



Hardcastle Burton LLP

Chartered Accountants Business Advisers

Lake House, Market Hill, Royston, Herts SG8 9JN

Tel: 01763 248100 Fax: 01763 245521

E Mail: postbox@hardcastle-burton.co.uk

Web Site: www.hardcastle-burton.co.uk

Partners: Martin Law, Keith Bouttell, Denise Lindsell, Jonathan Tulloch.

Consultant: Peter Homent

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Business Update

Appointment of Associate

We are pleased to announce the promotion of Chris Scarboro to the role of 'Associate' within the firm. This is a new position created to assist with the ongoing development of senior staff members and recognises their importance and overall contribution to the firm.

Chris will be well known to many clients, having joined the firm to complete his training back in 2004. He has since progressed to Manager level and has been responsible for managing all aspects of a client portfolio, giving him a thorough understanding of the day-to-day issues which affect both business clients and individual taxpayers.

In recent years, Chris has become more involved in advisory work for clients, both on tax matters and general financial management. His broad client base of primarily owner-managed businesses covers a range of sectors, including farming and agricultural concerns.

Chris thrives on building strong relationships with the clients he works with and is increasing his portfolio size with new work coming into the practice. In particular, Chris assists many start-up businesses - providing advice on how new businesses should be structured, preparing cashflow forecasts and finance projections.

In his spare time, along with spending time with his wife and young family, Chris is a keen motorsport fan, spectating at many race events nationwide.

SUMMER 2017

Planning for the reduction in the Dividend Allowance

We are used to tax reliefs being changed when a new government comes into power but it is more unusual to see a tax relief being created and then severely cut by the same government within a two year time period.

In April 2016 higher rates of taxes on dividends were introduced but with a £5,000 'tax-free' Dividend Allowance to compensate. Despite the rise in rates, many taxpayers, particularly higher rate taxpayers, found themselves better off. For example, for an individual with a £150,000 share portfolio yielding 3%, no tax would be payable on the £4,500 income produced whereas in the pre April 2016 regime there would have been a tax liability of 25%. The announcement by the current Chancellor, Philip Hammond, to reduce the Dividend Allowance to £2,000 from April 2018 will put paid to that amount of benefit.

However there is time to mitigate the effects. If your portfolio yields an average 3%, approximately £67,000 will be protected from income tax. If your portfolio exceeds this figure, consideration needs to be given to transferring some shares to a spouse or a civil partner. Equity ISAs should also be one of the first things to consider. By investing the maximum £20,000 into an Equity ISA now with a further £20,000 on 6 April 2018, protection can be given

for £40,000 of a portfolio. For a married couple or civil partners, that figure doubles to £80,000.

Your existing shares can be sold and bought back again within the ISA wrapper but one needs to choose carefully which shares will be sold as the transactions will be disposals for capital gains tax (CGT). There are also two lots of annual exemption from CGT to potentially make use of - this year and next. The current annual exemption is £11,300. Married couples and civil partners also have the added facility to make transfers to the other partner prior to selling into an ISA. Any share transfer between such couples is at a 'no gain no loss' price with the result that the transferee will effectively acquire the shares at the transferor's base cost and so will make the gain in selling the shares.

Please do contact us if you have any queries.



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Making Tax Digital – where are we now?

A new term has been invented by the government to reflect the central role of businesses in the Making Tax Digital project - Making Tax Digital for Business - and a new acronym – MTDfB. There are different start dates for businesses however. Unincorporated businesses, including landlords, will be the first to see significant changes in their recording and submission of business transactions.

The government has decided how the general principles of MTDfB will operate. Much of the detail will be set by Regulations which are expected to appear in the summer.

Under MTDfB, businesses will be required to:

- maintain their records digitally, through software or apps
- report summary information to HMRC quarterly through their 'digital tax accounts' (DTAs)
- submit an 'End of Year' statement through their DTAs.

DTAs are areas where a business can see all of its tax details in one place and interact with HMRC digitally.

When will this start?

Despite protests from many parts of the business community, and committees of the House of Commons and the House of Lords, there was only a relatively small concession to the start date announced in the Budget.

