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Capital Gains Tax (CGT) annual exemption

Currently, gains on assets sold, other than property, under £11,300 are tax-free. Married couples and civil partners who own assets jointly can claim a double allowance making gains of up to £22,600 tax free!

CGT is charged at 10% if you are a basic rate taxpayer and 20% if you pay tax at a higher rate (for gains on property sales the rates are 18% and 28% respectively) but remember, if you don't use the allowance within the tax year, it's lost forever.

Vehicle Excise Duty (VED) - all change

Vehicle Excise Duty (formerly known as Car Tax or Road Fund Licence) has changed for newly registered vehicles. The date of first registration of a vehicle now plays a large part in calculating the duty payable.

The new rules which came into force on 1st April 2017 take the CO_2 emissions of the car, the fuel type and the cost of the vehicle into account to calculate the annual cost of the VED.

In the first year

The VED charge will be linked to the CO_2 emissions of the vehicle - the lower the CO_2 the lower the first years VED. For example, a vehicle first register after 1st April 2017 with CO_2 emissions of 51 - 75 g/km2 would have a charge for the first year of £25. But with CO_2 emissions of 151 - 170 g/km2 the charge for the first year would be £500!

The second and subsequent years - the Standard Charge

The annual charge for the second and subsequent years for vehicles with a cost less than £40,000 when new will be:

- **£140 for petrol or diesel cars,**
- **£130 for alternative fuel cars (hybrids, bioethanol, LPG),**
- **£0 per year for vehicles incapable of producing CO_2 (electric vehicles).**

Vehicles with a list price of more than £40,000 when new

Higher priced vehicles costing in excess of £40,000 when new will be charged as all other vehicles for the first year with the rate depending on the CO_2 emission but for the next five years the rate will be the Standard Charge depending on the fuel type of the vehicle as above **PLUS** an additional charge of £310 per year.

From the start of the 7th year after first registration the charge will revert to the Standard Charge depending on the fuel type of the vehicle.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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Property Rental - An inventory is now a necessity!

April 2016 seems a long time ago, but for those of you with rental property it was the start of many changes to the way rental property is taxed.

The Wear and Tear Allowance was repealed in April 2016 levelling the playing field for landlords renting furnished, partially furnished or unfurnished property but if you have rented furnished property for a number of years the accounts from April 2017 will have complexities which you may not as yet have considered.

The new Replacement of Domestic Items Relief gives relief for items purchased to replace those supplied in rental property. There is no relief for the initial expenditure, meaning the cost of setting up a property to be let as furnished, will receive no tax relief at all. The Nationwide Building Society in May 2016 published a survey which estimated the cost of furnishing a 3 bedroom property to be £15,215! Of course it will not be necessary to spend this amount on a rental property but whatever the outlay, to receive no tax relief will be a blow, especially if you have always claimed the Wear and Tear Allowance in the past.

There is a further blow to come from the Replacement of Domestic Items Relief. When you actually come to replace a dilapidated item, any improvement from the old item cannot be claimed. For example; a dilapidated sofa is replaced by a new sofa bed. The cost of a new sofa is £400 but the new sofa bed costs £550. The value of the "improvement" is the difference i.e. £150 and so would not be allowed as an expense.

There is a little leeway in that the legislation does allow for a modern equivalent so, for example, an old washing machine could be replaced like for like with a new model which will inevitably be technologically advanced, however the relief would not apply to an old washing machine being replaced with a washer/dryer.

Replacement of Domestic Items Relief is given for 'domestic items' which includes:

- **Moveable furniture**
- **Furnishings such as carpets, curtains and linen**
- **Household appliances such as fridges and freezers**
- **Kitchenware such as crockery and cutlery**
- **Televisions**

And these items must be provided solely for the use of the tenant within the residential property.

Top tip:

An inventory has been something which professional letting agents have always provided to secure the landlord and the tenant however it is now increasingly important to make and retain an inventory together with the receipts for any items replaced within the rental property. If the inventory has a good description of the item it will be an easier process to demonstrate a like for like replacement and to claim the full cost against the rental income.

Self-employed - moving your accounting year end

If you are self-employed, you may be able to improve your cash flow by choosing an accounting year that ends early in the tax year. This maximises the delay between earning your profits and your final tax demand. However an accounts year end early in the tax year brings forward your entry date for Making Tax Digital reporting obligations.

Top tip:

Ask us for a review of your accounting year end to find out the commercial benefits of moving this.

Long service awards

Long service awards can be awarded to employees up to the value of £50 per year for each year of service without incurring a tax liability provided:-

- **they've worked for the employer for at least 20 years**
- **the award is worth less than £50 per year of service**
- **you haven't given them a long-service award in the last 10 years**

For example, an employer can give a non-cash award with a value of up to £1,000 for 20 years' service.

