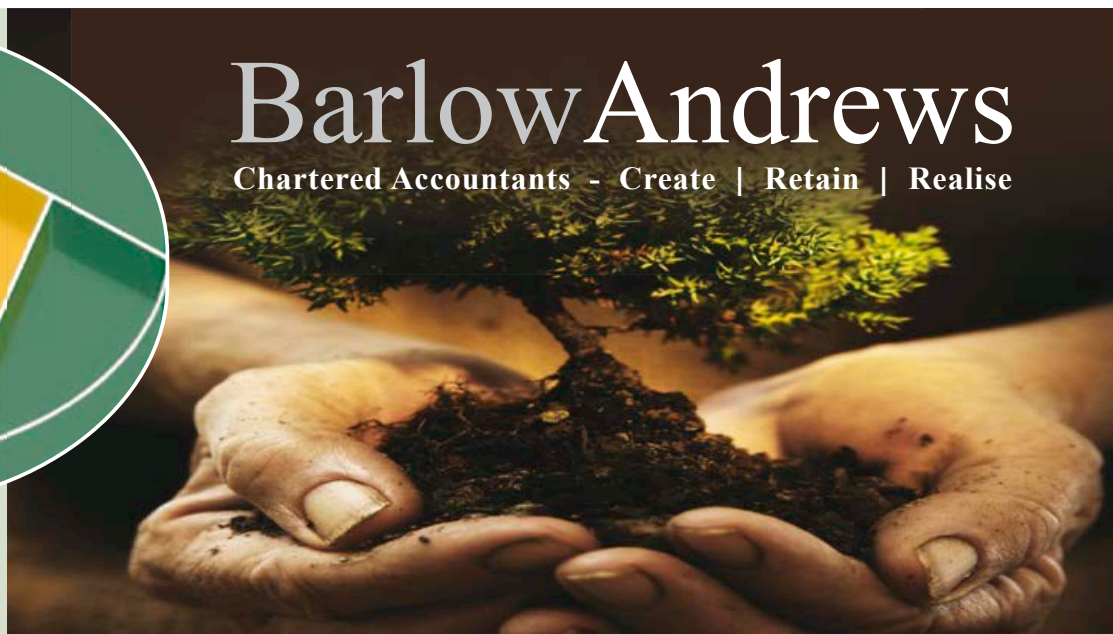


# Barlow Andrews

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## A busy time ahead for our tax system

The Autumn Statement is set to be an important event. We have a new Prime Minister and Chancellor of the Exchequer with a potentially different slant on economic policy than their predecessors. There is also the need to deal with the impact of Brexit.

On top of that we have HMRC proposing a number of short term and long term changes to our tax system. Over the summer, HMRC issued over 30 consultation documents. Many of these are technical in nature but there are some big themes being aired. Chief among these are the proposals related to the Making Tax Digital project. Six of the consultation documents cover different aspects of the project at the heart of which lies the desire to allow all personal and business taxpayers to engage with HMRC online and for taxpayers to see up to date and accurate information on their tax bills throughout each tax year.

Three of the consultation documents contain proposals to tackle the hidden economy. In 2013/14, the hidden economy 'tax gap' was £6.2 billion and HMRC are tasked with reducing the size of that gap.

We will, of course, try to ensure you are kept up to date with tax changes that may impact upon you and your business.

## WINTER 2016

# New Tax-Free Childcare scheme – launch date is nearly here

After much delay, the Tax-Free Childcare scheme will be launched to parents from early 2017. The scheme will be rolled out gradually, with parents of the youngest children able to apply first. All eligible parents will be able to join the scheme by the end of 2017.

The relief will be 20% of the costs of childcare up to a total of childcare costs of £10,000 per child per year. The scheme will therefore be worth a maximum of £2,000 per child (£4,000 for a disabled child). All children under 12 within the first year of the scheme will be eligible (up to 17 for children with disabilities).

To qualify for Tax-Free Childcare all parents in the household must:

- meet a minimum income level based on working 16 hours per week at the National Living Wage
- each earn less than £100,000 a year, and
- not already be receiving support through Tax Credits or Universal Credit.

Parents will be able to open an online account into which the government will make 'top up' payments at a rate of 20p for every 80p that families pay in.

