Godley & Co
Chartered Accountants & Tax Specialists

TAX NEWSLETTER

JULY 2017

Dear Friend

Welcome to our July tax newsletter.

Positive news for SMEs and landlords as the government announced significant changes to the roll out of 'Making Tax Digital. However the draft Finance Bill provided less welcome news for Non-Doms as it confirmed the Non-Dom changes shelved pre-election are now to come into effect from 6 April 2017.

Also this month we explain i) how the new Tax-Free Childcare system works ii) what is 'dementia tax' and ii) how you don't need to be building the next 'Dyson' to benefit from HMRC's generous Research & Development tax credits.

We are also excited to announce two new joiners to the Godley team this summer.

As always, if you are not sure of how the changes affect you, do speak to our tax team or your contact person at our office.

Best wishes

Godley Tax Team

Please follow us on Twitter, LinkedIn, & Google+

MAKING TAX DIGITAL – UK GOVERNMENT ANNOUNCE REVISED TIMETABLE

The biggest change to the administration of the tax system in more than 20 years is coming, but HMRC announced significant changes to the roll out of MTD, which was due to go live from April 2018.

The changes include the following:

- Only businesses with a turnover above the VAT threshold will have to keep digital records and only for VAT purposes. They will only need to do so from 2019.
- The requirement to keep digital records and report quarterly for other taxes will not become mandatory until at least April 2020, instead of 2018 as originally proposed.

This is a positive development which we support. More details will be sent on how MTD will impact you once secondary legislation on MTD is passed in the Summer 2017, as there are still many areas of uncertainty on how MTD will be enforced.

NON-DOM CHANGES (PREVIOUSLY WITHDRAWN) TO GO-AHEAD – EFFECTIVE FROM 6 APRIL 2017

Last Friday the government announced it will move forward with the changes to the taxation of non-domiciliaries, which were withdrawn just before the election.

They will be reintroduced in the second Finance Bill 2017 which is to be published this summer.

As originally proposed, the changes will take effect from 6 April 2017. Many had hoped that if brought back in it would be deferred until 2018. However, at least there is more clarity from the government about what changes will be made and from when they will take effect.

As a recap, the key changes to the non-domicile rules are as follows:

- deemed domicile for all tax purposes for individuals who have been resident in the UK for 15 out of the previous 20 years;
- protection from income tax, capital gains tax and inheritance tax for trusts established before deemed domicile unless those trusts are tainted by additions;
- liability to UK inheritance tax in respect of UK residential properties and associated loans / collateral held in offshore structures;
- ability to separate out mixed funds of income and capital into their constituent parts at any time up to 5 April 2019;
- rebasing of personally held non-UK assets as at 5 April 2017;
- individuals born in the UK with a UK domicile of origin, who established a non-UK domicile of choice, will not be able to benefit from the non-domicile taxation regime if they become UK resident.

For more information on this matter please contact us.

THE NEW TAX-FREE CHILDCARE SYSTEM – WHAT IS IT, AND ARE YOU BETTER OFF UNDER THE OLD SYSTEM?

The government's new Tax-Free Childcare initiative, to help parents with the costs of childcare, was being rolled out from April 2017, and is expected to be fully implemented by the end of the year.

Under the new initiative, tax relief worth 20% will be available for use against the costs of childcare, up to a total of £10,000. The Tax-Free Childcare scheme will therefore be worth up to £2,000 per child (£4,000 for a disabled child). The scheme applies to children aged under 12, or up to 17 for those with disabilities.

Online accounts can be created by eligible parents, into which they can contribute money to pay for childcare. Payments will be 'topped up' by the government at a rate of 20p for every 80p that families pay in. Anyone will be able to make payments into these accounts, not just the child's parents.

Potential winners of Tax-Free Childcare include self-employed parents and working single parents with annual childcare costs in excess of £5,000.

Others, however, may be better off under the old system. Two-parent families with one child where both work are more likely to be better off under Employer-Supported Childcare. It is also important to note that the new Tax-Free Childcare scheme is not available to families where either parent earns in excess of £100,000, or to two-parent families where one parent does not work.

For more information on this topic please see here.

WHAT IS "DEMENTIA TAX"?

The Conservative Party Manifesto announcement and subsequent U-Turn on the requirement to pay for social care may have caused many voters to switch their allegiance in the June Election. Although this so-called "Dementia tax" is not strictly a tax, paying for social care has become more important than Inheritance Tax for many families.

If a local authority arranges for an individual to enter a care home on a permanent basis the individual will be means tested to see whether or not they should make a contribution towards the cost of their care. The individual may want to pass on savings or other capital to children or others during their lifetime, but it can affect eligibility for local authority assistance with care fees and Pension Credit.

Under current rules if an individual's capital adds up to more than £23,250, the local authority may assess them as being able to meet the full cost of their care.

The Coalition Government published a White Paper on the reform of adult social care in July 2012. This proposed to implement the recommendations contained in the Commission on the Funding of Care and Support (known as the Dilnot Commission). The Coalition Government proposed a cap on the maximum that an individual / family would be required to contribute. A figure of £76,000 was suggested to be introduced in 2016 but the Conservative Government elected in 2015 deferred this until 2020 at the earliest.

