

Dear Client

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.

Best wishes

Crane & Johnston

TAX RELIEF FOR REPLACING FURNITURE IN LET PROPERTIES

The government announced in the Summer Budget that from April 2016, the current 10% Wear and Tear Allowance for furnished lettings will be replaced with a relief that enables all landlords of residential dwelling houses to deduct the costs they actually incur on replacing furnishings in the property. This will give relief for capital expenditure to a wider range of property businesses.

The proposals are being consulted on during summer 2015 and will give greater consistency and fairness across the residential property letting sector.

The new relief will apply to all landlords of residential dwelling houses, no matter what the level of furnishing. Those operating furnished holiday lettings businesses will continue to claim capital allowances instead of the new replacement basis. If enacted, the new rules will apply from 6th April 2016 for income tax purposes and 1st April 2016 for corporation tax.

The new replacement furniture relief will only apply to the replacement of furniture, furnishings, appliances and kitchenware provided for the tenant's use in the dwelling house. The initial cost of furnishing a property would not be included.

This will put the old concessionary basis that applied up until 5th April 2013 on a statutory footing, and is welcome news for those letting properties unfurnished and providing white goods, carpets and curtains, where relief had been withdrawn for a three year period

It is also good to see the government responding to lobbying from the accounting profession and letting sector to restore the tax relief. Please contact us if you are potentially affected by these changes.

VAT IS DUE ON CLOTHING GIVEN TO EMPLOYEES

The high street retailer French Connection has recently lost a case before the Tribunal concerning whether or not VAT is due on the supply of clothes to their employees. The retailer required employees in their shops to wear clothes from the current range and these were supplied free of charge.

The case concerned whether or not there was a taxable supply for VAT purposes. The retailer relied on VAT Notice 700 which states *"You do not make a supply if you provide goods (such as overalls or tools) to employees solely for the purpose of their employment and make no charge."*

The Tribunal held that the clothes did not qualify as a uniform and as the value of the clothes gifted in one year exceeded £50 then output tax was due on the value of the clothes supplied (cost to the employer).

Note that VAT may be due on many employee benefits such as private petrol and is something that is frequently checked by HMRC if they make a visit to examine your records.

BANK AND OTHER INTEREST TO BE PAID GROSS FROM APRIL 2016

As announced in the spring 2015 Budget, a new personal savings allowance will be introduced from 6 April 2016. This will be £1,000 a year tax free for basic rate taxpayers and £500 a year for higher rate taxpayers, but nil for those with income over £150,000.

As a consequence, tax will no longer be deducted at source from bank and building society interest. HMRC have launched a consultation to review whether changes should also be made to the rules on deduction of tax from other types of savings income such as "peer to peer" loans.

Remember also that the first £5,000 of dividend income will be tax free from 6 April 2016, but it remains to be seen whether this will apply to directors of their own companies

CONSULTATION ON CHANGES TO PERSONAL SERVICE COMPANIES (IR35)

In the Summer 2015 Budget the government announced that HMRC would start a dialogue with businesses on how to improve the effectiveness of the existing intermediaries legislation. HMRC will engage with stakeholders over the next few months to explore options to make the legislation more effective in protecting the Exchequer and levelling the playing field between direct employees and those who work in a similar manner but through their own limited companies. HMRC and the Government issued a Discussion Document on 17 July 2015 which seeks to make the existing rules more effective. They have identified that there is a growing body of evidence which suggests there is significant non-compliance with the current rules.

One option being considered would be for engagers to take on more of a role in ensuring that the right amount of employment taxes are paid. As now, the objective would be to ensure that where a worker would have been an employee if engaged directly, then the tax consequences would follow that. Under such an arrangement, those who engage a worker through a PSC would need to consider whether or not IR35 applies (in the same way as they would need to consider whether a worker should be self-employed or actually be an employee), and, if so, deduct the correct amounts of income tax and NICs as they would for direct employees.

EMPLOYMENT INTERMEDIARIES - CONSULTATION ON WORKERS' TRAVEL

The government is also proposing to remove tax relief for ordinary commuting (in general, home-to-work travel) for workers who are:

- supplying personal services
- engaged through an employment intermediary (including PSCs); and
- subject to (or to the right of) the supervision, direction or control of any person

The effect of this will be that individuals whose relationship with their engager is such that they look and act like employees **cannot claim relief on the everyday cost of travelling to work**, when employed through an intermediary.

This is intended to ensure a level playing field for access to tax relief for travel and subsistence and, if enacted, will take effect from 6th April 2016.

TERMINATION PAYMENTS UNDER REVIEW

A further consultation taking place this summer is into the simplification of the tax and national insurance treatment of termination payments. There is a widespread but mistaken belief amongst employees and employers that the first £30,000 of any pay-off is not subject to income tax and NICs. This often leads to difficulties when employees discover that the exemption does not apply to their circumstances and that income tax and NICs are due on the full amount.

Please contact us before you make any workers redundant as it is still possible to structure termination payments in a tax-efficient way if you get the documentation correct.

TAX DIARY OF MAIN EVENTS FOR SEPTEMBER / OCTOBER 2015

Date	What's Due
1 st September	Corporation tax for year to 30/11/14
19 th September	PAYE & NIC deductions, and CIS return and tax, for month to 05/09/15 (due 22 nd September if you pay electronically)
1 st October	Corporation tax for year to 31/12/14
19 th October	PAYE & NIC deductions, and CIS return and tax, for month to 05/10/15 (due 22 nd October if you pay electronically)