Self-employed parents will be able to get support with childcare costs using the Tax-Free Childcare scheme, unlike the current Employer-Supported Childcare scheme.

For employees, the Employer-Supported Childcare scheme will remain open to new entrants until April 2018. Parents already registered by this date will be able to continue using it for as long as their employer offers it.

## Are you an employer?

If you are an employer currently offering an Employer-Supported Childcare scheme, you need to consider the terms under which you will continue to offer the scheme. Whether or not it is beneficial for your

employees to remain in the existing scheme depends on a number of factors and you will need to ensure that employees have access to advice from the Childcare scheme provider.



# Dealing with distractions

Research suggests that when we are distracted from a piece of work it takes between 10 and 15 minutes to get back to that point of focus afterwards. It is therefore not surprising that our scheduled work tasks are not being completed, when we are being distracted many times each day.

What can we do to manage our external distractions?

## 1. Schedule them

Receiving emails, phone calls and instant messages are a huge distraction for many. Consider allocating particular times of the day to deal with these. You could check your emails for example, in the morning, after lunch and at the end of the day. Is it possible for you to use voicemail for incoming calls or ask someone else to take messages when appropriate? If the auto alert on your emails is distracting you, turn it off. By not reading and replying to emails immediately, you are allowing yourself to focus on the task in hand.

## 2. Know your 'optimum focus' time

When scheduling tasks, plan your work around your energy levels. If your optimum focus time is in the morning, consider allocating your most challenging work to a morning slot. Working from home is a fantastic option to avoid workplace distractions but this may not be feasible for you. Could you work at home for a couple of hours at the start/end of the day to ensure your optimum focus time is being used

effectively? You do of course need to take into account the distractions that may be present at home.

## 3. Avoid multitasking

Where you have high focus tasks scheduled, try and focus on one task at a time. It is more effective in the long run. Schedule your day in terms of the order you will complete your tasks and agree with yourself beforehand the level of completeness required for each task before you allow yourself to move onto the next. Certain low focus tasks can clearly be multitasked such as drinking your coffee and reading an email but can the same be said for replying to a client email whilst you are in a meeting?

## 4. How about internal distractions?

These are interruptions that you are effectively causing yourself and some of the external distractions already mentioned may actually be internal distractions for you. Internal distractions include boredom (causing you to flit from one task to another or surf the internet) worry, self-doubt, procrastination and wanting to try and fix everybody

else's problems. None of these are helping you achieve your planned work schedule. It's useful to take a step back and think about why you are allowing these distractions to interrupt you.

The key with internal distractions is goal setting. Before going home each evening, consider what you would like to achieve the following day, and allot time to each task. Focus on two or three important tasks but be realistic with what you can achieve.

Remember, if you are distracted by the same thing daily, and it isn't possible to eliminate it, minimise it or delegate it to somebody else, it's probably not a distraction and actually a task that should have been scheduled the evening before.



# New tax relief for investors

Investors' Relief (IR) is a new tax relief designed to attract new share capital into unlisted companies. It was announced in the 2016 Budget as an extension to Entrepreneurs' Relief (ER) but the potential beneficiaries of IR are different to the shareholders who are entitled to ER.

Both reliefs are similar in providing a 10% capital gains tax rate (rather than a 20% tax rate for higher rate taxpayers) for shareholdings in trading companies. They also have the same upper limit. Up to £10 million of lifetime gains can be made and be taxed at the preferential rate.

However, ER is aimed at shareholders who own at least 5% of the ordinary share capital of the company and are also officers or employees in that company whereas IR is designed for non-working investors. Late changes to the rules mean that IR may be given in some scenarios where an individual (or someone connected with an individual) is an 'unpaid director' or becomes an employee of the company, but the new relief

should be looked at by investors and companies seeking additional capital as an alternative to the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS).

At first sight, EIS and SEIS look better from the point of view of the investor. These reliefs give income tax relief on the amount invested and a complete tax exemption from capital gains. IR gives no income tax relief and a 10% capital gains tax rate. However IR may be far more attractive to companies seeking investment. EIS and SEIS are subject to many conditions including restrictions on the types of trades which qualify, the size of the company, how much can be raised and how and when the monies are invested.

