ISSUE 33 | SEPTEMBER | 2016

A R Lee & Co newsletter

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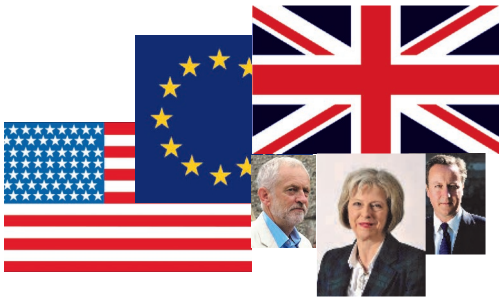
It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us.........

Charles Dickens, A Tale of Two Cities, 1859

We seem to be living in an extraordinary period of change during which the unexpected and the unusual are becoming the new "normal". As the Government begins to try to decide what "Brexit" actually means, we face the very real prospect of Donald Trump becoming the most powerful man in the world. As David Cameron fades into political obscurity, Jeremy Corbyn has been re-elected as leader of the opposition with an even greater majority, whilst his party continues to collapse around him. We are certainly experiencing the strangest of times.

Perhaps closer to home, we will all soon be hearing a great deal about HMRC's major policy initiative of "Making Tax Digital" (MTD) which is likely to have a major effect on the way in which we keep our business records and interact with HMRC. We have explained our current understanding of what this is likely to mean in more detail inside this newsletter, as well as summarising other key issues we believe will be of interest to you.



We hope you find our newsletter useful but, as always, please do let us know if you have any queries or comments and we will be pleased to help you.

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Employment News

National Minimum Wage (NMW) Increases

With effect from 1 October 2016, the new NMW hourly rates are:

21-24 year olds - £6.95 (+3.7%)
18-20 year olds – £5.55 (+4.7%)
16-17 year olds - £4.00 (+3.4%)
Apprentice rate * - £3.40 (+3.3%)

* The apprentice rate is for apprentices aged 16 to 18 and those aged 19 or over and who are in their first year. All other apprentices are entitled to the NMW for their age.

The Government has recently doubled the penalties for failure to pay the NMW with fines now up to 200% of the arrears, but limited to £20,000 per worker.

The National Living Wage (NLW)

The NLW for all workers aged 25 and over remains at £7.20 per hour.

© Living Wage Foundation

Trivial Benefits

Since 6 April 2016, employers have been able to provide their employees with "trivial" benefits without creating a taxable benefit in kind charge provided the average cost per employee of each benefit is less than £50. The new relief is intended to cover the cost of the Christmas turkey or bottle of wine, and flowers for illness etc., but can also be used to cover things like staff social events not already exempted by the £150 limit for annual events such as a Christmas party. The total value of such benefits each year is unlimited for ordinary employees, but is limited to £300 for each director. If the average cost of each item exceeds £50, the whole amount is taxable. The benefit cannot be cash, or a cash voucher, or provided under a salary sacrifice arrangement, or a contractual obligation, and must not be provided in recognition of particular services performed, or in anticipation of such services.

Advisory fuel rates for business mileage

The latest rates available apply from 1 September 2016 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 (10p)		7p (7p)
1401cc – 2000cc	13p (13p)		9p (9p)
Over 2000cc	20p (20p)		13p (13p)
1600cc or less		9p (9p)	
1601cc – 2000cc		11p (10p)	
Over 2000cc		13p (12p)	

Brexit

It very much remains to be seen what effect "Brexit" will have on employment law within the UK and on UK citizens who work abroad but, for now, there is no change and all existing laws and regulations continue as before.

Making Tax Digital (MTD)

HMRC have extremely ambitious plans to make the UK "the most digitally advanced tax authority in the world". Originally announced in December 2015, HMRC's "Making Tax Digital" (MTD) plans are now becoming a little clearer and they are currently consulting with interested parties.

