tlp - news

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The monthly newsletter of The Long Partnership - www.thelongpartnership.co.uk

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Quotes

"When you do the things you need to do when you need to do them, the day will come when you can do the things you want to do when you want to do them."

-- Zig Ziglar, Motivational Speaker

"The entrepreneur builds an enterprise; the technician builds a job."

-- Michael Gerber, Author and Entrepreneur

"The shifts of fortune test the reliability of friends."

-- Marcus Tullius Cicero, statesman

"The man who can drive himself further once the effort gets painful is the man who will win."

-- Roger Bannister, Runner

"Gardens are not made by sitting in the shade."

-- Rudyard Kipling, author

Tax and more tax. Just when it looked like being a sleepy kind of year, young George spiced it all up. "**The biggest assault on small business**" was how one commentator described it. Anyone with a company on a small salary / dividend strategy is going to pay around **£2000 per annum more in income tax.** That affects us as well and that's not nice.

Young George has achieved this windfall for the treasury by imposing a **tax of 7.5% on dividends** and removing the tax credit. If this proposal becomes law it will affect **dividends paid after 5 April 2016.**

I feel some pre 5 April 2016 dividends coming on.

The first £5000 of dividends in the year will be tax free so if you pay a **dividend of £30,000** to supplement your small salary, the **tax charge will be £1875**. Ouch!

And if you are a contractor working through a one man company, get ready to pay a lot more tax. The dividend tax, restricted use of the Employment Allowance and changes to rules on travel and subsistence are all aimed at you. Do you get the feeling that young George doesn't like you?

This is going to be an interesting few months as we all get to grips with the new reality and budget for paying a lot more tax.

I do not like the fact that we will be paying more tax but the challenges now presenting themselves have added some spice to 2015.

With everything that is going on, I think I need to get out more! I recently drove through Strathcarron and on to Portree. Now, I have often said that one of my favourite places is Tongue but that drive through Strathcarron to Skye must be up there as well.

I even met **a very nice Skye policeman** who insisted on showing me his **flashing lights**. It wasn't that serious and after admitting that I was blind and stupid (which he could tell from the accent anyway) we shook hands and we both went on our respective ways.

There is nothing new in business. We are all learning what previous generations and many of our peers have known for years. The technology has moved on but you are still dealing with people and that is an endlessly fascinating subject.

When it comes to marketing you need a multitude of approaches because not all your target customers can be reached in the same way. The patterns of their lives are all different and one marketing approach alone might miss them completely or the timing might be wrong.

So, we have **a new initiative**. By the time you read this we will have started our email campaign called "**Sound Bites**". If you are not getting our weekly email, it may be we do not have your email address so just get in touch. It will be completely different from this newsletter.

We also do Google advertising and the (very occasional) radio or paper ad, and of course this newsletter. Well, you cannot just sit there and wait for people to find you, not when your patch is the whole of the North of Scotland.

In addition, we are members of 3 Chambers of Commerce and just this month become part of the **new BNI Chapter in Inverness**. The energy and focus of this new BNI made it a no brainer that we had to be in there as well. We are already seeing the benefits.

Now, I recognise that many people in business hardly need to market. However, for the rest of us it an essential part of being in business. At its most basic, how does anyone know your business exists, let alone what you do, and why you are any different from any one else. Pretty basic stuff.

So, if we get our marketing right we increase our stability as a business and hopefully grow it as well. But, time will tell.

I was visiting a prospective client this week who pointed to a copy of our newsletter and said "nobody produces anything like this any more". He meant that there were no pictures and no colour. I say "**No frills, simple and effective**".

So, one way or another, the second half of 2015 is going to be a lot more interesting than the first half.

So, l**ets get stuck in**!

Techie Tools

From the desk of our very own techie, william@wallpapertrail.uk

I've been a freelance website developer for 10 years, so I have a lot of useful tools and programs which I rely on daily to help me improve my clients' websites, and I'd like to share the best of these with fellow TLP Newsletter readers.

Every month I'll be covering one or two tools, all of which will be free to use, and if you take action today you'll start seeing the benefits before the next newsletter lands through your letterbox. So let's get started...

Nibbler

http://nibbler.silktide.com/

Go to the home page and type in your web address.