Scenarios in which IR may be attractive to the company raising funds and the investor include:

- asset backed trades which are excluded from EIS and SEIS such as hotels, property development and farming
- larger companies on the Alternative Investment Market. These companies are not regarded as 'listed' and so potentially qualify. Some of these companies could qualify for EIS but EIS is restricted to companies with gross assets of less than £15 million before a further share issue.

Please talk to us if you are interested in IR as an investor or you are seeking to raise funds.





## Rental income splits

Our current tax regime provides a potential benefit of a historically high level of income tax personal allowance. The increases in the personal allowance in recent years has come at the cost of reductions in the band of income being taxed at basic rate but, in the current year, an individual may have £43,000 of income before higher rate tax applies. Married couples and civil partners have opportunities to double the income limit and they are helped by the tax rules which treat asset transfers between couples as tax neutral. There are however traps for the unwary.

One area that HMRC seem to be paying close attention to at the moment is how rental income is divided between spouses. The law on this point has not changed for many years.

The general rule is where rents are received from an asset held in the names of individuals who are married to each other and living together, the income is shared equally. This rule often works very well for many married couples. Even if the husband has contributed 90% of the capital to purchase the property, the wife is deemed to receive half of the income.

However what if the couple want to allocate more share of the income to the spouse with little other income? It is possible to vary this default position provided that:

- the couple make a joint declaration, and
- they are 'beneficially entitled' to unequal shares in the property.

The joint declaration is made on a form - Form 17 - and requests evidence to support the declaration that beneficial interests in the property are unequal, for example a declaration or deed.

Here's where many couples get into difficulties. If the property is located in England, Wales or Northern Ireland, it is often owned by married couples as 'joint tenants'. If so, the split is 50/50. The split remains 50/50 even if a declaration of deed is submitted. A necessary preliminary step is to change the ownership of the property from a 'joint tenancy' into ownership as 'tenants in common'. In Scotland, 'common owners' is similar in principle to tenants in common.

The rules summarised above do not apply to properties which fall within the definition of furnished holiday lettings and properties held by a partnership where the spouses are partners. In both these cases trading profits may be allocated in any way the partners choose. However, HMRC consider that it is unusual for a couple to be in partnership as the existence of a partnership depends on a degree of organisation similar to that required in an ordinary commercial business.

Please contact us if you wish to consider your options for splitting income.

## Inheritance tax receipts continue to rise

Latest figures from HMRC reveal a 22% increase in inheritance tax (IHT) receipts in the 2015/16 tax year. This is a significant uplift from the average 12% annual increases that have been experienced since 2010. There are several factors which have contributed to the latest increase including rising property prices and the static IHT nil rate band. The nil rate band has remained at £325,000 since April 2009 and is set to remain frozen at this amount until April 2021.

Clearly, the data reveals the importance of IHT planning to mitigate the impact of the tax on death. If the assets on death include residential property which has, at some point, been a residence of the deceased, a new relief may help to remove or reduce an IHT tax liability. The new relief – the 'additional main residence nil rate band' - is being introduced for deaths on or after 6 April 2017. The amount of relief is being phased in over four years; starting at £100,000 in the first year and rising to £175,000 for 2020/21. For many married couples and civil partners the relief is effectively doubled as each individual has a main nil rate band and each will potentially benefit from the additional band.

The HMRC data reveals that, for those with estates in the range £300,000 to £400,000, a significant part of the estate consists of a main residence and thus the relief will prove effective to remove an IHT liability.

For larger estates, the HMRC data shows an increasing proportion of the estate consists of shares and securities. Traditional planning to mitigate IHT for these assets, and widely used by individuals, include:

- Claiming the exemption on the transfer of assets to a spouse or civil partner. This is the most common exemption to be used.
- Gifting assets to charity. A charitable gift removes the gift from the value of the estate and also may reduce the rate of IHT on the remaining chargeable parts of the estate from 40% to 36% if, broadly, at least 10% of the net estate is given to charities
- Business Property Relief. Assets qualifying for this relief will bear no IHT. Business property includes shares in unquoted companies and therefore many shares listed on the Alternative Investment Market potentially qualify for this relief.

It is also relevant to note in respect of larger estates that if the net value of the estate is above £2 million, the additional nil rate band is tapered away by £1 for every £2 that the net value exceeds that amount.

For many individuals, the additional nil rate band will be important but you need to ensure that the relief will be available. If wills have been written some time ago, they may result in the tax advantages not being fully utilised. Please do contact us if you want advice on this matter.



