RfM Accountants + more

Spring 2016
www.rfm-more.co.uk

+ more news

Welcome to the spring edition of our newsletter. This issue covers business and tax matters that we think you will find interesting and helpful. To speak to an RfM advisor about any of the matters covered, please get in touch.

RfM client puts in a star performance

Just four years ago, RfM client ST&R comprised a compact team of 15 insurance specialists, occupying a, let's say, 'cosy' office space in Chorley. But what the business lacked in decor and facilities, it more than made up for in enthusiasm and drive. Fast-forward to 2016 and the headcount and profit forecasts have grown at a whiplash-inducing rate. So, what is the secret to ST&R's impressive numbers?

Although ST&R is still a relatively new company, its story begins over 20 years ago. Following a £10 bet by a friend, a young man called James Slater found himself applying to work in a bank. He got the job – and the £10 – and soon discovered that he had a head for figures and a gift for dealing with the bank's customers. From this first rung on his finance career ladder, James held a series of senior roles at well known companies including HFC, Argos Financial Services and Freemans Grattan.

In 2012, by this time regarded as an expert in insurance and protection products, with established relationships across the sector, James decided it was time to realise a dream to run his own insurance business.

Initially, the company was unlicensed and could therefore only act as an introducer to other, regulated insurance companies. In keeping with the office space, the first year's turnover was modest at £400k – but with £470k set-up and running costs, it was a slow start.

It would be the development of an original, cloud-based service that would mark the first turning point in the company's fortunes.

Our Insurance Vault was developed as a 'virtual' filing cabinet where householders could store copies of their important insurance documents. The Vault, offered as a free service, gave ST&R an opportunity to offer competitive insurance renewal prices to the customer and saw them rapidly grow their customer base over the next few years.

Turning point number two would be the acquisition of a licensed business that would take ST&R in a new and much more profitable direction.

Autumn 2013 saw the now 40 members of staff moving to a much larger office which was re-configured to fit the business and included meeting and training rooms, a call centre and a compliance room.

As the business started to grow beyond initial projections, James and his wife Natasha, the Finance Director of ST&R, called on their advisors at RfM Preston for their expertise and support.

Partner Gillian Isibor and her team worked closely with Natasha and the ST&R finance department to help them put bespoke robust accounting systems and processes in place. "ST&R has grown very rapidly in a relatively short time. We've aimed to future-proof their accounting systems so that they can accommodate even more success."

RfM has also advised on tax matters, staff policies and payroll, and provided ongoing training and support as the team has grown.

"Gillian and her team have been really supportive to ST&R, guiding us on tax and other issues. I value their expertise and advice; they share my passion for the business – but they also help me keep my feet on the ground," said James.

By the end of the financial year 14/15, ST&R were operating firmly in the black and had to move yet again to even larger premises. In 2016, the business expects to turnover £8 million with the help of its now 50-strong team.

This year represents another phase for the business as ST&R focuses on what it can do for its corporate customers, namely business owners, directors and other key people. Products such as Key Person Protection, Shareholder Protection and Relevant Life Plans can help ensure that a business isn't negatively affected in the event of the worst happening and in many cases, can be treated as an allowable business expense by HMRC.

If you would like to talk about how RfM can help with the growth of your business, please contact Gillian Isibor on 01772 431233.
To arrange a business protection health check from ST&R, email enquiries@rfm-more.co.uk

Brave RfM 'soles' walk on fire for good cause

In defiance of the doubters, three members of staff from our Ulverston office successfully completed The Firewalk Challenge to raise money for Furness General Hospital Oncology Unit.

Here come the hot steppers...

Managing Partner Elaine Harris, Farm Accounts and VAT Manager Tracie Roberts and Business Development Manager David McKendry put their toes to the ultimate test on Saturday 27th February… but all for a good cause.

On a cold, damp evening at Craven Park, home of Barrow Rugby, 44 brave participants walked (rather briskly) across 20 feet of burning embers, which reached a temperature of 1,236 degrees Fahrenheit, to complete the fire walk. *Note: paper ignites at 451ºF and aluminium melts at 1,100ºF!*

Our intrepid three found the experience both scary and exciting but, with the help of Karen their inspiring motivational coach, were able to put aside their fears and walk the walk.