Nibbler will tell you ways in which your website can be more effective. It carries out 17 tests which are individually graded out of 10, and will tell you why and how your website can be improved. Nibbler gives you a clearly presented "to do" list which you can work through at your own pace. Make changes, however small, and then hit the retest button and assess the impact.

Gtmetrix

https://gtmetrix.com

Its primary goal is to speed up your website. Speed is an important factor in both how highly your website will rank in search engines, and how well your website will convert users into customers.

Gtmetrix provides results from multiple speed optimisation tools, including Googles 'PageSpeed Insights' and Yahoos 'Yslow'. Gtmetrix will give you a list of strategies to employ. One technique is "Gzipping", which can improve your page loading times by up to 80%.

I'm more than confident that everyone reading this will find some value in the reports being offered by these two tools, but the real value comes from actually implementing the improvements recommended.

Please give these a try. I think you will be surprised at your results. William

First sparks after the budget

Isn't it interesting what people and the press picked up on following the budget. The press and broadcasters zeroed in on the fact that low income families would be worse off due to the cut in Tax Credits by on average about £5 a week. Am I getting old and cynical but is this not just to create dramatic headlines about government not caring for vulnerable people?

What did the accounting profession zero in on after the budget. As a guide I draw on our old friends at Accountingweb for whose comments and insights I am very grateful. The test is the number of posts made following the budget and on which subjects. On this basis the topic that accountants seemed to find incredible was the change in the taxation of dividends, an attack on small business in the UK.

The Chancellor seems keen to reduce Corporation tax rates still further but that would just have encouraged still more people to incorporate and take low salaries and dividends, just like we have all been doing for years, saving a ton of tax.

In the Chancellor's own words "Lower rates are creating rapidly growing opportunities for tax planning." Just so, George, but that's nothing new.

He therefore set out plans to reform the taxation of dividends by replacing the current lower tax rates applicable to dividend income with a new £5,000 tax-free dividend allowance for all taxpayers, accompanied by increased tax rates on dividend income. The rates of dividend tax will be set at 7.5%, 32.5% and 38.1%, depending on your tax rate band, equivalent to an increase of 7.5% where dividend income exceeds £5,000.

According to the Chancellor, "Those who … pay themselves in dividends …… will pay more tax". We're working on that one George.

The Budget Report states: "These changes will also start to reduce the incentive to incorporate and remunerate through dividends rather than through wages to reduce tax liabilities. This will reduce the cost to the Exchequer of future tax motivated incorporation (TMI) by £500m a year from 2019." I did not realise we had been doing TMIs, sounds very "cutting edge tax planning."

For a number of years there has been speculation that HMRC wanted to impose a National Insurance charge on dividends but the general view was that this would be unworkable. However, the 7.5% tax charge seems to have been calculated to achieve the same result.

The common view now seems to be that a small business owner trading through a company paying a basic salary (probably about £672 per month) and dividends on top to use up their basic rate band, just got a tax hike of £2k from April 2016 onwards.

To quote one contributor "I cannot seem to get my head around the government handing down a £2,000 tax hike to moderate earning entrepreneurs…Surely a Conservative Government didn't just launch the biggest raid on small business owners in living memory?"

Another thread of opinion seems to be that George Osborne is making these unpalatable changes at the start of the new parliament so that everyone will have forgotten by the time of the next election.

It will be interesting to see how the new tax and the new £5000 zero rate band for dividend will work. Given that there is also going to be a tax exemption on the first £1000 of interest received, I feel some tax planning coming on. The 'dividend tax-free allowance' is the same concept as the 'interest tax-free allowance' but at this stage are both 'pre-announcements' rather than in statute. Maybe he wants to see what tax planning ideas come to the surface.

So, to sum up what has George done. He has reduced corporation tax for companies that hoard cash, and increase it (effectively to 26.5%) for those that distribute that cash so it can be spent and boost the economy.

Conceivably this new measure will cause a lot of additional administration. There will be many taxpayers currently making a living from share portfolios that will now presumably need to register for self-assessment and submit tax returns, and actually make tax payments to HMRC. This would include pensioners, wives of OMB shareholders owning shares in the family business, etc all of whom have been counting on the basic rate tax credit so that they did not have to worry about paying tax on their income.

And this is the Government that wanted to reduce administration and scrap tax returns.

