

Personal Tax Issues

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Income tax on dividends

- Dividend tax credit abolished from 2016
- New dividend tax allowance of £5,000 introduced
- Allowance does not reduce total income for tax purposes
- New tax rates on dividends
 - BR taxpayers 7.5%
 - HR taxpayers 32.5%
 - AR taxpayers 38.1%

Dividend to basic rate band

		Old			New
Salary		11,000			11,000
Dividends		<u>32,000</u>			<u>32,000</u>
		43,000			43,000
Less: Personal Allowance		<u>-11,000</u>			<u>-11,000</u>
Taxable Income		32,000			32,000
Less: Dividend Tax Allowance			5,000	0%	0
	32,000	10%	3,200	27,000	7.5%
					2,025
		<u>-</u>			<u>-</u>
		3,200			2,025
Dividend Tax Credit		<u>3,200</u>			
Tax Payable		-			2,025
Net Cash		39,800			40,975

£50k Net dividend

Assume personal allowances used		<u>2015/16</u>			<u>2016/17</u>
Dividends		<u>55,555</u>			<u>50,000</u>
		55,555			50,000
Taxable income		55,555			50,000
Less: Dividend Tax Allowance			5000	0%	0
31,785	10%	3179	27,000	7.5%	2025
23,770	32.5%	<u>7725</u>	18,000	32.5%	<u>5850</u>
		10,904			7875
Dividend Tax Credit		<u>5556</u>			<u>-</u>
Tax payable		5348			7875
Net Cash		44,652			42,125

£200k Net dividend

		2015/16			2016/17	
Dividends		222,222			200,000	
		222,222			200,000	
Less: Personal Allowance		_____ -			_____ -	
Taxable Income		222,222			200,000	
Less: Dividend Allowance			5000	0%	0	
	31,785	10%	3179	27,000	7.5%	2025
	118,215	32.5%	38,420	118,000	32.5%	38,350
	72,222	37.5%	27,083	50,000	38.1%	19,050
			68,682			59,425
Dividend Tax Credit		22,222			_____ -	
Tax payable		46,459			59,425	
Net cash		153,541			140,575	



Income tax on property

- Rent a Room Increased to £7,500 for 2016/17
- Wear & Tear Allowance Abolished for 2016/17
- Interest Relief Restrictions from 2017/18

Interest relief restrictions

Current position

Individuals who use debt finance to purchase residential buy to let can claim a tax deduction for finance costs

Change

From April 2017, restrictions will be placed on level of deduction so relief only given at basic rate

Tax Year	% Fully Deductible	% Restricted to Basic rate of tax
2016/17	100	0
2017/18	75	25
2018/19	50	50
2019/20	25	75
2020/21	0	100

Interest relief restrictions

Calculation is a Tax Restrictor so increases Taxable Income

	2016/17	2017/18	2018/19	2019/20	2020/21
Rents	135,000	135,000	135,000	135,00	135,000
Expenses	(13,500)	(13,500)	(13,500)	(13,500)	(13,500)
Interest deduction	(25,000)	(18,750)	(12,500)	(6,250)	
	96,500	102,750	109,000	115,250	121,500
Personal allowance	(11,000)	(9,825)	(6,700)	(3,575)	(450)
	85,500	92,925	102,300	111,675	121,050
Tax at 20%	6,400	6,480	6,480	6,480	6,480
Tax at 40%	21,400	24,210	27,960	31,710	35,460
Tax at 45%					
Tax due	27,800	30,690	34,440	38,190	41,940
Tax relief at 20%		(1,250)	(2,500)	(3,750)	(5,000)
	27,800	29,440	31,940	34,440	36,940
Effective tax rate	29%	31%	33%	36%	38%

Impact on personal allowance – Mr B has Gross Rentals £135,000, Deductible expenses say 10%, Interest £25,000

Incorporation of property portfolio

Advantages

- Companies not affected by restrictions to finance costs but watch BEPS
- Main rate of corporation tax falling to 17%
- Indexation available for capital gains
- Profits can be retained for future growth and investment
- Ltd companies can be a more simpler vehicle for succession planning (alphabet shares, growth shares)... easier than part shares of properties

Disadvantages

- Tax costs of incorporation (capital gains tax, stamp duty land tax)
- No capital gains tax annual exemption for Ltd company
- Obtaining the finance
- Double capital gains tax in the future (sale of property and subsequent sale of shares/business)

Incorporation of property portfolio

Capital gains position

- In absence of relief, transfer of property to company is a chargeable disposal for capital gains tax

Section 162 Incorporation Relief?

