Henderson Black & Co

CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

PLANNING AHEAD FOR DIVIDEND REFORMS

From 6 April 2016 the way in which dividends are taxed is changing significantly. The 10% dividend tax credit is abolished. That means that it will no longer be necessary to gross up the net dividend actually paid to determine the gross dividend charged to tax. Instead, the amount actually paid will be the amount that is treated as taxable income. While this makes life simpler, the downside is that there will be no tax credit to offset against the tax due on the dividend. To compensate for this, all taxpayers will receive a tax-free dividend allowance of £5,000. Dividends received in excess of this will be taxed at the new dividend rates of tax applying for 2016/17, which are as follows:

- 7.5% to the extent that the dividends fall in the basic rate band;
- 32.5% to the extent that the dividends fall in the higher rate band; and
- 38.1% to the extent that the dividends fall in the additional rate band.

Planning ahead Although the new rules do not apply until 2016/17, it is advisable to discuss your dividend extraction strategy with us before the end of the 2015/16 tax year to formulate the most efficient strategy depending on your personal circumstances. In most family company scenarios, the current rules are more generous than the new rules and it may be advantageous to pay dividends before 6 April 2016 rather than afterwards where retained profits are sufficient to facilitate this.

Under the current rules, as long as total income does not exceed the rate at which higher rate tax becomes payable (£42,385 for 2015/16) there is no further tax to pay on dividends. If total income for 2015/16 is below that level, it may be worthwhile paying dividends before 6 April 2016 rather than afterwards to make the most of the opportunity to pay dividends tax free.

For higher and additional rate taxpayers, the availability of the £5,000 dividend allowance will mean that from 2016/17 they are able to enjoy the first £5,000 of dividends they receive tax-free. However, higher and additional rate taxpayers who withdraw dividends in excess of that from a family company may benefit from paying some dividends before 6 April 2016 to take advantage of the lower dividend rates applying for 2015/16. Again, it is advisable to speak to your tax adviser to determine what strategy works best for you.

NEW PERSONAL SAVINGS ALLOWANCE

A new tax-free savings allowance will be available to basic and higher rate taxpayers from 6 April 2016. The new allowance will mean that no tax will be payable on savings income until the new savings allowance has been used up. For the 2016/17 tax year, the new savings allowance is set at £1,000 for basic rate taxpayers and at £500 for higher rate taxpayers. There is no savings allowance for additional rate taxpayers, who will be taxed, as now, on all of their savings income.

As a result of this change, banks and building societies will no longer deduct tax at source from interest paid to savers. Consequently, if you are a non-taxpayer, you will no longer need to elect to receive your bank and building society interest gross.

For those whose income comprises wholly or mainly savings income, the 0% savings starting rate remains available on the first £5,000 of taxable savings income. However, this band is reduced by any taxable non-savings income (such that those who have taxable non-savings income of at least £5,000 do not benefit from the 0% starting rate band). The combined effect of the personal allowance (£11,000 for 2016/17), the new savings allowance (£1,000 for basic rate taxpayers for 2016/17) and £5,000 starting rate band means that it is possible to receive up to £17,000 tax-free in savings income in 2016/17 (in addition to that received in tax-free wrappers such as ISAs).

In light of the changes to the taxation of savings, it may be beneficial to undertake a savings review with your tax or financial adviser.

ALL CHANGE FOR EMPLOYERS

There are lots of changes that will affect employers from the start of 2016/17. These include fundamental reforms to the taxation of expenses and benefits, the replacement of the dispensation regime with a new statutory exemption for qualifying expenses and the option to tax some benefits in kind through the payroll, rather than reporting them to HMRC after the end of the tax year.

Expenses and benefits reform From 6 April 2016 the rules for taxing non-cash benefits and expenses provided to employees are reformed. From that date, the same rules apply to all employees, regardless of whether or not they are earning at a rate of £8,500 a year. That means that a wide range of benefits, including popular benefits such as company cars and private medical insurance, will become taxable when provided to employees whose earnings rate (including the value of any benefits provided) is less than £8,500.

The abolition of the £8,500 threshold also means an end to form P9D. While employers will still need to complete P9Ds for 2015/16, from 2016/17 where benefits are not payrolled, they will need to be returned on form P11D.