Unincorporated businesses and unincorporated landlords with annual turnover:

- above the VAT threshold (which has been set at £85,000 from 1 April 2017) will need to comply with the requirements of MTDfB from the start of accounting periods which begin after 5 April 2018

- at or below the VAT threshold but above £10,000 will need to comply from the start of accounting periods which begin after 5 April 2019.

Businesses and landlords with turnovers under £10,000 are exempt from the requirements. Companies (and partnerships with a turnover above £10 million) will not come within MTDfB until April 2020.

What will quarterly accounting mean?

This is still the big question to which there are no definitive answers at present. The government has made some concessions from its original proposals including:

- if businesses are using a spreadsheet to record data, they will be able to continue to use this for record keeping, but they must ensure that their spreadsheet meets the necessary requirements of MTDfB – this is likely to involve combining the spreadsheet with software
- the requirement to keep digital records will not include an obligation to store images of invoices and receipts digitally. Under the original proposals, HMRC envisaged that a digital record would include not only a record of each item of income and expense but also evidence of each transaction such as copies of invoices and receipts.

Once all the relevant data for a quarter has been compiled into the software, the

business will then feed this data directly into HMRC systems. The information that will be sent to HMRC will be summary data for the quarter, not all income and expense items. Businesses will have one month from the end of the quarter to submit the update to HMRC.

What is the 'End of Year' statement?

The End of Year statement will be similar to the online submission of a self-assessment tax return but may be required to be submitted earlier than a tax return. Businesses will have 10 months from the end of their period of account (or 31 January following the tax year – the due date for a self-assessment tax return - if sooner).

Partnerships

In respect of partnerships, the government is proposing to stay with the concept of a nominated partner who is responsible for the requirements of MTDfB for the partnership but then partnerships will be obliged to 'push' each partner's share of any profits (or losses) through to their digital tax accounts as part of the end of year activity.

HMRC are starting a pilot of reporting of income and expenses online with some businesses and their agents. As your accountants, we will continue to monitor the MTDfB project and will continue to assist you with your tax affairs.

Marriage allowance – now worth £432 for many people

It is now over two years since the Marriage Allowance was introduced and perhaps it is no surprise to learn that most people who are eligible have not claimed the allowance. The allowance lets certain individuals transfer 10% of their personal allowance to their spouse or civil partner. This reduces the tax bill of the recipient of the transfer by up to £212 in 2015/16 and up to £220 in 2016/17. So for anyone who hasn't claimed it yet, they may be due a tax repayment of up to £432.

The main scenario in which the transfer is allowed and worthwhile is where:

- one of the spouses has little income and is therefore not using the personal allowance
- the other spouse does not pay tax at the higher or additional rate.

The default route for applying is online. If you are an employer, it is a good idea to signpost your employees to gov.uk/marriage-allowance-guide. This link gives full information as to eligibility, how to apply and a link to the online application. As we have just passed the end of a tax year, couples should have a good idea as to whether they qualified in 2016/17. If a successful application is made, changes to the personal allowances are backdated to 6 April 2015. In future years the allowance will transfer automatically to the spouse until either of the couple cancels the Marriage Allowance or there is a change in circumstances – which means an annual potential reduction in tax bills of over £200.



6 April 2017 – attention landlords

It was almost two years ago in the Summer Budget 2015 that the then Chancellor, George Osborne, announced restrictions to income tax relief for interest costs incurred by landlords of residential properties. The proposals became law in November 2015 but it is only from the 6 April 2017 that these provisions came into effect.

In the 2017/18 tax year, the restriction of interest relief to basic rate of tax will apply to 25% of the interest with 75% of the interest getting relief against rental income in the normal way. Landlords will therefore first see the effect in the calculation of their tax liabilities for 2017/18 – the balancing payment for which is due 31 January 2019. A higher rate taxpayer will, in principle, get 5% less relief for finance costs (ie one quarter of 40% higher rate less 20% basic rate). 5% doesn't sound much but it can be worse than this due to 25% of the interest not being deductible from income. So total income may cross a threshold such as:

- £50,000 – in which case Child Benefit may be clawed back
- £100,000 – in which case personal allowances may be reduced.

