Dear Friend

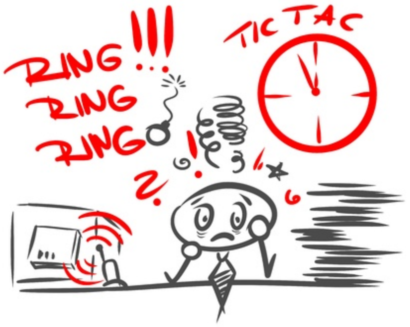
Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

This month we are also delighted to launch our dividend and property tax factsheets, providing an overview of the significant tax changes from April 2016. Further details below or refer to Our Publication page on our website for more information.

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.

Best wishes

Godley Tax Team



MAKING TAX DIGITAL – TOO SOON?

George Osborne announced the introduction of digital tax accounts in his 2015 Budget, with more information being sent online to HM Revenue and Customs (HMRC) by employers, pension funds, banks and other institutions. This information will then be used to calculate individuals' tax liabilities which may be viewed by them online. All this sounds great in theory, but many accountants have expressed concerns about the reliability of this data.

We now learn that by June 2016 every individual and 5 million small businesses will get access to their digital tax account. Over the next four years HMRC expects a full range of services to be available to taxpayers through their digital tax accounts.

The next big step will be introduction of quarterly reporting of income and expenditure by businesses and landlords from 2018 according to the government.

Many accountants (including us) have serious concerns about the timescale and lack of consultation. HMRC are expecting businesses to use new apps on their smartphones and tablets to transmit their data to HMRC. Most of you, we are sure, would rather spend time running your business than filling in more forms. Please get in touch to discuss the implications of this proposed change.

NEW RULES ON DIVIDENDS FROM 6 APRIL 2016

In this edition we revisit the changes to the taxation of dividends which could have a significant impact on the amount of tax you pay. It would be advisable to consider these changes at an early stage in the current tax year mainly because the computations are not straight forward. If you decide to leave it right to the end of the tax year before considering how much additional tax that you may have to pay, it could prove to be a very expensive decision!

Do read our new factsheet on this subject. Should you wish to discuss these changes further or find out what impact these changes have on your net cashflow please contact our tax team.

TAX AND PROPERTY

There are significant changes going through the various taxes which impact UK residential property. Some of the key changes announced are:

- Restriction of finance costs relief for individual landlords;
- Withdrawal of the 10% wear and tear allowance; and
- Stamp Duty Land tax increased by 3% for acquisitions of buy-to-let properties and second homes.

In addition to the above, there are proposals to pay CGT due on disposal of UK residential property within 30 days of completion.

Please read our new factsheet which provides an overview in respect of the changes. It is imperative that you review your UK residential property portfolio to understand how the above changes impact your tax and net cashflow position. The calculations are complex. If these changes are not considered at an early stage in some instances individuals may not have funds to pay for the increase in UK tax liabilities.

On 12th May 2016 the Prime Minister announced at the anti-corruption summit that foreign firms that own property in the UK will have to be named on a new register. It seems that both commercial and residential property will go on this register. At this stage we do not know how and what information the UK government is going to collect and publish on the register. Once we have more details we will inform you but, in the meantime, should you wish to talk through the changes announced, please do not hesitate to contact our tax team.

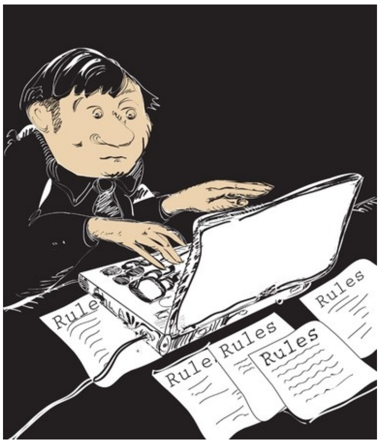
EMPLOYMENT ALLOWANCE IS NOW £3,000 BUT NOT SINGLE DIRECTOR COMPANIES

For the last two years there has been a £2,000 allowance available to employers to set against their employers National Insurance liability for the year. This increased to £3,000 from 6 April 2016 and no action is required if you claimed the allowance for 2015/16. However, from 6 April 2016, limited companies where the director is the only employee paid earnings above the Secondary Threshold for Class 1 National Insurance Contributions (£156 a week) will no longer be entitled to claim the Allowance.

HMRC guidance states that if more than one employee or director earns above the Secondary Threshold, the company will continue to be eligible for Employment Allowance for the whole tax year. This other employee could be the director’s spouse or partner. The HMRC guidance is not consistent with the legislation however and we hope to clarify the matter.

TAX IMPLICATIONS OF NEW ACCOUNTING RULES

The calculation of profits for tax purposes is based on the profits of the business computed in accordance with Generally Accepted Accounting Principles. The introduction of a new accounting standard (FRS 102) means that some of the figures in your accounts may need to be restated and these changes may have tax implications. We will discuss these changes with you and seek to minimise the tax impact where possible.



INTEREST FREE LOANS AND THE NEW ACCOUNTING RULES

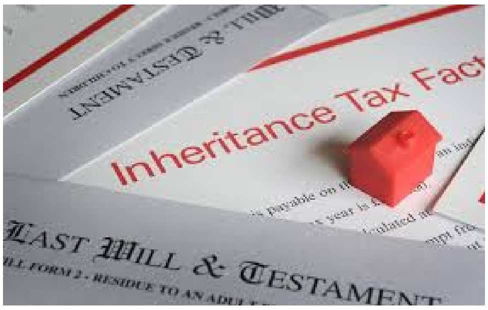
One of the areas where there may be a change in your company’s accounts is where you have received or made a loan that is interest free or at less than market rates. Unless the loan is repayable on demand the new accounting rules require the loan to be recorded in the accounts on an amortised cost basis. For example this means that a £20,000 interest free loan repayable in two years time would be valued at £18,141 if the market rate of interest is 5%.