Payrolling of benefits in kind From 6 April 2016 employers will have to option to deal with the tax on non-cash benefits and expenses via the payroll rather than reporting those benefits to HMRC after the year end on form P11D. The opportunity to payroll benefits in kind is available for most benefits in kind, except vouchers and credit cards, living accommodation and beneficial loans. Broadly, where a benefit is payrolled, the cash equivalent of the benefit is treated like extra pay and the associated tax deducted from the employee's cash salary. Employers wishing to payroll some or all of the benefits that they provide to employees need to register with HMRC to do so before 6 April 2016. If the deadline is missed, it is will not be possible to payroll benefits in kind for 2016/17 as HMRC cannot process registrations in-year.

End of dispensation regime A dispensation effectively allows employers and employees to ignore benefits and expenses for tax purposes where the resulting liability is exactly matched by a deduction so that no tax is actually due. The dispensation process is abolished from 2016/17 and replaced with a statutory exemption for qualifying paid and reimbursed expenses. Where the conditions for the exemption are met, the exemption is given automatically and there is no need to report the benefit or expense to HMRC.

New exemption for trivial benefits The long-awaited exemption for trivial benefits looks set to be introduced from 6 April 2016. Employers will no longer need to report trivial benefits in kind costing £50 or less to HMRC. However an annual cap of £300 will apply to trivial benefits provided to directors of close companies and members of their families who are also employees.

Higher employment allowance The employment allowance which employers can set against the employer's (secondary) Class 1 National Insurance that they must pay over to HMRC is being increased to £3,000 for 2016/17. The allowance is set at £2,000 for 2015/16. However, from 2016/17 it will no longer be available to one-man companies where the director is the sole employee.

Diesel supplement to stay until 2021 Where an employee is provided with a company car that is a diesel car, the appropriate percentage is subject to a 3% supplement as compared to a petrol car with the same CO_2 emissions (subject to the cap at 37% of the list price). The diesel supplement was to have been abolished from 6 April 2016. It has been announced that this will not now happen and the supplement will be retained until 2021.

You may wish to speak to you tax adviser about what these changes will mean for you and your business.

NEW LIVING WAGE

From April 2016 a new mandatory living wage will apply to workers aged 25 and above. The living wage will be set at £7.20 an hour. Workers aged over 21 and under 25 will continue to be subject to the National Minimum Wage, which is currently £6.70 per hour.

HARSHER RULES FOR LANDLORDS

A number of changes have been announced that will affect landlords and those purchasing second and subsequent residential properties.

Restricted relief for interest From 2017 measures are being phased in that will restrict the amount of tax relief that landlords will be able to claim in respect of finance costs, such as mortgage interest and interest on loans to buy furnishings and fixtures. For 2017/18 and later tax years, it will no longer be possible to obtain tax relief on all finance costs at higher and additional rates of tax. Relief will be restricted progressively such that from 2020/21 onwards all finance costs will be deductible only as a basic rate tax reduction. Other things being equal this will result in more tax being paid on rental profits by landlords who pay tax at the higher or additional rates.

End of the wear and tear allowance Landlords who let furnished residential accommodation are currently able to claim a deduction to cover wear and tear. This allowance, set at 10% of net rents, is available regardless of whether any items are replaced during the tax year. However, 2015/16 is the last year for which the allowance will be available. From 2016/17 (income tax) or 1 April 2016 (corporation tax) landlords will be able to claim a deduction for the actual cost of replacing furnishings under a new replacement furniture relief. Unlike the wear and tear allowance, the new relief will also be available to landlords who let properties unfurnished (but will not be available in respect of furnished holiday lettings).

Speak to your adviser about what the change in the method of giving relief for the cost of replacing furnishings means for you and the possible tax planning opportunities that arise as a result.

Stamp duty land tax (SDLT) supplement From 1 April 2016 a higher rate of SDLT will be charged on purchases of additional residential properties costing £40,000 or more. The higher rate will be 3% higher than the rates currently applying to residential purchases. The supplement could add a considerable amount to the cost of an investment property, such as a buy-to-let, and where possible, it is advisable to ensure that purchases complete prior to 1 April 2016. A delay of a few days could be very costly.

GOING DIGITAL

The Government are to invest £1.3bn in creating an advanced digital tax administration system. As part of that process, by 2020 most businesses, self-employed people and landlords will be required to keep track of their tax affairs digitally and to update HMRC at least quarterly via their digital account. The intention is that all small businesses and individuals will have access to digital tax accounts by 2016/17.

Your tax adviser will be able to explain what HMRC's digital tax strategy means for you.

SIMPLE ASSESSMENT

The Government plans to consign the personal tax return to the history books. As part of that process, taxpayers whose affairs are simple and in respect of whom HMRC hold the information they need to calculate the taxpayer's liability will be sent a calculation, which is also a bill telling them what they have to pay. The calculation will replace the need to complete a self-assessment tax return.