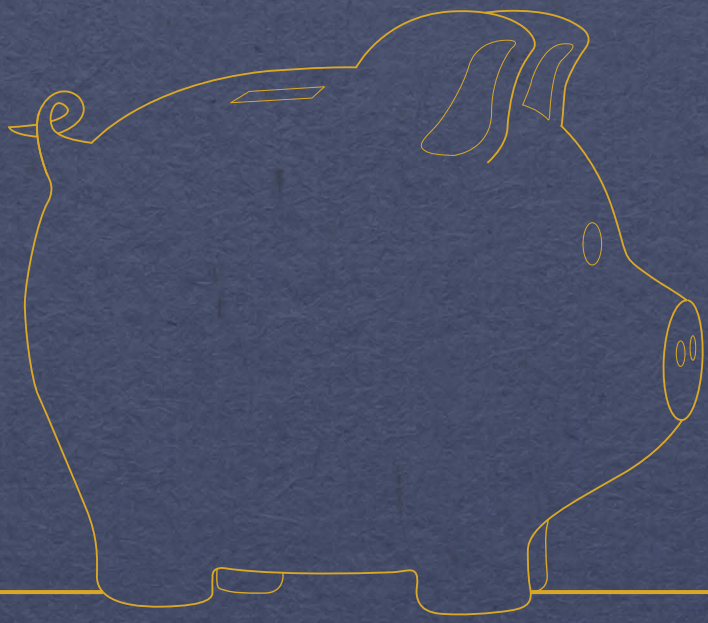
Dunne & Waterman

CHARTERED ACCOUNTANTS

Update on recent & forthcoming TAX CHANGES

Recent Budgets and Finance Acts have brought about some fundamental changes to the existing tax regime in the UK. Here, we include a summary of some of these changes and how they may affect you.



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INCOME TAX AND SAVINGS

NEW SAVINGS ALLOWANCE

2015 saw the introduction of a £5,000 nil rate band for saving income (i.e. interest received from banks and building societies).

This allowance is available only where income other than savings income does not exceed the personal allowance plus the £5,000 (£16,000 for the current tax year).

From 6th April 2016, the government has introduced a new additional £1,000 allowance against savings income.

This is reduced to £500 for those individuals whose income exceeds £43,000 and therefore pay tax at 40% and to nil for those whose marginal rate is 45% (additional rate taxpayers).

These allowances are clearly designed to assist those with lower incomes, and in many cases will take them out of the tax net altogether.

OPPORTUNITY

There may be opportunities to pass income producing assets from one spouse to the other where one has little or no income, in order to make use of these allowances.

Note that where income producing assets are transferred to minor children, the income remains taxable on the parent. These allowances do not apply to trusts except where income is mandated directly to a life tenant.

AIRBNB

There is some good news.

From 6th April 2017 small amounts (under £1,000 pa) of income received from Airbnb lets will no longer be taxable or reportable.

This is more of a matter of simplifying administration, particularly as it is likely that not all of this income was reported in the past.

If income is higher than £1,000, a deduction of £1,000 can be claimed instead of actual expenses. In some cases though it may be more tax efficient to claim the expenses rather than the £1,000.

This new regime will also apply to other similar sources of income from the 'sharing economy'.

RENT A ROOM RELIEF

With effect from 6th April 2016, up to £7,500 income can be claimed as tax free where you let out part of your main residence. There are conditions attached. The previous allowance was £4,250pa.

NEW DIVIDEND ALLOWANCE

As from 6th April 2016, there has been a significant change to the way in which dividends are taxed.

Previously the net dividend received was increased by a notional tax credit of 10% (so that a £90 dividend was taxed as £100 but with deemed tax of £10 having been paid). From now on, only the net dividend received will be taxed, but at new higher rates.

New tax rates for dividends are now:

20% tax rate payers	7.5%
40% rate payers	32.5%
45% rate payers	38.1%
For non- UK residents *	7.5%

This new measure is generally seen as a disincentive to operating through a company and paying dividends rather than a salary. However, each tax payer will now receive a £5,000 allowance against dividend income.

