

# TAX MATTERS

friend

*With Christmas and 31 January now behind us we can look forward to the arrival of Spring, warmer weather and some heavyweight electioneering.*

*This edition of Tax Matters looks at what may be in the election for taxpayers, my 'wish list' and some topical issues.*

*Simon Littlejohns – Tax Partner*

## Election – tax promises

All the major parties are now gearing up for the run in to the Election. We have had a number of tax sound bites and will no doubt have many more as May approaches.

**Some of the more noteworthy issues are:**

**The Inheritance Tax nil rate band increasing to £1million** – any such change would be phased in over a number of years and should result in a lot of estates falling outside of the IHT net especially when considering the transferability of any unused capacity on the death of the first spouse/civil partner.

**A 'mansion' tax for homes worth over £2million** – potentially a concept fraught with difficulty when considering implementation and enforcement. Seen as an attack of London and the South East but also it would affect those who have owned their homes for a considerable period of time. The SDLT changes in the Autumn Statement were seen by many as an attempt to thwart this initiative.

**Income tax rates and personal allowance** – there is a desire to ensure that there is fairness with promises to ease the tax burden for lower earners and increase the burden for higher earners.

**Anti-avoidance** – cross party support to eradicate 'aggressive' tax planning. This is viewed by many as unacceptable and morally wrong. The uproar with regard to HSBC is a case in point. However, some of the proposals being considered, and which are already in place, are creating issues and causing some to question whether HMRC are now taking matters too far.



## Election – tax wishes

As a tax partner dealing with a wide range of clients, both personal and corporate, I have a number of items I hope an incoming administration might address.

**Simplification** – with each and every Budget and Autumn Statement we seem to get more and more complex tax legislation. A real effort at a root and branch simplification of the tax code would be welcome.

**Certainty** – there are a number of instances where new legislation has upset established planning. This is unfair and makes advising clients very difficult as all advice is caveated with the words "unless HMRC change the legislation with retrospective effect".

**Proper resources for HMRC** – taxpayers and their advisers need to know that HMRC are able to deal with issues effectively and quickly. I have too many examples of disputes taking years to resolve and poor advice and support given to those contacting HMRC.

## Furnished Holiday Letting ("FHL")

A number of taxpayers with second homes are losing out because they are unaware of the tax breaks available under the FHL regime. Is such property lying vacant when not being used by the owners and not being used to its full potential? There are some attractive breaks, one of the most important of which is Capital Gains Tax at a rate of 10% rather than the full 28%. Capital allowance claims can be useful and will help to reduce the net taxable income for the owners. There are detailed conditions to be met to ensure that a property is within the FHL rules but with a little planning and effort it should be possible to meet them. If you are interested in the detail please download the Briefing Note from our website.

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## Investing in companies

Investing in smaller companies can often be viewed as risky. But there can be significant tax incentives for such investing, which can be considered alongside the economic risk.

For companies looking for alternatives to bank funding, the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) are options they should consider. With EIS, tax relief is potentially available to owner-managers of businesses, as well as outside investors.

There are three main types of investment available, EIS, funding from VCTs and the Seed Enterprise Investment Scheme (SEIS). SEIS was introduced with effect from 6 April 2012 and is aimed at stimulating investment in new smaller companies.

With EIS and SEIS, individuals invest directly in unquoted trading companies, whereas with VCTs they invest in a quoted vehicle whose managers invest funds in qualifying companies.

The three schemes have some characteristics in common but a number of important differences.

The reliefs that investors are likely to be most interested in are:

- Income tax relief on investment/dividends
- Capital gains tax (CGT) relief on the sale of EIS/SEIS/VCT shares
- CGT exemption on other gains by re-investing in a SEIS company
- CGT deferral under EIS
- Relief from Inheritance tax with EIS and SEIS shares.

If you are interested in more detail please see the Briefing Notes on our website.

## tax reminders



With the tax year end fast approaching remember to address any personal tax issues which need to be dealt with by the year end – pension payments for example.

If you are an employer make sure that you have the proper procedures in place to capture the information to prepare the year end returns:

- P11D
- PSA
- Form 42
- EMI 40

*“If any of the items in this newsletter has sparked any thoughts or questions please do not hesitate to pick up the telephone and discuss the matters with me. If not, I look forward to bringing further taxation matters to your attention.”*

*Simon Littlejohns – Tax Partner*

## PAYE

### developments to come

#### Abolition of PAYE dispensations

From 2016/17 HMRC intends to introduce a new tax exemption for business expenses. This will remove the need for employers to complete P11Ds in respect of such expenses, or to obtain a PAYE dispensation.

PAYE dispensations provide certainty that HMRC accepts that no income tax/NIC liability arises for all the items covered. This reduces P11D reporting, and, if the employer’s records reflect the working practices agreed in the dispensation, in the event of a HMRC Employer Compliance Inspection, it is significantly more difficult for HMRC to recover retrospective liabilities of income tax/NIC on those expenses agreed in the dispensation. This valuable protection will no longer be available. It is likely that HMRC will publish model rules showing what will be acceptable in terms of checking expenses and keeping records. These are likely to be generic in nature, so employers will need to consider carefully how to make sure that the rules are adhered to.



If you would like to re-negotiate your PAYE dispensation with HMRC before the 2016/17 tax year, please get in touch. During the transition period to the new regime, HMRC are likely to have to recognise recently agreed dispensations. Thus, there is still value in acting now to get an effective dispensation agreement in place.