MCBRIDES BUSINESS ARENA

News and views to give you the edge in business

Property financing costs and interest relief

From April 2017 income tax relief will start to be restricted to the basic rate of tax for interest (and other financial costs) incurred by landlords of residential properties. The restriction will be phased in over three years and therefore be fully in place by 2020/21.

In the first year the restriction will apply to 25% of the interest, then 50% the year after and 75% in the third.

The new rules only apply to residential properties and do not apply to companies or furnished holiday lettings. The restrictions apply to any interest and finance costs and so would also limit mortgage arrangement fees and interest costs on loans to buy fixtures or furniture.

How much extra tax will this mean?

The additional amounts of tax arising will depend on the marginal rate of tax for the taxpayer. Basic rate taxpayers should not be substantively affected by the proposals. A higher rate taxpayer will, in principle, get 20% less relief for finance costs.

However, the calculation method may mean that some taxpayers move into higher rate tax brackets.

The example below illustrates this situation.

And there's more to watch out for

The amount of the interest relief is restricted where either total property income or total taxable income (excluding savings and dividend income) of the landlord is lower than the finance costs incurred. For example, if net property income is £4,500 before interest of £6,000, the landlord is making a £1,500 loss. Despite this £4,500 is taxable. Also the interest relief is restricted to £4,500 at 20% rather than £6,000 at 20%. The unrelieved interest (£1,500 at 20%) is carried forward and may get tax relief in a later year.

Child benefit is clawed back if 'adjusted net income' of a couple with children is above £50,000. Interest will not be deductible in the calculation of 'adjusted net income'.

The personal allowance is reduced if 'adjusted net income' is above £100,000.

Example: Consider the 2020/21 tax year when the transitional period is over. Let's assume that the personal allowance is £12,000 and the basic rate band is £38,000 meaning that the higher rate band starts at £50,000. Sara has a salary of £35,000, rental income before interest of £23,000 and interest on the property mortgage of £8,000.

Under the current tax rules, taxable rental income is £15,000. She will not pay higher rate tax as her total income is £50,000 - the point from which higher rate tax is payable.

With the new rules, taxable rental income is £23,000. So £8,000 is taxable at 40% - £3,200. Interest relief is given after having computed the tax liability on her income. The relief is £8,000 at 20% - £1,600. So an extra £1,600 tax is payable.

Team Talk

The Prime Minister is clearly a gambler. Flushed with the success of the General Election and keen to keep his party in order he set us on the road to this week's EU Referendum. However, the experience of the Scottish independence vote shows how hard it can be to predict an outcome.

Forget the facts, figures, lies, truths, scare-mongering and so on. No one knows what would happen should we leave, nor what will eventually transpire if we stay.

I have spoken to many clients over the last few months on the issue, and if I may I would summarise their views, and my own, as follows. The heart says leave – to retain our independence, sovereignty and greater ability to shape our destiny. The head says stay as the effect on business, trade and the economy might be catastrophic. And who wants another recession and more austerity?

So on the 23 June it boils down to a simple choice. Play safe or roll the dice. And you can be assured Mr Cameron won't be the only one sweating on the decision of the great British public.

Nick Paterno,
Managing Partner
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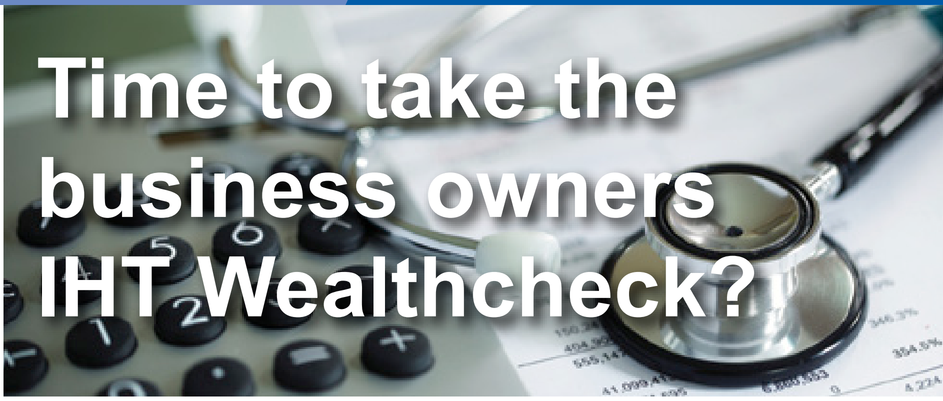

Time to take the business owners IHT Wealthcheck?

