Lentells
Chartered Certified Accountants

Accountancy, Tax, Payroll, Wills & Probate
Autumn 2018

News

Update on Buy **To Let Ownership**

The rental property sector continues to hit the headlines with one think tank recently suggesting that government should provide tax breaks to landlords who sell to their tenants and others recommending tax relief on rents from long term tenancies. Whatever happens the housing sector is set to be a fundamental part of the economy both pre and post Brexit.

Now is a good time for landlords to reassess their position given recent changes in the tax treatment of rental income including a reduction in the level of tax relief available on mortgage interest and possible impacts this could have on tax rates, cashflow and the ability, in some cases, to claim some state benefits.

Research suggests few landlords took financial advice before jumping in to the market but owning a rental property should be thought of as part of an overall investment strategy and you should consider how it might fit in with long term planning for savings and retirement income. There are also important considerations when it comes to capital gains tax and inheritance tax planning as passing on a rental property to the next generation could incur significant tax charges.

If you already own or are thinking about buying a rental property and would like to discuss both the short term and longer term tax implications please get in touch.

Making Tax Digital - **The Countdown is On**

More details of how making tax digital (MTD) will be implemented are emerging.

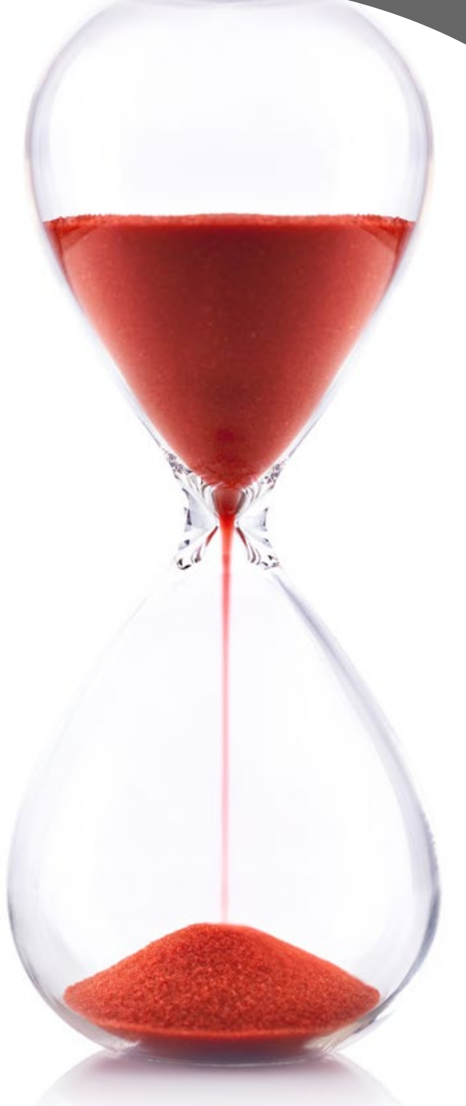
HMRC has confirmed that initially it will apply to VAT registered businesses with vatable turnover over the VAT registration threshold (currently £85,000).

This means that if a business is voluntarily registered for VAT and has vatable turnover of less than £85,000, it will not initially need to comply.

The initial implementation date of April 2019 covers the reporting of VAT only, and will start with the first VAT period commencing on or after 1 April 2019. Reporting of business profits is likely to follow in subsequent years.

Businesses falling within the new rules will be required to keep digital records and report VAT directly from those records using compatible software. Where businesses use separate calculations for VAT, such as a spreadsheet, manual imputting of such calculations will initially be accepted, although from April 2020, such records will also need to be digitally linked by bridging software.

Unfortunately this new regime is compulsory (with minimum exceptions).



Penalties will apply to businesses who do not comply.

Businesses who wish to use their accountants to make submissions for them will be able to do so providing the relevant authority is in place.

Lentells are pleased to be able to support their clients in the use of compliant accounting software or by making the relevant submissions on their behalf.