The award must not be "readily converted to cash" so that might be, for example a watch, clock or camera. However if the award takes the form of an asset which can be sold or cashed in then PAYE and NIC must be calculated on the value of the asset, deducted via payroll and reported to HMRC.

Examples of assets which are readily convertible to cash are:-

- **Stocks and shares**
- **Commodities - such as precious metals**
- **Financial instruments**

Keep your personal allowances and don't pay tax at 60%!

Depending on your level of income, most individuals receive an amount which is tax free, this is called their Personal Tax Allowance. This allowance is gradually reduced for those with incomes in excess of £100,000 until it is fully withdrawn for those with incomes in excess of £123,000.

The tax paid on the income within that £23,000 band is effectively 60% - a substantially higher rate of tax than those with incomes in excess £150,000 which is where the 45% tax rate kicks in!

Take a look at these examples:

Jenny earns £100,000 per annum from her employment as a senior manager. She will pay PAYE tax of £28,700. On a salary of £100,000 she maintains her full personal allowance to be used against her salary.

She is paid a bonus of £5,000. However, she is now over the threshold for personal allowance withdrawal and her allowances are reduced at the rate of £1 for every £2 of her income in excess of the £100,000 threshold. Resulting in PAYE tax of £3,000 being paid on the £5,000 bonus, a rate of **60%!**

This should be compared with Julian who has the same £100,000 salary but also has income from property of £70,000 after expenses. Julian will be required to pay £33,600 on his property income which only amounts to a rate of tax of **48%.**

This anomaly will occur no matter how the income level is arrived at; whether it be income from property letting, self-employment or from an employer or a directorship, whether salary or salary plus company dividends.

What can you do?

If there is a possible breach of the £100,000, consider taking slightly less income to remain below the threshold.

If you are in employment or are a director and have the option to take the amount of your income in excess of the £100,000 threshold as a salary sacrifice, for example by receiving childcare vouchers or pension contributions, this could reduce your income below the £100,000 and so reduce the tax rate payable.

If the income is from property letting and you have a spouse or partner then it may be possible to look at equalising the income derived from these assets.

Self-employed car costs

Self-employed individuals can claim the running costs of a car but not the cost of buying one. If the same car is used privately as well as for business you can only claim a proportion of the total costs.

Top tip:

Thinking about changing your car, ask for a review of the most cost effective way of running a car through your business.

Eating Home or Away?

When traveling on business or when it is necessary to temporarily work from a different office or location, a deduction can be made for expenses incurred. This includes the actual costs of travel together with any subsistence expenditure and other associated costs incurred in making the journey. This includes:

- **any necessary subsistence costs incurred in the course of the journey**
- **the cost of meals necessarily purchased whilst an employee is at a temporary workplace**
- **the cost of the accommodation and any necessary meals where an overnight stay is needed. This will be the case even where the employee stays away for some time**

A deduction is only allowed for subsistence costs which are attributable to the business travel i.e. costs incurred in the course of the journey which are additional to any costs the employee would ordinarily incur if they were not travelling on business. For example, a deduction would be allowed for the cost of a sandwich purchased at a station whilst travelling on business but not for the cost of a sandwich prepared at home and consumed whilst travelling, as this is not a cost incurred in the course of the journey.

Another example would be an employee of a French company is seconded to a temporary workplace in Aberdeen for 15 months. He sells his flat in France and rents a flat in Aberdeen. When he returns to France he will need to find himself a new place to live.

The rent of the UK flat is attributable to the business travel and a deduction can be given for the cost.

Costs which have not been incurred in travelling but as a consequence of the travel, for example the cost of putting a pet dog in kennels while away from home, are not allowable for tax purposes.

It is not necessary to take into account the costs saved as a result of the business travel. For example, if eating in a restaurant while on a business trip a deduction for the full cost of the meal is allowed and no adjustment for the costs saved by not eating at home is necessary.

HM Revenue and Customs (HMRC) will review all deductions claimed and may question payments for accommodation, subsistence or other expenditure attributable to business travel which appear unusually lavish. HMRC will consider whether, on the facts of the case, the expenditure is genuinely attributable to business travel or is, for example, some sort of reward. However it is incurring the cost which is the factor in checking if the deduction is allowable NOT the cost. For example, a claim would not be refused for first class rail travel on the basis that the same journey could have been made more cheaply in standard class.

Top tip:

If employees within your business undertake business travel or are required to work away from home why not consider putting in place a formal expenses policy which clearly sets out what can and what can't be claimed from the company? This may save time and costs at a later date answering queries from HMRC concerning allowable deductions for expenses paid in the business's accounts.