There is a lot to lose if you take your eye off the Inheritance Tax (IHT) ball which currently stands at a flat rate of 40% on death. Many owner managers seem to ignore the potential impact of IHT on their business interests. There are many reasons for this: a reluctance to contemplate or plan for their own mortality, the thought that it will be someone else's problem, or the assumption that 'it's all exempt from tax anyway'. This approach could see the business die with the owner manager.

The McBrides IHT Wealthcheck looks at your total family wealth and exposure to IHT. It can also review company accounts and business structures to ensure existing investments on the balance sheet make sense from an IHT perspective. We did this recently for a client and saved them £250,000 in tax (see case study).

Is this relevant to me?

Most likely 'yes' if:

- You own your company or unincorporated business, or
- You have a rental property with capital growth and a home with a fair amount of equity alongside other investments, or
- You have recently inherited a business, a second home, investments or been bequeathed money.

When you pass on your business, home or investments to loved ones, you want to feel sure that they will receive what you bequeath without an onerous tax liability. Equally, if you are in a position to inherit, it is also imperative that you make sure that your inheritance is fully tax planned and you in an appropriate position. Please get in touch and take the McBrides IHT Wealthcheck.

Case Study: £250,000 of IHT saved. The owner manager of THISCO sadly passed away. A solicitor acting for the owner's estate contacted McBrides to ask for a company and share valuation. The owner manager's family was looking at a £250,000 IHT bill on properties worth over £1m that were held within the group of trading companies. As the accountants for THISCO, we had a good knowledge of the business and not only provided a valuation but investigated the possibility of mitigating the IHT bill.

We looked at the 'investment' assets to check that the company passed the 51% test which proves that the business is 'wholly' or 'mainly' trading in order for the company to be eligible for business property relief which provides 100% relief from IHT. THISCO passed the 51% test but then we had to check whether the investment properties were caught by the 'excepted assets' provisions, which would disqualify their value from Business Property Relief. Our research suggested that in these specific circumstances, the relief should be available and the case was made to HMRC. 100% relief was duly applied, saving £250,000 in tax for the family inheriting the shares of THISCO.

Awards success for McBrides

Emma Haggarty, our senior corporate tax adviser, has been named overall winner for 'Women in Finance' at this year's Kent Women In Business Awards.

Emma received her award from broadcaster and former MP Lembit Opik. Emma says: "I was truly surprised and honoured to have won this award. I've been fortunate to have been supported and motivated by colleagues and clients throughout my career so far and I'm proud to be a part of the fantastic business community we have here in Kent and the South East."

Nick Paterno, Managing Partner adds: "We are so proud of Emma, her category 'Women in Finance' was hotly contested with over 30 submissions. Emma's win is testament to her dedication and fantastic interpersonal skills; she is very well liked and respected by our many clients and has fast become an integral part of our team."

McBrides was also a finalist at the Bexley Business Excellence Awards 2016, a celebration of the best of Bexley business, and were 'commended' as one of the best businesses in the area for Employee Training and Development.

From left to right – Georgia Green, Jane Girling, Nick Paterno, Mia Driscoll and Tanya Hamilton

What's a "PSC Register" and why do I need to know about it?

New regulations came into force on 6 April 2016 requiring UK companies and limited liability partnerships (LLPs) – but not publicly traded companies - to identify and record relevant persons who ultimately have significant control of their entity. Companies/LLPs will need to keep a register of people with significant control ('PSC register') in preparation for the need to file this information at Companies House from 30 June 2016.

A 'person with significant control' is someone who meets any one of the following conditions:

Company

- holds, directly or indirectly, more than 25% of the shares or the voting rights in the company; has directly or indirectly the power to appoint or remove the majority of the board of directors of the company;
- has the right to exercise or actually exercises significant influence or control over the company;
- has the right to exercise or actually exercises significant influence or control over a trust or firm that is not a legal entity, which in turn satisfies any of the above conditions over the company.

