KEENS SHAY KEENS
LIMITED
CHARTERED ACCOUNTANTS
AND BUSINESS ADVISERS

Keens Shay Keens Limited
Chartered Accountants and Business Advisers

Luton
01582-651000
luton@ksk.co.uk

Bedford
01234-301000
bedford@ksk.co.uk

Biggleswade
01767-221000
bwade@ksk.co.uk

Letchworth
01462-683831
info@kskl.co.uk

www.ksk.co.uk

A new approach to retirement saving

The new Lifetime ISA (LISA), which was announced in the March Budget and will be available from April 2017, will be a very attractive proposition – even better than a traditional pension for many people. In fact, the LISA could even be a forerunner of how pensions might be in the future.

Age: LISAs can be opened by anyone over age 18 but under the age of 40. This compares with the upper limit of age 75 to invest in a pension. Funds in a LISA can then be used for retirement at age 60, rather than the current age 55 for pensions.

Investment limit: You will be able to save up to £4,000 a year into a LISA, and, until age 50, contributions will be topped up with a 25% government bonus, meaning that £5,000 is actually invested. This is equivalent to benefitting from basic rate tax relief and will come without any earnings requirement. That should be particularly attractive for non-earners given that the equivalent pension limit is £3,600. Higher/additional rate taxpayers will obviously benefit more by making pension contributions.

Flexibility: Pension savings are tied up until age 55, but savings within a LISA can be withdrawn at any time. You will lose the bonus (and any interest or growth on it) and also be charged a 5% penalty, but it could be a useful option in an emergency; and a partial withdrawal is possible.

Choice of investments: Qualifying investments in a LISA will be the same as for a cash or stocks and shares ISA, although not quite as wide ranging as permitted for a pension.

On retirement: This is where a LISA comes into its own because withdrawals from age 60 are tax free. In contrast, only 25% of a pension fund can be taken tax free, the remainder being taxed as income.

If you are self-employed, using a LISA for retirement saving will be particularly appealing. You can always run a pension scheme in tandem to benefit from higher tax relief in those years when you have more income. A pension scheme will also be a better option once the LISA top-up stops at age 50.

But be warned: a LISA is unlikely to be a good choice if you have a pension where you benefit from employer contributions. LISAs might also be inadvisable for anyone who would expect to use the savings as a readily accessible piggy bank.

In this issue:

Dividends v salary for director-shareholders

The new dividend tax rules have reduced the benefit of paying dividends instead of salary for many shareholder-directors, but dividends still have advantages.

Since 6 April 2016, dividends no longer come with a 10% tax credit. Instead, individuals receive a £5,000 tax-free dividend allowance. Further dividends are taxed at 7.5% basic rate, 32.5% in the higher rate band and 38.1% in the additional rate band. These rates are lower than income tax rates on earnings, but that's not the whole story. Unlike dividends, salary payments reduce the company's corporation tax, but are liable for national insurance contributions (NICs). Comparison between salary and dividends is therefore not straightforward.

Considering the company and individual together, and supposing £40,000 of company profit is available to fund a bonus or dividend on top of a £50,000 basic salary, a bonus of £35,149 (after employer's NICs) would produce a net salary of £20,386, whereas a dividend of £32,000 (after 20% corporation tax) would leave a net dividend of £23,225.

Some owner-directors take an annual salary of £8,060 to avoid employee's NICs, and draw the rest of their income as dividends. After the first £5,000 tax free allowance, they will now pay 7.5% on the dividends that fall within the basic rate band, compared with no tax previously because the dividend tax credit covered the basic rate tax liability. The higher rate for dividends remains at 32.5%, but there is now no tax credit to reduce it. In most cases, there is still a saving compared with salary, although it is marginal at the additional rate of tax.

It will generally be worthwhile to pay dividends up to £5,000. Spreading shares among family members will add to the benefit. Remember, however, that companies affected by the personal services company rules (IR35) will be limited in what dividends they can pay.

Another way of saving tax is to leave profits in the company. Retained profits are subject only to 20% corporation tax and provide the company with working capital.

One of the most efficient ways of benefiting from company profits is to make pension contributions as they are usually fully deductible in calculating the profits subject to corporation tax.

The best option in each case depends on several factors, so please come to us for advice tailored to your needs.

Swings and roundabouts on employment allowance

The employment allowance was set at £2,000 for the first two years of its existence. For 2016/17, the allowance has been increased to £3,000. So you can reduce the amount of your employer class 1 national insurance contributions (NICs) payable to HM Revenue & Customs (HMRC) by this amount throughout the year.