So what did walking on hot embers feel like?

Tracie and Elaine thought it was "hot, but not burning hot. A strange sensation!"

David said, "It was like walking across hot sand, a nice warm fluffy feeling! Would we do it all over again? You bet we would!"

So far, over £700 has been raised for the Oncology Unit from generous sponsors, with more to come in.

Everyone at RfM would like to say a huge well done to Elaine, Tracie and David.

The Budget '16 at a glance

On Wednesday 16th March 2016, George Osborne delivered what he described as "a budget for the next generation". From a business perspective, this is a budget for smaller businesses and their owners to make them better able to compete with large companies.

Businesses

- Corporation tax reduced to 17% from April 2020
- A 50% restriction on brought-forward losses being set off against current year profits from April 2017 where profits above £5m
- Relaxations in the group relief rules for carried-forward losses and loss streaming rules from April 2017
- Restrictions on interest relief to 30% of UK earnings or a worldwide interest/earnings ratio where net UK interest is more than £2m
- Significant reductions in tax rates for the the oil and gas industry
- VAT to apply to UK sales made by offshore online sellers
- Further anti-avoidance measures involving Permanent Establishments and withholding tax on royalty payments
- Changes to the SDLT regime for commercial property. Highest rate now 5% above £250k
- Cuts to business rates for small businesses and small properties
- New Sugar Levy to be introduced on soft drinks manufacturers and importers
- Crackdown on avoidance of UK tax by offshore property developers
- Termination payments made after April 2018 to be subject to employer NICs
- The rate of tax that applies to loans to participators in close companies will increase to 32.5% from April 2016
- Further anti-avoidance on disguised remuneration for loans from EBTs
- Self-employed class 2 NICs to be abolished from 2018

Individuals

- Reduction in capital gains tax rates to 20% and 10% for disposals after 6 April 2016. Reductions do not apply to residential property disposals and carried interest
- Entrepreneurs' Relief extended to shares held in unlisted trading companies (other than by officers and employees) for 3 years. Effective rate of 10% and separate £10m lifetime limit
- Introduction of lifetime ISAs for under 40s. Up to £4,000 of annual savings topped up by £1,000 from government
- Annual ISA limit increased to £20,000 from April 2017
- Introduction of a cap of £100,000 on exempt capital gains through Employee Shareholder Status
- Non doms will be able to rebase their offshore assets for capital gains tax as at April 2017

Key rates

- Corporation Tax 20%, 19% from 2017, 17% from 2020
- Income Tax, basic rate 20%, higher rate 40%, top rate 45%
- Personal allowance -£10,600, £11,000 from 2016, £11,500 from 2017
- 40% tax rate threshold -£42,385, £43,000 from 2016, £45,000 from 2017
- Capital gains –basic rate taxpayers 10%, other taxpayers 20% from April 2016
- New rates on dividends of 7.5%, 32.5% and 38.1% for basic, higher and top rate taxpayers and £5,000 allowance from 2016
- VAT 20%
- IPT 10% from October 2016

You will find a more detailed summary of the Budget in the Resources section of our website.

Blessed relief

Advising your employees on Marriage Allowance

The Marriage Allowance, introduced in April 2015, lets eligible individuals transfer 10% of their personal allowance to their spouse or civil partner.

By doing so, the tax bill of the spouse receiving the additional 10% (currently £1,060) will be reduced by up to £212 in 2015/16. Such a transfer is allowed and worthwhile in cases 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.

Marriage Allowance can be applied for online. If you are an employer, signpost your employees to gov.uk/marriage-allowance-guide where they will find full information on eligibility, details of how to apply and a link to the online application.

As we are at the end of the tax year, couples may have a better idea as to whether they qualify. When a successful application is made, changes to the personal allowances are backdated to 6 April 2015. In future years the personal allowance will transfer automatically to the spouse until either of the couple cancels the Marriage Allowance or there is a change in circumstances.

Charity tax exemptions

There can be generous tax relief for charities but only if they are correctly set up and run. As HMRC has recently updated its guidance on the tax treatment of charities now is the perfect time to review the current tax position.

Qualifying conditions

To be a charity for tax purposes, the organisation must meet four qualifying conditions, of which the main one is the requirement to be established for charitable purposes only. This means that the charity is restricted to using all its income and assets for its stated charitable purposes.

