Record your Rental Property Losses

It is often the case that individuals with rental properties at home or abroad may forget to tell their accountant because the property is running at a loss. This is especially the case with overseas properties bought as a holiday home but rented out when the owners are not using them.

If an owner tallies the rental payments received, deducts the interest paid out (which can be a mortgage or a buy to let loan or simply bank borrowings) together with any cleaning, decorating or minor repairs and the result shows that no profits are made it can be an easy assumption that HMRC don't need to know, however the receipt of rental income is reportable to HMRC. If the income is under £2,500 per year it must be reported and if it is over £2,500 after allowable expenses or over £10,000 per year before expenses it must be reported on a Self-Assessment Tax Return. This is irrespective of the allowable expenses incurred.

From April 2017 the way property income is taxed will change and the allowable interest paid to the lender will not be deducted as an expense but instead given as a basic rate tax credit. This will impact on all higher and additional rate taxpayers, in addition it will push some basic rate taxpayers into the higher rates of tax.

If you have not yet registered you accumulated property losses then it is vital to take action as these losses will alleviate some of the tax which will be calculated in future years.

Top tip: Please ask for a review of your property income, losses and loan interest position.

Tax Free Childcare Account or Childcare Vouchers

Parents with children in childcare have an important decision to make in the early part of 2017. The government will launch the new Tax Free Childcare Account (Childcare Account) and for self-employed parents this will mean that they have access to tax incentivised childcare for the first time.

But for employed parents (including company directors) the decision to open a Tax Free Childcare account is a decision to think carefully about.

Up until April 2018 it will be possible for employers to offer tax incentivised Employer Supported Childcare Voucher Schemes (Voucher Schemes) to employees (including company directors) and in many circumstances the tax incentives of the Voucher Scheme will far outweigh those of the Childcare Account.

The Childcare Account is with NS&I in partnership with HMRC and for every 80p deposited in the account the government will add 20p to the account, up to a maximum of £2,000 per child (£4,000 if the child is disabled). This appears very generous and in many cases it will be the best option for helping to fund childcare costs, however there are a number of downsides.

BOTH parents can benefit from having an employer who has put in place a Voucher Scheme. In the case of two parents both working 35 hours per week and earning a salary of £32,000 gross each, then the childcare costs for 2 children would need to be in excess of £18,000 per annum for the parents to be better off using the Childcare Account. Any childcare costs under this amount would gain better tax reliefs by going through a Voucher Scheme.

In the case of parents earning over £50,000 where the child allowance has been withdrawn a salary sacrifice scheme for childcare costs could bring down the salaries to below the £50,000 limit and the child allowance would be reinstated.

The other point to note is that the Childcare Account is only open for children up to the September following their 11th birthday[1] whereas the Voucher Scheme is available to help fund the costs of childcare up until the September following the child's 15th birthday[2].

There are many individual aspect to these calculations, for example if either of the parents are claiming tax credits with the childcare element, so it would be wise to review individual circumstances. If you would like us to check the best option for you and your family or you are a director or employer who would like to know more about Childcare Voucher Schemes please call us.

Note 1 - For children who are disabled the support will continue until the September following their 17th birthday.

Note 2 - For children who are disabled the support will continue until the September following their 16th birthday.

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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The Savings Starting Rate and the Personal Savings Allowance - Explained

Changes happened on the 6th April 2016 to the way savings income is taxed. From that date savings income, for example interest paid on bank, building society and NS&I accounts will be paid without tax being deducted. If you have previously had to sign a form R85 to allow your savings income to be paid without deduction of tax it will no longer be necessary to do this and these forms will be discontinued.

The Personal Savings Allowance (PSA) is a new allowance. It allows up to £1,000 of savings income to be paid to a basic rate taxpayer free of tax. For a higher rate taxpayer the allowance falls to £500 but additional rate taxpayers are not entitled to any allowance.

The starting rate for savings (SR) is 0% on the first £5,000 however this rate only applies if the total of income derived from all sources, not including savings income, is less than the personal allowance plus the SR plus the PSA, a total of £17,000.