Amongst businesses, will we see the development of a tax strategy around phoenixing companies, running them for a year and then dissolving them and distributing the remaining profits at 10% Capital Gains Tax after the annual allowance? Think about it - trade for a year, take your small salary and a dividend of say £30k, taking the hit of 7.5% on £25000 of the dividends, pay the CT arising and dissolve the company, pay tax at 10% and start again.

Perhaps we'll see the spread of diverse shareholdings or alphabet shares receiving perhaps £5000 per year (just a figure I plucked out of the air). And then a new push by HMRC on income shifting. (In two or three years, once they've woken up.)

Of course **the other attack on small companies** and in particular one man companies is that one director companies will no longer be eligible for the employment allowance. Have I missed something here but does this not mean that you appoint another director, your spouse. We'll have to see what is in the detail but I cannot believe that HMRC have not seen through this.

My own view is that these changes will result in quite **a shake up in the small business community and also amongst offshore contractors**. It will be a windfall for the Treasury. It will spark a new wave of tax planning ideas and everyone will need to look at their own situation and review how they want to structure their businesses going forward.

The people who will still gain from incorporation are those that do not take out all their profits. After all, if you pay no dividends, you pay no dividend tax. Those profits will be taxed at 18% and the balance is available for use within the company.

Throw away comments that could spell big changes ahead

Here are just some other comments that followed the budget.

- "The government will publish a roadmap by the end of the year showing how it will transform tax administration for individuals and small businesses over this Parliament.
- "The government will extend HMRC's powers to acquire data from online intermediaries and electronic payment providers to find those operating in the hidden economy. We will legislate at Finance Bill 2016 to achieve this, following a consultation on the detail".
- "The government will invest around £300 million over 5 years from 2016 to tackle non-compliance by small and mid-sized businesses, public bodies and affluent individuals.

I wonder what this tells us about the new tax landscape. There are going to be major changes ahead and we have seen a glimpse of them with this budget. Hold on tight, its going to be a bumpy ride.

Changes to the personal allowance for 2016/17 and 2018/19:

The increase to £11,000 from 5.4.16 will see the end of the Y suffix tax code as individuals born before 05/04/1938 will no longer have a higher personal allowance. There will be a universal tax allowance that is not age dependent. There was some confusion over the abolition of the P code this year so hopefully the abolition of the Y suffix codes will be smoother and a global instruction for payroll software to move all Y codes to L will be forthcoming

The basic rate threshold will be £32,000 for 2016/17 and £32,400 for 2017/18. The higher rate threshold and NICs UEL will be £43,000 for 2016/17 and £43,600 for 2017/18. The £100,000 income limit remains so that the full personal allowance is lost at £122,000 for 2016/17 and £122,400 for 2017/18.

NIC employment allowance

From April 2016, eligible employers will be able to reduce their employer Class 1 NICs liability by up to £3,000 per tax year, instead of the current £2,000. This measure is partly to counteract the additional costs to small businesses from the introduction of a National Living Wage (NLW).

Also from April 2016, companies where the director is the sole employee will no longer be able to claim the employment allowance.

Budget & Property

Wear and tear allowance

Landlords of furnished properties can currently deduct 10% of their rent from their profit to account for wear and tear, irrespective of their expenditure.

From April 2016, the Government is planning to replace the wear and tear allowance with a new relief allowing all residential landlords to deduct the actual costs of replacing furnishings.

Capital allowances will continue to apply for landlords of furnished holiday lets.

Finance cost relief

This will restrict to basic rate only, the relief on finance costs for individual landlords of residential property. The new rules do not apply to companies. **Presumably young George is trying to curtail buy to lets and reduce house prices.**

The restriction will be phased in over four years, starting from April 2017. Furnished holiday lettings are excluded from this reform.

The new tax relief will be given as a **tax reducer** rather than a deduction from profits.

So, you calculate your taxable income without deducting interest. If this exceeds £100,000, you lose your personal allowances. You then deduct the tax "reduction" calculated on your interest payments. **If you pay a lot of interest this could mean paying higher rate tax or losing your personal allowance, <u>before</u> applying the reducer.**

Rent-a-room relief

Rent-a-room relief will rise from £4,250 to £7,500 from April 2016 and **will benefit B&Bs** as well as anyone renting out rooms in their home.

National living wage

A new premium of 50p on top of the adult rate of the national minimum wage for those aged 25 and over.