Trading profits

A charity's trading profits are exempt from tax as long as the activities contribute directly to the furtherance of the charity's charitable objectives. This is known as 'primary purpose' trading. In addition, any profit from ancillary services which contribute indirectly to the purposes of the charity are exempted from tax. One example of this might be the sale of food and drink by a charitable theatre.

The overriding condition for tax exemption is that the profits from these activities are only applied for charitable purposes.

Any income received by the charity from the sale of goods that have been donated is not regarded as trading profit and so will be not taxable.

Activities which do not further the charity's objectives will be treated as 'non-primary purpose' trading and the profits will be taxable. This is the case even if the activities raise funds for the charity.

A common example of this would be a charity letting out premises/facilities when not in use by the charity e.g. sports facilities hired out by a school which is a charity. If a charity has both primary and non-primary activities it will need to apportion income and expenses between the two types of activities. There is however a small scale exemption for non-primary purpose trading.

Subject to certain restrictions, other activities which are exempt from tax are fundraising events such as discos or fairs and also lotteries.

Other profits

The profits of a property business carried on by a charity will be exempt from tax, although the exemption does not apply to the profits of a trade which is buying and selling land or property. If a charity sells land that has been held as an asset there is an exemption from capital gains tax as long as the gain is applied for charitable purposes.

In addition all interest, dividends and Gift Aid donations are also exempted from tax.

Trading subsidiaries

One way of dealing with the tax charge on non-primary trading profit is to set up a trading subsidiary of the charity which carries out the non-primary activities. This subsidiary then donates its profits to the charity under Gift Aid, thereby reducing taxable profits.

BOARDROOM DISCUSSIONS

Dividends versus salary

Are dividends still the most tax-efficient way to extract profits from your company?

A key advantage of trading as a company is that the owners, who are generally both shareholders and directors, are only liable for 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 and this is where careful tax 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, the common approach has been to pay a small salary to allow the tax-efficient use of the personal allowance, provide a corporation tax deduction for the company but not to pay NIC. A salary of £8,060 in 2015/16, would correspond to the primary NIC threshold and also provide 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 for the 2015/16 tax year. **So do the changes mark the end of the strategy of low salary and 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 this is that a strategy of low salary and the balance as dividends will still be a tax-efficient route for profit extraction for many director-shareholders **although many will be paying more income tax.**

What if the director-shareholder has savings income?

We now know how the receipt of savings income interacts with dividend income and it is potentially very complicated. Savings and dividend income are treated as the highest part of an individual's income. Where an individual has both savings and dividend income, the dividend part is treated as the top slice.

There are two tax breaks which can apply to savings income. The Personal Savings Allowance (PSA), which is new for 2016/17, can provide a potential £200 tax saving for basic rate and higher rate taxpayers. As his is a fairly small amount, the PSA does not fundamentally change the approach to profit extraction.

The 0% starting rate of tax on savings income up to £5,000 has survived the changes made to the taxation of dividends. This tax break is potentially worth £1,000 as it taxes the income at 0% rather than 20%. These rates are not available if 'taxable non-savings income' (broadly earnings, pensions, trading profits and property income) exceeds the starting rate limit. But dividends are taxed after savings income and thus are not included in the individual's 'taxable non-savings income'.

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 (£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 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.

In the new era of the taxation of dividends, please do talk to your RfM advisor about the best strategy for director-shareholders

Making Tax Digital Personal Tax Accounts

In December 2015, HMRC launched the Personal Tax Account (PTA); an early step in the long path of the government's Making Tax Digital project.

By 2020, PTA will 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.

The PTA currently allows certain changes to be made by the individual so that HMRC can make changes to the amount of tax collected. The type of changes that can be made will be developed over time. Examples currently include:

- Employees being able to provide information about changes to a company car or to medical insurance benefits. Employers do provide this information to HMRC but in arrear of the changes. The PTA enables the employee to effect quicker changes to tax liabilities.
- Individuals stopping Child Benefit payments if they or their partners are affected by the High Income Child Benefit Charge. An individual can currently provide information via a secure form on the HMRC website. It is expected that they will do this via the PTA in future.

