TAX NEWSLETTER
January 2017

Dear Friend

Happy New Year and welcome to our first monthly tax newsletter of 2017. This year is going to be a challenging year for owner managed businesses, non-UK domiciled individuals and buy to let landlords. A key theme in the coming months is going to be the impact of Brexit on UK taxes. We are going to be having two budgets in 2017 and possibly a Finance Bill in progress throughout most of the year, which may bring more changes to the UK tax system. There has been a raft of changes announced last year and more legislation is likely to be published this year to implement these changes. We hope you find the newsletter informative.

Meanwhile, we hope your self-assessment returns have been filed as deadline of 31 January 2017 is only a few days away.

Best wishes

Godley Tax Team

MORE TAX-FREE ALLOWANCES

In addition to the current £5,000 tax free dividend allowance and the personal savings allowance of up to £1,000 there will be two further tax free allowances starting from 6 April 2017. These will be a new £1,000 tax free allowance for self-employed income and a £1,000 rental income allowance.

These new allowances mean that individuals doing a small amount of self-employed work or receiving a small amount of rental Income will not need to report such income and consequently may fall outside self-assessment.

Note that the £1,000 allowances are the gross amounts that will be tax free each year. Where the gross income exceeds £1,000 there will be the choice of paying tax on the excess over £1,000 or deducting allowable expenses in the normal way.

For example Mr Nikon has a full time employment but also has a part - time photography business earning £1,500 a year with £800 of business expenses. Rather than paying tax on the net profit of £700 the new system will mean that he will only be taxed on £500 (£1,500 less the

£1,000 allowance). If his gross income was below £1,000 it would be tax free and would not need to be reported to HMRC, probably keeping him outside of self-assessment.

TAX FREE CHILDCARE ACCOUNTS TO START 6 APRIL 2017

New tax-free childcare accounts were announced in 2014 to replace the employer-provided childcare voucher scheme. Introduction has been delayed by legal disputes with organisations involved in administering the existing scheme, but the new accounts will at last be introduced on a trial basis in early 2017.

The new scheme will then be rolled out across the country based on the results of the trial. The rules are complex, but where both parents work and earn at least £115 per week, they will be able to put up to £8,000 a year into a special account which the Government will top up with 20p for every 80p contributed by the parents. This account can only be used to pay for childcare such as nursery fees.

It is anticipated that the new scheme will eventually replace the existing childcare voucher scheme which is only available to employees who work for organisations that offer such schemes. The new system will benefit the self-employed as well as those workers in organisations that currently do not provide childcare vouchers.

HAVE YOU DECLARED YOUR OVERSEAS INCOME AND GAINS?

Where an individual is resident in the UK, he or she is generally taxable on worldwide income and gains whether or not it is brought back into the UK. There can be significant interest and penalties on top of the unpaid tax if HMRC find out.

HMRC now exchange information involving savings and investments overseas with about 90 other countries and again match that data with individuals' tax returns.

There is a special HMRC worldwide disclosure facility to allow taxpayers to bring their tax affairs up to date.

Note that there are special rules for individuals who are resident but not domiciled in the UK and those people's tax status is likely to change from April 2017. Please contact us if you need advice on this matter.

PASSING ON THE FAMILY HOME

New inheritance tax rules for passing on the family home start on 6 April 2017 and many people have a New Year's Resolution to either make a Will or update their Wills. This new relief should be taken into consideration when drafting your Will.

From 6 April 2017 a new nil rate band of £100,000 will be available on death where your residence is left to direct descendants. This is in addition to the normal £325,000 nil rate band and will increase over the next 4 years to £175,000 in 2020. You may recall that when this was originally announced in summer 2015 the chancellor said that a married couple should be able to pass on their family home worth up to £1 million free of Inheritance tax. The rules are fairly complicated and HMRC have recently issued guidance on how the new relief will operate.

DOWNSIZING TO A SMALLER PROPERTY

One of the features of the new inheritance tax rules for passing on the family home is that the relief is protected even when you downsize to a smaller property.

For example if a married couple currently live in a large house worth £800,000 and downsize to a flat worth £300,000 they could give away some of the proceeds during their lifetime and yet still benefit from inheritance tax relief based on the higher valued property. They could even sell up completely and move into a rental property and get the inheritance tax relief!

This would very much depend on the timing of such planning and, as mentioned above, the rules are unfortunately very complicated.

DON'T FORGET "RENT A ROOM" RELIEF

Whilst on the subject of tax free allowances remember that there is a further £7,500 a year allowance deducted from rent received from lodgers where you rent out part of your main residence.

This allowance increased from £4,250 from 6 April 2016 so that now the first £7,500 rent from lodgers is tax free. Where income from lodgers exceeds £7,500 a year only excess is taxable.

MORE BAD NEWS FOR PUBLIC SECTOR WORKERS "OFF PAYROLL"

In his Autumn Statement the Chancellor announced that the Government will implement significant changes to the taxation of workers providing their services to the public sector through their own company or via an agency. These new measures have now been included in draft clauses to be included in Finance Act 2017 which were issued for consultation on 5 December 2016. If brought in, new rules will apply from 6 April 2017.

"Public sector" includes central and local government, the NHS, state schools, and bodies such as the BBC.

The new rules will put the onus on the public sector engager or agency supplying the public sector body to determine whether or not the IR35 personal service company and intermediary rules apply to the relationship, and if so deduct and pay over income tax and national insurance on behalf of the worker.

This will be a major change as currently the worker and his company/ intermediary have to determine whether or not IR35 applies.

A further change proposed from 6 April 2017 is that the worker will no longer qualify for a 5% deduction currently deemed to cover administration costs.

These changes come on top of restrictions to relief for such workers' travelling expenses that came into effect from 6 April 2016.

How long before similar changes are passed on to the private sector? Please contact us if these changes are likely to apply to you.

TAX DIARY OF MAIN EVENTS FOR JANUARY/ FEBRUARY 2017

- 01 January - Corporation tax payment for year to 31/3/16 (unless quarterly instalments apply)
- 19 January - PAYE & NIC deductions, and CIS return and tax, for month to 05/01/17 (due 22/01 if you pay electronically)
- **31 January - Self-Assessment tax return for 2015/16 due, together with balancing payment and 50% payment on account of 2016/17 tax.**
- 01 February - Corporation tax payment for year to 30/4/16 (unless quarterly instalments apply)

- 19 February - PAYE & NIC deductions, and CIS return and tax, for month to 05/02/17 (due 22/01 if you pay electronically)

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Tolley's TAXATION AWARDS 2016 FINALIST

ONLINE TAX RETURNS DEADLINE 31ST JANUARY 2017

5 DAYS

TAX YEAR ENDS ON THE 5TH APRIL 2017

69 DAYS