The restrictions are only going to get worse, so please talk to us if you want clarification on any aspect of these rules.

HMRC's Making Tax Digital project also has an impact on many property businesses from 6 April 2017. The government considers that all unincorporated businesses except for the larger property business will benefit from using the cash basis rather than the usual accruals basis and so is proposing to make this the default basis.

The cash basis means the business accounts for income and expenses when the income is received and expenses are paid. The accruals basis means accounting for income over the period to which it relates and accounting for expenses in the period in which the liability is incurred.

Property businesses will remain on the accruals basis if their cash basis receipts are more than £150,000. The cash basis also does not apply to property businesses carried out by a company, an LLP, a corporate firm (ie a partner in the firm is not an individual), the trustees of a trust or the personal representatives of a person.

The government proposals are that the cash basis will first apply for the 2017/18 tax year which means that your tax return for 2017/18, which has to be submitted by 31 January 2019, will be the first one submitted on the new basis. There will be an option to elect out of the cash basis and stay with the accruals basis and we are here to help you make a decision on this later in the year.



Leading your team to success

One of the key ingredients for making your business a success is effective teamwork. This requires you as the business leader to harness the collective efforts of your people and direct them towards achieving your overall business goal. So what are the key characteristics that mark out a team for success and what can you do to put them in place within your team?

A common goal

Everyone in your team needs to know what the ultimate business goal is. This needs to start from the top with clear strategic goals for the business, supported by the respective departmental goals and then finally with individual team member's goals. Once team members understand what they are aiming for they can pull together and apply their individual and collective efforts towards these goals and not waste time and effort directing them elsewhere.

Appropriate leadership

Behind every successful team lies an effective leader. Leaders provide the vision and adopt the right behaviours to instil a team approach. They share management and involve others where appropriate. They are able to flex their style of leadership to suit the needs of the situation and the needs of their individual team members. They look to develop and enable their team members, building the future leaders of their businesses.

The leadership style adopted by many business owners is often more directive than consultative, ie telling people what to do and relying on their compliance or even obedience! When the situation allows, a more empowering style of leadership can be much more effective, engendering greater commitment from team members as well as generating new ideas and improvements to current working practices.

Suitable membership

The team needs the right balance of membership and not just in respect of the number of people and their respective technical skills. An effective team will also have an appropriate mix of personalities who bring a range of other skills, values and motivations. For instance, some of your team members will have great organisation and implementation skills, others will have excellent inter-personal skills. Try and find them roles within the team that allow them to play to their individual strengths, instead of focussing on their weaknesses.

Team spirit

Where individual team members have a sense of belonging and a spirit of commitment to the aims and purposes of their team, this can lead to remarkable successes.

As the leader of your team how much of your personal energy are you devoting to building the team spirit and supporting your fellow team members? How often do you get your team together to celebrate successes, to discuss team morale or to get their ideas on how team performance can be improved? Team building events outside of the workplace can be great opportunities for developing team spirit but don't underestimate the positive impact that an impromptu lunch trip or round of cakes can also have.

Being an effective business leader and developing a successful team will reap many rewards for you and your team. Are the right ingredients in place for your team to win?



Financing companies and tax relief

Your company or perhaps a company of a relative requires additional finance to expand. You have the funds to help. What is the best way to provide the funds to the company?

The natural inclination is to make a loan to the company rather than an issue of shares by the company. Loans have the advantage of simplicity in the initial lending to the company and the repayment or partial repayment of the loan when the funds are no longer required by the company. For the issue of shares, the formalities of the issue and repayment of share capital have to be considered.

The optimist, ie the person who thinks the monies will soon be repaid, will prefer the simplicity of a loan arrangement. However, one should always guard against the possibility that the finance will not be repaid because the company may get into such financial difficulties that it is forced to be wound up. A loss will have been made by the provider of the finance but can that blow be softened by any tax relief? Here's where the shareholder wins out over the loan provider.

How much relief is available?

