UHY Hacker Young
Chartered Accountants

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Tax Update

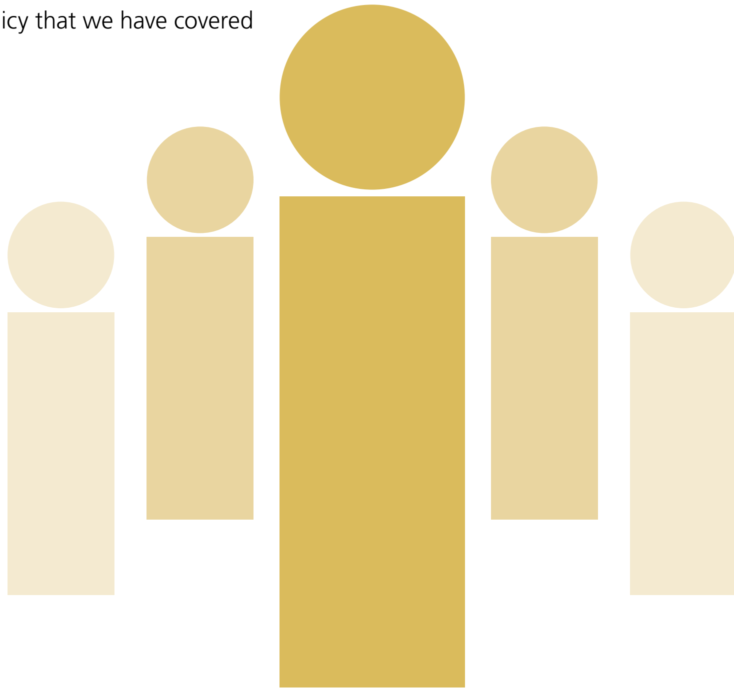
Our Golden Edition Tax Update

"For this Golden Edition, we leaf back over the years as well as bring you the most recent tax issues."

Welcome to our Golden Edition Tax Update. Although we had been staying up all night on Budget Day to write our Budget brochure each year, it was not until 1999 that we decided to extend our range of tax publications by adding our Tax Update as a regular issue.

Whilst I, as chair of our national tax group, have been involved in all 50 editions, I have been ably assisted by a whole host of colleagues throughout the UHY Hacker Young Group. For this Golden issue, as well as bringing you the most recent tax issues, we look at the impact of Brexit and the Finance Bill 2016. We also leaf back over the years to share some of the more fundamental changes in policy that we have covered for you.

Roy Maugham, London



Helping you prosper

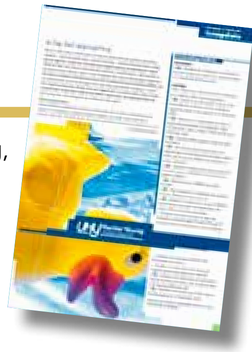
Issue 1 Summer 1999

Both the abolition of Advance Corporation Tax for companies and the end of Capital Gains Tax (CGT) retirement relief for individuals were covered. This edition started our tax deadlines alert including, in that instance, the fear of the potential ‘Millenium bug’; luckily all a huge anti-climax. With advances in technology, the deadlines are now available via our **website** and our **tax app** throughout the year instead. Interestingly, the opportunity to shelter CGT by investing in Enterprise Investment Schemes (EIS) qualifying shares is still with us today.

Issue 10 Summer 2002

This edition highlighted the recently introduced EMI (Enterprise Management Incentive) share schemes, heralded the forthcoming introduction of the substantial shareholders regime for companies, and talked about a VAT see-saw following the development of internet purchasing. The then new CO2 regime affecting capital allowance reliefs for businesses on motor cars, including 100% relief for vehicles whose emissions were below 120gkm, is still with us today, albeit with various modifications. By contrast, CGT taper relief (75% for business assets; 25% for others), also covered in this issue, has been abolished.

Issue 20 Winter 2005



With this issue, published under our new trading style of UHY Hacker Young, pension funds were the big headline with “A day” (6 April 2006) rapidly approaching; bringing a lifetime limit to funds for the first time in addition to annual limits. As well as a VAT round-up, we reminded readers that Christmas turkeys would be a tax-free benefit in kind for employees!

