Taxation News

CHARTERED ACCOUNTANTS

L-R - Our Managers
Michael Stephenson, Rachel Bell, Scott Greig & Sarah Millar

Regular News from our Specialist Tax Team **AUTUMN 2017**

Award Success – Most Innovative Large Firm

We were delighted to be awarded 'Most Innovative Large Firm' at the 2020 Annual Innovation Awards for our commitment to continuous improvement and innovation. The award was collected by some of our managers above at a gala dinner in Birmingham on Thursday 19 October 2017.

2020 Innovation is a long established UK wide training provider to the accountancy profession, with several hundred member firms across the country.

We were required to illustrate the significant value our team of over 100 staff contributes to clients, with evidence of improved client focus, effectiveness and competitive advantage.

David Cameron, our Managing Partner, commented, "At EQ, we believe in constant improvement, both to the service we provide to clients and the investment in our staff. It's fantastic to be recognised for this on a national level in the presence of our peers.

"This award belongs to each and every member of our team and is a credit to their hard work, commitment and collaborative approach. The innovative solutions of our tax team have played a significant part in our success."

2020 Innovation
WINNER 2017
2020 INNOVATION AWARDS

Some Good (and Bad!) News for Savers

Savers have been enjoying a welcome tax break over the past 18 months following the introduction of the personal savings allowance. This allows basic-rate taxpayers to receive interest of up to £1,000 on their bank deposits each year without paying tax. Higher rate taxpayers can receive £500 although it is not available to additional rate taxpayers.

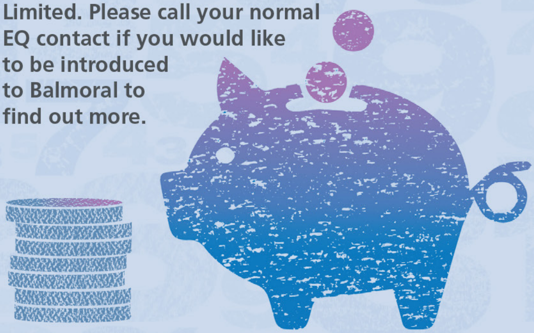
It is estimated that 95% of UK adults no longer pay tax on their savings thanks to the new allowance. Savers do however need to be wary of rising inflation which could be 'taxing' the value of their savings indirectly.

Inflation in the UK has risen to roughly 4.0% (based on the Retail Prices Index). Interest rates remain low with a typical savings account paying an interest rate of only 0.5% per annum. This means that the 'real' value of any bank deposits could be eroded by as much as 3.5% each year when the effects of inflation are taken into account.

For example, the spending power of £100,000 could fall to only £96,500 in just twelve months if interest rates and inflation were to remain at current levels (even if the interest was paid tax-free thanks to the savings allowance). If this trend was to be compounded over a few years then it could be hugely detrimental to the value of an individual's savings.

If inflation is a concern then savers may wish to consider their options to try to protect the real value of their savings.

This article has been provided by Chris Hendry, a director of Balmoral Asset Management Limited. Please call your normal EQ contact if you would like to be introduced to Balmoral to find out more.

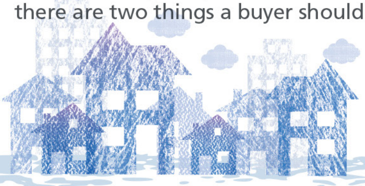


Claiming Capital Allowances on Commercial Property – What to Look Out For

Capital allowances are a very valuable relief, allowing taxpayers to write off the cost of assets used in their business over a number of years against their taxable profits. The rate at which relief is given each year varies depending on the type of asset which has been purchased.

When you buy a commercial property, you are not only paying for the building in terms of bricks and mortar, you are also paying for the fixtures contained within the building. Buildings themselves do not typically qualify for capital allowances; however, the integral fixtures should qualify for capital allowances provided certain conditions are met. Examples of fixtures which qualify for capital allowances include heating systems, air conditioning units, electrical wiring and lifts.

Before making a capital allowances claim, there are two things a buyer should consider:



1. **Has the seller pooled all qualifying fixtures?**
   The seller must have pooled (but not necessarily have claimed allowances on) all qualifying fixtures before the buyer can make a capital allowances claim
2. **Have you entered into a s198 election?**
   The rules require both the buyer and seller to enter into a joint election agreeing a value attributable to the qualifying fixtures. It is common practice for the election to be made at tax written down value.

Given the valuable tax reliefs that are available, buyers should enquire about the seller's capital allowance position as early as possible so that, if necessary, steps can be taken to preserve and maximise the capital allowances.