The employment allowance is targeted at businesses that support employment, and for 2016/17 will cover your NIC cost of employing four adult full-time workers earning the national living wage for those aged 25 or over. However, the allowance has never been available for employing someone for personal, household or domestic work, such as a cleaner, nanny or gardener. However, it can be claimed by employers of care and support workers. What's more, from 6 April this year, you no longer qualify if you are the director and only paid employee of your company.

This will not make too much difference if only a low level of remuneration is taken, with profits mainly withdrawn as dividends. However, the situation may be more serious for contractors who, regardless of whether or not the IR35 rules apply, often take a much higher level of remuneration. The after-tax cost of losing the full allowance for 2016/17 is £2,400.

Just having employees or another director is, in itself, insufficient to continue qualifying for the allowance. You will only qualify if your earnings from the company are high enough to be subject to employer NICs. This means that an employee's weekly earnings have to be at least £156 (£676 monthly), while a director needs annual earnings of £8,112. The full allowance of £3,000 will be available provided you qualify at some point during 2016/17. But a word of warning if you think that simply employing your spouse or partner for one week is good enough: you cannot qualify for the employment allowance as a consequence of avoidance arrangements.

By contrast employing a seasonal worker for one or more weeks would be fine, provided their earnings are high enough. HMRC also gives the example of a person who is the only UK-based employee of an international company. When it comes to the employment of a spouse, partner or family member, the employment needs to be genuine; in particular, HMRC will be less likely to query long term arrangements.

Get in touch with us if you are uncertain about your status.

The latest update to HM Revenue & Custom's advisory fuel rates, effective from 1 March 2016, sees reductions to most rates:

Engine size	Petrol	Diesel	LPG
1,400cc or less	10p	8p	7p
1,401cc to 1,600cc	12p	8p	8p
1,601cc to 2,000cc	12p	10p	8p
Over 2,000cc	19p	11p	13p

These rates can be used where a director or employee is reimbursed for business mileage they drive in their company car, or where they are required to reimburse the cost of private travel. After a period of lower fuel prices, recent increases are likely to be reflected in the advisory fuel rates when they are next reviewed from 1 June 2016.

Looking good for capital gains tax

The capital gains tax (CGT) measures announced in the March Budget are generally good news for investors.

Tax rates

For 2016/17, the higher rate of CGT has been cut from 28% to 20%, with the basic rate dropping from 18% to just 10%. If you are sitting on investments that have, for example, increased in value by £100,000, then the tax cost of selling them has just been cut by £7,112. The increase in the difference between income tax and CGT rates will make investing for capital growth, rather than income, even more attractive.

However, the CGT rates for property investors and landlords remain unchanged at 18% and 28%.

External investors in trading companies

Gains that qualify for entrepreneurs' relief are taxed at a flat rate of 10% subject to a £10 million lifetime limit. Relief has now been extended to external long-term investors by the introduction of what is effectively a separate investors' relief. However, the qualifying conditions are far from straightforward. Shares must be:

- Newly issued, and have been acquired by subscription for new consideration wholly in cash – and the issue and subscription must be for genuine commercial reasons;
- In an unlisted trading company or an unlisted holding company of a trading group;
- Issued on or after 17 March 2016; and
- Held for a continuous period of three years starting on or after 6 April 2016.

For the investors' relief, the external investor must not be an employee or an officer of the company. Investors' relief comes with its own separate £10 million lifetime limit, running in parallel with the entrepreneurs' relief limit. Gains qualifying for investors' relief benefit from the 10% tax rate.

If the investor transfers shares to a spouse or civil partner, the transferee will be treated as if they had subscribed for and acquired the shares at the same time as the transferor.

iStock©sclubfoot

The requirement that shares must be issued on or after 17 March 2016 means that investors' relief is of no benefit to existing shareholders. And you cannot get round this by simply swapping your existing shares for new shares because of the new consideration requirement. However, should you decide to add to an existing shareholding and then make a partial disposal, shares qualifying for investors' relief will be treated as disposed of in priority to non-qualifying shares.

People with significant control

This June, the company annual return will be replaced by a 'confirmation statement'. It has the same purpose, with the same annual requirement, but the process has been simplified. In essence it is just a case of checking and confirming details that are already held by Companies House, and updating if necessary.

Along with the first confirmation statement, most companies will also need to notify Companies House of 'people with significant control' (PSC). The requirement to keep a PSC register came in from 6 April this year. The aim is to increase transparency over who owns and controls UK companies. The requirements also apply to LLPs and UK Societas Europaea.

For straightforward share structures, a PSC will be anyone who owns more than 25% of the company's shares or holds over 25% of the voting rights. So they should be easy enough to identify.

