

Making Tax Difficult Digital

It is nearly eighteen months since George Osborne's Spring 2015 Budget announced the transformation of the tax system and the "death of the tax return". Following various delays, a referendum and a change in PM and Chancellor, HMRC have finally released the six consultation documents relating to Tax Digitalisation. These are some of the biggest changes to the way tax operates since PAYE was brought in during the Second World War!

The consultation documents cover:

- Bringing business tax into the digital age
- Simplifying tax for unincorporated businesses
- Simplified cash basis for unincorporated property businesses
- Voluntary pay as you go
- Tax administration
- Transforming the tax system through better use of information

The consultation documents confirm that businesses will be required to maintain records digitally and file summary information on a quarterly basis. It was expected that HMRC could seek to change the timing of tax liabilities and align this with quarterly reporting. However, the current proposals recommend a pay as you go facility, whereby taxpayers will have greater flexibility over payments and certainty over future tax liabilities. The introduction of these proposals is set for 2018 for some businesses and landlords, with all others following by 2020.

The main priority for taxpayers throughout 2017 will be to start thinking about how they will cope with quarterly reporting. We have extensive experience helping clients transition into maintaining digital accounts and have forged partnerships with various cloud accounting software providers. Whichever suits you, we can guide you through the change.



Tread Carefully with Pension Contributions

There have been further changes to the amounts that can be paid into pensions. This is something that everyone needs to be aware of to ensure they don't fall foul of these new rules and attract a tax charge.

Annual Allowance

The annual pension allowance for the current tax year is £40,000. This is the maximum amount that you can pay into a pension whilst attaining full tax relief (providing you have earnings of at least this amount).

Tapped Annual Allowance

From 2016/17 an individual with total income and employer pension contributions that come to more than £150,000 will have a reduced Annual Allowance. The standard £40,000 Annual Allowance is reduced by £1 for every £2 of 'income' you have over £150,000 in a tax year, until your allowance reaches £10,000.

The definition of income for this test is called Adjusted Income. It includes total income before tax from all sources and the value of employer pension payments.



Example

Robert has income made up of salary £125,000, P11D benefits of £8,000, a bonus of £5,000, rental income from a buy-to-let property of £9,600 and he received dividend income of £1,200. Overall, that puts his total income for the year at £148,800. However, his employer also pays in 8% of his basic salary, which adds on another £10,000. This means that he will be assessed as having Adjusted Income of £158,800. This exceeds the limit of £150,000 by £8,800, so his annual allowance will be reduced by $(£8,800/2)$ £4,400 bringing it down to £35,600.

In some circumstances it is possible to exceed the annual allowance under 'Carry Forward' rules. In saying this, the position can be complex and care needs to be taken, given the tax charges that apply.

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Widening share ownership

As business advisers, the most common challenge identified by business owners is the ability to recruit and retain key staff. Providing those people with equity interests in the business is a well trodden path, with various forms of share options and share schemes proving to be very popular.

An increasing trend is to use Employee Ownership Trusts (EOTs). Supporters of EOTs would cite that, where all employees share in the ownership of a business, a greater level of productivity and commitment is the outcome. Whilst this evidence is far from conclusive, there is no doubt that there is a trend towards employers becoming more inclusive.

An EOT can operate in two ways, the first being to incentivise and to motivate the employee team. The EOT creates a market for shares within which an employee can benefit from the success of the company.

However, the other use of an EOU can be to facilitate succession, particularly for those businesses where the owners are looking to extract business value in a tax efficient environment. The EOT is established and funds are transferred into the trust. The trust then acquires the shares from the owner at market value. If necessary, the owner can loan some funds back to the company if cash flow demands that. Value extraction is a major challenge for business owners and an EOT might be the answer.

Clearly, solutions are client specific so separate advice should be taken. Please contact David Morrison on 01382 312100 if you require further information or email David at david.morrison@eqaccountants.co.uk

Family succession planning

One of the most important and difficult decisions a family business will make is how best to pass the business on to the next generation. This decision can be made more difficult if some of your family are actively involved in the business and others are not.

Taking assets to the grave

The first consideration is whether you are ready to retire from the business, or still want to be involved. From a tax perspective, it has always been beneficial to continue to be involved in the business and to hold onto some assets until you die, due to the availability of IHT and CGT reliefs. However, whilst this can, under present legislation, have tax advantages, it may lead to other problems for the family.

