## NEWSLETTER – FEBRUARY 2018

**Please follow us on**
**Twitter, LinkedIn, & Google+**

Dear Friends

As the end of the 2017/18 tax year draws closer, we take a look at some key planning strategies which could help you to save tax ahead of the 5 April 2018.

You will be pleased to know that the Spring Budget on 13th March will be a low-key event and, thankfully, no new tax measures are expected to be announced.

We hope you enjoy reading this month's newsletter.

Best wishes - **Godley Tax Team**

---


## STRATEGIES FOR SAVING TAX AHEAD OF THE 5 APRIL YEAR END

With the end of the 2017/18 tax year approaching, now may be the ideal time to think about strategies to help mitigate your tax liability. There are many different options to consider so do contact us for further advice.

### Reducing your personal tax liability…

Are you making the most of your tax-free personal allowance (PA)? Individuals are entitled to their own PA, which is set at £11,500 in 2017/18. Therefore, if your spouse or partner has little or no income, you could stand to benefit by spreading your income more evenly to ensure that each PA is being fully utilised.

Some married couples may also be eligible to transfer 10% of their PA to their spouse under the Transferable Tax Allowance, or 'Marriage Allowance'. It means £1,150 may be transferred in 2017/18, which could help to reduce a couple's tax liability by up to £230 in this financial year. Certain rules apply.

And despite relatively low interest rates, for many individuals ISAs are still an attractive tax-free way to save. For 2017/18, the overall subscription limit for ISAs is £20,000, of which no more than £4,000 can be deposited into a Lifetime ISA. With a range of ISAs to choose from, you have until 5 April 2018 to make your 2017/18 ISA investment.

### … and your business's tax bill

Are you maximising claims for capital allowances? The majority of businesses are able to claim a 100% Annual Investment Allowance on the first £200,000 of expenditure on most types of plant and machinery (except cars). In many cases, a purchase made just before the end of the current accounting year will mean that the allowances are available a year earlier than if the purchase was made just after the year end.

Business owners may also wish to consider tax-efficient ways in which they can extract profit from their business. There are many ways to achieve this. Some may opt to take dividends instead of a salary or bonus, as these are paid free of national insurance contributions. Others may wish to talk to us about incorporating their business, while employer pension contributions can be another tax-efficient means of extracting profit.

As always, it is important to seek our advice before taking action. For more information on tax-saving strategies to implement ahead of the 5 April 2018, please visit the **Hot Topics** section of our website.

---

## NON-DOMICILE REFORMS – PUBLICATION OF GUIDANCE


H M Revenue & Customs (HMRC), on 1 February 2018, published their guidance on non-domicile reforms that were initially announced in July 2015. The guidance was a long time coming as the legislation had already been announced well before and effective 6 April 2017. This is welcome news, albeit late, as it gives more clarity on the changes and the practicalities of how some of the new rules will operate. The guidance can be accessed **here**.

One of the concessions in respect of the non-domicile changes was in relation to the 'cleansing' provision or 'unmixing' of mixed funds (the other being rebasing of foreign assets). The guidance gives the practicalities of 'cleansing' with some worked examples. The 'cleansing' provision is only available until 5 April 2019 and applies **only** to monies held in a bank account and not to assets. If assets are to be 'unmixed' they would need to be sold and the cash proceeds 'unmixed'. 'Cleansing' and 'rebasing' presents a unique opportunity for non-domiciled individuals to segregate clean capital which can be remitted to the UK tax free.

The 'cleansing' rules are complex and accuracy is required for them to be effective. Non-domiciled individuals are now left with little over a year to review and analyse overseas bank accounts accurately and arrange the necessary bank transfers.

Please contact **Hemel Khimasia** or your usual contact for further guidance and clarification in respect of the new non-domicile rules.

---


## MAKING TAX DIGITAL FOR VAT?

Making Tax Digital (MTD) for VAT is scheduled to start in April 2019 which means that your VAT information needs to be submitted to HMRC digitally.

