# dmc newsletter
## SPRING 2016

## WELCOME

**DMC News**

Firstly an update on staff changes. Susie Best who had been with DMC for 26 years retired last year and is now enjoying many varied (non-accounting) activities. In the summer we welcomed a new member of staff - Jodie Smith who has started on her accountancy career path. Congratulations are due to Sammie Aubrey who successfully achieved her ACCA qualification.

**Budget Highlights**

There are many significant tax developments coming in over the next few years. Over the page we focus on a few key areas where major changes are due. But first a look at some of the announcements from the recent budget that we think will be of most interest to you.

<u>Tax rates</u>

The 2017/18 personal allowance for individuals will rise to £11,500 from £11,000 in 2016/17. The higher rate threshold of £43,000 for 2016/17 will increase to £45,000 in 2017/18. Corporation tax is set to reduce to 19% from 1st April 2017 and will decrease further to 17% from 1st April 2020.

The VAT threshold increases to £83,000 from 1st April 2016 - deregistration rises to £81,000. From 1st April 2017 two new £1,000 annual exemptions will be introduced, one for property income and the other for trading income. These are aimed at micro entrepreneurs helping those with low levels of rent (such as Airbnb) and low profits (like E-Bay traders). The first £1,000 of income (before expenses) will be exempt. If your income is over £1,000 then you can either deduct £1,000 from your gross income and be taxable on the excess or deduct allowable expenses to arrive at taxable profit in the normal way.

There will be a consultation on the reform of $CO_2$ emissions bands for ultra-low emission cars to incentivise the use of low polluting cars.

<u>Personal service companies</u>

The chancellor has taken a new tack aimed at ensuring those who provide their services through their own Limited Company to a 'government body' are taxed at the same rates as employees. It has been announced that from April 2017 if the client engaging the Personal Service Company is a public sector body (or recruiting agency acting for the public sector body) then the engager will become responsible for determining whether IR35 rules should apply and for paying the correct tax. HMRC are to develop a new tool intended to provide certainty when making the decision on whether the IR35 rules apply or not. Could this be the beginning of the process of passing responsibility for IR35 decisions onto the engager?

<u>Capital Gains Tax Changes</u>

The main rates of Capital Gains Tax payable by individuals are being reduced from 18% to 10% for gains in the basic rate tax band and from 28% to 20% for higher and additional rate taxpayers. However the reduction does not apply to gains on residential property which remain at the previous rates. The changes take effect from this tax year (2016/17).

A 10% rate of Capital Gains Tax is introduced for Investors who subscribe for new shares in an unlisted trading company on or after 17th March 2016. The shareholder should not be an officer or employee of the company and the shares must held for a period of three years.

<u>NIC reforms</u>

Class 2 NIC which is now collected via the tax return rather than on a regular direct debit basis, will be abolished from 6th April 2018. There will be reform of the Class 4 contribution system but this will be announced later following the completion of an HMRC consultation process.

<u>Termination payments</u> - An apt place to end! From 6th April 2018 it is likely that employers NIC will apply to the excess over £30,000

**Major changes for the new tax year**

- <u>The new Dividend tax regime</u>

Changes to the way dividends are taxed come into force from 6th April 2016. In summary; the first £5,000 of dividend income you receive will be tax free, after that dividends are taxed at 7.5% if they fall in the basic rate tax band, 32.5% in the higher rate band and 38.1% in the additional rate band. (This does not affect the dividends on shares held in an ISA which remain tax free). For individuals who have less than £5,000 of dividend income this will either leave them no worse off or if they are higher rate tax payers will actually benefit them. The group who will be affected most are the owner managed companies where income is taken through the low salary plus dividend route. However we should remember that we have had a very good run over the last couple of decades. In most cases this route is still the very best way to take income from your limited company – it's just going to cost a little more than it did previously, with a tax bill/increase in personal tax from this year on. With the plethora of tax changes coming in over the next few years everyone's circumstances will differ. As we prepare your accounts this year our challenge will be to look at your particular position under the new regime and ensure we maximise tax planning opportunities. Note - that as well as effectively increasing the tax on dividends by 7.5% across the board, the tax charge on overdrawn director's loan accounts increases from 25% to 32.5% from 6th April 2016

- <u>Companies House reporting changes</u>

From 6th April 2016 all companies are required to keep a register of Persons with Significant Control (PSC) - broadly anyone who holds 25% or more of the voting control. If we look after your company's secretarial matters we will be preparing this for you. From June this year companies will make an annual confirmation statement (including the PSC details) rather than the Annual Return. What a pity that this ownership transparency doesn't officially extend to all offshore companies……….. unless leaked !

- <u>Rental Property changes</u>

The chancellor has hit out at the buy to let sector with a number of measures. Firstly, there is the additional 3% stamp duty surcharge that individuals buying a second property will incur on transactions completed after 1st April 2016. This is on purchases over £40,000 (not the normal starting point of £125,000 for residential properties). Secondly, tax relief for finance costs (such as mortgage interest) will be restricted to basic rate relief. This is being phased in over 3 years starting 2017/18 and will mainly affect higher rate tax payers. Thirdly, the new lower capital gains tax rates do not apply to residential property – these remain at the old rates of 18/28%. However all is not doom and gloom, the renewals basis (allowing tax relief when furnishings are replaced in rental properties) is reintroduced from 6th April 2016. This applies to furnished and unfurnished lettings – the 10% wear and tear allowance is now withdrawn. Furnished Holiday Lets qualify for the Annual Investment Allowance giving 100% relief on the initial cost of furnishing as well as relief on replacements. The other good news is that rent a room relief increases from £4,250 to £7,500 starting 6th April 2016.

- <u>The new tax rules for savings</u>

From 6th April 2016 in addition to the first £5,000 of dividends being tax free, a new personal savings allowance is introduced – basic rate tax payers will pay no tax on the first £1,000 of interest from savings ( higher rate taxpayers £500). This is in addition to the ISA allowance which remains at £15,240 for 2016/17 – increasing to £20,000 for 2017/18.

For adults up to 40 years old there will be a new lifetime ISA into which up to £4,000 can be invested each year. The government will add a 25% bonus as long as the money is used to buy a first home (or withdrawn after reaching age 60). Once opened - you can contribute until age 50.

**If you want to discuss any issues raised please do call one of the partners on 01342 824181**

**dmc partnership limited Chartered Accountants**

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