Summary 2015 Issue 25

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ENTREPRENEURS RELIEF

How will the changes announced in the March 2015 Budget affect you?

In the March 2015 Budget the Chancellor announced two changes to the valuable Capital Gains Tax (CGT) relief "Entrepreneurs Relief".

Entrepreneurs Relief means that gains that meet the qualifying conditions for the Relief are only subject to CGT at 10% as opposed to the normal rates of CGT of 18% or 28%.

The first change that was announced affects individuals who do not hold 5% or more shares directly in a company that is not a trading company in its own right.

Previously a company could be regarded as a trading company if it had an interest in a qualifying joint venture or was a partner in a partnership or limited liability partnership (LLP) providing the joint venture company or partnership was trading in its own right. With effect from 18 March 2015 the definitions of a 'trading company' and 'holding company of a trading group' do not take account of activities carried on by joint venture companies or of partnerships of which the company is a member.

Therefore the company in question would need to have a significant trade of its own in order to be considered a trading company to qualify for Entrepreneurs Relief and the 10% tax rate.

The second change relates to individuals that own an asset personally for example a property that is used in a business.

Previously a disposal of this personally owned asset would have been able to achieve the 10% rate of tax providing those assets were disposed of as part of a withdrawal of the business.

Now the individual must dispose of a minimum of 5% of the shares of the company carrying on the business or in the case of a partnership, a minimum 5% in the assets of the partnership carrying on the business.

If you would like to discuss this further please call us on 01323 842 119.

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Contact us

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HMRC TARGETS EBAY SELLERS

Online traders beware!

HM Revenue & Customs (HMRC) has announced it is targeting around 14,000 people who sell goods via online marketplaces such as eBay, Amazon and Gumtree. The announcement is part of its latest attempt to crack down on tax evasion.

Online traders who are deemed to be operating as a business rather than a private seller will receive a letter from HMRC informing them they are suspected of not declaring their full taxable income. Online traders that have only made £100 profit and those registered as business sellers on eBay have been among traders targeted.

HMRC has invoked its powers to demand that eBay and other similar websites including Gumtree hand over financial details about their customers.

It is the sort of information that led to the arrest and prosecution of a Manchester man who reportedly made sales of £1.4million on eBay but never paid HMRC a penny (until he was caught).

He is the highest profile scalp from HMRC's e-marketplace campaign, launched after the deployment of 'web robot' software and guidance on when a 'hobby' becomes a reportable 'trade.'

HMRC are utilising Revenue guidance dating back to 2007 to target the 14,000 recipients.

The questions posed are highlighted in the box opposite. If you are deemed to be 'trading' as noted, then seeking early advice is advised.

For greater clarification or advice contact us on 01323 842 119.

What the taxman says in relation to eBay traders:

"You are trading and therefore liable for tax if:

- *you sell goods that you bought for resale*
- *you make items yourself and sell them, intending to make a profit*
- *you sell or buy goods for other people and receive money for this (for example on commission), or*
- *you provide a service and receive payment (in cash or in kind)."*

If the answer is 'yes' to any one of these questions it is likely you will have to pay Income Tax and National Insurance contributions. You may also need to register for VAT.

PAYE

Are my workers employed or self employed?

As an employer you have to decide whether your workers are Employed or Self Employed. It is up to you to get this right or pay the penalty.

A worker can be registered as self employed but also be employed at the same time. HMRC have a set series of questions to test the particular circumstances in any working relationship. These questions cover areas such as:

- Ultimate control of the work
- Working for a number of people
- Profit element and risk of loss
- Correction of faulty work
- Provision of materials and equipment
- Working hours
- Integration with the employer's business
- The intention between the parties
- Industry norms

Please note that these are matters of general Employment Law and not specific tax legislation.

If you have any doubt on the employment status of an individual please do not hesitate to contact us for clarification and avoid the risk of having to pay the tax and NIC liabilities that you failed to deduct from the employees pay.

As a quick help guide to the Employment Status Indicator please visit https://www.gov.uk/employment-status-indicator. Please note the results processed from the HMRC website are purely based on the information provided and will only be an indication of the employment status of an individual and not a definitive or legally binding opinion.

If it is decided that your worker is employed and you are not already registered as an Employer with HMRC you will need to register to operate a PAYE scheme. Again, if you need any assistance please do not hesitate to contact us.