The definition also extends to anyone who has the power to appoint or remove the majority of directors, or who has the right to exercise 'significant influence or control' over the company. 'Significant influence or control' includes a variety of circumstances, and detailed guidance is being issued about this.

We might therefore need some additional information from you when filing your company's first confirmation statement.

What's under the Panama hat?

The revelations in early April about offshore companies and investment funds based in Panama have turned the spotlight on tax avoidance and evasion, as well as secret financial dealings in general. We can be sure that HM Revenue & Customs (HMRC) and other regulatory authorities will be scrutinising the data carefully.

There are several reasons why people hold funds offshore and it is not illegal to do so. You might hold one or more foreign currency bank accounts offshore because you have business or a property abroad. Offshore banking might make managing your affairs simpler or help protect you from exchange rate fluctuations.

An investment in an offshore life assurance bond makes sense for some people. Typically, the bond is registered in a jurisdiction with a favourable tax regime. Although potentially higher tax could arise when an offshore bond is cashed in, compared with an onshore bond, the investor might have retired abroad by then, might no longer be subject to UK tax, or might be only a basic rate taxpayer.

What is essential is that all income and gains are fully declared. A strategy that relies on HMRC not finding out is not legitimate tax planning but

tax evasion. It's illegal and the penalties are high – up to 200% of the tax due. The penalties are lower if a person makes a voluntary disclosure to HMRC rather than waiting for HMRC to catch up with them.

For political leaders caught up in the allegations, a desire to limit reputational damage has led some politicians to publish their personal tax returns. The right to privacy of personal financial details, such as salaries, has long been protected in the UK, but that could change. In Norway, Sweden and Finland everyone's income and tax details are published every year and are available online.

The UK might not go that far, but anonymity can no longer be guaranteed. No security barriers are 100% effective and there is growing international cooperation and information – sharing to identify tax compliance risks and agree collaborative action. Even if the UK does not go as far as the Scandinavian countries, calls for greater transparency might result in new disclosure requirements for trusts or share ownership. In the long run there might be no hiding place.

If you are not sure of your tax position, we can help you.

Right to rent check comes into force

If you are a residential property landlord, you should be aware that you are now required to check the right of your tenants to be in the UK before you rent out property in England.

Failure to check carries severe penalties of up to £3,000 per tenant, and the requirements even extend to sub-lets and lodgers. You need to check all adults who will live in your property before the start of a new tenancy; but you also have to be careful not to discriminate unlawfully. You should:

- **Obtain a tenant's original documents that allow them to live in the UK.**
- **Check the documents with the tenant present.**
- **Copy and keep the copied documents on file and record the date of the check.**

TAX CALENDAR

Every month

1 Annual corporation tax due for companies (other than large companies) with year ending nine months and a day previously, e.g. tax due 1 October 2016 for year ending 31 December 2015.

14 Quarterly instalment of corporation tax due for large companies (month depends on accounting year end).

19 Pay PAYE/NIC and CIS deductions paid electronically should have cleared into HMRC bank account.

22 PAYE/NIC deductions paid electronically should have cleared into HMRC bank account.

30/31 Submit CT600 for year ending 12 months previously. Last day to amend CT600 for year ending 24 months previously.

File accounts with Companies House for private companies with year ending nine months previously and for public companies with year ending six months previously.

If the due date for payment falls on a weekend or bank holiday, payment must be made by the previous working day.

MAY 2016

31 Last day to issue 2015/16 P60s to employees.

JULY 2016

5 Last date to agree a 2015/16 PAYE Settlement Agreement (PSA) with HMRC.

6 Deadline for employers to make returns of expenses and benefits (forms P11D, P9D and P11D (b)) for 2015/16 to HMRC and provide copies to employees.

6 Deadline for online filing of 2015/16 returns for all employee share schemes, with online registration by this date (unless a reasonable excuse) for new schemes set up during 2015/16.

14 Due date for CT61 return for quarter to 30 June 2016.

31 Confirm tax credit claims for 2015/16 and renewal for 2016/17.

AUGUST 2016

1 Penalty of 5% of the tax due or £300, whichever is the greater, where the 2014/15 tax return has not been filed.

2 Submit employer forms P46 (car) for quarter to 5 July 2016.

OCTOBER 2016

1 Deadline to register for self-assessment for 2015/16.

14 Due date for CT61 return for quarter to 30 September 2016.

22 Pay tax and Class 1B NIC on PSAs (19th if not paying electronically).

31 Deadline for 2015/16 tax return if filed on paper.

NOVEMBER 2016

2 Submit employer forms P46 (car) for quarter to 5 October 2016.