Issue 40 Summer 2013

Yet another fundamental change in the tax world - the introduction of GAAR (General Anti Abuse Rules) which incorporated the double reasonable test and thus contrasts in many ways from the general anti-avoidance rules adopted by many other countries. Additionally, the then new tax ATED (Annual Tax on Enveloped Dwellings), which required both the return to be filed and tax to be paid at the beginning of the year, was introduced as were the forthcoming rules for the Statutory Residence Test. Slightly further away, the consultation on the taxation of LLP members heralded yet another fundamental change, whilst the computer age was firmly placed upon us with electronic filing of the company tax return and accounts with HMRC, and “Real Time Information” filing for PAYE matters.

So, as we approach the upheaval of HMRC’s latest attempt at “Making Tax Digital”, where individuals with trades or property income will have to file quarterly income tax returns and HMRC will populate tax returns with employment, interest and other data automatically, here is our Golden 50th Edition.

Roy Maugham, London

Ongoing Brexit uncertainty

The UK may have voted to leave the European Union on 23 June 2016, but it is not yet clear what the country's path to Brexit will actually mean.

Following the vote, we have suffered a "flash crash" on the exchange rate; however, the stock market is riding higher than it was on 23 June, and has even broken the previous all-time high. Many expect the next couple of years to be a roller-coaster ride, but Chancellor Philip Hammond MP has stated that, while we are going through a "period of uncertainty" as a result of the decision to leave the EU, we are going into the negotiations in an essentially strong position. He highlighted that "our growth figures and our employment figures for the first half of this year have been revised upwards" and that "we're probably going to be the highest growing G7 economy this year".

Unfortunately, little is known in the way of actual changes; with most news items consisting of speculation and rumour. Inevitably though, tax regulations will only form a small part of the changes that the UK needs to negotiate with the EU to give effect to our departure. Additionally, whilst the tax implications of exiting the EU will predominately affect VAT, some direct tax restrictions (typically those regarded as State Aid) will have free reign, but there is no guarantee these will be changed.

The Secretary of State for Exiting Europe, David Davis MP, has announced plans to repeal the 1972 European Communities Act. This will be effected by an Act of Parliament; causing the repeal to take effect immediately upon the UK's exit from the EU, widely expected to be 31 March 2019. Currently, the 1972 Act has the effect that if there is a clash between an Act of the British Parliament and EU law, EU law prevails. Such a change will also mean the European Court of Justice, which currently issues binding judgments affecting all member states, will cease to have jurisdiction in the UK.

To ensure you are up-to-date with all the latest Brexit developments, and how these may affect you, please visit our dedicated webpage at: **www.uhy-uk.com/brexit**.

Roy Maugham, London

VAT on new buildings

Are you still eligible for zero-rating?

The property sector has always had a turbulent relationship with VAT and recent incidents have shown that the pace of change and frequency of disputes with HMRC show no signs of slowing.

Where charities have constructed new buildings for non-business purposes, the availability of zero-rating has always been a welcome benefit. But the issue has always been around how 'non-business' activities are defined. The long-awaited Longridge case has been decided at the Court of Appeal, unfortunately with the result that many feared. Longridge provided canoeing lessons for children and sought contributions from parents to cover their costs. The question here was whether or not the charity was still carrying out a non-business activity or if the canoeing lessons were supplies in the course of business for VAT purposes.

The Court confirmed the fears of many advisers in overturning several years of previous caselaw, deciding that a commercial motivation test had no bearing on the VAT treatment; and that providing services in return for payment were in fact supplies in the course of business for VAT purposes. The charity in question not only lost their zero-rating but, as the canoeing lessons were exempt from VAT, they could not reclaim the £135,000 VAT charged. Charities that receive funding will now need to review their income carefully, particularly in relation to grant funding or donations, to determine the risk of HMRC arguing that the income is actually payment. This is particularly important if the activities being carried on might be subject to VAT as the charity could find itself liable to assessments for VAT, interest and penalties. The outcome of this case also means that zero-rating for non-business buildings will be far more difficult to secure. HMRC are likely to argue that any income for what would be VAT exempt activities is received in the course of business to deny zero-rated construction services.