Please give us a call if you require help in identifying the employment status of any of your workers.

HMRC LATE FILING FINES

A note for your diary

You may haven recently read in the press that HMRC have been waiving £100 penalty fines for late filing of Tax Returns.

Ordinarily in the past it has been extremely difficult to negate fines raised for late filing however, in the current climate with HMRC clearly under a lot of pressure, if you do incur a fine it is certainly worth an appeal as it would seem at the moment that appeals are being granted after it has emerged that 900,000 self assessors were 'let off' the late filing penalty.

Should you need assistance in making a claim then please give us a call.

NEW RULES FOR DIVIDENDS

Fundamental changes to the taxation of dividends

As part of his Summer Budget speech held on 8 July 2015, the Chancellor announced fundamental changes to the way in which dividends are taxed for individuals.

With effect from 6 April 2016, the dividend tax credit is set to be abolished meaning that dividend income will no longer be grossed up. In its place will be a £5,000 Dividend Tax Allowance – essentially a nil rate band applying to the first £5,000 of taxable dividend income. Dividends received in excess of £5,000 will be taxed at 7.5% in the basic rate band, 32.5% in the higher rate band and 38.1% in the additional rate band.

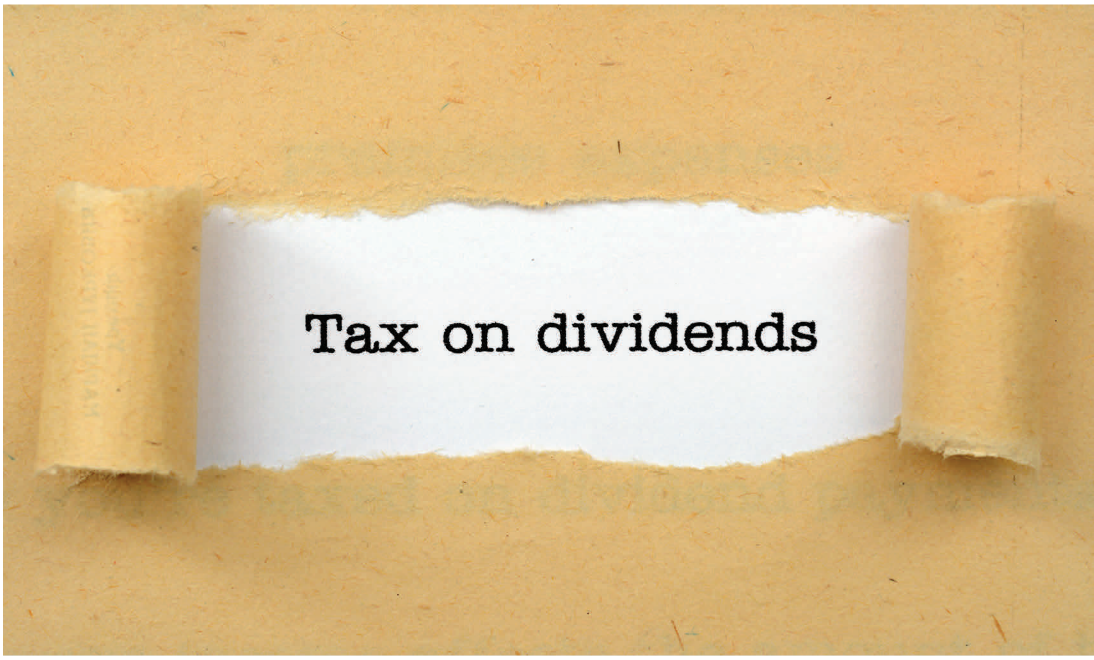
This represents a significant additional cost for small company owner managers. Using a typical scenario of extraction by way of low salary combined with dividends received up to the basic rate band limit, (£43,000 for 2016/17), Income Tax of £2,025 will become payable where historically this would be nil. The new regime will also affect the amount of tax payable for higher and additional rate taxpayers.

There are also implications for taxpayers whose dividend income pushes them just over the thresholds of £100,000 where the personal allowance is withdrawn and £50,000 where child benefit is withdrawn. Those individuals may find they are able to keep more of their personal allowance or child benefit in 2016/17. Because dividend income is no longer grossed up.