This method recognises that £20,000 today is worth more than £20,000 in two years time. If your company is borrowing the £20,000 then there would be finance expenses of £907 in year 1 and £952 in year 2 reflecting the initial £1,859 discount. These finance expenses would be deductible for corporation tax provided the lender is also charged to UK corporation tax on the interest. But if the interest free loan was from an individual such as a director there would be no tax deduction, a point clarified in the latest Finance Bill.

PAYING INTEREST ON DIRECTORS LOANS IS BETTER THAN DIVIDENDS NOW?

The new 32.5% rate on dividends received by higher rate taxpayers means paying interest on directors' loan account credit balances is now more tax efficient than paying dividends, once the new £5,000 dividend allowance has been used. This will also avoid the accounting issue mentioned above if a market rate of interest is paid. Unlike bank interest the company is still required to deduct 20% basic rate income tax and pay this over to HMRC quarterly with form CT61. Remember that higher rate taxpayers can receive £500 interest income tax free from 6 April 2016.

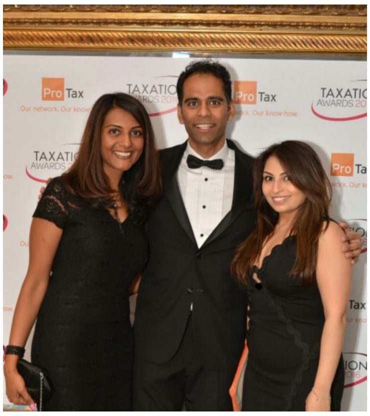
INHERITANCE TAX PLANNING USING THE NEW LIFETIME ISA



Budget 2016 announced a new "Lifetime ISA" that will be available to those aged between 18 and 40 from 6 April 2017. The Government will add 25% to the amount saved subject to a maximum of £4,000 a year (plus £1,000 from the Government). It seems there will be no requirement that the savings come from the person named on the account so parents, grandparents, or other relatives could make payments into the account.

Where you have excess income and have concerns about inheritance tax (IHT), what about taking advantage of the exemption for normal expenditure out of income by committing to regular payments into the account. £4,000 a year would save you £1,600 IHT, so £2,400 net turns into £5,000 gross, per recipient!

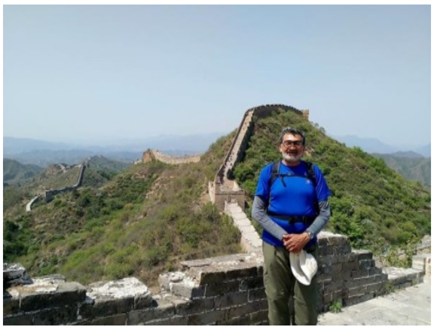
TEAM NEWS



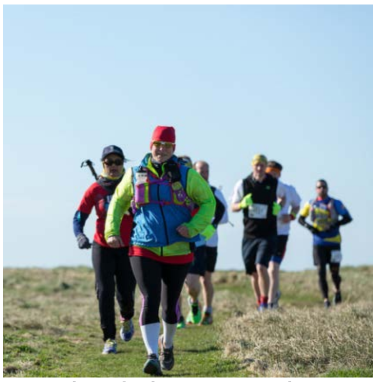
A NIGHT OF 'TAX' GLAMOUR AT THE PARK LANE HILTON

On Thursday 19 May, we were honoured to be selected as one of the finalists for the Best Single Office Tax Practice Award at the 2016 Tolley's Taxation Awards. The annual event is one of the most prestigious events in the Tax calendar recognising innovation, client service and best practice in the profession. Although we didn't make the top spot for the award, the Godley team are extremely pleased to be shortlisted, given the high calibre of other finalists.

TREKKING ON THE GREAT WALL OF CHINA



Recently, our colleague Jay Doshi and fellow co-trekkers walked along the Wall of China to raise money for the Macmillan Cancer Support Charity. It was a fantastic trip for an excellent cause and in the process they have collectively raised approximately £150,000.



RUNNING ROUND AN ISLAND

Our colleague Shital Gohil completed a 106km ultra challenge around Isle of Wight. She entered as a self-funding individual and contributed towards Cancer Research UK. The challenge featured some hilly terrain, pretty awesome overgrown trails zigzagging through the bushes and quite spooky terrain in the dark. Shital conquered the course in 22 hours 53 minutes with an impressive rank of 140th of the 501 who completed and 32nd from the 227 women who finished.

TAX DIARY OF MAIN EVENTS FOR APRIL/ MAY 2016

- 19 May - PAYE & NIC deductions, and CIS return and tax, for month to 5/5/16 (due 22 May if you pay electronically)
- 1 June - Corporation tax for year to 31/8/15
- 19 June - PAYE & NIC deductions, and CIS return and tax, for month to 5/6/16 (due 22 June 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**

This publication is intended to be a general guide and cannot be a substitute for professional advice. Neither the authors nor Godley & Co Ltd accept any responsibility for loss occasioned to any person acting or refraining from acting as a result of material contained in this publication.