In the above situation, HMRC stuck to their guns and were eventually proved right by the Courts. It is expected that the policy will be implemented immediately, with enthusiasm by HMRC to deny zero-rating for construction. However, in other instances where HMRC are proved wrong, it normally takes some time before the policy is amended. We saw this in a recent Revenue & Customs Brief concerning construction and conversions into new dwellings, regarding HMRC's long-standing policy that dwellings cannot be created from, or consist of, more than one building. The original cases of Catchpole and Fox, which found against HMRC, were decided in 2012 at the First Tier Tribunal, however, HMRC chose not to appeal to the higher Courts, but instead sought to simply ignore the cases and maintain their policy. Pressure from the tax profession has forced HMRC to change their policy, although it has taken HMRC four years to do so. We recommend anyone who has suffered VAT on constructing or converting more than one building into a dwelling should review their position. After all, enthusiasm goes both ways.

Simon Newark, London

Residential property changes

Residential property landlords could be forgiven for feeling hard done by, as a result of the numerous changes that have been announced over the past year or so. The disparity between the taxation of residential property and other income generating assets has diverged significantly, resulting in an increased tax burden for many landlords.

The key changes that have taken place, or have been announced for the future, are as follows and will mainly impact individuals, unless otherwise stated:

1. **Stamp Duty Land Tax (SDLT)** – A premium of 3% above the standard residential property rates of SDLT applies to purchases after 1 April 2016. Note that this does not apply to purchases or replacements of main private residences but will apply to most other purchases, including those made by a company. A comparison of the SDLT rates for residential property is shown below:

Band	Previous rate of SDLT	New rate of SDLT
£0 - £125k	**0%**	**3%**
£125k - £250k	**2%**	**5%**
£250k - £925k	**5%**	**8%**
£925k - £1.5m	**10%**	**13%**
£1.5m +	**12%**	**15%**

2. **Reduced income tax relief for finance costs** – As an individual, you can currently obtain income tax relief at your marginal rate of tax for any finance costs, including mortgage interest. However, from April 2017, relief on finance costs will be restricted to 20% and will be phased in as follows:

	2017/18	2018/19	2019/20	2020/21
% of interest as a deduction at marginal rate	**75%**	**50%**	**25%**	**0%**
% of interest as a relief at 20%	**25%**	**50%**	**75%**	**100%**

As the relief will be given as a tax reduction, gross taxable income will be higher and this may have an adverse effect on other allowances and reliefs, such as the personal allowance, so we would advise a professional review of your tax affairs.

3. **Removal of the wear and tear allowance** – From April 2016, if you are the owner of part-furnished or furnished property you can no longer benefit from the flat rate wear and tear allowance, which previously provided a 10% deduction from rental income, irrespective of whether or not any furnishings were replaced or the actual costs incurred. Instead, under the new rules, this allowance will be replaced by tax relief on the actual cost of replacing any furnishings. As a result, it is anticipated that many landlords will suffer higher tax liabilities, depending on specific circumstances.

4. **Capital Gains Tax rates** – From 6 April 2016, the maximum rate of CGT for individuals and trusts was reduced from 28% to 20% for most assets, excluding residential property. The rate for basic rate taxpayers was similarly reduced from 18% to 10%; further reducing the attractiveness of residential property from a tax perspective.

The Government has also attempted to clamp down on non-resident landlords, with CGT being introduced for non-residents disposing of UK residential property after 5 April 2015, although only on the gain arising since that date. In addition, non-resident landlords disposing of UK residential property must report the transaction to HMRC within 30 days of disposal. You may also be required to settle any associated tax liabilities within the same timeframe.

There was a small benefit for individuals who let part of their home, as the tax free amount under Rent a Room Relief was increased from £4,250 to £7,500 per annum with effect from 6 April 2016. However, this probably provides very little consolation for mainstream residential property investors.

These changes have led to property owners reviewing their portfolio and considering their options in light of the likely increased tax burden. The potential use of companies for property ownership, selling properties, repaying mortgages and involving other family members are amongst the most likely choices. However, there are a number of different taxes that inter-relate and each situation is unique. Specific advice should be taken in order to identify the financial impact and make informed decisions about your future position.