A loss made on a loan made to a trading company potentially qualifies as a capital loss and thus is available to relieve against capital gains in the year in which the loss relief

is claimed or in a future year. The maximum tax relief therefore is 28%, for example if the gain was on the disposal of certain residential properties but other gains may well be taxed at lower rates than this.

A loss made on shares is also a capital loss but there is a potential claim that can be made to offset the gain against income in the year of the loss and/or the previous year. So a higher rate taxpayer could get 40% tax relief.

So why not make a loan and then convert into shares if problems are anticipated?

We could then have the best of both worlds? The short answer is no. There can be significant problems with such an approach. HMRC may look into the claim to use the loss against income to see if the company was in financial difficulty at the time the shares were issued in exchange for the loan. They may consider various statutory provisions in the tax legislation so as to restrict the acquisition cost of the shares to a lower figure than the amount of the loan given up for the shares.

Alternatively, HMRC may question the loss claim if it is made as a 'negligible value' claim ie there is no actual disposal of the shares but a deemed disposal. One of the seemingly innocuous provisions of such a claim is that the shares, at the time of the claim, have *become* irrecoverable. This may mean that HMRC can argue that no relief is available if the business was in such difficulties at the time the shares were issued that the shares should be regarded as irrecoverable from the outset.

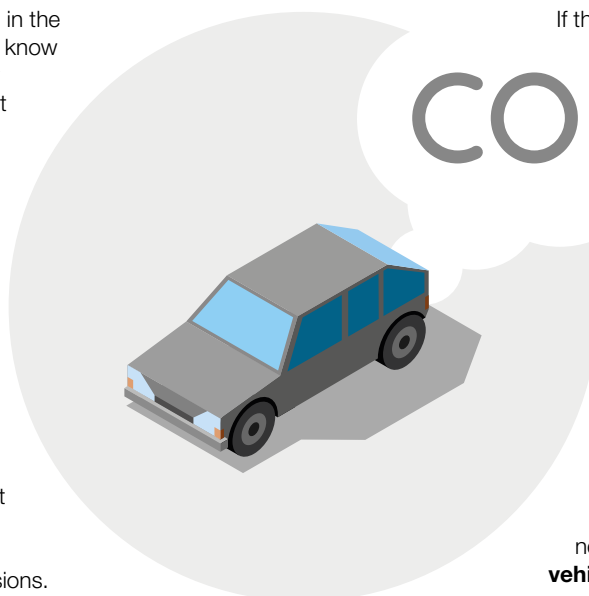
One further tip – if you are considering that the finance should be in the form of shares which are envisaged as being repayable to you in due course, it is often sensible that these shares are of a separate class to the other share capital of the company. This will allow the repayment to be made to you easier (and not create tax issues).

Please do talk to us if you are considering additional finance for your company or any other company. It is better to weigh up the advantages and disadvantages of the different methods at an early stage.

Did you know there are new car tax rates?

If you have recently purchased or are in the process of buying a new car, you will know that new rates of Vehicle Excise Duty (VED) apply for purchases of cars first registered on or after 1 April 2017.

Most of the rest of the population may be surprised how significant the changes are. The big changes are the charges that apply in the year of purchase of the car. As with the system that applied to cars registered before 1 April 2017, the charges are based on CO₂ emissions but the new charges are typically much higher than under the old system. For example a car with CO₂ emissions of 175 jumps from £220 to £800. But in year two, the new system swings in favour of such a car owner as the charges are not based on CO₂ emissions.



If the car runs on petrol or diesel there is a fixed charge of £140 and an additional rate of £310 if the car has a list price of more than £40,000.

In percentage terms the purchasers who are most affected are people who buy low emission cars. For a petrol or diesel with 120 CO₂ emissions, you would have paid only £30 a year. For new cars the charge is £160 in year one and £140 in subsequent years. Note that a purchase of second hand car such as an 'ex demo' continues with the VED system in operation when the car was first registered. So such purchasers are tied into the old VED rates. You can get details of the new (and old) VED rates at www.gov.uk/vehicle-tax-rate-tables