



Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

DO YOU HAVE ENOUGH SHARES TO QUALIFY FOR CGT ENTREPRENEURS' RELIEF?

Entrepreneurs' Relief reduces the rate of CGT to 10% on the first £10 million of gains on the disposal of qualifying business assets. This would include sole traders disposing of their business and partners disposing of their interest in a partnership carrying on a business. With many businesses operating as limited companies these days it is important to appreciate that not all shareholdings qualify for this generous relief.

Shareholdings qualify for Entrepreneurs' Relief provided the company is a trading company or the holding company of a trading group. There are additional conditions that the shareholder is an officer or employee of the company and holds 5% or more of the company's ordinary share capital and votes. All of these conditions must be satisfied throughout the twelve months up to the date of disposal.

A couple of recent tax tribunal cases have considered the 5% test and the HMRC view is that most shares except for certain preference shares need to be considered. Always contact us first if you are considering issuing additional shares in your company as it may have a detrimental effect on other shareholders' entitlement to CGT Entrepreneurs' Relief.

NEW GOVERNMENT SAVINGS SCHEME STARTS IN APRIL 2017

From April 2017, adults under the age of 40 will be able to open a Lifetime ISA (LISA) and pay in up to £4,000 each tax year. They will be able to continue making contributions up to the age of 50. The government will add a 25% bonus to these contributions. This means that individuals who save the maximum will receive a £1,000 bonus each year from the Government.

The tax-free funds, including the Government bonus, can be used to help buy a first home worth up to £450,000 at any time from 12 months after first saving into the account. The funds, including the Government bonus, can be withdrawn from the LISA from age 60 tax-free for any purpose. LISA holders will also be able to access their savings if they become terminally ill.

If savers make withdrawals before age 60 for other purposes a 25% charge will apply to the amount of withdrawal. This returns the bonus element of the fund (including any interest or growth on that bonus) to the Government.

"Help to Save", aimed at supporting people on low incomes to build up their savings will follow in 2018. That scheme will add a 50% Government bonus on savings up to £50 a month for up to four years. Help to Save will be available through NS&I to any adult who is receiving working tax credit or universal credit with minimum household earnings equivalent to 16 hours a week at the National Living Wage.

DON'T FORGET YOUR 2016/17 ISA ALLOWANCE

The current ISA allowance is £15,240, rising to £20,000 for 2017/18. Remember that there is no longer a 50% restriction on the amount that you can invest in a cash ISA; the £15,240 annual limit covers all ISA investments which could be in shares, bonds, cash or certain other investments.

AND MAKE PENSION PAYMENTS BEFORE 6 APRIL

The current annual pension limit remains at £40,000. In addition, unused relief from the previous three tax years may be utilised once the current £40,000 limit has been used. However, the relief from 2013/14 will lapse on 6 April 2017.

If, for example, you have £10,000 unused allowance from 2013/14 you would need to make pension contributions of at least £50,000 by 5 April 2017 to avoid losing your 2013/14 relief. Remember also that pension savings continue to qualify for higher rate tax relief and may help to reduce your payments on account. However, individuals who have adjusted income of over £150,000 a year will be subject to a reduction in the final allowance for 2016/17 of £1 for every £2 over £150,000, subject to a maximum reduction of £30,000.

MORE TAX FREE ALLOWANCES FROM 6 APRIL 2017

In addition to the current £5,000 tax free dividend allowance and the personal savings allowance of up to £1,000 there will be two further tax free allowances starting from 6 April 2017. These will be a new £1,000 tax free allowance for self-employed income and a £1,000 rental income allowance.

These new allowances mean that individuals doing a small amount of self-employed work or receiving a small amount of rental income will not need to report such income and consequently may fall outside self-assessment.

Note that the £1,000 allowances are the gross amounts that will be tax free each year. Where the gross income exceeds £1,000 there will be the choice of paying tax on the excess over £1,000 or deducting allowable expenses in the normal way.

For example Mr Nikon has a full time employment but also has a part - time photography business earning £1,500 a year with £800 of business expenses. Rather than paying tax on the net profit of £700 the new system will mean that he will only be taxed on £500 (£1,500 less the £1,000 allowance). If his gross income was below £1,000 it would be tax free and would not need to be reported to HMRC, probably keeping him outside of self-assessment.

DON'T FORGET "RENT A ROOM" RELIEF

Whilst on the subject of tax free allowances remember that there is a further £7,500 a year allowance deducted from rent received from lodgers where you rent out part of your main residence.

This allowance increased from £4,250 from 6 April 2016 so that now the first £7,500 rent from lodgers is tax free. Where income from lodgers exceeds £7,500 a year only excess is taxable.

PASSING ON THE FAMILY HOME

New inheritance tax rules for passing on the family home start on 6 April 2017 and many people have a New Year's Resolution to either make a Will or update their Wills. This new relief should be taken into consideration when drafting your Will and we can work with your solicitor to make sure it is tax efficient.

From 6 April 2017 a new nil rate band of £100,000 will be available on death where your residence is left to direct descendants. This is in addition to the normal £325,000 nil rate band and will increase over the next 4 years to £175,000 in 2020. You may recall that when this was originally announced in summer 2015 the chancellor said that a married couple should be

able to pass on their family home worth up to £1 million free of Inheritance tax. The rules are fairly complicated and HMRC have recently issued guidance on how the new relief will operate. We can review your personal circumstances to ensure that you take advantage of all relief that you are entitled to.

DOWNSIZING TO A SMALLER PROPERTY

One of the features of the new inheritance tax rules for passing on the family home is that the relief is protected even when you downsize to a smaller property.

For example if a married couple currently live in a large house worth £800,000 and downsize to a flat worth £300,000 they could give away some of the proceeds during their lifetime and yet still benefit from inheritance tax relief based on the higher valued property. They could even sell up completely and move into a rental property and get the inheritance tax relief!

This would very much depend on the timing of such planning and, as mentioned above, the rules are very complicated so contact us to discuss how this can apply in your family circumstances.

TAX DIARY OF MAIN EVENTS FOR FEBRUARY / MARCH 2017

Date	What's Due
1 February	Corporation tax for year to 30/4/16 (unless quarterly instalments apply)
19 February	PAYE & NIC deductions, and CIS return and tax, for month to 5/02/17 (due 22 February if you pay electronically)
28 February	Surcharge of 5% on 2015/16 self-assessment tax still unpaid
1 March	Corporation Tax payment for year to 30/05/16 (unless quarterly instalments apply)
19 March	PAYE & NIC deductions, and CIS return and tax, for month to 5/03/17 (due 22 March if you pay electronically)