Simon Browning, Nottingham

Coding out tax liabilities

Taxpayers with employment income who wish to have a liability of less than £3,000 coded out through pay as you earn (PAYE) must file their return by an earlier date than the normal 31 January deadline. That date is either 31 October (following the tax year) if the return is filed manually or 30 December if it is filed online. Not only does this spread the payments over 12 months, but also provides a useful deferral from the normal 31 January payment deadline and subsequent instalments. Do not forget to get your return information to us in good time to avoid any delays or potential penalties for late filing.

Roy Maugham, London

Tax relief changes

How will the Finance Act 2016 affect you?

With the Finance Act 2016 (FA16) finally receiving Royal Assent, we have sought to provide you with a brief summary of some of the main tax relief changes that you should be aware of; both old and new.

Entrepreneurs' Relief

There were three key changes to Entrepreneurs' Relief (ER) announced in the 2016 Budget which have been backdated as follows:

- **Goodwill on incorporation** - ER is available on gains on the goodwill of a close company, provided the claimant owns less than 5% in the acquiring company, and applies to disposals made on or after 3 December 2014. Previously the tax break was only available to stakeholders who were full-time working employees and owning more than 5%.
- **Associated disposals** - ER is possible on an 'associated disposal' of a privately held asset when sold or transferred to a family member. This is applicable to associated disposals on or after 18 March 2015.
- **Joint ventures and partnerships** - New definitions of 'trading company' and 'trading group' for ER purposes will include corporate partners holding shares in a joint venture company as carrying on a proportion of the activities of that company. There will also be a similar inclusion for companies holding an interest in a trading partnership or LLP. Changes are effective for disposals on or after 18 March 2015.

Investors' Relief

This is arguably the most welcomed new tax relief for external investors in trading companies, who are not officers or employees of the company. Investors' Relief applies to ordinary shareholding in an unlisted company on new shares issued to the investor on or after 17 March 2016. The relief mirrors ER in many ways and is subject to its own lifetime limit of £10m.

Capital Gains Tax and employee shareholder shares

Since 2013, an employee incentive arrangement has been in place whereby employers can incentivise their employees' tax favourably by awarding shares in exchange for statutory employment rights. FA16 has introduced a new lifetime cap on this arrangement of £100,000 of CGT free shares, where a cap did not previously exist.

Creative industries tax reliefs (corporation tax)

From April 2016, a new Orchestra Tax Relief became available to qualifying companies that are engaged in the production of live orchestral performances. Additionally, from this same date, HMRC opened a consultation 'Museums and galleries tax relief' with a view to including proposed legislation in the Finance Bill 2017. This tax relief is aimed at assisting museums and galleries to develop and display new exhibitions and collections.

Research and Development Relief (corporation tax)

The notable changes to Research & Development (R&D) relief are as follows:

- From 1 April 2016 only the 'above the line' repayable tax credit remains available on the Large Company Scheme. Consequently, the option to include 130% uplift for qualifying costs has been withdrawn.
- The expiry of vaccine research relief (VRR), for expenditure incurred on or after 1 April 2017. VRR was introduced as an additional R&D tax relief for companies undertaking research in the fields of vaccines and treatments for tuberculosis, malaria and HIV/AIDS. It was reduced in 2011, then withdrawn for small and medium sized enterprises, with the relief only currently available to large firms.
- Following consultation, HMRC have now published a two year administrative framework entitled 'Making R&D easier' with a stated aim of making R&D as accessible as possible for all small businesses carrying out R&D investment.

For further information on these changes, and to discuss how the FA16 may affect you, please contact your usual UHY adviser.

Reshma Patel, London

Significant changes for non-doms

If you have a foreign domicile, you need to be aware of and plan for a series of changes that are due to come into effect from 6 April 2017.

Deemed UK domicile for long-term residents

It is proposed that from this date any foreign domiciliary ('non-dom') who has been resident in the UK in at least 15 of the previous 20 tax years will be deemed to be UK domiciled for all tax purposes. Once deemed domiciled, you will no longer be able to claim the remittance basis of taxation and your foreign assets will be within the scope of Inheritance Tax (IHT). The proposal includes a number of valuable relieving measures, in particular:

- an option, if you become deemed domiciled on 6 April 2017 and have previously paid the remittance basis charge, to re-base your foreign assets for CGT purposes; and
- a one-off opportunity for all non-doms, except those with a UK domicile of origin, to separate out unremitted mixed funds.

