TAX E-NEWS

May 2016

Grant & Co.
Chartered Accountants & Business Advisors

Dear Client,

Welcome to the May monthly tax newsletter. These newsletters are designed to keep you informed of the latest tax issues.

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

MAKING TAX DIGITAL – TOO SOON?

George Osborne announced the introduction of digital tax accounts in his 2015 Budget, with more information being sent online to HM Revenue and Customs (HMRC) by employers, pension funds, banks and other institutions. This information will then be used to calculate individuals' tax liabilities which may be viewed by them online. All this sounds great in theory, but many accountants expressed concerns about the reliability of this data.

We now learn that by June 2016 every individual and 5 million small businesses will get access to their digital tax account. Over the next four years HMRC expects a full range of services to be available to taxpayers through their digital tax accounts.

The next big step will be introduction of quarterly reporting of income and expenditure by businesses and landlords from 2018 according to the government.

Again we accountants have serious concerns about the timescale and lack of consultation. HMRC say "you will not need an accountant to fill out the information on the new system". They are expecting businesses to use new Apps on their Smart phones and Tablets to transmit their data to HMRC. Most of you, I am sure, would rather spend time running your business than filling in more forms. Please get in touch to discuss the implications of this proposed change.

EMPLOYMENT ALLOWANCE IS NOW £3,000 BUT NOT SINGLE DIRECTOR COMPANIES

For the last two years there has been a £2,000 allowance available to employers to set against their employers National Insurance liability for the year. This increased to £3,000 from 6 April 2016 and no action is required if you claimed the allowance for 2015/16. However, from 6 April 2016, limited companies where the director is the only employee paid earnings above the Secondary Threshold for Class 1 National Insurance Contributions (£156 a week) will no longer be entitled to claim the Allowance.

HMRC guidance states that if more than one employee or director earns above the Secondary Threshold, the company will continue to be eligible for Employment Allowance for the whole tax year. This other employee could be the director's spouse or partner. The HMRC guidance is not consistent with the legislation however and we hope to clarify the matter so that you don't miss out.

TAX IMPLICATIONS OF NEW ACCOUNTING RULES

The calculation of profits for tax purposes is based on the profits of the business computed in accordance with Generally Accepted Accounting Principles. The introduction of a new accounting standard (FRS 102) means that some of the figures in your accounts may need to be restated and these changes may have tax implications. We will discuss these changes with you and seek to minimise the tax impact where possible.

INTEREST FREE LOANS AND THE NEW ACCOUNTING RULES

One of the areas where there may be a change in your company's accounts is where you have received or made a loan that is interest free or at less than market rates. Unless the loan is repayable on demand the new accounting rules require the loan to be recorded in the accounts on an amortised cost basis. For example this means that a £20,000 interest free loan repayable in two years time would be valued at £18,141 if the market rate of interest is 5%.

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This method recognises that £20,000 today is worth more than £20,000 in two years time. If your company is borrowing the £20,000 then there would be finance expenses of £907 in year 1 and £952 in year 2 reflecting the initial £1,859 discount. These finance expenses would be deductible for corporation tax provided the lender is also charged to UK corporation tax on the interest. But if the interest free loan was from an individual such as a director there would be no tax deduction, a point clarified in the latest Finance Bill.

PAYING INTEREST ON DIRECTORS LOANS IS BETTER THAN DIVIDENDS NOW?

The new 32.5% rate on dividends received by higher rate taxpayers means paying interest on directors' loan account credit balances is now more tax efficient than paying dividends, once the new £5,000 dividend allowance has been used. This will also avoid the accounting issue mentioned above if a market rate of interest is paid. Unlike bank interest the company is still required to deduct 20% basic rate income tax and pay this over to HMRC quarterly with form CT61. Remember that higher rate taxpayers can receive £500 interest income tax free from 6 April 2016.

INHERITANCE TAX PLANNING USING THE NEW LIFETIME ISA

Budget 2016 announced a new "Lifetime ISA" that will be available to those aged between 18 and 40 from 6 April 2017. The Government will add 25% to the amount saved subject to a maximum of £4,000 a year (plus £1,000 from the Government). It seems there will be no requirement that the savings come from the person named on the account so parents, grandparents, or other relatives could make payments into the account.

Where you have excess income and have concerns about inheritance tax (IHT), what about taking advantage of the exemption for normal expenditure out of income by committing to regular payments into the account? £4,000 a year would save you £1,600 IHT, so £2,400 net turns into £5,000 gross, per recipient!

SUPPLYING DIGITAL SERVICES TO CUSTOMERS IN OTHER EU COUNTRIES?

The VAT place of supply rules changed on 1 January 2015 where digital services are supplied to non-business customers. The place of supply changed from where the supplier was based to where the customer is located as some companies were avoiding UK VAT.

This rule change had serious implications for small businesses supplying digital services such as software downloads to non-business customers. Where those customers are in other EU countries the UK trader may be required to register for VAT in that country and charge that country's VAT rate on the supply. This is because unlike the £83,000 UK threshold many EU countries have a zero threshold. To simplify compliance with the EU VAT rules HMRC introduced the VAT Mini One Stop Shop (MOSS). Please contact us for further assistance if this may apply to your business.

TAX DIARY OF MAIN EVENTS FOR MAY / JUNE 2016

Date	What's Due
1 May	Corporation tax for year to 31/7/15
19 May	PAYE & NIC deductions, and CIS return and tax, for month to 5/5/16 (due 22 May if you pay electronically);
1 June	Corporation tax for year to 31/8/15
19 June	PAYE & NIC deductions, and CIS return and tax, for month to 5/6/16 (due 22 June if you pay electronically)

Grant & Co is an independent firm of Chartered Accountants, based in Cheltenham, Gloucestershire.

Please contact Matthew Gray on the telephone number below or at admin@grantandco.co.uk if you would like to discuss any of the issues raised.

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