The rate will therefore be £6.70 for those aged 21 and over from 1 October until April 2016 and then £7.20 for those aged 25 and over. This is effective from April 2016 not 1 October when the rates usually change.

The peedie budget bits ...

Employment intermediaries and tax relief for travel and subsistence

A consultation document has been published alongside the Summer Budget on detailed proposals to restrict tax relief for travel and subsistence for workers engaged through an employment intermediary, such as an umbrella company or a personal service company.

The changes will take effect from 6 April 2016.

Office of Tax Simplification (OTS)

Legislation will be included in Finance Bill 2016 to put the OTS on a statutory basis as a permanent office of HM Treasury.

Going forward, an expanded OTS will be asked to review:

- the closer alignment of income tax and National Insurance contributions; and
- the taxation of small companies.

Taxation of employee benefits and expenses

A new statutory exemption for trivial benefits in kind costing less than £50 will be introduced with effect from April 2016.

Self-employed National Insurance contributions (NICs)

The Government will consult in Autumn 2015 on abolishing Class 2 NICs and reforming Class 4 NICs for the self-employed.

Simplification of termination payments

The Government will consult on the tax and NICs treatment of termination payments with a view to making the rules simpler and fairer.

Reviewing the rules for tax relief on travel and subsistence expenses

It has been announced that a discussion paper will be published shortly outlining a potential framework for new rules for tax relief on travel and subsistence expenses. This comes out of a review undertaken by the Government in 2014–15 following on from a report by the Office of Tax Simplification.

Extending averaging for farmers

As announced in the Spring Budget, the averaging period for farmers will be extended from two years to five years from April 2016. A consultation on the measure has now been published.

Payrolling of Benefits

Voluntary payrolling of benefits-in-kind will be introduced for all benefits except accommodation, loans and vouchers from 6 April 2017.

The demise of the P11d approaches and HMRC will be amending their systems to facilitate this move. The registration tool for moving to the initial payrolling choices from 5 April 2016 is due to be available at the end of this month. New reporting rules for company cars will be introduced from 5 April 2017.

IHT—Main residence nil-rate band

The Chancellor is to introduce (for transfers on death on or after 6 April 2017) an additional nil-rate band when a residence is passed on death, to a direct descendant (a child of the deceased and their lineal descendants).

For 2017–18, the allowance will be the lower of the net value of the interest in the property or £100,000. That limit will increase annually to £175,000 by 2020–21. The standard nil-rate band is to continue at £325,000 until the end of 2020–21 so by then an individual can have an effective £500,000 nil-rate band.

A claim will be able to be made for any unused additional rate band to be transferred to the estate of a surviving spouse or civil partner in the same way as for the existing nil-rate band.

Personal savings allowance

The Government is to introduce a personal savings allowance from 6 April 2016 to remove tax on up to £1,000 of a basic rate taxpayer's savings income and up to £500 of a higher rate taxpayers savings income each year. There will be no allowance for additional rate taxpayers. The automatic deduction of 20% income tax by banks and building societies on non-ISA savings will stop from the same date and there will be a consultation on whether changes are required to the deduction arrangements in place for other savings income.

Help to Buy ISA

The Help to Buy: ISA was announced at Spring Budget 2015 to support people saving up for their first home by providing them with a maximum government bonus of £3,000 on £12,000 of savings. The Government has announced that Help to Buy: ISAs will be available for first time buyers to start saving into from 1 December 2015.

Lifetime Allowance for pension contributions

The Government will reduce the Lifetime Allowance for pension contributions from £1.25m to £1m from 6 April 2016. Transitional protection for pension rights already over £1m will be introduced alongside this reduction to ensure the change is not retrospective. The Lifetime Allowance will be indexed annually in line with CPI from 6 April 2018.

Pensions tax relief

The Government will consult on whether and how to undertake a wider reform of pensions tax relief to encourage saving into pensions in the longer term. One suggestion is a fundamental reform of the system so that contributions are paid from taxed income, any growth is exempt from tax and any payments out are exempt, with the Government providing a top up on contributions.

Pension input periods

All pension input periods will be aligned with the tax year so any open periods will be treated as ending 8 July 2015 and a new one will then run 9 July 2015 to 5 April 2016. So members will have two pension input periods ending in the 2015/16 tax year with a total annual allowance of £80,000 for periods ending in this tax year (plus any available carry forward from the previous three tax years).