## Optional Remuneration Arrangements

Many employees will have heard the term salary sacrifice and this has become increasingly popular over the years with employees sacrificing amounts of salary in exchange for benefits. These benefits typically save the employee tax and class 1 National Insurance on the amount sacrificed and were used for anything from the purchase of laptops and tablets to improving the specification of the company car they received.

From April 2017 the rules have changed and a charge to tax has been introduced to all but a few salary sacrifice benefits. But it hasn't stopped there. The charge has been extended to flexible benefits where an employee is given a choice between taking a benefit and taking cash.

The salary sacrifice items which will remain unchanged are Cycle to Work Schemes, Childcare Voucher Schemes (although new entrants to Childcare Voucher Schemes will cease in April 2018) and payments into an employer pension scheme.

The areas where there is potential for further tax being payable is where the choice is made between a lower cash or benefit value, for example where a car allowance is taken instead of a higher value company car. Although it is unlikely that buying extra days holiday will be taxable. Buying holidays is actually a way of taking unpaid leave officially and even HMRC could not consider taxing days which the employee wasn't actually being paid for...

**Top tip:**

Employers should review the wording of any flexible benefits package they offer their employees, including the use of car fuel cards and the repayment of the businesses mileage. If you would like more information please contact us.

## 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.

**WBD**
Marlbridge House, Enterprise Way,
Edenbridge, Kent TN8 6HF

**Andy Branson**
Tel: 01732 865965
Email: andy@wbdaccountants.com



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# paylesstax 2017autumnedition

## A busy year of tax raising and it's still only autumn!

It's already been a busy year in tax, the budget in March made many changes to tax legislation but most of them were put on hold due to the calling of the snap general election. Now here we are in autumn 2017 revisiting the tax measures pulled in April with a view to them becoming law just a matter of weeks before the first of the autumn budgets.

How many tax changes will be introduced without publicity due to the speed of implementation of these three finance bills?

In this edition of PayLessTax we examine some of the items which may affect taxpayers without them knowing.

## Non-Domiciles

The latest statistics held show there were 121,300 individuals claiming non-domicile taxpayer status in the UK in 2014/15 of which 85,400 were resident in the UK. Non-domiciled individuals paid a total of £18.25 billion in income tax, Capital Gains Tax and National Insurance during 2014/15 or approximately £150,500 for each non-domiciled individual or around 5% of the Treasury's total revenue from income tax.

The test for non-domiciled status is called the Statutory Residence Test and if this test is passed and the non-domiciled individual is said to be resident in the UK they will pay tax, generally, on the same basis as every other individual in the UK, that is, tax on all of their UK and worldwide income and gains. However, the non-domiciled individual does have a choice to be taxed in a different way.

**Remittance Basis**

If the remittance basis is chosen then the non-domiciled individual pays a flat charge ranging between £30,000 and £90,000 depending on the number of years of residence in the UK PLUS UK tax is paid on the amount of their UK income and gains PLUS UK tax is paid on any of their worldwide income and gains which is brought into the UK, for example transferred into a bank account.

The latest Finance Bill is changing the threshold for when a non-domiciled individual falls to have their worldwide income and gains taxed in the UK. Individuals who have been resident in the UK for 15 of the previous 20 years will now have a UK deemed domicile for both income tax and capital gains tax purposes. Once the individual has received this deemed domicile status they are no longer entitled to claim the optional Remittance Basis and will have to pay tax on their total worldwide income and gains irrespective of whether it is brought into the UK or not.

**If you wish to review your domicile status please speak to us.**

## Overseas pensions

**Lump Sum payments**

Changes are also under way for the treatment of pensions from overseas employment.

Lump sum payments from foreign pension schemes are in the main fully taxable when they are received by a UK resident taxpayer. However there is a deduction given for periods when the pension accrued and the taxpayer was non UK resident and their duties of employment were performed outside of the UK. This effectively made a part of the lump sum exempt from UK tax.

From 6th April 2017 this deduction for Foreign Service has been removed and the lump sum payment will be 100% taxable as UK income through the self-assessment tax return.

One piece of good news, if the foreign pension was registered with HM Revenue and Customs (HMRC) a tax free lump sum up to 25% of the fund value can be received by the pensioner in the same way as a UK registered pension scheme.

**Foreign Pension Income**

Until 5th April 2017 only 90% of the pension income (not the lump sum) was taxed in the UK as income via the self-assessment tax return - effectively giving a 10% deduction on foreign pensions.