OPPORTUNITY

There will be many cases, particularly in family companies to arrange shareholdings so that various family members can each be paid up to £5,000 each in dividends and potentially pay no tax on those dividends.

It is important to note however that the impact of this new allowance can give unexpected results for those crossing from one tax band to another. We can advise on your particular situation.

Dividends will be taxed at 7.5% for life interest trusts and 38.1% for discretionary trusts. The £5,000 will not be available to trustees other than bare trusts.

***Note** For non-UK residents, it has been agreed that a UK dividend will be deemed to have been taxed at 7.5% and that sum should be available under most Double Tax Treaties to be offset against tax in the overseas country concerned.

INTEREST PAID GROSS

From 6th April 2016 all UK banks and building societies will pay interest gross and no tax will be deducted.

Impact this can have
This measure will make life easier for those who do not need to prepare an annual tax return other than to reclaim tax previously deducted by banks etc.

However, care needs to be taken each year to ensure that there is no overall liability to tax on interest received, if your overall income is higher than expected.

In addition, some trusts which previously did not need to prepare annual tax returns as all of their income was taxed at source may now need to, as trustees do not receive the above savings allowances.

LET PROPERTIES

The Chancellor has continued his attack on those who buy properties to let.

Until 5th April 2016, it was possible to opt for a flat deduction against rent received from furnished properties of 10% of the rents rather than actual costs of replacing furniture etc.

From 6th April, this option is no longer be available.

Impact this will have
Those who do not spend much on repairs will therefore find they will have higher tax bills than under the old regime.

Instead costs incurred in replacing furniture, linen, white goods etc. will be allowable as a deduction against rental income for all let properties, furnished or unfurnished.

More significantly, between 6th April 2017 and 6th April 2021, the amount of interest on buy to let loans which can be offset against rents will be reduced from the current 100% to nil, so that:

75% of the interest can be offset in 2017/18

50% of the interest can be offset in 2018/19

25% of the interest can be offset in 2019/20

and none thereafter

Instead, taxpayers will receive a tax credit of 20% of the amount of interest not deductible.

Impact this will have
This measure will have a very significant effect on the profitability of buy to lets where borrowings are in place, as those with buy to let properties will in many cases find that their taxable income is higher than currently, pushing them into higher tax brackets (with possible knock on effects for child allowance) yet receive a tax credit at only 20%.

ISAs

From 6th April 2017, the annual contribution to an ISA will be increased to £20,000.

In addition, a new Lifetime ISA is to be introduced with effect from 6th April 2017.

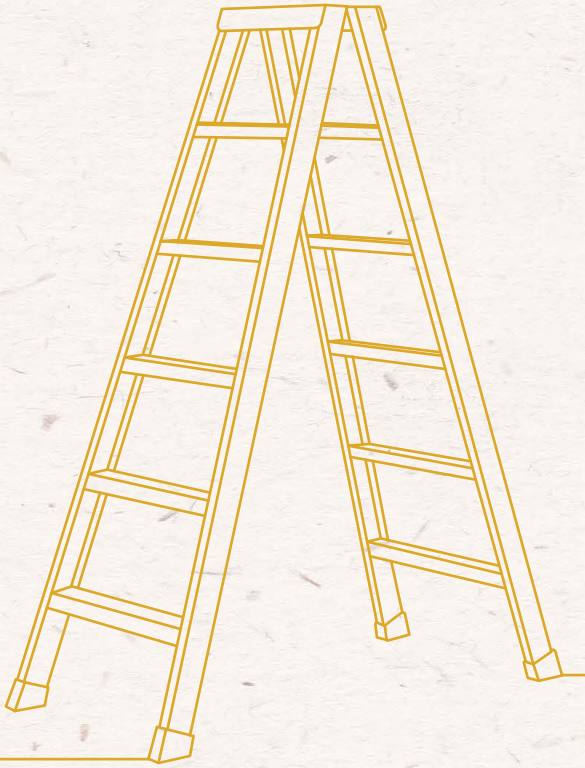
How it works
The new Lifetime ISA will be available to those under 40 and each year a maximum of £4,000 can be invested, with the government adding 25% of the amount.

The fund grows tax free, and can be used to finance the purchase of a home, or to provide for retirement after the age of 60.