# Financial accounts for small companies – time to choose

In recent years many companies have been preparing and filing 'small company accounts' under a Financial Reporting Standard for Small Entities (FRSSE). However for financial years beginning on or after 1 January 2016, FRSSE has been withdrawn and small companies, which qualify as 'micro-entities', have a new choice:

- to use the same accounting standard FRS 102 – as larger UK companies but using a reduced disclosure regime (section 1A) within the standard, or
- to apply an alternative standard - FRS 105.

FRS 102 introduces some significant accounting challenges including more widespread use of 'fair value' accounting. So there is a temptation to use FRS 105 but this may not be the best choice for the company.

## Qualifying as a micro-entity

The main criterion is based on size limits. The company has to meet two out of three size limits, for two consecutive years - turnover of £632,000, total assets of £316,000 and 10 or fewer employees (averaged throughout the year).

Certain financial services firms, such as credit institutions and insurers, and also charities are excluded from qualifying and there are special rules if the company is part of a group.

## Simplified accounts

Accounts prepared under FRS 105 need consist of only a simplified Profit & Loss Account (the accounts filed at Companies House need not include this), a Balance Sheet and two notes to the accounts.



Company law presumes that micro-entity accounts prepared as above give a true and fair view. This means that the company is not required to add any further disclosure. If instead the company opts for the reduced disclosure regime under FRS 102, there may be a need for extra disclosure to ensure that the accounts give a true and fair view.

## Simpler accounting

FRS 105 imposes simpler accounting treatment compared to FRS 102. There are numerous differences between FRSs 102 and 105 but the three most significant are likely to be:

### Revaluation / fair value of assets

This is not permitted under FRS 105. By contrast, FRS 102 permits (and in some cases requires) some assets to be measured at fair value annually.

Avoiding the need to obtain regular fair values may prove more convenient and less costly for the business. However if the company is currently revaluing properties and has significant loans and other debts against these properties, using FRS 105 would mean re-measuring the properties at 'depreciated cost', which could reduce the balance sheet value considerably.

### Fewer intangible assets

Under FRS 105, fewer intangible assets are recognised than under FRS 102. For instance, if the company were to acquire a business, the purchase price will be divided between tangible assets and liabilities and goodwill – the company would not need to

identify separate individual intangible assets such as customer lists and brand names. It also means, however, that internally-generated intangibles such as development costs cannot be treated as assets; instead, such costs must be expensed through profits as incurred.

### No more deferred tax

FRS 105 does not allow companies to recognise deferred tax. By contrast, FRS 102 includes deferred tax more frequently than before.

## Other things to consider

The relatively brief information presented within micro-entity accounts means that less financial detail is available to the public (via the filed accounts at Companies House). Directors may find this an advantage; however, it remains to be seen whether this lack of information could damage the company's credit-rating. The shareholders of the company will also receive less information in their members' accounts.

Directors can provide more information in the accounts than the statutory minimum, should they prefer to do so. We will be happy to supplement the minimum statutory information with extra analysis so that directors have enough financial detail to make informed decisions in running the business.

We want to ensure that directors are prepared and informed about the accounting choices for the company, which include (but are not limited to) the issues we have covered above. Please do get in touch.

# All change at the government's business department

In July, the Prime Minister, Theresa May, made a major overhaul of the departments responsible for business. The new department overseeing business matters is the Department for Business, Energy and Industrial Strategy. This is quite a mouthful. Its acronym is BEIS. It has been created by merging the Department for Business, Innovation and Skills (BIS) and the Department of Energy and Climate Change (DECC).

However not all the responsibilities of BIS have moved to BEIS. Apprenticeships have been transferred to the Department for Education. BIS also lost its responsibility for trade and investment policy to a newly-created Department for International Trade.

The business responsibilities of the new department are summarised by BEIS as 'developing and delivering a comprehensive industrial strategy and leading the government's relationship with business'. The interests of small business are being looked after by a Minister for Small Business, Consumers and Corporate Responsibility, Margot James. A key area for her will be to persuade large companies to follow the Prompt Payment code which encourages companies to pay invoices within 30 days. On the horizon is a new statutory duty on large businesses to report on payment practices for financial years starting after 6 April 2017.