REview
The newsletter of Rayner Essex LLP

RaynerEssex
chartered accountants and business advisers

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www.rayneressex.com

IN THIS ISSUE...

RAYNER ESSEX IN GREAT SHAPE AT 50

Rayner Essex is celebrating its 50th year. The firm can trace its origins to London's Strand where the business was established by its 2 founders Alan Rayner and Lawrence Essex. The practice subsequently relocated to Central House in the Bloomsbury district of WC1 before moving a short distance to the current home at the striking BMA complex in Tavistock Square. The first St Albans office was set up in Chequer Street in the early 1980's before relocating to Faulkner House in Victoria Street. Today the firm employs over 70 staff spread across the two offices.

Commenting on the anniversary, Rayner Essex Partner Tim Sansom said:

"Our anniversary year sees us in great shape. We have grown steadily and consistently in recent years and have welcomed some highly capable individuals to our team."

The firm has a strong commitment to community based causes. It has worked closely with SportsAid and in the last 10 years has raised £42,000 through its Bloomsbury Lunch Club in London. Alongside this they host a lunch club in St Albans, supported by fellow sponsors that has raised £39,000. The firm has also actively supported the Willow Foundation through golf days raising over £26,000. Rayner Essex continues to support other charities including Rennie Grove Hospice, the Ollie Foundation to name but a few.

Commenting on the anniversary, Partner Antony Federer said:

"We are only as good as the team we are part of. Our staff choices, our commitment to them and their development has delivered our longevity."

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FEE PROTECTION

HMRC has collected an extra £3.3bn in unpaid VAT over the last year, following investigations into SMEs. Such successful returns from these enquiries means more are likely to follow, and business owners should ensure that tax affairs are in order as a result.

The extra tax was collected by two newly created specialist HMRC teams - the Individuals & Small Business Compliance unit and the Wealthy & Mid-sized Business Compliance unit.

Such errors, mistakes or underpayments by the minority inevitably mean, however, that all SMEs will now come under increased scrutiny, even if they have done nothing wrong.

Any probe by HMRC will be time-consuming and costly, and businesses need to ensure that they are prepared. Making sure records are up to date and in order is essential, as well as full cooperation with any HMRC staff involved in the enquiry.

Businesses are increasingly opting to take out insurance against the cost of an investigation, to protect themselves should the process stretch out over an extended period. Enquiries have been known to last for several weeks, or even months, resulting in considerable disruption and loss of revenue.

Underpayment of VAT has been identified as a key area of focus for the Revenue over coming months, following concerns surrounding avoidance by sellers on Amazon, Ebay and other online retail platforms. It has been estimated that VAT evasion in online shopping currently costs the economy up to £1.5bn per year.

An unnecessary tax investigation is an unwelcome burden whatever industry or sector you work in.

We can help as we provide a tax investigations fee protection service which can cover our accountancy fees to defend you.

To find out more contact Mark Moore at mark.moore@rayneressex.com

DON'T MESS UP YOUR CREDIT RATING

Your credit rating could be affected through lack of compliance with Companies House filing requirements.

On 26th June the UK is implementing the 4th Money Laundering Directive which directly impacts on the transparency in respect of who owns and controls companies in the UK.

If you operate a company incorporated prior to 30th June 2016 then you will probably already have experienced the change from the Annual Return form to the Confirmation Statement and you will certainly have been asked to provide details of your PSCs (People with Significant Control). Under the current rules any change can be notified to Companies House and brought up to date via the Confirmation Statement.

From 26th June 2017 changes to PSC details cannot be updated by notification on the Confirmation Statement.

Under the new rules, any changes will need to be reported using the appropriate form from the list below:-

PSC 01 Notice of individual person with significant control (PSC)

PSC 02 Notice of relevant legal entity (RLE) with significant control

PSC 03 Notice of other registerable person (ORP) with significant control

PSC 04 Change of details of individual person with significant control (PSC)

PSC 05 Change of details of relevant legal entity (RLE) with significant control

PSC 06 Change of details of other registerable person (ORP) with significant control

PSC 07 Notice of ceasing to be a PSC, RLE or ORP

PSC 08 Notification of PSC statements

PSC 09 Update to PSC statements

Companies will have 14 days to update their register appropriately and a further 14 days to ensure the information is sent to Companies House.

Please remember that a failure to maintain your PSC register is a criminal offence.

If you have any queries on this update please contact David Howard at david.howard@rayneressex.com

TOP PRESS...STOP PRESS... **FORTHCOMING RAYNER ESSEX EVENTS** ...STOP PRESS...STOP PRESS...