If money is used for any other purpose, the government contribution plus the tax free growth on that contribution is lost, and there is an exit penalty of 5%.

Nevertheless, clearly someone opening this new ISA at age 18 can contribute until the age of 50 resulting in a total government contribution of £32,000 (32 years at £1,000pa).

It is likely that over time, this form of saving will replace smaller pension plans for those who are in a position to start saving before the age of 40.



CAPITAL GAINS TAX

It is already the case that since 6th April 2015, non-residents have been required to report all disposals of UK property within 30 days and to pay tax on any gain arising since 6th April 2015.

There are two options:

Option 1
The gain can be calculated either as the difference between the value of the property since 6th April 2015

Option 2
On a time apportioned basis from acquisition to the time of sale, taking only that proportion of the gain arising after 6th April 2015

From 6th April 2016, the rates of capital gains tax are reduced from 18% to 10% and from 28% to 20%, but importantly not for residential property.

CORPORATION TAX

As part of the UK's government's stated wish to become a highly attractive base for international businesses, the rate of corporation tax is to be reduced from the current 20% to 19% from 1st April 2017 and to 17% from 1st April 2020.

There are indications that the rate may be cut even lower in the coming years, possibly to 10%.

INHERITANCE TAX

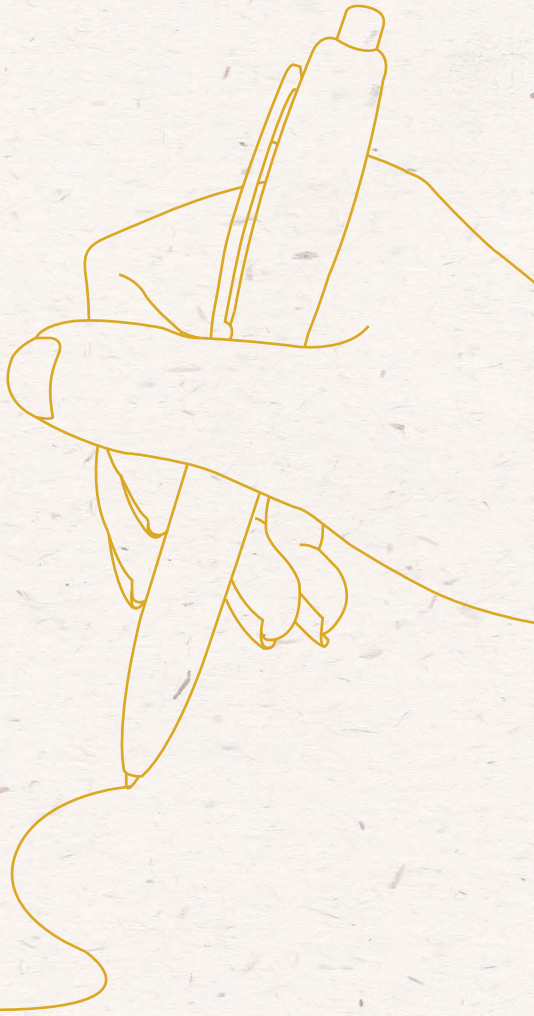
The government has long wanted to increase the IHT nil rate band from the current £325,000 per person.

This is now being achieved by way of a new additional allowance available to each person of up to £175,000 where they pass on their main residence to their children or grandchildren.

This will in effect increase the nil rate band in these circumstances to £500,000 per person, or £1m per married couple.

The new allowance will be phased in starting at £100,000 in 2017/18 and increasing each year by £25,000 up to £175,000 in 2020/21. It will also be tapered by £1 for every £2 by which the estate exceeds £2m.

It is clear that wills may need to be reviewed to ensure the maximum benefit from the new allowance is obtained. Careful planning will clearly be important in some cases.



DOMICILE - INHERITANCE AND OTHER TAXES

New measures are being introduced which will affect non-UK domiciled individuals.

DEEMED DOMICILE FOR INCOME AND CAPITAL GAINS TAX PURPOSES

Until 5th April 2017, those who are non-UK domiciled are able to benefit from the remittance basis, whereby they are taxed only on their UK source income and gains together with any monies not previously taxed in the UK accruing after their arrival here.