What do we know so far? Under MTD, every business owner small or large (including landlords), will be required to submit data electronically to HMRC each quarter by the end of the following month. Penalties will be charged for any non-compliance. HMRC expect every business will use some kind of software to do this. Within nine months of the accounting year end, the business will be required to make a final submission with any necessary adjustments.

HMRC believe that taxpayers will be able to make their own quarterly returns and that accountants will only need to make the final return, but we believe this may be difficult for many clients. There may be some exemptions and some simplifications, but these have not yet been agreed on.

How will this be done? Every business will log into their own digital tax account with HMRC which will be pre-populated with data HMRC have received from third parties such as bank interest, P60 totals, CIS income and, eventually, dividends paid by listed companies and rent received via agents. The taxpayer will then submit the details of their business income and expenditure in a prescribed format.

HMRC will provide a running estimate of the taxpayer's potential tax liability and the date it will be due and will encourage the taxpayer to make provision for it. HMRC are putting pressure on commercial software companies to develop cheap and simple software for taxpayers to use, but the outcome of this is yet to be seen. Originally, both manual records and spread sheets were not going to be acceptable, but this may change as a result of the ongoing consultation process.

When will it happen? The official start date is planned for 1 April 2018, although smaller businesses may be given an extra year to make any changes that are necessary. We will keep you posted as the new requirements become clearer.

Staff news.....

Congratulations!

Miss Laura Jones became Mrs Laura Stack on 9 June 2016.

Our congratulations to Laura and Dan and we're sure you'll share in sending our best wishes to them both for many years of happy marriage.

This and that

Inheritance Tax and the New Residential Nil-Rate Band

This new relief potentially increases the amount that can be left on death by up to £175,000, or £350,000 for a married or civil partnership couple. The relief is to be phased in over three years starting from 6 April 2017. However, anybody who still has a will that contains a nil-rate band discretionary trust (very popular before 2007) will need to review and potentially update their wills, as the new relief is not available to trusts, although the problem can be overcome post-death if necessary. If you are at all uncertain, we recommend you consult your solicitor.

Clients who are likely to have estates in excess of £2million on the second death, will not be able to claim the benefit of the new relief and may therefore wish to carry out some estate planning on the first death by perhaps providing for gifts to children. This could save up to £140,000 in tax.

State Pension and National Insurance Contributions

6 April 2016 also saw the introduction of the new flat rate state pension, currently £155.65 per week. In order to qualify for the full amount, it is now necessary to have 35 qualifying years of national insurance contributions, or credits. For those clients who do not expect to achieve this, paying additional voluntary contributions may be worthwhile. The best way of assessing your position is to obtain a pension forecast via the www.gov.uk website which also sets out the options available to increase entitlement.

Taxation of Savings Income

Ironically, just as interest rates fall to a new all-time low, a new savings allowance has been introduced from 6 April 2016. Basic rate taxpayers can now receive up to £1,000 of interest free of tax and 40% taxpayers up to £500. No relief is available for 45% taxpayers. The new allowance is in addition to the £5,000 0% savings starting rate and the 0% tax rate on the first £5,000 of dividend income. In theory, it will now be possible for an individual to receive up to £22,000 of income entirely free of tax, but it is highly unlikely anyone will have exactly the right type and amount of income to do this.

Small Pension Pot Rules

Purely looked at from a tax relief viewpoint, higher-rate taxpayers in particular may wish to consider taking advantage of the small pension pot rules under which it is possible to make pension contributions of up to £10,000 (gross) up to three times without affecting other pension limits. The net cost of each contribution will be £6,000 for a 40% taxpayer, or £5,500 for a 45% taxpayer. Each fund can then be cashed and the first 25% received tax free with the balance taxed at marginal rate. The overall tax saving will be £3,000 for a 40% taxpayer or £3,375 for a 45% taxpayer. We understand several companies are offering this opportunity and the average cost is about £150 per contribution. However, we would recommend you speak to your independent financial advisor before taking any further action.