In their 2017 Election Manifesto the Conservative party announced that the £23,250 threshold would be raised to £100,000 and would also be the threshold for assessing whether the local authority would pick up the bill for Care in the Community. There was however no mention of any cap on Social care costs. This resulted in a very rapid U-Turn following the launch of the manifesto.

We are now told that there will be yet another Green Paper to consider a cap on care fees. This issue will need to be closely monitored as it will have a significant impact on any planning undertaken.

Inheritance tax planning such as transferring an asset out of your name does not necessarily mean that it will not be taken into account in a means test. Both the local authority and the Pension Service can, when assessing a resident's eligibility for assistance, look for evidence of deliberate, or intentional, deprivation of capital such as a property transfer. Deliberate deprivation occurs when an individual transfers an asset out of his or her possession to put him or herself in a better position regarding the means test for care home accommodation.

THE IMPOSSIBLE IS OFTEN THE UNTRIED, DON'T LOSE OUT ON R&D TAX RELIEF!

There is a general misconception that to claim HMRC's generous R&D tax relief you need to be designing the next 'Dyson'. However, you could quality for the relief in various situations, including, some of the following:

- Improving your back-office systems which required a solution which is not readily available (i.e. not an 'off the shelf') product;
- Costs incurred in designing a new solution but it fails and doesn't go to market/production;
- IT/warehouse design to improve efficiency in handling and storing data/stock; and

- Investigation of alternative materials to reduce costs, improve strength / durability etc.

Companies that are seeking to create/advance their technology or resolve scientific uncertainty are eligible for a hefty tax claim on corporate profits known as R&D tax relief.

The R&D tax relief was designed to encourage investment in innovation in the UK. SME's can claim up to 33% for every pound spent on R&D. Companies have up to two years from the accounting year end date to make a claim. In other words, while in your 2017 accounting period, you can still claim tax relief for 2016 and 2015.

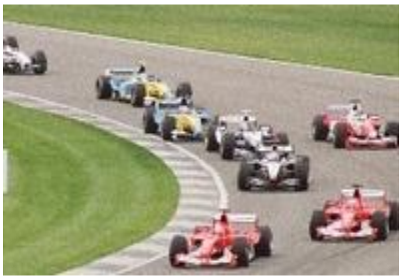
The claim is calculated based on the enhanced R&D expenditure rate (staffing costs, externally provided workers, software, subcontracted work and consumables) which gives arise to a corporation tax deduction or cash credit depending on the profitability of the business.

Example: A fashion company is looking to enhance their software to improve their trend analysis back office operations and analysing trends. The company spends £50,000 per year developing their system which enables them to receive:

A tax credit of up £16,675 if loss making (33% on initial investment); or

A reduced tax liability of £13,000 (26%).

For more information please contact Yogesh Patel or your contact person in the office



MOTOR RACING SPONSORSHIP WAS TAX DEDUCTIBLE

In order for an expense to be deductible against business profits it must be incurred "wholly and exclusively" for the purposes of the trade.

In a recent tax case, a hotel owner near Silverstone sponsored his grand-daughter's career as a racing driver by making payments through his company. The argument was that this would promote the motorsport credentials of the hotel, rebranded as Silverstone Hotel. The granddaughter was well known in motor racing circles and her endorsement of the hotel was designed to promote the company's business.

HMRC sought to disallow the expense on the grounds that there was a "duality of purpose" and consequently not incurred wholly and exclusively for the purposes of the hotel trade. However, the Tax Tribunal allowed the company's appeal and consequently the payment was tax deductible.

CYBER SECURITY: ARE YOUR SYSTEMS UP TO DATE?

In light of the recent cyber ransomware attack which affected businesses and organisations around the world, UK firms are being encouraged to protect themselves against the risk of crippling cyber-attacks and malware. Click here where we outline some of the key ways in which you can protect your business.

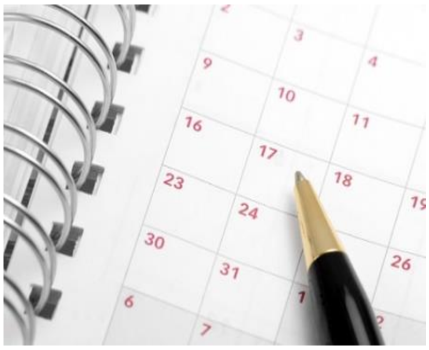
GODLEY'S NEW RECRUITS

We are pleased to announce two new joiners to the Godley family:

Nicola Shaw - joins as our new office manager. She has over 15 years of experience working with accounting firms and brings a wealth of knowledge in terms of processes and systems. Nicola enjoys quality time with her family & friends, walking and reading.

Priyesh Kotecha - joins us as a junior accountant, having just graduated from the London School of Economics. He will be supporting the team whilst training for his accounting qualification. Priyesh is part of a band as a drummer and is passionate about cricket.

TAX DIARY OF MAIN EVENTS FOR JULY/AUGUST 2017



- 5 July - Deadline for agents and tenants to submit returns of rent paid to non-resident landlords and tax deducted for 2016/17
- 6 July - Deadline for forms P11D and P11D(b) for 2016/17 tax year
- 19 July - PAYE & NIC deductions, and CIS return and tax, for month to 5/7/17 (due 22/07 if you pay electronically)
- 31 July - 50% payment on account of 2017/18 tax liability due
- 1 August - Corporation tax for year to 31/10/16 (unless pay quarterly)

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