This situation continues without restriction, albeit the requirement to pay an annual charge to remain on this basis.

From 6th April 2017, this favourable regime ceases after UK residence in 15 of the past 20 years.

Once that threshold is exceeded, tax is based on worldwide income and gains.

OPPORTUNITY

There will be the possibility to rebase the value of overseas assets for capital gains tax purposes in 2017 for those affected.

DEEMED DOMICILE FOR INHERITANCE TAX PURPOSES

Until 5th April 2017, an individual born in the UK but who subsequently acquires a domicile outside the UK is treated as non-UK domiciled for inheritance tax purposes until he or she has been UK resident for at least 17 out of the previous 20 years.

From 6th April 2017, such individuals will automatically be treated as UK domiciled for IHT purposes for any periods during which they are subsequently resident in the UK.

Effects of changes

For those who are in this position, or have been in the UK for close to 17 out of the last 20 years, careful tax planning may be required prior to 5th April 2017.

In addition, whereas UK domiciled individuals who adopt a domicile of choice overseas remain UK domiciled for three years after departure, this period will increase to five years from 2017.

The details of the new rules have not yet all been enacted and further clarification is likely.

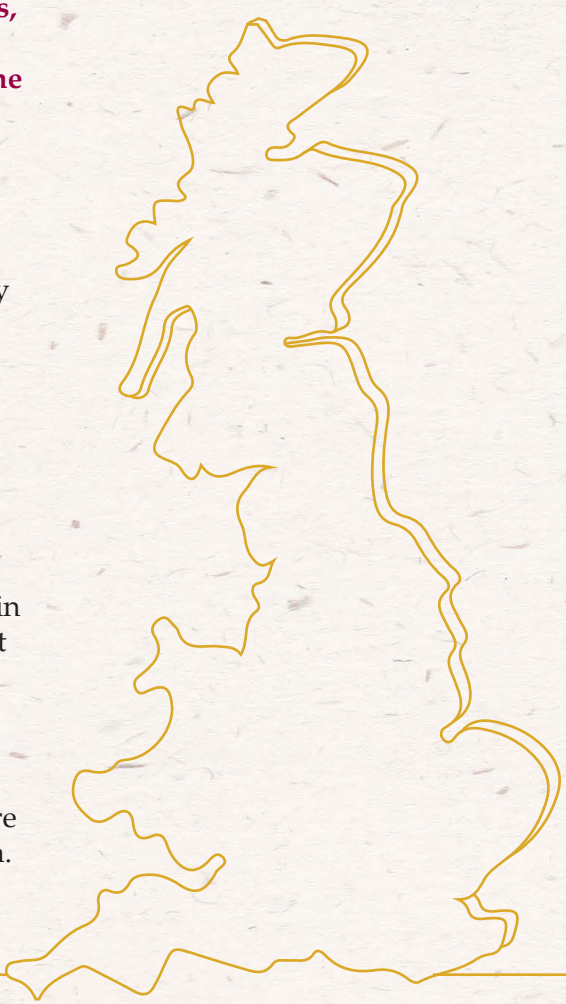
STAMP DUTY LAND TAX

Since the 1st April 2016 new stamp duty rates apply to the purchase of residential buy to let properties and second homes.

There will be a further 3% added to the standard stamp duty rates, meaning the lowest band will now be 3% instead of 0% and the highest 15% instead of 12%.

Effects of the changes
If you are replacing your main residence then you will need to sell or gift your existing property within 18 months of completion of your new property in order to avoid the higher rates being applied.

In addition, if you inherit part of a property and your share of that property is less than 50%, then provided you dispose of it in under 3 years, this will not count as a residence for the new rules. The new 3% rate will also affect married couples who transfer property with debt between themselves where they own more than one property between them.



These changes are often complex in the detail and this summary is meant as a guide only.

This is particularly relevant now that there has been a change in Prime Minister and Chancellor and the decision by the UK to leave the EU.

Professional advice should be taken before basing any decisions on the matters raised in this guide. If you would like further advice, please contact us or find us on **www.dunneandwaterman.london**

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