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A R Lee & Co newsletter

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Despite our previous predictions for a hung Parliament, we now have a narrow majority Conservative Government and we are already dealing with the consequences of their first Budget in the summer. This contained few benefits and a number of quite unpleasant shocks, particularly if you operate your business via a limited company or if you hold buy-to-let investment properties that are subject to a mortgage. If so, you will be particularly interested in our summary of the key provisions on page 2.

Employment related issues continue to demand everyone's attention and we will soon be getting to grips with the introduction of auto-enrolment for our payroll clients. This was covered in detail in our last newsletter, although the full impact of the new legal requirements are only really just sinking in for many clients.

We continue to welcome many new clients to our practice and we have recently recruited Renata Bonsor to the firm to help with our increased workload. Renata has ten years experience within similar sized accountancy firms and is a welcome addition to our team.

Renata

Lynn

Lynn Lee has always provided holiday and sickness cover for our secretaries, but following Yvette's departure last year, she is now working for us on a permanent basis.

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Summer Budget - The Good, the Bad and the Ugly

Subscribers to our regular online newsletter (www.arlee.co.uk to register) will already have received full details of the Summer Budget, but the effects of many of the proposed changes are only just becoming clear and, for some of us, they are not very pleasant at all.

Inheritance Tax

Many clients will welcome the introduction of the new transferable nil-rate band which can be used against the value of the family home, or any related sale proceeds. The new relief will be introduced from 6 April 2017 at £100,000 per person and will increase annually to £175,000 from 6 April 2020. This means some clients will be able to leave up to £1,000,000 free of IHT to their children on the second death, as any unused allowance can be transferred between spouses, or registered civil partners. However, the extra allowance can only be claimed if the home or related sale proceeds are passed to a direct descendant, such as a child or grandchild.

Restricting Loan Interest for Landlords

With effect from 6 April 2017, the amount of tax relief landlords can claim will be restricted for finance costs. The new rules will be phased in over a three year period, but will then mean that relief will only be given at the basic rate of tax rather than the landlord's marginal rate of tax, which could be much higher. Complicated rules apply during the first three years of transition and also when losses are incurred. The restriction does not apply to loans for commercial property and if a mixed portfolio is owned, any related finance costs must be apportioned. The new restriction also applies to arrangement fees, as well as interest.

New Dividend Tax

Most owners of small and medium sized companies pay themselves via a small salary and dividends and for businesses with profits of more than about £25,000 per year, this has been the optimum business structure to have. Many sole-traders and partnerships have incorporated their businesses in order to take advantage of this opportunity and the Government does not like it. The new dividend tax has been introduced in order to remove this benefit.

Basically, the grossing up of dividend income for tax purposes is abolished with effect from 6 April 2016 and only the "net" value of the dividend will be subject to the new tax. The first £5,000 of net dividend income will be ignored and any excess will be taxed at 7.5% where income is within the standard rate, 32.5% on income liable at the higher rate and at 38.1% for additional rate taxpayers. If you currently manage your income such that you are just within the standard rate tax limit, you will not previously have had a personal tax liability at all, but the new tax charge will mean you will be paying approximately £2,000 per year.

Dividends will remain cheaper than drawing an extra salary or receiving benefits in kind, but we will work with you to see if there is any alternative way of extracting income from your company more efficiently. This may include appointing spouses as directors, paying interest on any loans you have provided to your company (if sufficient to make worthwhile), paying rent on any property you own that is occupied by the company (although this will have a detrimental consequence for CGT purposes if sold within ten years of renting), or by paying pension contributions and using the new pension freedom rules. Everyone's circumstances will be slightly different and it may or may not be possible to reduce your exposure to the new dividend tax, but operating your business through a limited company will still have other advantages, such as limited liability, the ability to share income with a non-working spouse and also to potentially avoid higher-rate tax. However, it is now thought the cut-off point is annual profits in excess of £40,000, rather than £25,000.

The new tax will also mean that all clients who receive more than £5,000 in dividends will need to submit a Self Assessment Tax Return each year.

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Employment News

Auto-enrolment

The first of our payroll clients are due to commence auto-enrolment in January next year and we will be talking to each of them about the new service we will be providing in addition to our existing payroll service in order to meet their new legal obligations.

Voluntary Overtime and Holiday Pay

We have previously reported that voluntary overtime was not considered to be eligible for holiday pay calculation purposes, but this is expected to change in the near future, following the Northern Ireland Court of Appeal decision in Patterson v Castlereagh Borough Council. Hopefully, the Government will soon clarify the position so that employers know what they need to do.

Marriage Allowance

If you and your spouse, or registered civil partner, both have income within the standard rate tax limit (currently £42,385) and one of you does not fully utilise your tax free personal allowance of £10,600, then you can elect to transfer up to £1,060 of the unused allowance to your partner. If you are employed under PAYE, then the adjustment will be made in PAYE coding notices, but you have to register online with HMRC in order to do this via www.GOV.UK. If we do not currently act for you both, you must tell us if you think you will be eligible to make the transfer.

Increase in National Minimum Wage (NMW) Rates

With effect from 1 October 2015, the new NMW rates are:

Adult rate	-	£6.70	(+3.1%)
18-20 year olds	-	£5.30	(+3.3%)
16-17 year olds	-	£3.87	(+2.1%)
Apprentice rate	-	£3.30	(+20.9%)

In addition, the Government have introduced a new National Living Wage (NLW) for workers aged 25 and above from April 2016 of £7.20, which is 7.5% more than the current NMW, or nearly £1,200 a year for a full-time worker on the current NMW working 45 hours per week. As with the NMW, penalties will be charged for failure to pay the new NLW.

This and That

Advisory fuel rates for business mileage

The latest rates available apply from 1 September 2015 and are reviewed every three months. See www.hmrc.gov.uk (advisory fuel rates) for the latest details. The previous quarter's rates are shown in brackets:

Engine size	Petrol	Diesel	LPG
1400cc or less	11p (12p)		7p (8p)
1401cc – 2000cc	14p (12p)		9p (9p)
Over 2000cc	21p (21p)		14p (14p)
1600cc or less		9p (10p)	
1601cc – 2000cc		11p (12p)	
Over 2000cc		13p (14p)	

Pension Freedom – Potential Penalties

A number of clients have already taken advantage of the pension freedom rules introduced from 6 April 2015 and have drawn benefit from their existing pension funds. However, it is worth noting, that if contributions are still being paid into other pension arrangements, the providers must be notified within 91 days of taking money out, otherwise a penalty of up to £300 plus a daily penalty of up to £60 may be incurred.

State Pension Reform and The New Voluntary Class 3A NI Contribution

For those people who will not reach State Pension age until after 6 April 2016, a new single-tier pension will apply, rather than the previous earnings related pension. The amount is to be set above the basic level of means-tested support and will replace the State Second Pension, contracting out and certain out-dated additions. It will require 35 years of qualifying NI contributions or credits, with pro-rating for periods of less than 35 years. It will be based on the individuals own record and it will not be possible to inherit or derive rights from a spouse or civil partner.

There will be a transitional period and if the current rules would give a higher pension, then the higher amount will be used.

People who do reach their State Pension age before 6 April 2016 will be given the option of increasing their pension by up to £25 per week by paying the new Class 3A NI contribution. The amount payable will be based on current age and will be calculated on an actuarial basis.

Pension Freedom – Retirement Annuities

From April 2016, clients with existing retirement annuities will also be able to benefit from the pension freedom rules. However, before taking any action, we would strongly recommend detailed advice be obtained from an Independent Financial Advisor and we can refer you to one upon request.