On 18 December 2017, HMRC published draft legislation together with examples of how the business account records might link with the HMRC computer in order to comply with MTD for VAT. The legislation specifies that "functional compatible software" must be used to record and preserve prescribed VAT related data.

### What are Digital records?

"Functional compatible software" must be used to calculate the VAT due, report the VAT figures (as per the current VAT return) to HMRC, and to receive information back from HMRC.

VAT related data for each sale and purchase made by the business includes the time of the supply, the value and the rate of VAT charged, or in the case of purchases, the amount of input VAT allowed.

There is no requirement in the draft regulations that the electronic recording of this data must be done at the time the supply is made, or when the purchase is received. As long as the data is recorded electronically by the earlier of the date that the VAT return must be submitted, or is actually submitted.

### Digital Links in the Trail

The business can use more than one piece of software to keep its digital records, but those separate software programmes must be "digitally linked". HMRC provides examples of what it means by digitally linked in the draft notice.

One example is a business which uses one piece of accounting software to record all sales and purchases, this software then calculates the return and submits it to HMRC. As well as the records in the accounting software the business uses a spreadsheet to keep track of a fleet of cars and work out its road fuel scale charges. The draft guidance suggests that the business can type the adjustment into its accounting software.

We can of course work with you to make sure that your accounting systems will comply with the new VAT rules before they start in 2019. Note that MTD for VAT will not be mandatory where turnover is below the VAT registration limit, currently £85,000 per annum.

For more information on Making Tax Digital for VAT, please visit the **Hot Topics** section of our website.

## DID YOU GET A BIG TAX BILL AND NOW WANT SOME BACK?


Many of you will have just paid your 2016/17 tax bill before the 31 January 2018 deadline, and some of you will also have paid 50% of next year's tax on account. Here are a couple of tax planning ideas that can help you obtain a tax refund.

### Invest in EIS or Seed EIS qualifying companies

Before 6 April 2018, individuals may invest in companies that qualify under the Enterprise Investment Scheme (EIS) and treat that investment as having been made in 2016/17. The tax relief is 30% of the amount invested. So, a £20,000 investment can reduce the 2016/17 tax liability by £6,000. Investing in a Seed EIS qualifying company is even better as there is a 50% tax relief. Such companies tend to be even riskier than EIS qualifying companies. You should therefore obtain specialist advice from an IFA if you are considering such investments.

Investing in an EIS qualifying company can also enable you to defer capital gains tax. In order to do so you must reinvest the amount of the gain within the 3 years following the date of the disposal giving rise to the gain. (The investment could also be within 12 months prior to the disposal).

### Increase your Pension Savings before 6 April 2018 to reduce payments on account

Unfortunately investing more in your pension now will not reduce your 2016/17 tax liability, however if you invest before 6 April 2018 that payment can be taken into consideration in computing your 2017/18 liability and hence you might be able to claim to reduce your payments on account, if you make them. The maximum pension contribution is generally £40,000 each tax year, although this depends on your earnings. It is also possible to add to this any unused relief brought forward from the previous three tax years. This needs careful consideration and you should take appropriate advice before making contributions.

## EXCEEDING THE ANNUAL PENSION ALLOWANCE

If your pension savings exceed the annual pension input limit (generally £40,000) then there is an annual allowance charge. The effect of the annual allowance charge is to reduce tax relief on any pension saving over the annual allowance.

The annual allowance charge is not at a fixed rate but will depend on how much taxable income an individual has and the amount of their pension saving in excess of the annual allowance. Hence for a higher rate taxpayer the charge would be 40% on the excess over the annual pension allowance. Note that annual pension input includes any contributions made by the employer and it may be those contributions that trigger the charge.

You can ask your pension provider to pay HMRC out of your pension pot if you've gone over your annual allowance and the tax is more than £2,000. You must tell your pension provider before 31 July if you want them to pay the tax charge for the previous tax year.

## ADVANTAGES OF FURNISHED HOLIDAY LETTINGS

Many of the recent changes in the taxation of buy to let rental businesses do not apply to property businesses that qualify as furnished holiday lettings (FHL).