National Insurance **U-Turn**

Class 2 NIC is payable by self-employed individuals with profits of more than £6,205. In 2018/19, the total cost is £153.40. Historically, many individuals paid this by monthly direct debit of around £11 per month, but this is now incorporated in the January self-assessment tax bill.

Self-employed individuals also pay class 4 NIC on top of this. In 2018/19 this is payable for profits above £8,424 at the rate of 9% initially, reducing to 2% for profits over £46,350. This is also incorporated as part of the self-assessment tax charge, however such contributions do not count towards state benefits and are effectively just an additional tax.

The government previously announced plans to abolish Class 2 NIC from April 2019, but this has now been scrapped, so the charge will remain in place.

Self-employed workers earning less than Class 2 NIC threshold may wish to protect their entitlement to certain benefits, including the state pension and maternity allowance , by paying voluntary Class 2 NIC. This can be particularly useful if individuals are not likely to have reached the required 35 years of NI contributions to qualify for the full new state pension by the time they reach state retirement age.

HMRC provides a website where individuals can check their state pension entitlement, which can be found at :

https://www.gov.uk/check-state-pension

For further advice on all aspects of tax and NIC for the self-employed, please contact your local Lentells office.

Understanding the Marriage Allowance – **don't miss out**

Millions of married couples and civil partners in the UK failed to claim over £1.3 billion in Marriage Allowance in 2016/17, with many unaware of the tax break or simply forgetting to claim it.

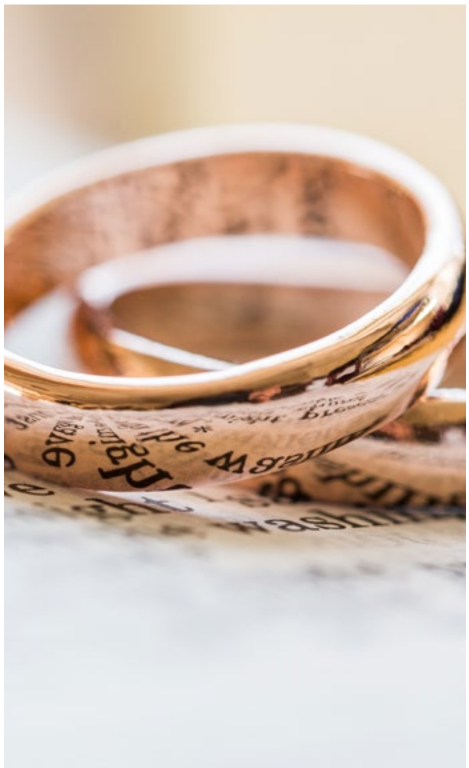
Originally introduced in 2015, the Marriage Allowance is specifically designed for couples where one partner pays standard rate income tax and the other is a non-taxpayer. You can claim it provided the following apply:

- You are married or in a civil partnership
- You do not pay income tax or your income is below your personal allowance (usually £11,850)
- Your partner pays income tax at the basic rate, which usually means their income is between £11,851 and £46,350

Marriage Allowance lets you transfer £1,190 of your Personal Allowance to your husband, wife or civil partner - if they earn more than you. This reduces their tax by up to £238 in the tax year.

In addition, it is possible to backdate your claim to include any tax year since 5 April 2015 during which you were eligible for the allowance. A couple who claim for 15/16, 16/17 and 17/18 could stand to gain over £650.

Applying online is simple and can be done at gov.uk/apply-marriage-allowance. It is the non-taxpayer who has to submit the application.