An example would be Freda who has a part time job earning £9,000, plus a small pension of £1,800. She receives £700 in bank interest. Her total non-savings income is £10,800 so below £16,000 being the personal allowance plus the SR. Therefore all of Freda's bank interest will be free from tax.

If, however, Freda started to receive a second pension of £5,000 her total non-savings income would then amount to £15,800 (£9,000 + £1,800 + £5,000) which means only £200 of her bank interest would be covered by the 0% SR. The balance of her bank interest (£500) would be tax free as it would be part of her PSA.

An individual with income from sources other than savings of over £16,000 but below £43,000 will not receive any of the starting rate but will simply receive the £1,000 PSA or, if the non-savings income is between £43,000 and £150,000, the PSA will be the reduced figure of £500.

These allowances are in addition to the investments which can be made into an Individual Savings Account (ISA). The amount which can be invested in an ISA before 5th April 2017 amounts to £15,240.

Money to Invest? Investors Relief!

In the Budget 2016 a new relief was introduced, Investors Relief (IR) to encourage passive investors to invest in trading businesses. The investor subscribes for qualifying shares and when these shares are disposed of the gain in value of the shares attracts a preferential 10% rate of Capital Gains Tax (CGT) up to a lifetime limit of £10 million.

This new relief is in addition to the Entrepreneurs' Relief (ER) and may be considered by investors who have already utilised in full their £10 million lifetime ER entitlement.

Sadly this relief does not extend to investors who are family members, for example a husband, wife or civil partner, relatives (brothers, sisters, parents or their children). The spouse or civil partner of a relative is also excluded from receiving this relief as are business partners.

An investor can subscribe for shares which must be ordinary shares in a company which is unlisted on a recognised stock exchange, however shares listed on the Alternative Investment Market (AIM) can meet the criteria for the relief to apply.

Unlike EIS there are no excluded trades for IR. Hotel businesses, asset backed trades, property development businesses and farming businesses could all take steps to attract investors using IR.

As with all investments, investors should consider carefully, with the aid of a qualified financial advisor, the terms under which they invest.

Annual Tax on Enveloped Dwellings (ATED)

With rates of corporation tax (CT) falling and the prospect of them continuing to fall, one of the trends in ownership of commercial and residential property is to own the properties through a UK based limited company.

The key disadvantages of owning properties in a limited company are:

a) the costs to transfer the property into the corporate structure in the first instance

b) the rate of income tax paid by the individual when they receive dividends paid out of the taxed profits of the company.

The attraction of owning property in a company are:

a) the low level of CT on the gains made on the subsequent sale of property held in the company,

b) the reduced rate of Stamp Duty (SD) on the sale of the shares in the company.

If high value property is held and sold within a corporate structure the treasury stand to lose the most tax revenue and so to ensure ownership of high value residential property by a company rather than by an individual was as unattractive as possible the government introduced ATED.

ATED is a measure designed to minimise the possibility of avoiding tax when high value residential property is disposed of.

For the ATED to apply the property must be situated in the UK and be a dwelling. Broadly the definition of dwelling is a residence, for example a flat or house and includes the grounds, gardens and any outbuildings.

The ATED rules do not apply to:-

- **hotels**
- **guest houses**
- **boarding school accommodation**
- **hospitals**
- **student halls of residence**
- **military accommodation**
- **care homes**
- **prisons**

For those considering transferring a high value residence into a corporate structure then the charge payable is on a sliding scale. The starting rate is £3,500 per annum for a residential property valued in the range £500,000 - £1 million and rising to £218,200 for properties valued at over £20 million.

From 1st April 2016 if a residential property owned indirectly was worth over £500,000 on the 1st April 2012 or the date of acquisition if later, a return needed to be filed with HM Revenue and Customs by 30th April 2016 and the charge should have been paid.

If you have a high value residential property and wish to use a corporate structure for ownership there is potential for reviewing your Inheritance Tax position at the same time. If the property is already held by a company and you wish to take it back into private ownership, please speak to us before transferring the property. There are exemptions and reliefs which could be available to those facing the ATED charge and we will be able to correctly advise you on the most tax efficient action to take.