Those born in the UK with a UK domicile of origin

If you were born in the UK with a UK domicile of origin but have subsequently acquired a foreign domicile of choice, you will be treated as having a UK domicile in any tax year in which you are resident in the UK.

UK residential property and IHT

It is proposed that from April 2017 UK residential property owned indirectly via offshore structures will be removed from the definition of excluded property, and will be chargeable to IHT.

Continued on back page

continued

Review, plan, act

There are some significant planning opportunities here, particularly in the transitional period. Your position needs to be reviewed if:

- you are a non-domiciled individual who will have been resident in the UK in at least 15 of the previous 20 tax years as at 5 April 2017;
- you are a non-domiciled individual with significant overseas assets, whether held directly or via a trust, who is currently resident in the UK and is likely to remain so after 5 April 2017;
- you are a non-domiciled individual with significant overseas assets, whether held directly or via a trust, who may become UK resident after 5 April 2017; and/or
- you are a non-domiciled individual who holds UK residential property via a company or a trust/company structure (regardless of current or future residence).

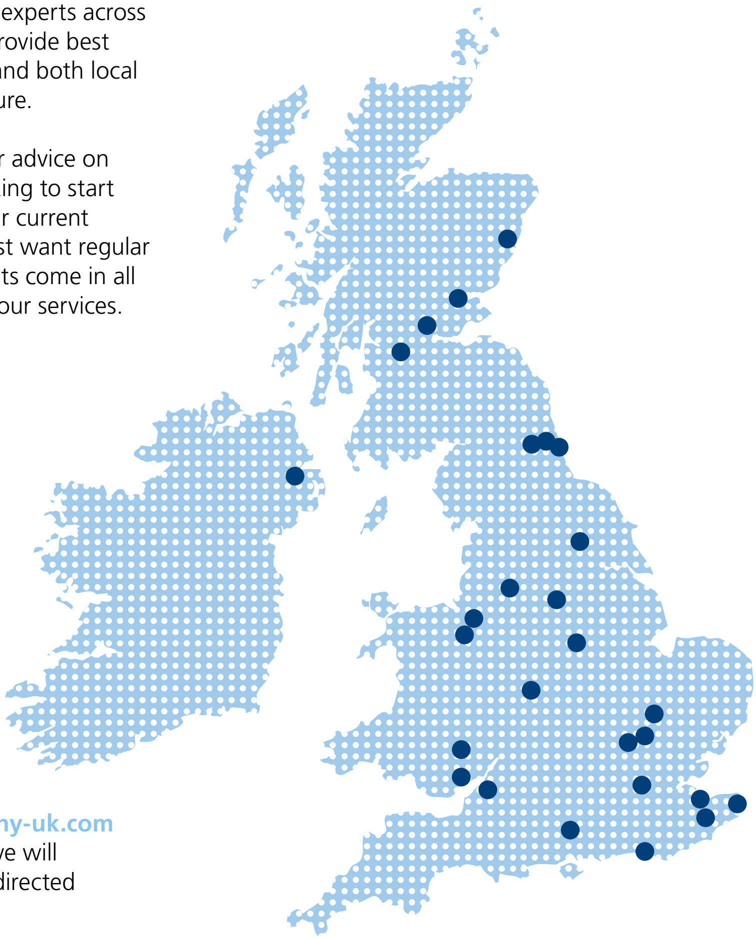
Given the relatively short timescale before these changes take effect, a review needs to be carried out quickly and any action points agreed while there is sufficient time to carry out any restructuring.

Mark Giddens, London

Combining national expertise with a tailored local service

Our UHY Hacker Young tax experts across our 27 offices nationwide provide best advice because we understand both local needs and the national picture.

Whether you are looking for advice on your personal finances, looking to start a new business, expand your current business interests, or you just want regular compliance advice, our clients come in all shapes and sizes and so do our services.



For further information or to arrange a meeting with your local tax expert, please contact us at **enquiries@uhy-uk.com** or on 020 7216 4600 and we will ensure that your enquiry is directed to your most relevant local expert.

www.uhy-uk.com

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