A Surge in R&D claims

Last month, HMRC published their latest Research & Development Tax Credit statistics. Happily, they report a 19% increase in the amounts paid up, now up to £2.9bn, with the main rise being amongst the small and medium sized business community. Evidence indicates that manufacturing has seen the biggest single sector increase, with Scotland showing some decent growth.

So, all this is great news for the Scottish economy. At EQ, we're on track to deliver more than 60 claims in 2017/18 (around 5% of all the claims in Scotland), and have generated around £3m of corporation tax savings to clients already. For us, food and drink has been the biggest growth area, with manufacturing also increasing.

In the market, there is no doubt that there is much more awareness of R&D. However, as a nation, Scotland is one of the most modest, not wishing to shout about its successes and abilities. In R&D, it is important to demonstrate a self confidence in the quality of the business and its level of innovation.

EQ has a specialist R&D team of six and we'll be happy to speak with any company that thinks they might have a claim.

Trusts and the New Dividend and Savings Allowance

The tax position for trustees and beneficiaries of trusts needs to be reviewed following the changes to the taxation of dividend and savings income effective from 6 April 2016. Dividends and interest received by trustees no longer have any tax deducted at source or carry any tax credit. Trustees are not entitled to the £5,000 dividend allowance and the £1,000/£500 savings allowance available to individuals. Therefore trustees may find they are required to pay tax for the first time and beneficiaries may have to reclaim tax for the first time.

For example, a trust with cash and stocks and shares generating bank interest of £300 and dividend income of £500 would not have had to pay any tax in 2015/16 as the interest would have had tax deducted at source and the dividend had a tax credit. In 2016/17 the interest is received gross and the dividend no longer has a tax credit therefore the trust will have £97.50 of tax to pay.

Where a beneficiary of a trust has an interest in possession (a right to the income) the trustees will pay tax at the dividend ordinary rate (7.5%) on dividend income and at the basic rate of income tax (20%) on any other income. If the income is mandated directly to the beneficiary then the trustees are not assessable to tax on the income.

Where the trust accumulates income or pays out income at its discretion then the trustees will pay tax at the dividend trust rate (38.1%) on dividend income and at the rate applicable to trusts (45%) on all other income, outwith the standard rate band of £1,000.

Trustees need to ensure cash is available to meet potential tax liabilities before distributing income to beneficiaries. They should consider whether it is suitable to mandate income directly to beneficiaries where an interest in possession exists. Trustees need to provide beneficiaries with an R185 and encourage them to reclaim tax where appropriate.

EQ would be happy to assist trustees with meeting their tax reporting obligations.

Tax Tales – David Morrison

Sometimes, if a client only sees tax and nothing else, problems can arise.

Many years ago, I acted for a client who was provided with a company car by his employer, a benefit in kind to him. When his tax code was changed, he called me and furiously demanded that this be changed. I explained why he was paying tax on his benefit in kind but he refused to accept this and advised that he would give up his car.

He duly gave up the car and his tax reverted to what it had been previously. Six months later he called me to complain again, his concern being that he no longer had a car, although his tax bill was now acceptable.

The moral of this tale is that benefits in kind are not always a bad thing – you may pay some tax but you get all of the benefit.

EQ Taxation – Out and About

The tax team within EQ are always out and about delivering solutions to problems and promoting our services. November promises to be a busy month with the following events:

06 Nov – R&D specialists present to a major bank in Aberdeen

14 Nov – Our property tax specialists attend National Landlord Day in Edinburgh

17 Nov – Head of Taxation, David Morrison, chairs the Kreston UK Tax meeting in London

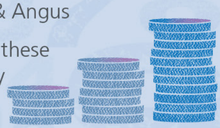
23 Nov – Tax team delivers a talk on business structuring to the holiday park association in Edinburgh

27 Nov – R&D specialists deliver a further update to Aberdeen bankers

29 Nov – Our Glenrothes tax team deliver their annual tax update, featuring the Budget 2017 at Balbirnie House Hotel in Glenrothes

30 Nov – Cupar partner, Mark Wilken, in conjunction with Balmoral Asset Management and Laurence Gould deliver a private client tax presentation "Plan to prosper" to those involved in the agriculture sector in Fife & Angus

We hope to see some of you at these various events and will be happy to participate in others.



Working with you.

We are always happy to offer free, no obligation, initial consultations, and often act on a consultancy basis only.

For more information on any of the services outlined in this bulletin, or to discuss a particular issue with one of our advisers, please contact our Taxation specialists.

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