



Sibbalds

CHARTERED ACCOUNTANTS

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Gifts not restricted to Christmas

Imagine a small company with 2 directors, Kendall and Francis both are either in a civil partnership or married to their respective partners Jan and Morgan.



Kendall and Francis are doing very well and are additional rate (45%) taxpayers. As Christmas 2016 approached they asked their accountants about providing a gift for their workforce of 20 and were told about the trivial benefits rule which meant that they could provide a gift of up to £50 in value (including any VAT) to their workers without the workers being taxed on the value.

Usually the cost of the gifts would not be an expense of the company as the expenses would fall into the category of "entertaining" and there is no Corporation Tax (CT) relief (currently at 20%) for entertaining however gifts to employees are deductible as an expense from the company's accounts plus any VAT paid is also reclaimable.

It would be possible for Kendall and Francis to provide benefits to their 20 employees of up to £50 each making a total spend of £1000 on which CT relief is due of 20% so their tax saving would be £200!

To satisfy the rules for the benefit to be non-taxable-the employees should not expect to receive this as part of a contractual obligation. Just because an employer provides a gift at a certain time of year does not make this a contractual obligation. Gifts cannot be cash or a cash voucher but it can be a store shopping voucher.

To prevent directors of smaller companies taking advantage of this exemption for themselves, if the benefits are provided to a director of the company, the trivial benefits exemption is capped at £300 in any one tax year per director, other office holder or member of their family. So Kendall and Francis could use their £300 limit to cover benefits to themselves or their partners or family members to a value of £50 on 6 occasions. If Jan and Morgan were also directors of the company then they too would have the ability to have the benefit of items up to £50 with a £300 limit.

In the case of Kendall and Morgan both being 45% taxpayers, including their National Insurance at 2% would mean that to achieve a net amount of £300 they would have had to take a cash payment of £566 each out of their company. So a huge saving of £266 or 47%!

Divorce or CP Dissolution? Stop! Visit your accountant!

The first port of call for the majority of separating couples is the solicitor but is this the best first step?

At the time when the couple are at their most fragile, emotionally, they may not have the clear thinking to focus on any jointly held interests, but it is at exactly that time when a visit to a solicitor might put in motion a series of events which could cost the couple dearly in terms of tax.



The Date of Separation

“Living Together” is a term used in much of UK tax law. When does a couple stop living together? It may be clearly the date one of the couple move out of the family home but the date of separation is officially defined as the date the couple separated under:-

- a court order,
- a formal deed of separation which must have been witnessed or
- where the circumstances make the separation likely to be permanent.

The date of separation is key to a couple’s access to certain tax advantages but unfortunately in many cases, by the time the couple start to consider the tax implications of separation, time has passed and these advantages have been lost.

Income Tax

The Income Tax savings for couples in a civil partnership or who are married are not a major consideration in divorce or dissolution.

Currently the only allowances available to couples are the Marriage Allowance which gives a maximum tax saving of slightly over £220 or the Married Couples allowance for those born before 1935.

Tax advantages prior to separation

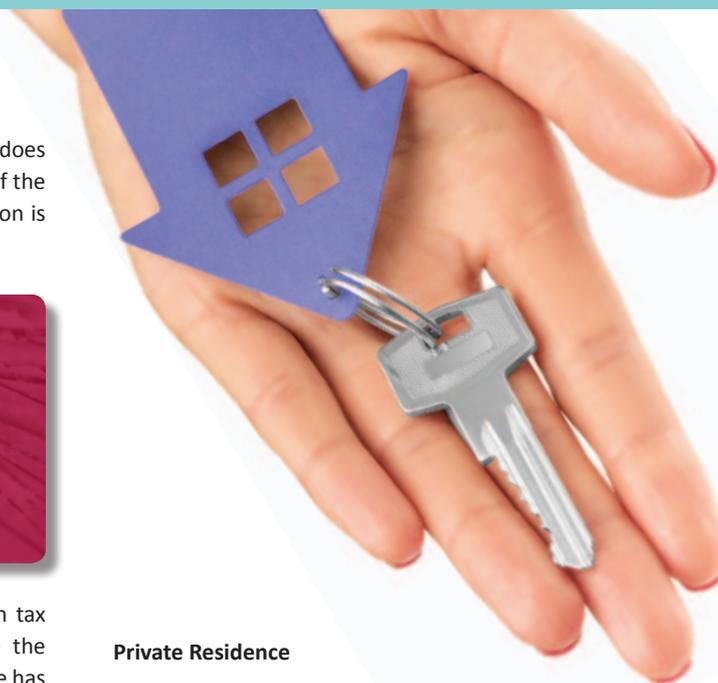
Couples are treated separately for capital gains tax purposes meaning each calculates their gains and/or losses separately and declares them on their own self-assessment tax return.

There is an assumption in tax that a couple share equally in the income generated by jointly owned assets however speak to us if you wish to discuss altering the division of income to be relevant to the proportion of your ownership of the asset.

Couples who are living together can transfer assets between each other with no Capital Gains Tax (CGT) charge and can continue to do this for the remainder of the tax year in which they permanently separate. Meaning that the ideal date of separation would be the 6th April because that would give the couple the whole tax year to arrange their assets.