- Where applies defers the capital gain by reducing the base cost of the shares in the company by the gain arising on the transfer of chargeable assets to the company
- Company treated as having base cost in the assets at current market value

Incorporation of property portfolio

Requirements

- The transfer of an ongoing “business”
- Must be a going concern so more than a collection of assets
- All of the assets of that business except cash
- Wholly or partly in exchange for shares in the limited company - Differing classes for different shareholders



Capital gains tax reliefs

- Entrepreneurs Relief
- Investors Relief
- Employee Shareholder Status Shares

Capital gains tax reliefs

Entrepreneurs relief (ER)

- Goodwill on Incorporation: ER will apply when the seller holds less than 5% interest in the acquiring company
- Associated Disposals: ER to be claimed on an “associated disposal” of a privately held asset when the accompanying disposal of business assets is to a family member.
- Joint Venture and Partnerships: new definitions of “trading company” and “trading group” for ER purposes

Capital gains tax (CGT) reliefs

Investors Relief

10% CGT on disposal of qualifying shares

Qualifying shares

- Subscribed for by the person making the disposal
- For new consideration
- In an unlisted trading company
- Issued on or after 17 March 2016
- Held continually for three years before disposal (earliest look back 6 April 2016)

Capital gains tax reliefs

Employee Shareholder Status Shares (ESS)

- Employees who swapped some of their statutory employment rights for shares under the ESS rules enjoyed a total exemption from CGT
- First £50,000 of shares (valued at the date of award)
- For awards of shares under ESS made after midnight on 16 March 2016 the CGT relief is capped – an employee will only benefit from an exemption on his or her first £100,000 of gains

Non-Domiciled individuals

UK Domicile of origin

- Born in the UK
- UK domicile of origin
- Resident in UK after 5 April 2017
- Worldwide Income Tax and Capital Gains Tax
- Grace period for IHT

Non-Domiciled individuals

Non-UK Domicile of origin

- Resident in UK for 15 of last 20 years
- Deemed Domiciled in UK for all taxes from 6 April 2017
- Worldwide Income Tax and Capital Gains Tax
- Some protection for assets held in trusts
- Possibility of rebasing assets held offshore

Non-Domiciled individuals

Rebasing of assets

- Paid the Remittance Basis Charge for 2016/17 or for a prior year
- Became Deemed Domiciled in UK on 6 April 2017
- Asset had foreign situs at date of 2015 Summer Budget
- Only assets held in own name

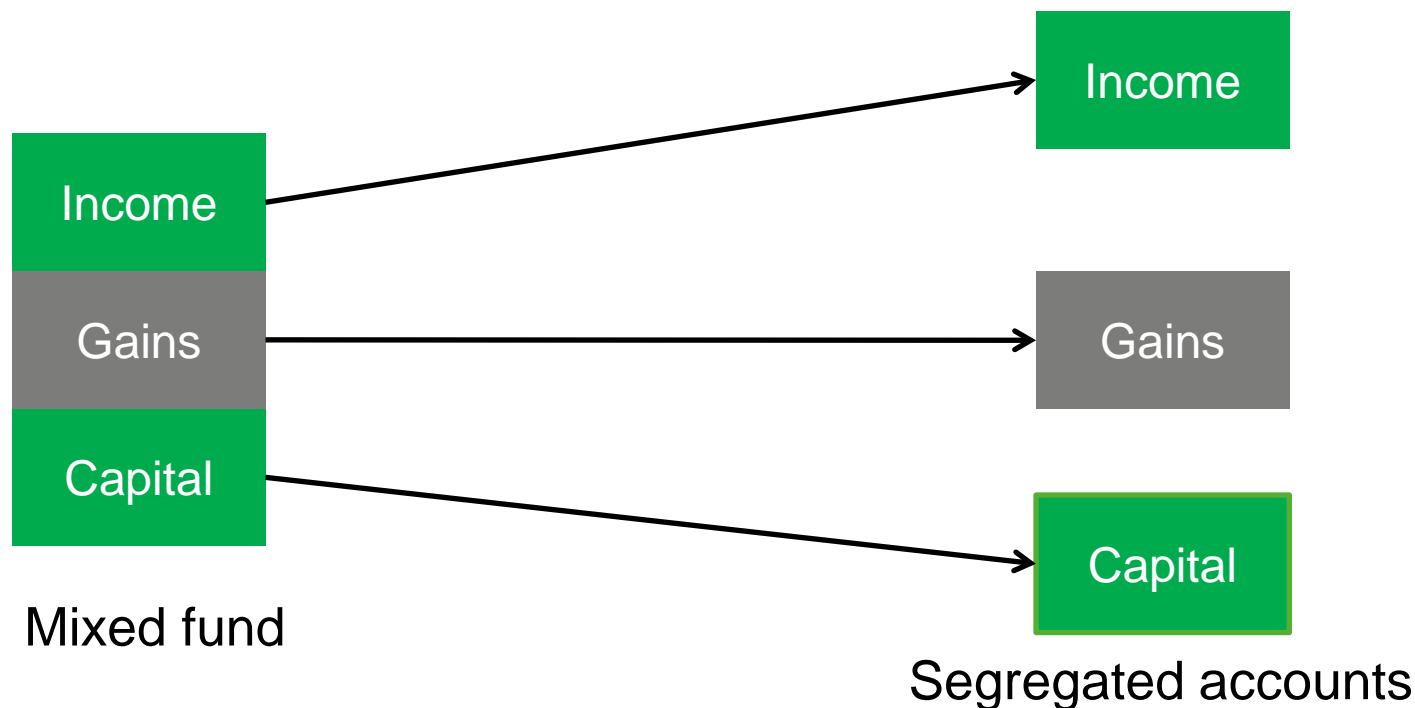
Non-Domiciled individuals

Segregation of mixed funds

- Available to all non-domiciled individuals
- Only available for cash balances
- Must be carried out from 6 April 2017 to 5 April 2018
- Only funds held in own name

Non-Domiciled individuals

Segregation of mixed funds





Thank you

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