dmc newsletter

SPRING 2017

WELCOME

Here at DMC we continue to work hard assimilating the raft of new taxation and accounting measures and meeting all of your filing deadlines - adding value with sound business advice. Helping you to comply is no easy task with ever changing legislation – some of which only lasts for one week, Mr Hammond!

Budget News

The main change announced with regard to national insurance increases for the self-employed has of course now been withdrawn, although Class 2 will still be abolished with effect from 6 April 2018. A major announcement was the reduction, from 6 April 2018, of the dividend tax free rate band from £5,000 to £2,000 which will particularly affect those with investment portfolios and may cause other individuals to be brought into the tax compliance systems for the first time. The chancellor offered some assistance to those affected by increases in business rates and a delay was announced with regard to Making Tax Digital (more of which later). It was also confirmed that once a personal pension has been 'flexibly accessed' the restriction in future contributions to pensions that you can make, will drop further from £10,000 to £4,000 per annum – the rules are not entirely straightforward and if you are thinking of accessing your pension early, but with a view to continued pension saving, you should take advice from a pensions adviser.

Year End Planning

Some thoughts as the end of the tax year approaches. If you are intending to make a pension contribution for 2016/17 it needs to be made by 5 April 2017. Consider also fully utilising your 2016/17 ISA annual allowance (£15,240); with the dividend allowance reducing, now is a good time to review how you hold your investments and possibly move more into a tax free ISA.

It is also worthwhile looking at the balance of investments held by couples to make sure that both the dividend and interest allowances are being used to best advantage. Whilst we cannot give specific investment advice, we can help you with regard to overall financial planning. You should also take the opportunity to review capital gains and losses that have crystallised since 6 April 2016 and consider carrying out any transactions needed to make best use of the capital gains annual exemption.

New Look Financial Accounts

As a result of amendments in company law the presentation of Financial Statements for Limited Companies and LLP's will be changing. The most significant differences from the previous format for accounts will be those that affect small companies – sizes are defined as follows:-

	Small entity	Micro entity
Turnover	£10,200,000	£632,000
Balance Sheet Total	£5,100,000	£316,000
No. of employees	50	10

If an entity is below the thresholds in at least 2 out of 3 categories then it comes under the relevant size criteria. The changes take place for all accounting periods beginning on or after 1st January 2016. The work needed to prepare the business accounts remains the same - the main presentation changes you will notice are:-

- The Balance Sheet and the Profit and Loss Account may look different.
- There will be differences in the notes to the accounts, in some cases there will be less disclosed and in others additional items will be covered in the notes.
- Companies will no longer be able to file abbreviated accounts, however, they will be able to file abridged accounts and the profit and loss account can be excluded.

We will review these changes with you when we complete your first set of accounts under the new regime.

Making Tax Digital - MTD

Under MTD, HMRC aims to create a system that enables each taxpayer to manage all the different taxes that affect them from one account. The first phase commences April 2018 and applies to unincorporated businesses and landlords with turnover exceeding the VAT threshold. From April 2019 those with a turnover below that threshold (but with an exclusion if income is less than £10,000) will need to comply and from April 2020 companies will also be included. There will be a quarterly filing requirement and software providers are developing suitable systems. You will be allowed to use spreadsheets to record day to day transactions if you prefer, however, to report MTD data it will need to be transferred to 'MTD compliant software'. An annual declaration will be required (to be filed within 10 months after the end of your accounting period) in order to claim reliefs and allowances and make accounting adjustments. Income from other sources (e.g. interest, pensions, salary) will be either pre-populated from HMRC's own data or will have to be supplied and uploaded to your digital account. This is a seismic change to the tax reporting system and one that both HMRC and the professions are assimilating. Initially there will be no late filing penalties, however, our task is to ensure that all our clients are fully aware of the deadlines and reporting requirements and to consider how we integrate your accounting systems with ours. We also need to look at how we support taxpayers who are not within the MTD system but still need assistance in checking that they pay the right amount of tax and that they satisfy reporting requirements, for example capital gains transactions. Although Making Tax Digital will involve additional reporting, we do believe that the need to keep good records and to have an up to date picture of your tax position can be viewed in a positive light. It will assist with business planning, cash-flow projection and could highlight timely investments in capital equipment or pensions.

VAT Flat Rate changes

If registered for the VAT Flat Rate scheme, you should have received a letter from HMRC advising you of the changes affecting businesses deemed to be 'limited cost traders'. Anyone spending less than 2% of their VAT inclusive turnover (or more than 2%, but less than £1,000 per annum) on goods will be classed as a limited cost trader and will have to apply a flat rate of 16.5% with effect from 1 April 2017 - note, this percentage applies to gross turnover (i.e. invoiced amount plus the 20% VAT charge) so is an effective rate of 19.8%. The definition of goods is very restrictive and if you are a labour only business you will probably find you have to pay the higher level of flat rate VAT. Goods can only include those used exclusively for the business therefore any private use of an asset could prejudice the claim for goods purchased. Gas and electricity used exclusively for the business count as goods. The test needs to be carried out for each quarterly VAT return. So decisions need to be made now as to whether you

1. Stay on the flat rate scheme, because you retain a sensible flat rate
2. Stay, because the administrative ease of the scheme makes it worthwhile - even at 16.5%
3. De- register because you are below the registration threshold and will no longer benefit from the flat rate
4. Move to standard rate accounting.

Other matters

With effect from 6 April 2017 the changes to interest relief deductions for property rental income commence. This income is now calculated automatically on a cash basis (unless an election is made to the contrary). The 10% wear and tear allowance has already been removed. It is now really important that proper tax advice is sought with regard to the recording and reporting of property income and expenses.

To discuss any of the matters covered, please call one of us on 01342 824181.

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