Following Separation

Transfer of assets at any time after the 5th April following separation will be transfers at market value and can result in a chargeable gain or an allowable loss arising.



Private Residence

When a couple separate, one of the couple almost always leaves the family home, the remaining partner often retains the family home, at least for a period of time.

The final 18 months of your period of ownership always qualifies for the Capital Gains Tax Principle Private Residence exemption. To fully benefit from the tax exemption the leaving party would need to transfer their share of the property to the remaining party within 18 months. The tax issue here is that this residence is exempt from Capital Gains Tax for the leaving partner only for as long as the property is their **only or main residence**. If a new property is purchased this new property cannot be claimed as their PPR without rendering the former matrimonial home as a chargeable asset.

There are some reliefs which may be claimed to alleviate this position but care should be taken with the date of departure, date of transfer and date of sale, if applicable. But in all cases of separation and divorce please speak to us before any transfers are made.

The Patent Box

The Autumn Statement 2016 changed the rules for companies engaged in Research and Development. For accounting periods which commence on 1st April 2017 they will be able to benefit under the patent box rules if the R&D is undertaken on a cost sharing basis by 2 or more companies.

The Patent Box is a tax regime which charges a reduced rate of corporation tax on the worldwide profits from the commercial exploitation of UK and EU patents where you own the patent or an exclusive licence over it which means that if a company earns profits from its patented and other innovations a reduced rate of



tax of 10% will be charged on those profits and as patents last for a period of 20 years, that's a 10% tax rate until the mid-2030's!

If your company already has any patented products or processes, is launching any new products or is the distributor of patented products then please talk to us about identifying the potential tax savings.



Employers have no choice in paying the National Living Wage

The National Living Wage (NLW) was introduced by the government on 1st April 2016 and some employers remain confused about what their obligations are.

The NLW is **compulsory** for workers aged 25 and over, for under 25 year olds the National Minimum Wage (NMW) applies.

From 1st April 2017 the NLW rate for a 25 year old is £7.50 per hour.

There are some workers who are not legally entitled to the NLW, these are:-

- The self-employed - by the very nature they are not paid a wage but receive the profits from their business,
- Volunteers / voluntary workers,
- Company Directors,
- Family members or people living in the family home of the employer who undertake household tasks.

Those aged under 25 years continue to be paid the NMW and this increases from 1st April 2017, by between 5p and 10p per hour depending on their age.

In practice, this means that a worker, working a 40 hour week, aged 26 years old will have a gross wage of £300 per week from 1st April 2017, will pay £15.77 tax and £17.40 National Insurance (NI). The rate of NI is higher than the amount of tax as the threshold for starting to pay NI is lower. Their take home pay will be £266.83 unless they have not opted out for automatic enrolment, in which case a further £5.40 will be deducted and paid into their employers designated pension scheme.

The rate for both the NMW and the NLW are set each year by the Low Pay Commission.

If you are an employer and wish to discuss your options and obligations please call us.

Lived In, Rented Out

As clients move up the housing ladder we find it fairly usual for one of their previous homes to have been retained and rented out. This has been done to potentially supplement future pension income, employment opportunities may have resulted in a period of living elsewhere, even abroad, it could have been the result of a couple marrying or forming a civil partnership and retaining one of their previous individual homes or being a much loved but too small property with a family growing. Whatever the reason for renting out a former home when the time comes to sell the property the tax position is not simple and requires planning in advance of putting the property on the market.



The gain in value of all assets owned by an individual is subject to Capital Gains Tax (CGT).

To prevent an individual being taxed every time they move up the property ladder the rise in value of an individual's home or their Principle Private Residence (PPR) is covered by a tax relief call *Private Residence Relief* and provided the individual meets certain criteria this relief kicks in for every house move.

But once a property is no longer a main or only home or PPR then the increase in the value of the asset falls back within the scope of CGT.



Imagine a time line, starting on the day the property was purchased as the main residence, continuing through a period of being rented out and ending on the day the property was sold. The property will have increased in value over this whole period and some of the increase in value will be attributable to a period after the individual has moved out and the property was rented. This part of the gain in value will be chargeable to Capital Gains Tax. There are some reliefs we can call on to alleviate some of the tax chargeable, one of which is the Private Residence Relief and a further relief called **Letting Relief**.

Letting Relief is a CGT relief which is the lower of the Principle Private Residence relief, £40,000 or the total of the gain which is relevant to the period of the letting.

Prior to putting property up for sale or before buying a new residential let property why not ask for a review of the potential tax liabilities?

Get Fit and Save Tax!

The Autumn Statement announced that the cycle to work scheme remains unchanged and this is great news for workers wishing to have a bike supplied via their employer and save the tax and National Insurance (NI) on the cost of the cycle.

Basically, the employer buys a bike which the employee hires over a 12 month period and ultimately owns at the end of the period. The charge is deducted from the employee's gross wage, saving the employee tax and NI on the cost of the cycle and saving the employer the employers NI. An additional rate taxpayer would save **47%** on the cost whilst a higher rate taxpayer saves **42%** of the cost. A fantastic way to get fit and save tax!



We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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