This month's newsletter includes articles covering: the appointment of the new Chancellor, action required by certain buy-to-let landlords, a recent court of appeal case, and lesser known facts about the Employment Allowance.

Property taxation has been subject to many changes recently including restrictions in relief for finance costs to the basic rate of income tax which will be phased in over four years starting from April 2017. We can help to calculate the impact this will have on your disposable income and assist with planning to mitigate the additional tax charges which will become due. We can also help with tax efficient Will drafting including providing advice on the implications of potential claims on your estate.

A new broom

Philip Hammond has been appointed Chancellor of the Exchequer as George Osborne returns to the backbenches.

Mr Hammond has already confirmed that there will be no emergency budget, and he will be presenting the usual Autumn Statement later in the year and a new Finance Bill March 2017.

The immediate impact for UK tax payers is therefore business as usual. The Finance Bill 2016 will continue its progress towards Royal Assent and we will continue to offer advice to clients based on current legislation.

The press, of course, are speculating on the options that Mr Hammond has when he does turn his mind to the Finance Bill 2017. These include a deferral in the introduction of tax changes for non-doms, a possible reduction in Corporation Tax rates to encourage businesses to stay in the UK (rates as low as 12% have been mooted), and other measures to encourage savings and investment.

Buy-to-let landlords action required

Buy-to-let landlords need to start considering their options, in particular, those who have borrowed heavily in order to build their property portfolio.

As we have mentioned previously in this newsletter, from April 2017 deductions for finance charges will be progressively reduced and replaced by a 20% tax credit. This will promote a number of landlords into the higher rates of Income Tax and increase most buy-to-let landlords' tax bills where annual finance charges are significant.

Consider Jane. She has purchased a number of buy-to-let properties and her total rental income is £120,000 a year. Her expenses, excluding mortgage and loan interest are £15,000 and her mortgage interest £85,000. Jane has no other income.

Her Income Tax bill for 2016-17, based on these figures, is estimated to be £1,800 leaving her with disposable income from her property business of £18,200.

With no changes in her rents and expenses her Income Tax bill will gradually increase until 2020-21 (when the changes to tax relief on finance charges are fully implemented). Her tax bill for 2020-21 will increase to £13,500, leaving Jane with a much reduced disposable income of £6,500.

Landlords affected need to start to consider their options now. There are a number of practical changes that could be made. For example, Jane could:

- increase rents,
- introduce savings to repay loans and therefore reduce interest charges,
- dispose of properties that are not pregnant with capital gains.

If you have borrowed heavily in order to build your buy-to-let business, better to consider your options now than to be forced into less effective restructuring as the transitional period progresses.

Where there's a Will…

If you leave your entire estate to charities, will you be turning in your grave if disinherited relatives mount a challenge to break your last will and testament, and succeed?

In a 2015 case heard by the Court of Appeal, a disinherited daughter challenged her deceased mother's Will.

The background to the case is illuminating. The daughter had not been in touch with her mother since she left home at age 17, some 26 years prior to her mother's death. The mother had made no provision for her daughter in her Will and left the majority of her estate to animal charities.

Aggrieved, the daughter brought a claim under the Inheritance (Provision for Family and Dependents) Act 1975. After many court appearances and appeals, the Court of Appeal has ruled that the daughter is entitled to share in approximately a third of her mother's estate. It should also be pointed out that the daughter's financial circumstances were somewhat straitened.

The charities that stand to lose out in this process are making a further appeal to the Supreme Court…

The Courts, therefore, have the power to over-rule the testamentary wishes of a deceased person if it feels that the needs of relatives prevail over and above the needs of non-related beneficiaries.

NIC Employment Allowance (EA)

For 2016-17, the EA is set at £3,000. This means that if you are eligible, you will not have to pay employers' Class 1 contributions up to this amount. The following set out some of the less well known facts about this allowance:

- The EA can only be used against your employer Class 1 NICs liability. It cannot be used against Class 1A or Class 1B NICs liabilities. Class 1A and 1B NICs are those payable on any taxable benefits or expenses provided by a business to its employees.
- You cannot claim the EA if the only employee paid above the secondary threshold is a sole director; or someone paid for personal or domestic work (unless they are a care or support worker).
- You can only claim one EA for your business or charity even if you have multiple PAYE schemes for different parts of your business or charity.
- You should take off the EA from employer Class 1 NICs liabilities before deducting any other amounts, for example, recoverable Statutory Maternity Pay.
- If you do not use your full £3,000 EA entitlement against your nominated PAYE scheme, but you have employer Class 1 NICs liability on your other PAYE schemes, and have paid all your PAYE up to date, you can apply to HMRC (at the end of the tax year) for a refund of any unused balance.
- If you do not apply for a refund, and have an unused balance you should apply to HMRC to use this against any forthcoming PAYE debt.
- If you make your claim for the EA towards the end of the tax year, you might not incur sufficient employer Class 1 NICs liabilities in the remainder of the tax year to use up the allowance in full. If so, HMRC will use the balance remaining against any PAYE debt or other tax/NIC liabilities arising in the following tax year. If you do not have any existing PAYE debts or liabilities to set the unused balance against, you can claim your allowance as a repayment.
- You can make a claim for the EA up to 4 years after the end of the tax year in which the allowance applies. For example, if you want to make a claim for the allowance for the tax year 2015-16, you must make your claim by no later than the 5 April 2020.
- If a business that is claiming the EA changes ownership, then that existing claim for the allowance will end when the transfer of ownership occurs.

Tax Diary August/September 2016

1 August 2016 - Due date for Corporation Tax due for the year ended 31 October 2015.

19 August 2016 - PAYE and NIC deductions due for month ended 5 August 2016. (If you pay your tax electronically the due date is 22 August 2016.)

19 August 2016 - Filing deadline for the CIS300 monthly return for the month ended 5 August 2016.

19 August 2016 - CIS tax deducted for the month ended 5 August 2016 is payable by today.

1 September 2016 - Due date for Corporation Tax due for the year ended 30 November 2015.

19 September 2016 - PAYE and NIC deductions due for month ended 5 September 2016. (If you pay your tax electronically the due date is 22 September 2016.)

19 September 2016 - Filing deadline for the CIS300 monthly return for the month ended 5 September 2016.

19 September 2016 - CIS tax deducted for the month ended 5 September 2016 is payable by today.