STAFF BENEFITS

Want To Provide Your Staff With **Tax Free Benefits?**

Unfortunately, there are very few benefits available to staff which are not accompanied by a tax charge for the employee and/or an NIC charge for the employer. The following are some of the few available with no additional tax/NIC implications:-

1. Late night taxis for irregular work which finishes after 9pm.
2. Free/subsidised meals at the employer's premises, providing these are offered to all staff.
3. One mobile phone per employee with insignificant private use, providing the contract is in the employer's name.
4. Home working allowance of up to £4 per week.
5. Pension advice of up to £500.
6. Certain trivial benefits costing less than £50.
7. Work related training.
8. Travelling and subsistence expenses due to public transport strikes/industrial action.
9. Incidental overnight expenses of up to £5 in UK or £10 overseas.
10. One health screening or medical check up per year and up to £500 for medical treatment to facilitate return to work after 28 consecutive days of absence.
11. Expenditure on annual staff parties of up to £150 per person.

Inheritance Tax (IHT) Update

Since 6 April 2017 an additional IHT nil rate band has been available, the 'residence nil rate band' (RNRB). This is in addition to the nil rate band, currently £325,000, that can be claimed against the estate. The RNRB can be claimed where the value of a residence is transferred, on death, to one or more direct descendants, such as children or grandchildren.

The current RNRB for 2018/19 is £125,000, and this is being increased in stages to £175,000 by 2020/2021. The inclusion of the RNRB will enable up to £500,000, from 2020/21, of an estate to be passed to beneficiaries, without an IHT liability arising. The existing exemption of transfers between spouses or civil partners is maintained.

RNRB is restricted to the lower of the RNRB available or the value of the property. As with the IHT nil rate band, any unused element of the RNRB can be transferred to a surviving spouse or civil partner. A claim for RNRB can be made if a spouse died before 6 April 2017. This is due to the fact that in effect a pre deceased spouse will not have utilised the RNRB at 6 April 2017.

The RNRB, in certain circumstances, will be available where an individual downsizes or ceases to own a residence on or after 8 July 2015. It is possible therefore to downsize and preserve the RNRB; however the new residence or equivalent assets will need to be passed to a direct descendant on death to qualify. Where a death estate has a value of more than £2 million the RNRB available is reduced by £1 for every £2 in excess of the £2 million threshold.

Lentells has an experienced probate team who are able to deal with all aspects of will writing, non-contentious probate and estate planning. For further advice or information on how the firm may assist you with such matters please contact us.

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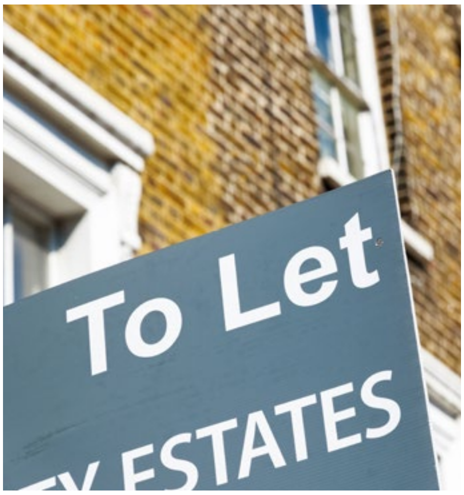
90 years old – **and still counting!**

We were delighted to celebrate our 90th birthday this August; the firm having being originally founded in Seaton on August 1st 1928. This was a great excuse to celebrate with some delicious cakes, much appreciated by the many visitors to our stands at the summer shows, as well as by everyone at our three offices!

We would like to thank all our wonderfully loyal clients and staff for helping us achieve this great milestone.



Property Income Allowance

Property owners who receive rental income could be missing out on a recently introduced tax-free allowance. The property income allowance came into effect last year, so the 2017/18 tax return is the first time it can be claimed.

The allowance provides for full relief from income tax if an individual's relevant property income (turnover, not profit) in the year is less than £1,000. This could be especially beneficial to joint owners of property and land, for example married couples, as both parties could be eligible to claim.

This new allowance applies to relevant property income which includes both UK and overseas property businesses and commercial and residential lettings. However, it does not apply to partnership income from carrying on a trade profession or property business in partnership and cannot be used in conjunction with the relief available under the current rent-a-room relief rules.