Company owner managers will need to review their remuneration and profit extraction policies before this change takes place. Due to the impact of National Insurance Contributions, a combination of a small salary plus dividends still remains the most tax effective extraction method. It may be worthwhile in some cases, assuming there are sufficient distributable reserves, to bring forward the declaration of dividends during the current tax year whilst the lower rates are still applicable. Even if the physical cash is not taken by the end of the current tax year, once declared the dividend will provide the director/shareholder with a credit in the company accounts. The cash can then be drawn later with no further tax becoming payable.

Finally, it is worth noting that over the coming tax years, the effect of this change will be mitigated somewhat. It is proposed that the Corporation Tax rate will drop again to 19% from 1 April 2017 with a further reduction to 18% scheduled to take effect from 1 April 2020.

If you would like to discuss how this affects you in more detail please get in touch with us.



MARRIAGE TAX ALLOWANCE

How does it work?

The new allowance came into force in April 2015 and could save married couples up to £212 a year. From 6 April 2015 married couples will be allowed to pass on some unused tax allowance.

How does the allowance work?

Couples made up of one non taxpayer and one basic rate taxpayer will be able to share some of the non taxpayer's unused annual Income Tax allowance.

Each year, individuals can earn up to a set amount without facing an Income Tax bill. This basic individual personal allowance increased to £10,600 from April 2015.

Anyone who earns less than that amount – once earnings from work, savings and pensions are taken into account – does not pay any Income Tax. Under the new scheme they will be able to transfer up to £1,060 of their unused allowance to their spouse or civil partner as long as he or she is a basic rate taxpayer.

Who qualifies?

Anyone who is married or in a civil partnership, as long as they meet the rules on earnings. Also, both members of the couple have to have been born on or after 6 April 1935 – if one member was born before then, they can claim the married couple's allowance instead.

More than 4 million married couples and 15,000 couples in civil partnerships will be eligible for the tax break.

How much will it save us?

From April, anything you earn between £10,601 and £42,385 a year will be taxed at 20%. If your spouse or partner earns £7,500 a year they effectively have £2,500 of their allowance that they are not using. Of this, they can transfer the full £1,060. This increases your tax free allowance to £11,660 and the 20% saving on that 'extra bit' is equal to £212.

When will we get the money?

Every month in your pay packet. The partner who is receiving the allowance will have their tax code altered to reflect their larger personal allowance. If you are employed, you will have less of your earnings taken off you each month before you are paid.

How do I register?

Speak with us or go to www.gov.uk/marriage-allowance and enter details to register your interest. HM Revenue & Customs will be in touch to tell you when you can make a formal claim.

NEW DIRECTORS APPOINTED

Two welcome additions to the WA Directorship

We are delighted to announce the appointment of two new Business Development Directors, Sam Chown and Suzie Vine.

Suzie joined the company post qualification and has now been with us for twelve years. "Having worked for Watson's for the

last twelve years I am proud that my hard work has paid off and I have been promoted to Director. I am looking forward to moving the firm forward with my fellow Directors".

Sam trained and qualified under WA having joined the firm direct from college some ten years ago. "I am absolutely delighted to be appointed a Director and, needless to say, I am looking forward to helping the firm grow over the years to come".

Steve Moore added "Suzie and Sam are both highly skilled, enthusiastic individuals. Myself and all of the Directors are excited to have them on board!"

Congratulations Suzie and Sam!

NEW BRIGHTON OFFICE

Exciting times for our Brighton presence

May 2015 saw another exciting change for Watson Associates - our move to larger premises in Brighton.

Since our initial foray into the Brighton business hub Watsons presence there has gone from strength to strength.

You can find our new Brighton office at **Tower Point, 44 North Road, Brighton, East Sussex, BN1 1YR**.

Contact numbers remain the same.

Dates for your Diary

1 October 2015	Due date for payment of Corporation Tax for period ended 31-12-2014
31 October 2015	Last day to file 2015 paper Tax Return
1 January 2016	Due date for payment of Corporation Tax for the period ended 31-3-2015
31 January 2016	First Self Assessment payment on account for 2015/2016
	Capital Gains Tax payment for 2014/2015
	Balancing payment for 2014/2015 Income Tax/Class 4 NICs due
	Last day to file 2015 Tax Return online
2 March 2016	Last day to pay balance of 2014/2015 tax and Class 4 NICs to avoid automatic 5% penalty
March 2016	Budget speech by Chancellor of the Exchequer
31 March 2016	End of Corporation Tax financial year