Spring 2016 Newsletter

SILBURY
Chartered Accountants

Companies and Charitable Giving

In the light of recent discussions regarding the pros and cons of gift aid, it is perhaps worth looking at alternative ways of assisting charities. Limited companies can make donations to charities. These donations are deductible in the calculation of profits chargeable to corporation tax. To qualify for relief a charity must be:

- Established for charitable purposes only.
- Subject to jurisdiction in the EU, Iceland or Norway.

As well as cash donations, a company can consider supporting charities by funding the production of promotional material, for example banners and umbrellas. Such assistance can promote both the company and the charity and can therefore be a mutually beneficial mix between advertising and a gift.

Silbury have undertaken to support Brighter Futures Radiotherapy Appeal. More information on Brighter Futures can be found: www.brighterfuturesgwh.nhs.uk.

New tax dangers when buying residential property

The Chancellor announced in his Autumn Statement in November 2015 that he would be introducing new rates of Stamp Duty Land Tax (SDLT) on purchases of buy to let properties or second homes. Few perhaps realised how much more complicated property transactions may well be as a result.

At the end of December the government launched a consultation paper which revealed the proposed details of the regime.

The impact of the additional taxes is potentially wide ranging. If a purchaser falls within the regime, the SDLT additional charges are 3% on the full price and so the charge on a property costing £200,000 increases by £6,000.

It is proposed that the additional charges will potentially apply if, at the end of the day of the purchase transaction, the individual owns more than one residential property. Married couples are to be treated as one unit. There will be an exemption if the purchaser has sold their main residence and purchased a property which is to be their new main residence. But there will be some purchasers who will have to pay the additional charge even though the property purchased will not be a buy to let or a second home. Examples include:

- Mr A has bought a property which will be his new main residence but he has been unable to sell his previous main residence. He will be subject to the additional charge! It is proposed that a refund will be available but only if the previous main residence is sold within 18 months.
- Mr and Mrs B own one main residence. Mrs B decides to help her daughter buy her first house and makes a joint purchase of the property with her daughter. The higher rates will apply to the total price paid.

The measures are expected to come into effect for completions on or after 1 April 2016 so make sure you consider the proposals before entering into purchase contracts.

Personal Tax Accounts

In December 2015, HMRC launched the Personal Tax Account (PTA). This is an early step in the long path the government has embarked upon in its Making Tax Digital project.

A PTA will, by 2020, allow taxpayers to ‘see their complete financial picture in their digital account, just like they do in their online banking’. One of HMRC’s more controversial ideas in getting to this objective will be the requirement for most businesses and landlords to submit quarterly data to HMRC through their PTAs. We are a long way from that development. What is currently being trialled is the creation of an overview of an individual’s taxable income and tax liabilities which is populated from information HMRC already has obtained from the individual and other sources (such as their employer). The expectation is that all personal taxpayers will have a PTA by April 2016, along with five million small businesses.

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Property income and interest relief

The surprise announcement in the Summer Budget 2015 restricting income tax relief for interest costs incurred by landlords of residential properties became law in November 2015. Any hopes that the Chancellor would change his mind were dashed in the Autumn Statement in December when additional charges to Stamp Duty Land Tax on purchases and acceleration of capital gains tax on sale were announced.

From April 2017, income tax relief will start to be restricted to the basic rate of tax. The restriction will be phased in over four years and therefore be fully in place by 2020/21. In the first year the restriction will apply to 25% of the interest, then 50% the year after and 75% in the third.

The new rules only apply to residential properties and do not apply to companies or furnished holiday lettings. The restrictions apply to any interest and finance costs and so would also limit mortgage application fees and interest costs on loans to buy fixtures or furniture.

When thinking of investing in a new residential property, careful consideration should be given to the amount of tax relief to decide on the viability of taking on a new loan.

Attention director-shareholders - profit extraction issues

A key advantage of trading as a company is that the owners, who are generally both shareholders and directors, only suffer tax and NIC on any profits extracted from the company, so any profits retained in the company are sheltered from personal tax rates. If funds are required to reinvest into the business or to repay debt, the only immediate tax hit is the corporation tax charge of 20%.

However we all need funds for our personal outgoings so there will be another level of taxation when the profits are extracted won't there? This is where planning comes into play. Dividends are often used in combination with remuneration to obtain the most tax effective extraction of profits when the business is carried on through a company. For many years it has been attractive to pay a small salary to allow the tax efficient use of the personal allowance, to provide a corporation tax deduction for the company but not to pay NIC. This means a salary of £8,060 in 2015/16, corresponding to the primary NIC threshold (and 2016/17 as the threshold has not changed). The payment of this level of salary also provides a qualifying year entitlement to the state pension.

When the new tax regime for dividends is introduced on 6 April 2016 many director-shareholders will find that the tax bill on the dividends will be higher than is the case for the 2015/16 tax

year. So does this change the strategy of low salary and the balance as dividends?

We now have draft legislation for the new regime which explains the finer points of the proposals and how the new £5,000 Dividend Allowance interacts with other tax rates. The Dividend Allowance does not change the amount of income that is brought into the income tax computation. Instead it charges the first £5,000 of dividend income at 0% tax - the dividend nil rate. This means that:

- the payment of low salary below the personal allowance will allow some dividends to escape tax as they are covered by the personal allowance.
- the £5,000 allowance effectively reduces the available basic rate band for the rest of the dividend.

The practical effect of the new regime is that a strategy of low salary and the balance of income requirements taken as dividends will still be a tax efficient route for profit extraction for many director-shareholders. However many will be paying more income tax.

So if a director-shareholder only takes a salary of £8,060, any interest would first be allocated against the balance of the personal allowance (which is £11,000 for 2016/17) and then will be taxed at 0% up to the starting rate limit. The PSA may then give a further tax saving depending upon the total income of the director-shareholder.

Where does the interest come from? The director-shareholder may have interest from savings accounts, retail bonds quoted on the London Stock Exchange or loans made via 'peer to peer' sites. Or they may have provided loans to their company. Many have not charged interest on such loans but there is now an added incentive to do so.

Please do talk to us about the best strategy for director-shareholders in the new era of the taxation of dividends.