22 SEPT — ST ALBANS GOLF DAY
Location: Verulam Golf Club

20 OCT — VERULAM LUNCH CLUB
Location: Verulam Golf Club

03 NOV — BLOOMSBURY LUNCH CLUB
Location: Princes Room, BMA House

17 NOV — SPORTSAID LUNCH
Location: Old Albanian Sports Club

PLANNING FOR THE REDUCTION IN THE DIVIDEND ALLOWANCE

We are used to tax reliefs being changed when a new government comes into power but it is more unusual to see a tax relief being created and then severely cut by the same government within a two year time period.

In April 2016 higher rates of taxes on dividends were introduced but with a £5,000 'tax-free' Dividend Allowance to compensate. Despite the rise in rates, many taxpayers, particularly higher rate taxpayers, found themselves better off. For example, for an individual with a £150,000 share portfolio yielding 3%, no tax would be payable on the £4,500 income produced whereas in the pre April 2016 regime there would have been a tax liability of 25%. The announcement by the current Chancellor, Philip Hammond, to reduce the Dividend Allowance to £2,000 from April 2018 will put paid to that amount of benefit.

However there is time to mitigate the effects. If your portfolio yields an average 3%, approximately £67,000 will be protected from income tax. If your portfolio exceeds this figure, consideration needs to be given to transferring some shares to a spouse or a civil partner. Equity ISAs should also be one of the first things to consider. By investing the maximum £20,000 into an Equity ISA now with a further £20,000 on 6 April 2018, protection can be given for £40,000 of a portfolio. For a married couple or civil partners, that figure doubles to £80,000.

Your existing shares can be sold and bought back again within the ISA wrapper but one needs to choose carefully which shares will be sold as the transactions will be disposals for capital gains tax (CGT). There are also two lots of annual exemption from CGT to potentially make use of – this year and next. The current annual exemption is £11,300.

Married couples and civil partners also have the added facility to make transfers to the other partner prior to selling into an ISA. Any share transfer between such couples is at a 'no gain no loss' price with the result that the transferee will effectively acquire the shares at the transferor's base cost and so will make the gain in selling the shares.

To find out more contact Mark Moore at **mark.moore@rayneressex.com**

FINANCING COMPANIES AND TAX RELIEF

Your company or perhaps a company of a relative requires additional finance to expand. You have the funds to help. What is the best way to provide the funds to the company?

The natural inclination is to make a loan to the company rather than an issue of shares by the company. Loans have the advantage of simplicity in the initial lending to the company and the repayment or partial repayment of the loan when the funds are no longer required by the company. For the issue of shares, the formalities of the issue and repayment of share capital have to be considered.

The optimist, i.e. the person who thinks the monies will soon be repaid, will prefer the simplicity of a loan arrangement. However, one should always guard against the possibility that the finance will not be repaid because the company may get into such financial difficulties that it is forced to be wound up. A loss will have been made by the provider of the finance but can that blow be softened by any tax relief? Here's where the shareholder wins out over the loan provider.

How much relief is available?

A loss made on a loan made to a trading company potentially qualifies as a capital loss and thus is available to relieve against capital gains in the year in which the loss relief is claimed or in a future year. The maximum tax relief therefore is 28%, for example if the gain was on the disposal of certain residential properties but other gains may well be taxed at lower rates than this.

A loss made on shares is also a capital loss but there is a potential claim that can be made to offset the gain against income in the year of the loss and/or the previous year. So a higher rate taxpayer could get 40% tax relief.

So why not make a loan and then convert into shares if problems are anticipated?

We could then have the best of both worlds? The short answer is no. There can be significant problems with such an approach. HMRC may look into the claim to use the loss against income to see if the company was in financial difficulty at the time the shares were issued in exchange for the loan. They may consider various statutory provisions in the tax legislation so as to restrict the acquisition cost of the shares to a lower figure than the amount of the loan given up for the shares.

Alternatively, HMRC may question the loss claim if it is made as a 'negligible value' claim i.e. there is no actual disposal of the shares but a deemed disposal. One of the seemingly innocuous provisions of such a claim is that the shares, at the time of the claim, have become irrecoverable. This may mean that HMRC can argue that no relief is available if the business was in such difficulties at the time the shares were issued that the shares should be regarded as irrecoverable from the outset.

One further tip – if you are considering that the finance should be in the form of shares which are envisaged as being repayable to you in due course, it is often sensible that these shares are of a separate class to the other share capital of the company. This will allow the repayment to be made to you easier (and not create tax issues).

