your children are grown up and financially secure and your assets pass to them, you might be adding to their estate, and therefore to the inheritance tax (IHT) which will be charged on their deaths. Instead, consider leaving something to your grandchildren, thereby forcing the IHT charge to 'skip' a generation.

The importance of your Will

Having contingency plans in place will ensure that your family are provided for if the worst were to happen. A sound 'living Will' should outline your wishes, in the event that you become incapacitated or otherwise seriously injured. A Will can also be structured to save tax.

Putting tax-efficient planning steps into place now could help to provide a brighter and more secure future for you and your family. Please contact us today for advice.

Business Round-Up

Worldwide Disclosure Facility

The new Worldwide Disclosure Facility (WDF) has recently been launched, offering individuals the opportunity to declare any outstanding UK tax liabilities relating wholly or partly to an offshore issue, before landmark new data sharing arrangements come into effect.

Unlike previous tax amnesties, the WDF does not offer any special concessions and those making a disclosure will need to pay the tax in full, together with any interest and penalties applying.

However, this is the final disclosure facility to be offered before the automatic exchange of information comes into effect, giving HMRC access to unprecedented amounts of data on offshore accounts, and introducing tougher sanctions under the new 'Requirement To Correct' (RTC) framework.

Apprenticeships boost for small business

The Government recently announced further details of its proposals for funding arrangements under the Apprenticeship Levy.

The new apprenticeship system is set to come into effect on 6 April 2017 and will require all employers with a pay bill of more than £3 million a year to pay a levy, set at 0.5% of the annual pay bill. A levy allowance of £15,000 will be available to employers.

It has now been confirmed that employers not subject to the levy will have 90% of the costs of training paid for by the Government. Additional support will also be available where employers and training providers take on 16 to 18-year-old apprentices or young care leavers. Employers with fewer than 50 staff will have 100% of their training costs paid for if they take on such apprentices.

Other plans include: allowing employers to use the funds to retrain existing workers in new skills; enabling employers to determine what kind of training their apprentices receive; and introducing a new register of training providers.

Self Assessment deadline – don't be late!

The deadline to complete your 2016 Tax Return online is midnight on 31 January 2017. You may receive a penalty of £100 if you miss this deadline, and further penalties will be issued for continued payment failures.

We can assist you with this process by preparing and filing your Tax Return on your behalf, and advise you on any payments due. Contact us today for assistance.

Web Watch

Essential sites for business owners.

www.greatbusiness.gov.uk

Advice and support to help you grow your business.

www.theweek.co.uk/business

Insightful features on a range of current business issues.

www.businessbankinginsight.co.uk

Aims to improve competition and choice in the banking sector.

www.smallbusinessheroes.co.uk

Topical articles and detailed advice on running a business.

Reminders for your Winter diary

December 2016

1 New advisory fuel rates for users of company cars applicable from this date.

30 Last day for online submission of 2016 Self Assessment Tax Return for HMRC to collect tax through clients' 2017/18 PAYE code, where they owe less than £3,000.

31 End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2015.

January 2017

1 Due date for payment of Corporation Tax for period ended 31 March 2016.

14 Due date for income tax for the CT61 quarter to 31 December 2016.

19/20 Quarter 3 2016/17 PAYE remittance due.

31 First self assessment payment on account for 2016/17.

Capital gains tax payment for 2015/16.

Balancing payment – 2015/16 income tax, Classes 2 and 4 NICs.

Deadline for amending 2014/15 Self Assessment Tax Return.

Last day to file the 2015/16 Self Assessment Tax Return online without incurring penalties.

February 2017

1 £100 penalty if 2016 Self Assessment Tax Return not yet filed online. Additional penalties may apply for further delay. Interest starts to accrue on 2015/16 tax not yet paid.

2 Submission date of P46 (Car) for quarter to 5 January.

14 Last date (for practical purposes) to request NIC deferment for 2016/17.

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