LLP

- holds, directly or indirectly, the right to share in more than 25% of any surplus assets of the LLP on a winding up, more than 25% of the rights to vote on those matters which are to be decided upon by a vote of the members of the LLP, or the right to appoint or remove the majority of the persons who are entitled to take part in the management of the LLP;
- has the right to exercise, or actually exercises, significant influence or control over the LLP or over the activities of a trust or firm.

Companies and LLPs need to take action NOW to identify those individuals that will have to be contacted and put procedures in place to ensure they can meet their record keeping and filing obligations.

Can you claim the Marriage Allowance?

The Marriage Allowance was introduced from 6 April 2015 and permits up to 10% of the Personal Allowance of the spouse with the lower income to be transferred to the spouse with the higher income. If you qualify and have not already made a claim you can do so either via your income tax return or online. The latest you can make the claim is 4 years after the end of the tax year to which the claim relates, i.e. 5 April 2020 for the tax year ended 5 April 2016.

You can claim if you meet all of the following conditions:

- you are married or in a civil partnership
- you must have taxable income of less than the Personal Allowance (£11,000 for 2016/17)
- your partner must have taxable income of no more than £43,000

The claim must be made by the spouse who is transferring their Personal Allowance.

How much can be claimed?

The lower earning spouse can transfer up to 10% of their Personal Allowance, i.e.

10% of £11,000 = £1,100 for 2016/17

10% of £10,600 = £1,060 for 2015/16

The maximum tax saving for 2016/17 is £220 (£212 for 2015/16).

For more information about the Marriage Allowance, and to find out how to claim it, visit the GOV.UK website at https://www.gov.uk/marriage-allowance or speak to Adam Hills of our tax team.

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Introducing the McBrides Wealth Management team

Richard Vessey
Wealth Planning Director

Richard began working in Financial Services in 2001 in a financial planning role with Barclays. After a few years he moved to a national accountancy firm within their financial planning department and after a further five years, moved to his current position.

He is both a Chartered and Certified Financial Planner with experience across the spectrum of personal financial planning. He spends his time working with new and long-standing clients to determine their overall objectives and explore the best solutions to achieve them.

Whilst he has a Masters Degree in Physics and Astronomy from Durham University, a career as a Financial Planner was a natural fit for someone with a head for figures and who, originally hailing from Yorkshire, could be described as being "careful" with money!

Colin Williams
Employee Benefits Specialist

Colin started his Financial Services career in 1999 with HSBC Bank working as a Financial Planner and gaining invaluable experience working with both Retail and Corporate clients in the City and West End of London. Colin joined our Employee Benefits team in December. He is a keen sportsman and lives in Essex with his wife Joanna and 3 young children, Alfie, Charlie and Harrison.

Paul McKie
Wealth Planner

Paul has over 20 years' experience in Financial Services, working within small firms as well as multi-national corporates.

He appreciates the market from both a technical and practical perspective, and understands the different planning strategies that can support different types of client. Outside of work Paul is married to Diane and has two children, Harry and Hollie. Most of his spare time is spent coaching Harry's football team, and he is undertaking some of the Football Association coaching qualifications.

Matt Eason
Wealth Planner

Matt entered the financial services industry back in 1995 with one of the country's largest consultancy firms, where he dealt mainly with medical professionals. In 2009 he joined the company and since then his client base has continued to expand on a referral basis to the extent that he now gives advice to professional people outside the medical arena. He is married to Janet, and lives in Tenterden, Kent. Matt is a keen golfer and still follows his home town football team, Sheffield United.

Employee Ownership Trusts – a potential succession solution

The Employee Ownership Trust (EOT) is a type of employee benefit trust created by government to encourage owners to sell a controlling stake in a company to its employees. Provided that certain rules are met, the transfer or sale of a controlling stake to an EOT by a shareholder provides relief from any Capital Gains Tax (CGT) that might otherwise be paid. An EOT can also be used to pay tax-free bonuses to staff, and there are also Inheritance Tax

reliefs to be had, so it's worth looking at, particularly if you are exploring succession or exit options.

For more detailed information on the benefits and limitations of an EOT, why not attend our next FaB (Finance and Business) Breakfast meeting on **Wednesday 6th July** at the **London Golf Club**. It costs nothing and includes a complimentary breakfast, but places are limited so contact Shirley.caddock@mcbridesllp.com as soon as possible if you are interested in attending.