In Scottish law we have legal rights which can be claimed by your spouse/civil partner and children. At present these can only be claimed on the moveable part of your estate. Moveable property covers all business interests, shares, cash etc. If property is included on your business balance sheet it may be deemed moveable and

therefore fall within a potential claim. Given the ever upward rise in property values any claim could be significant, significantly distorting how you intended to leave your assets among the family group.

Passing assets in lifetime

Another consideration is to pass over your interest in the business to the next generation in your lifetime. This will ensure that the active members of the family know that they are going to receive the assets and will allow them to develop the business in their own way. It will also ensure that the business assets end up in the hands of the family member or members who you want to inherit. Although this could lead to less favourable tax treatment, it is about weighing up the best options at the time.

There is no one size fits all solution to succession planning. At EQ we look at each case separately and work with our clients to reach the best solutions for them. If you want to discuss your succession planning with us then please contact a member of the team.

Research & Development Tax Credits – a case study

Our client is a firm of architects involved in a highly niche sector, where technology plays a major part. The business produces revenues by coming up with innovative designs to overcome problems in their sector. The company creates the design concepts and manages the testing of the designs, ensuring that a robust solution is produced for the market.

EQ's specialist R&D team delivered two years claims in one go. Our process was to interview the managing director of the company to determine the designs eligible for R&D credits. We then discussed each design to identify the advancement in technology sought and the work the company performed to achieve this objective. EQ gathered the relevant costs, mainly salaries, and then produced draft reports for each year. The outcome was just over £160,000 in corporation tax repayments. The company's time commitment to the claim was only four hours. Our role was to ensure that the R&D claim process does not unduly disrupt a client's trading activities.

This repayment took EQ's R&D cash repayments for clients to over £9m, and we are closing rapidly on the £10m mark. Please remember that R&D is not tax planning, but rather a claim to which your company is entitled, if eligible. We design the claim process to cause you the minimum of disruption, with our team doing the bulk of the work.

If you think your company might be eligible, why not contact us for a free initial meeting?





Meet the team Sandi Drummond

1. How long have you worked with EQ?

I joined EQ in November 2015 as a Tax Senior based in the Dundee office. I completed my CTA training with EQ and qualified as a Chartered Tax Adviser in July this year. I recently enjoyed a trip to London to attend the CTA admissions ceremony.

2. What do you specialise in?

My background is in both business and personal taxation. My role at EQ is to provide compliance and planning services to a wide range of clients across various sectors. I specialise in delivering R&D tax credit claims for companies, as well as advising on all aspects of property taxation and capital gains tax.

3. What experience have you gained whilst working at EQ?

Before joining EQ I was in a compliance role where my day to day work was preparing tax returns. My role now at EQ is mainly advisory focused, meaning every day is different, and I have been involved in a number of specialist assignments including incorporations, remuneration planning and LBTT issues.

4. What do you enjoy most about your job?

I enjoy getting to know my clients and their businesses and being able to help them minimise their tax exposure.

5. What do you think are the main components of good tax advice?

Knowing your client, knowing the tax system and being proactive.

BOOK YOUR PLACE Residential Property Seminars

In November 2016, EQ's specialist property tax team will be delivering seminars in Dundee, Forfar and Arbroath. We will be explaining all of the new residential property tax rules and also identifying tax planning opportunities. The seminars are being delivered in conjunction with Wardhaugh Property Management, who will elaborate on recent major changes affecting landlords.

To reserve your seminar place, please email gillian.mitchell@eqaccountants.co.uk and indicate which of the following venues you would like to attend.

**Tuesday 15th November 2016,
5.30pm for 6pm – Finavon Hotel, by Forfar**

**Monday 21st November 2016,
5.30pm for 6pm – Discovery Point, Dundee**

**Wednesday 23rd November 2016,
5.30pm for 6pm – Arbroath Football Club,
Arbroath**

Tea and coffee plus a finger buffet will be provided and we look forward to seeing you there. If you have friends and colleagues who are also residential property landlords, you will be most welcome to invite them. Further seminars are planned for Fife later in the year.

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