Partial relief

If receipts from a property exceed £1,000 there is the option to calculate taxable profit by deducting actual expenses, or claiming property allowance partial relief. A partial relief claim allows the individual to claim a flat deduction of £1,000 instead of the actual property expenses, effectively exempting the first £1,000 of relevant property income and simplifying the profit calculation. It should be noted that if you claim a partial relief you cannot deduct any other expenses, just the £1,000 allowance.

Individuals can decide on a year-by-year basis which approach to take, depending on the level of expenses. In a year where outgoings have been low it may be better to claim partial relief. However, if there is a large revenue expense in the year, for example a one-off repair bill, it could be better to claim the actual expense.

PAPER **OVERLOAD?**

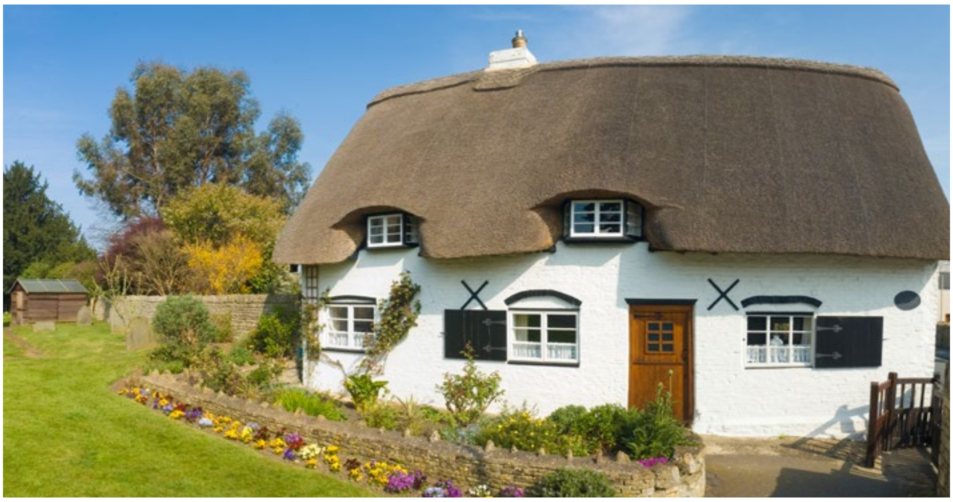
Accountants are often asked for clarification by clients on what records need to be kept and for how long.

Individual taxpayers should ensure they retain supporting evidence for all items reported on their self assessment tax returns. This will include P60s/P45s/P11ds from employment posts, investment income/interest received statements, invoices for investment property income and expenses, pension contribution statements, charitable donation receipts, details of capital gains and anything else of relevance.

Businesses should retain supporting evidence for all income and expenditure. If a business spends/receives cash without a receipt, it is recommended that a manual record is maintained of the transaction at the time as evidence, should HMRC ever enquire.

Generally, information should be kept for 6 full tax years, however certain information, such as purchase costs for investments, should be retained until the asset is sold, as this will be needed to calculate the capital gain arising on any subsequent sale.

There is no requirement to maintain records in a paper format, with electronic documents accepted by HMRC providing they are easily accessible and readable. Various options are available to facilitate electronic documents including some apps which automatically import data into accounting software once an invoice has been scanned.



Are you making the most of **letting your holiday home?**

Lentells have specialist knowledge of the holiday letting market and as a result can offer specialist advice and guidance to anyone with a holiday property, or considering investing in one.

Checklist for furnished holiday lettings:

- Does your property meet all the qualifying conditions?
- Have all items of expenditure been correctly allocated?
- Has all the expenditure on essential repairs to a newly acquired property been treated correctly for income and capital gains tax purposes?
- Have all pre-letting expenses been claimed properly?
- Are finance charges and mortgage interest expenses claimed correctly?
- Have you claimed expenses for business travel?
- Did you realise that if you use a computer to record letting income and expenses this is an allowable expense?

If you would like any further clarification on making the most of your holiday lets please contact your local Lentells office.

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