Please do talk to us if you are considering additional finance for your company or any other company. It is better to weigh up the advantages and disadvantages of the different methods at an early stage. Contact Mark Moore at **mark.moore@rayneressex.com**

04 MARRIAGE ALLOWANCE – NOW WORTH £432 FOR MANY PEOPLE

It is now over two years since the Marriage Allowance was introduced and perhaps it is no surprise to learn that most people who are eligible have not claimed the allowance.

The allowance lets certain individuals transfer 10% of their personal allowance to their spouse or civil partner. This reduces the tax bill of the recipient of the transfer by up to £212 in 2015/16 and up to £220 in 2016/17. So for anyone who hasn't claimed it yet, they may be due a tax repayment of up to £432.

The main scenario in which the transfer is allowed and worthwhile is where:

- one of the spouses has little income and is therefore not using the personal allowance
- the other spouse does not pay tax at the higher or additional rate.

The default route for applying is online. If you are an employer, it is a good idea to signpost your employees to gov.uk/marriage-allowance-guide. This link gives full information as to eligibility, how to apply and a link to the online application. As we have just passed the end of a tax year, couples should have a good idea as to whether they qualified in 2016/17. If a successful application is made, changes to the personal allowances are backdated to 6th April 2015. In future years the allowance will transfer automatically to the spouse until either of the couple cancels the Marriage Allowance or there is a change in circumstances – which means an annual potential reduction in tax bills of over £200.

DID YOU KNOW THERE ARE NEW CAR TAX RATES?

If you have recently purchased or are in the process of buying a new car, you will know that new rates of Vehicle Excise Duty (VED) apply for purchases of cars first registered on or after 1st April 2017.

Most of the rest of the population may be surprised how significant the changes are. The big changes are the charges that apply in the year of purchase of the car. As with the system that applied to cars registered before 1 April 2017, the charges are based on CO_2 emissions but the new charges are typically much higher than under the old system. For example a car with CO_2 emissions of 175 jumps from £220 to £800. But in year two, the new system swings in favour of such a car owner as the charges are not based on CO_2 emissions. If the car runs on petrol or diesel there is a fixed charge of £140 and an additional rate of £310 if the car has a list price of more than £40,000.

In percentage terms the purchasers who are most affected are people who buy low emission cars. For a petrol or diesel with 120 CO_2 emissions, you would have paid only £30 a year. For new cars the charge is £160 in year one and £140 in subsequent years. Note that a purchase of second hand car such as an 'ex demo' continues with the VED system in operation when the car was first registered. So such purchasers are tied into the old VED rates. You can get details of the new (and old) VED rates at www.gov.uk/vehicle-tax-rate-tables

6th APRIL 2017 – ATTENTION LANDLORDS

It was almost two years ago in the Summer Budget 2015 that the then Chancellor, George Osborne, announced restrictions to income tax relief for interest costs incurred by landlords of residential properties. The proposals became law in November 2015 but it is only from the 6th April 2017 that these provisions came into effect.

In the 2017/18 tax year, the restriction of interest relief to basic rate of tax will apply to 25% of the interest with 75% of the interest getting relief against rental income in the normal way. Landlords will therefore first see the effect in the calculation of their tax liabilities for 2017/18 – the balancing payment for which is due 31st January 2019. A higher rate taxpayer will, in principle, get 5% less relief for finance costs (i.e. one quarter of 40% higher rate less 20% basic rate). 5% doesn't sound much but it can be worse than this due to 25% of the interest not being deductible from income.

So total income may cross a threshold such as:

- £50,000 – in which case Child Benefit may be clawed back
- £100,000 – in which case personal allowances may be reduced.

The restrictions are only going to get worse, so please talk to us if you want clarification on any aspect of these rules.

HMRC's Making Tax Digital project also has an impact on many property businesses from 6th April 2017. The government considers that all unincorporated businesses except for the larger property business will benefit from using the cash basis rather than the usual accruals basis and so is proposing to make this the default basis.

The cash basis means the business accounts for income and expenses when the income is received and expenses are paid. The accruals basis means accounting for income over the period to which it relates and accounting for expenses in the period in which the liability is incurred.

Property businesses will remain on the accruals basis if their cash basis receipts are more than £150,000. The cash basis also does not apply to property businesses carried out by a company, an LLP, a corporate firm (i.e. a partner in the firm is not an individual), the trustees of a trust or the personal representatives of a person.

The government proposals are that the cash basis will first apply for the 2017/18 tax year which means that your tax return for 2017/18, which has to be submitted by 31st January 2019, will be the first one submitted on the new basis. There will be an option to elect out of the cash basis and stay with the accruals basis and we are here to help you make a decision on this later in the year.