If you are interested in seeing your PTA, you initially need to verify your identity. There are various ways in which you can do this and the methods will be amended over time. A government gateway account can be used if you have one. Alternatively the GOV.UK Verify service can be used.

Please note At the moment, you do not have to access your PTA and we cannot currently access the account on your behalf. For the time being, we will continue to manage our clients' tax affairs in the usual way and keep you informed of developments in the Making Tax Digital project.

Income from property: Interest tax relief

All hopes that the Chancellor would change his mind about the restrictions to income tax relief for landlords of residential properties were dashed in the Autumn Statement when additional charges to Stamp Duty Land Tax on purchases and acceleration of capital gains tax on sale were also announced.

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

The new rules 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. The restrictions do not apply to companies or furnished holiday lettings.

If you are thinking of investing in residential property, careful consideration should be given to the amount of tax relief before taking on a new loan.

How much extra tax will this mean?

The additional tax arising will depend on the marginal rate of tax for the taxpayer. Basic rate taxpayers will not feel the effects of the proposals as much as a higher rate taxpayer who will, in principle, get 20% less relief for finance costs. However, the calculation method may see some taxpayers move into higher rate tax brackets.

Example

Consider the 2020/21 tax year when the transitional period is over. Let's assume that the personal allowance is £12,000 and the basic rate band is £38,000, and that the higher rate band starts at £50,000. Tony has a salary of £35,000, rental income before interest of £23,000 and mortgage interest of £8,000.

Under current tax rules, taxable rental income is £15,000. He will not pay higher rate tax as his total income is £50,000.

With the new rules, taxable rental income is £23,000. So £8,000 is taxable at 40% = £3,200. Interest relief is given after calculating the tax liability on his income. The relief is £8,000 at 20% = £1,600.

So Tony must pay an additional £1,600 tax.

Can it get worse than this?

Yes it can. Be mindful that:

- The amount of the interest relief is restricted where either the total property income or total taxable income (excluding savings and dividends) of the landlord is lower than the finance costs incurred. For example, if net property income is £4,500 before interest of £6,000, the landlord is making a £1,500 loss but £4,500 is still taxable. Interest relief is also restricted to £4,500 at 20% rather than £6,000 at 20%. Unrelieved interest (£1,500 at 20%) is carried forward and may get tax relief in a later year.
- Child benefit is clawed back if 'adjusted net income' of a couple with children is above £50,000. Interest will not be deductible in the calculation of 'adjusted net income'.
- The personal allowance is reduced if 'adjusted net income' is above £100,000.

If you need further information or advice about deduction of interest by residential landlords please speak to your RfM advisor.

Trivial benefit reporting simplified

A number of welcome changes to the taxation of benefits on employees and directors come into effect from 6 April 2016.

This is thanks largely to the work of the Office of Tax Simplification. One change in particular – a new statutory exemption for 'trivial benefits' – will provide much more certainty on the taxation of benefit.

In practice HMRC have accepted that non-cash trivial benefits that are more related to staff welfare rather than being a reward for services, did not have to be reported on form P11D. But, under tax law, any small benefit could have been taxable.

With effect from 6 April 2016 there will be a statutory exemption for certain non-cash benefits up to £50. An annual cap of £300 will apply to some people – office holders (e.g. directors) of close companies (typically family companies) and employees who are family members of those office holders.

Those affected by this cap will be able to receive a maximum of £300 worth of trivial benefits each year exempt from tax. So trivial benefits are not so trivial.

Beware new tax rules when buying residential property

When the Chancellor announced the introduction of new rates of Stamp Duty Land Tax (SDLT) for buy to let properties or second homes in his Autumn Statement 2015 few perhaps realised how much more complicated property transactions could well become.

At the end of December the government launched a consultation paper revealing the proposed details of the regime. The impact of the additional taxes is potentially wide ranging. If a purchaser falls within the regimes, the SDLT and Land and Buildings Transaction Tax (LBTT) additional charges are 3% on the full price. As a result, 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 two or more residential properties. Married couples are to be treated as one unit and 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 when the property purchased will not be a buy to let or a second home.

Examples

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.

SDLT does not cover property transactions in Scotland, however, the Scottish government has introduced a bill in the Scottish Parliament at the end of January 2016 which proposes similar changes to the LBTT.

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