In particular the restriction on deductibility of finance costs that started to apply from 2016/17 does not apply to furnished holiday lettings. It may be worth considering investing in such properties to take advantage of a number of other generous tax breaks.

### Tax reliefs that apply to furnished holiday letting businesses

Furnished holiday letting businesses are treated like a trading business for many, but not all tax purposes. Capital allowances are available on furniture and equipment such as cookers, washing machines, beds.

- Profits count as earned income for pension purposes
- CGT entrepreneurs' relief applies on disposal of the holiday rental business
- Capital gains may be rolled over into FHL property
- CGT gift holdover relief available on the gift of the rental business

Note that inheritance tax business property relief does not generally apply on the transfer of FHL property businesses.

### What is a furnished holiday letting (FHL) businesses?

There are strict rules for a property rental business to qualify as furnished holiday lettings. The most important conditions are:

- Property must be situated in the UK or European Economic Area (EEA)
- Furnished and let on a commercial basis
- Available for letting for 210 days a year
- Actually let for 105 days a year
- Not normally let for more than 31 consecutive days to the same person (i.e. short lets)

In other words, lettings in excess of 31 days are excluded from the 105-day test as are periods let to family and friends on a non-commercial basis.


## THE GENERAL DATA PROTECTION REGULATION – NEW REQUIREMENTS FOR ALL BUSINESSES!

European data protection laws are changing and come into force **25 May 2018**. These new laws will affect all businesses in the UK and the current Data Protection Act (DPA) will be updated to reflect the GDPR obligations.

The GDPR is a framework with greater scope, much tougher punishments and judicial remedy for those who fail to comply with new rules around the storage and handling of personal data, be it in physical or electronic format.

## Why are these new laws being introduced?

Since the DPA was introduced in 1998 technology and the internet have developed at such a rapid rate that these rules are now deemed to be ineffective. Nowadays, the ease and sophistication of data collection means that thousands of SMEs not only collect personal details, but store, move and access them online. Personal data is used in everything from sales to customer relationship management to marketing. Cybercriminals are now much more common. In 2016, companies in the UK lost more than £1billion to cybercrime. Major data breaches have given criminals access to names, birthdates and addresses and even social security and pension information.

A recent report from the Federation of Small Businesses (FSB) claims that SMEs are now more likely to be targeted by cybercriminals than their large corporate counterparts and cybercriminals consider SMEs softer targets!

The GDPR is considered a necessity for the protection of data in a modern internet-based society, and it is also a chance to take a fresh look at your data security as data breaches may impact on your business reputation.

## What does the GDPR mean for SMEs?

Businesses must keep a detailed record of how and when an individual gives consent to store and use their personal data. This means a positive agreement and cannot be inferred from a pre-ticked box. Customers or individuals have the right to withdraw consent. Details must be permanently erased.

This means businesses should review their existing data and delete any that they do not have a valid reason to hold it. The GDPR sets out the legal bases available for processing personal data such as needing it to perform a business contract. Businesses should review what data they hold, have they got consent and do they need to keep it?

Data should be kept secure and this will require a review of current practices to prevent data breaches. Personal data is a key tool for SMEs looking to target and retain customers: GDPR means it must be handled with the utmost care.

You should start planning for the GDPR now and consider an information audit and, for many businesses, a change in culture.

---

## TAX DIARY OF MAIN EVENTS FOR FEBRUARY/MARCH 2018

- 1 February – Corporation tax payment for the year to 30 April 2017 (unless quarterly instalments apply).
- 19 February – PAYE & NIC deductions, and CIS return and tax, for month to 5 February 2018 (due 22 February if you pay electronically).
- 1 March – Corporation tax payment for the year to 31 May 2017 (unless quarterly payments apply).
- 19 March – PAYE & NIC deductions, and CIS return and tax, for month to 5 March 2018 (due 22 March if you pay electronically).

---

Congress House 14 Lyon Road Harrow Middlesex HA1 2EN
020 8515 1234 tax@godley.co.uk 020 8515 1235 www.godley.co.uk

Serving clients' best interests since **1985**

Tolley's TAXATION AWARDS 2016 FINALIST