It's all change for long-term resident Non-Domiciled individuals

Domicile Explained
Everyone, no matter where they originate from has a domicile. An individual's domicile dictates which territory's rule of law applies to a person on all matters relating to that person. Notice it is the territory rather than the country. There cannot be a UK domicile, but rather the domicile would be in England, Wales, Northern Ireland or Scotland because of the different laws.

Origin
A domicile attributed to a person at birth. For example an individual born in Manchester would have an English domicile.

Choice
There is the option to choose a domicile which usually follows a move of permanent residence with the intention of making that territory their place of residence indefinitely and exclusively. Should an individual abandon this territory, then their domicile reverts to their domicile of origin (birth).

Dependence
Until an individual reaches the age of 16 their domicile is that of the person on whom they are dependant. From the age of 16 (younger in Scotland) an individual can then choose their domicile.

Domicile is a crucial factor in relation to the treatment for tax purposes of all individuals living in the UK.

The current position for those domiciled and residing in one of the territories forming the UK
Generally all domiciled and resident individuals in the UK pay Income Tax (IT) on **all** of their **worldwide income** and Capital Gains Tax (CGT) on gains in value on **all** of their **worldwide owned assets.** They receive a personal tax allowance and an annual exempt amount for capital gains tax purposes.

The current position for those not domiciled but residing in one of the territories forming the UK
Currently an individual who has a domicile anywhere other than England, Wales, Northern Ireland or Scotland pays IT on **only** their **UK income** and CGT on **only** gains in value of their **UK owned assets.**

If their non UK (overseas) income **and** capital gains are **less than £2,000,** they don't have to pay any further UK tax **provided** none of the overseas income or the capital received from the overseas gain is brought into the UK. An example of this could be if they had an overseas bank account which paid interest and that interest was paid into their UK account and then those funds were withdrawn in the UK.

If the individual has income or gains of **over £2,000,** a choice has to be made.

The individual can either:

- pay UK tax on this income with a credit given for any foreign tax paid (provided there is an agreement with the country to give credit),
- pay tax on the **remittance basis.**

The remittance basis
If the remittance basis is claimed, the individual only pays tax on the amount of income and gains brought into the UK **however** they do not have the right to a UK personal tax allowance to be set against this income or an annual exempt amount for CGT. The individual also has to pay an annual scale charge ranging from £30,000 to £90,000 depending on the number of years they have lived in the UK. The highest charge is £90,000 per annum for individuals resident in the UK for 17 out of the past 20.

The Proposed Changes
The government are planning substantial changes to the way individuals who are not domiciled in one of the territories of the UK, are taxed. These changes should be coming into force in April 2017.

The changes look at those not domiciled in the UK territories and change their status for UK tax purposes to bring it in line with all other UK residents.

A broad view of these changes indicate that any individual not domiciled in the UK but who has already been resident in the UK for 15 out of the last 20 years will automatically be moved from having only their UK income and gains taxed to having their worldwide income and gains taxed. This will have a considerable effect on the tax position of some of the individuals caught by the new rules but will bring long term UK resident individual taxation into line with all other UK residents.

Income Tax and Capital Gains Tax

Remittance Basis Charge

The changes from April 2017 will remove the £90,000 remittance basis charge for those resident in the UK for 17 out of the last 20 years as the new rules will apply to everyone resident in the UK for 15 out of the past 20 years.

Planning ahead for April 2017 - Overseas Assets can be revalued
If an individual has been a long term UK resident and has paid the remittance basis charge in a year prior to April 2017 and is subsequently caught under the new rules on 6 April 2017 then HMRC will allow the revaluation of the individual's overseas assets. This will ensure that there is no potential for a UK Capital Gains Tax liability arising on the gain in value of an overseas asset, where some of the gain in value was for a period prior to these rules coming into play.

This revaluation is only open to those who fall to be taxed under the new rules from 6th April 2017 and so current long term resident non domiciled clients may wish to consider paying the remittance basis charge in 2016/17 so that revaluation of overseas assets can take place.