From 6th April 2017 this 10% deduction has been removed making the full 100% of the pension taxable on the UK resident pensioner.

**Top tip:**

Pensioners claiming the Pension Tax Credit should be aware that their income for tax purposes will increase by 10% due to the removal of this deduction and as this became law in April 2017 they may well be receiving pensioner credits which are higher than their entitlement creating an overpayment of pension credit.

If you would like to discuss your overseas pension and the changes to the tax rules please give us a call.

## Gifts to charity made by HMRC

The definition of what is and what is not a large estate is subjective but it is possible, with careful planning, to make gifts to charity from large estates with loved ones still retaining a greater proportion of the estate.

**Best shown as an example**

Leslie and Jan are married and have a joint estate valued at £2m.

They own shares in a private company valued at £400,000 which qualify for 100% Business Property Relief.

Their home is worth £500,000 and they plan to leave this to their three adopted children.

They want to make a qualifying charitable gift in their wills of £40,000. If they were to die in a few years' time their joint IHT bill at 40% would amount to £224,000 resulting in their beneficiaries receiving a net estate of £1,736,000.

However, if they were to increase their charitable donations to £60,000, being 10% of their net taxable estate, their estate would be taxed at the lower rate of 36% resulting in their tax liability being £194,400 and their beneficiaries receiving £1,745,600. A further £20,000 for their charity of choice and a further £9,600 for their beneficiaries. All thanks to HMRC.

**Top tip:**

The Residential Nil Rate Band (RNRB) is a new nil rate band available when a residence is passed on death to direct descendants. If you would like to review your Inheritance Tax position and the availability of the RNRB please contact us.

## Social Investment Tax Relief - Impact Investing

Social Enterprises are businesses which trade partly or wholly for social purposes, famous examples are the *Big Issue*, the *Eden Project* and *FairTrade* products and are found in many sectors of the UK economy. Local communities often set up a social enterprise business to maintain local services, for example the local library, post office or leisure centre.

Social Investment Tax Relief (SITR) is a relatively new tax relief designed to encourage individuals to invest in charities and social enterprises. SITR is possibly one of the governments best kept secrets offering an immediate **30% tax relief** on the investment made by an individual in a social enterprise or charity to support their trading services.

Often referred to as Impact Investing the individual can either purchase shares or make a loan and must hold the investment for a minimum of 3 years.

The investment also benefits from exemption from Capital Gains Tax (CGT) on the gain on disposal or redemption and where gains from other investments are invested in qualifying social investments the CGT on that gain can be postponed by a relief called holdover relief.

To qualify for the tax relief the individual cannot have a material interest in the organisation, must not be a director or an employee and must not hold any other investments in the organisation at the time of the investment.

The organisation has to be a registered charity, a community benefit society or a community interest company, have less than 250 employees and less than £15 million of assets. Any money raised in this way must not be used to pay off existing loans.

If the investment pays any dividends or loan interest, income tax is due on this income in the normal way.

The tax relief is designed to compensate investors for the risks associated with investments in small unlisted businesses and so any investment should be discussed with your professional advisor.

## Employee Ownership

Many business owners want to retire from their successful businesses but find it difficult to totally pull away. This could be because there is no market for the shares owned or because, whilst the large pay-out is attractive, the former owner feels a sense of loyalty to the brand they have created and the employees they will leave behind.

Tax efficient exit plans usually require the business owner to fully leave the business or retain only a very small minority shareholding, however the option for employee ownership makes for a smoother transition and exit for the retiring business owner.

Well known employee ownership trusts are John Lewis, Swann Morton and Tip Tree Jams. The commercial benefits of Employee Ownership are that generally the company becomes more productive whilst there is no need to issue shares to employees, the employees feel a greater ownership of the business

Employee ownership entails the sale of more than 50% of the shares to an Employee Ownership Trust generating a pay-out for the business owner which is **Capital Gains Tax free** and allows tax free bonuses of up to **£3,600 per annum** to be paid to each employee!

If the company cannot fully fund the exit then the rules also allow for part of the consideration to be deferred.

The company is then run by a blend of the key management shareholders, representatives of the employee ownership trust who may be an employee director and an independent trustee director.

**Top tip:**

If you are a business owner and would like to exit your business, receive at least 51% of the proceeds for the business tax free and want to retain some connection with your business and the employees this may well be the option to consider. Why not speak to us?