Autumn 2015

taxation news
regular news from our specialist tax team

Research and development

EQ recently delivered a seminar on Research and Development Tax Credits to 10 businesses, none of whom were completing R&D tax credit claims. Following the seminar we met each of the businesses and are now proceeding with claims for the majority.

To date EQ has saved clients over £4m as a result of the R&D tax credits, following our most recent recovery of over £200,000 for a client.

The R&D tax credits are actively promoted by the Government and the rates at which we can claim the relief have increased gradually since the launch in 2000. However, the last statistics published by HMRC showed that only around 10% of eligible companies are actually claiming these tax credits. This means 90% are missing out.

Just to recap, if the following describes some work your company has done then it could qualify for R&D tax credits:

- It took expertise/brain power to get it done
- There was no obvious solution already
- You didn't know if it would work
- The result will be an advance in science or technology

In summary, almost any limited company can have R&D. If your company is taking a risk by innovating, improving or developing a process, product or service then it could qualify for R&D tax credits.

If you would like to meet with one of our experts to discuss whether your company could qualify for these tax credits, please contact us. We won't charge for the first meeting.

If you have any queries please contact David Morrison, Sarah Gillie, or Rachel Bell on 01382 312100 or alternatively by email at david.morrison@eqaccountants.co.uk, sarah.gillie@eqaccountants.co.uk, or rachel.bell@eqaccountants.co.uk

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BUDGET 8 JULY 2015

The Chancellor, George Osborne, delivered his post election budget on 8 July 2015. He announced far-reaching measures that over the next few years will significantly change the way certain taxes are calculated, and major changes to welfare payments were also announced. Below are some of the highlights from the changes announced:

Property tax

Three major changes were announced for property owners.

Firstly, rent-a-room relief, which exempts rent received where a person lets out part of their only or main residence as residential accommodation, will increase from £4,250 to £7,500 from 6 April 2016. If the total rent received is higher than the limit, the owner can choose to deduct the actual expenses incurred, or to deduct the limit and pay tax only on the excess.

Wear and tear allowance will also be reformed. Wear and tear allowance is currently given at 10% of the net rents received in respect of fully furnished let properties. This will be abolished from 6 April 2016 and instead all landlords of residential property (whether fully furnished or not) will be able to claim the actual cost of replacing furnishings.

Restrictions to the relief landlords can claim for finance costs for residential property were also announced. From April 2017 the amount of interest that will be eligible for tax relief at the marginal rate will be restricted to the following for individuals:

- 75% of the interest paid in 2017/18
- 50% of the interest paid in 2018/19
- 25% of the interest paid in 2019/20

The balance of the interest will be eligible for 20% tax relief in each case. From 6 April 2020, only basic rate tax relief will be available for interest.

Action point

Landlords should review the financing of their buy-to-let properties in light of the future restrictions on tax relief.

Capital allowances

The Annual Investment Allowance (AIA) is the maximum amount a business can spend on equipment in one year and get full tax relief in the year of purchase. From 1 January 2016 the AIA will fall from £500,000 to £200,000, rather than the planned reduction to £25,000. The Chancellor has said this variation will now cease as he will introduce a permanent AIA cap of £200,000 from 1 January 2016. There are complicated rules for the maximum amount of relief where an accounting period straddles the change of limit.

Action point

Businesses with significant investment on equipment should consider the timing of expenditure to make the most of the AIA available in different periods.

Corporation tax rate

The rate of corporation tax will be set at 20% for the two years starting 1 April 2015. It will then be cut to 19% for three years starting on 1 April 2017, and to 18% from 1 April 2020.

BUDGET 8 JULY 2015

Dividend taxation

The taxation of dividends will be reformed from 6 April 2016. The 10% dividend tax credit will be abolished and in its place, individuals will have a £5,000 dividend tax allowance. An individual will pay no income tax on dividend income received up to that amount.

However, new tax rates will apply to dividends received in excess of the £5,000 allowance. From 6 April 2016 the dividends will be taxed at:

- 7.5% for basic rate taxpayers (previously 0%)
- 32.5% for higher rate taxpayers (previously 25%)
- 38.1% for additional rate taxpayers (previous 30.56%)

These changes will represent a significant tax increase for owners of small companies who have for some years been able to extract profits from their business with a tax-efficient mixture of salary and dividends.

For example, in 2015/16 if an individual takes a salary equal to their personal allowance and gross dividends of £30,000 from their personal company, no income tax is payable on this combination of salary and dividends, because it is covered by the personal allowance and basic rate band. If in 2016/17 the same individual takes dividends of £27,000 (gross, no tax credit), and salary equal to their personal allowance income tax of £1,650 would be payable.

Action point

Businesses should review their remuneration strategies to ensure they remain tax-efficient.

Inheritance tax

The inheritance tax (IHT) nil rate band will remain unchanged at £325,000 per person until 6 April 2021. Any unused nil rate band can be passed to a surviving spouse or civil partner, producing a total tax exempt band for the couple of £650,000.

However, extra relief for passing on a home was announced. The Chancellor announced a new extra nil rate band to be applied only to the value of a home left on death to a direct descendant of the deceased. This home-related nil rate band will be introduced on 6 April 2017, starting at £100,000 per person, and will increase over four years to £175,000 per person, allowing a couple to eventually pass on a family home worth up to £1m with no IHT (2 x £325,000 plus 2 x £175,000). The home-related nil rate band will not apply in full if the total estate is worth over £2m, and will not apply to a house that has never been used as a residence by the deceased (for example, a buy-to-let property).

After 8 July 2015, when someone downsizes or ceases to own their home, thus turning the IHT-relieved property into cash, assets of an equivalent value passed on death to a direct descendant will also be eligible for the relief.

Action point

Estate planning should be reviewed to ensure that relief from the additional nil rate band is maximised.

For a full round up of the Summer Budget 2015 please visit our website at www.eqaccountants.co.uk/Taxation/Latest+News/ and download our budget summary. Alternatively, contact taxation@eqaccountants.co.uk and we will email you a copy.

Meet the team – Liz Goldie

1. How long have you worked with EQ?

I started working at Carters in July 2006 as a tax assistant after graduating from university. I went on to study for my ATT exams which I completed in 2008. Following the merger with Carters, I joined EQ and I am currently an Assistant Tax Manager in the Cupar Office.

2. What do you specialise in?

I specialise in remuneration planning which enables clients to extract funds from their business in a tax efficient manner. Giving sound, pro-active advice can result in tax savings and reassurance to our clients that they have met their tax obligations.

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

Throughout my time at Carters/EQ I have gained a wide range of knowledge and experience through my diverse portfolio of clients. My client list includes individuals, unincorporated businesses and limited companies, for whom I complete a variety of tasks, such as preparing and submitting tax returns, tax planning exercises and answering ad hoc tax queries.

4. What is the best tax advice you have provided?

I provide Income Tax, Capital Gains Tax and Inheritance Tax advice to a variety of clients. In particular, I deal with the tax compliance and planning for a number of farming clients. Following the recent additions to the Cupar Agricultural team, coupled with the EQ expertise in this sector, I look forward to expanding my knowledge and expertise in this area.

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

I think the main components of good tax advice are knowing your client, their current and future objectives and being able to tailor advice around their individual circumstances, helping them to achieve the best possible outcome. It is also important to keep up to date with any changes in tax legislation and taking a proactive approach with those changes that may have an impact on the client.

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