TAX NEWSLETTER
JULY '16

Dear Friend

On 23rd June the electorate voted in a historic referendum in favour of exiting the European Union. As predicted by economists we have had turbulent weeks since the vote, followed by the resignation of our Prime Minister and our Chancellor to the Exchequer. The pound has fallen by one-tenth against the dollar, the FTSE 250 which focuses on domestic firms is still down compared to pre-Brexit levels. The swift appointment of our new Prime Minister, Theresa May has brought in some stability to the markets.

The Bank of England also held back from cutting the base rate of 0.5% which has been at the record low level for the last 7 years. It has not been all doom and gloom, the information released in the press seems to indicate that since the vote on Brexit consumer spending seems to be holding up, supermarkets are not aggressively discounting and it seems the same number of persons are entering the shops. The weak pound, fall in UK property prices may also be seen as an opportunity for bargains in British real estate, for example a US Private Equity firm – New York based Madison International Reality is preparing to spend more than £1bn on discounted UK real estate.

From a UK tax perceptive, we should have more information in the coming months. Due to the unknown impact of exiting EU some tax practitioners have also commented that the changes being introduced for non-doms should be shelved / postponed to drive up more inward investment. There is going to be a lot of pressure on resources at HMRC and Treasury which may result in some tax projects being put back. The Treasury has also confirmed that there is not going to be an emergency Budget. With the Finance Bill 2016 to be enacted in September / October 2016, we may start seeing how the tax landscape shapes up for Brexit from the Autumn statement which should be sometime in December 2016. We hope to see some positive long-term tax policies to increase spending, capital investment and creation of jobs.

We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Enjoy the summer holidays!!

Best wishes

Godley Tax Team

SHOULD I USE THE VAT FLAT RATE SCHEME FOR MY SMALL BUSINESS?

The VAT Flat Rate Scheme is intended to simplify VAT accounting and reporting for small businesses, and some may even find that they pay less VAT than using normal VAT accounting.

To join the scheme your VAT turnover must be £150,000 or less (excluding VAT), and you must apply to HMRC to use the scheme. You can remain in the scheme until your turnover including VAT exceeds £230,000. With the Flat Rate Scheme you pay a fixed rate of VAT to HMRC depending on your business category and you keep the difference between what you charge your customers and pay to HMRC. However, you can't reclaim the VAT on your purchases, except for certain capital assets over £2,000.

HMRC have recently revised their guidance on different business categories. For example not all consultants should use the 14% flat rate applicable to management consultants and should instead use the 12% rate for 'business services not listed elsewhere'. That would result in them paying over 2% less of their takings to HMRC. On £150,000 a year that would be a £3,000 VAT saving. There is a further 1% reduction in the first year that the business is VAT registered.

THINKING ABOUT INCORPORTING YOUR BUSINESS?

Where a sole trader, partnership or LLP has established a significant value for the goodwill of their business it was possible up until 3 December 2014 to transfer that goodwill to a limited company and pay just 10% capital gains tax by claiming entrepreneurs' relief. The former owner(s) could then draw down on the loan account created with the transferee company over time as future cash was generated by the business. This tax planning strategy became less attractive when entrepreneurs relief was denied where the transferor and transferee were related parties, although the latest Finance Act has relaxed this rule where the former owner receives less than 5% of the acquiring company's shares.

Now that the top rate of CGT has been reduced to 20% from 6 April 2016 for such transfers, rather than 28%, it may be worth reconsidering this strategy on incorporation. For example where an individual's share of goodwill is worth £500,000 the CGT due would be £100,000 leaving £400,000 net of tax. Note that for a transfer in June 2016 the CGT would not be due until 31 January 2018.

Once the business has been incorporated, the directors' could consider charging interest to the company on the loan account balance as that could be more tax efficient than dividends for higher rate taxpayers.

Note that although the goodwill would generally need to be written off against the company's profits, there is no longer a tax deduction for the amortisation resulting in higher taxable profits.

TRIVIAL BENEFITS IN KIND NOW EXEMPT

Employees are no longer taxable on trivial benefits in kind, provided the cost to the employer is less than £50. This must not be cash or vouchers or a reward for past or future services but is intended to cover gifts of flowers on a birthday or a turkey at Christmas.

TAX DIARY OF MAIN EVENTS FOR JULY/AUGUST 2016 2016

- 19 July - PAYE & NIC deductions, and CIS return and tax, for month to 5/7/16 (due 22 July if you pay electronically); payment of Class 1A NICs for 2015/16 (22 July if you pay electronically)
- 31 July - Second 50% payment on account of self-assessment income tax for 2015/16
- 1 August - Corporation tax for year to 31/10/15
- 19 August - PAYE & NIC deductions, and CIS return and tax, for month to 5/8/16 (due 22 August 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

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