



Are you getting it right on rent?

Between 1.75 and 2 million people are UK landlords, the majority of whom are private individuals with a single rental property.

HM Revenue & Customs (HMRC) has been running a let property campaign for several years and has recently updated its examples of errors landlords often make.

Moving in together: You might have moved in with your partner and decided to rent out your own property rather than selling it. Even though your rental income is only just covering mortgage payments, you may still be making a profit. When calculating rental profit, only the interest element of mortgage payments is an allowable expense, and it is restricted for higher rate taxpayers.

Property bought as an investment: You may have bought a property jointly with the aim of renovating and then renting it out. The rental expenses have to be divided between you properly. You cannot just allocate all the allowable expenses to whichever one of you is paying tax at the higher rate to minimise the tax.

Divorce: You could have rented out your jointly owned property, with each of you then moving into smaller accommodations. Again, the rental profit will be taxable and will normally be split between you, based on your respective shares in the property. You will both have to declare your share of the profit.

Care home: Perhaps your parents have moved into a residential care home and, in order to pay the care home fees, have rented out their property. The rent is still taxable, even if all the rental profit received is going towards the fees. Care home fees are not an allowable expense.

Property bought for a child at university: If your son or daughter stays rent free, then there are no tax consequences. However, should rent-paying friends move in with them, the situation changes – even if the arrangement with the flatmates is informal.

If any of these situations apply to you, then please get in touch. It may be necessary to inform HMRC about any undeclared rental profit by making a voluntary disclosure – probably going back for up to six years. This will avoid the risk of higher penalties down the line if HMRC subsequently discovers the omission.

Domicile – wherever you lay your hat?

Non-domiciliaries may have been deemed UK domiciled for all tax purposes since 6 April 2017 – without even knowing it – under retrospective changes contained in the September Finance Bill.

When the measures were dropped from Finance Act 2017, there were calls to delay them until April 2018 to provide certainty to non-doms on their status, but these have not been heeded.

Non-doms will now become 'deemed domiciled' and lose the tax benefits of their status after they have been resident in the UK for at least 15 out of the previous 20 tax years. A deemed domiciled person will generally be subject to income tax, capital gains tax (CGT) and inheritance tax (IHT) on the same basis as someone who is UK domiciled. Also, people who were born in the UK with a UK domicile of origin, and who return to the UK after obtaining a domicile of choice elsewhere, are also now deemed domiciled.

Remittance basis taxpayers who become deemed UK domiciled under the 15-year rule will be able to rebase their overseas assets to their market value at 5 April 2017. This means that any gains accruing up to 5 April 2017 will not be charged to CGT.

Remittance basis taxpayers will also be able to rearrange their overseas mixed funds to enable them to remit capital ahead of income and gains.

Also from April 2017, IHT will be charged on UK residential property, even when indirectly held by a non-dom through an offshore structure. An interest of less than 5% in the structure is exempt.

If you are affected by any of these changes we can help you review your arrangements now.

The data protection revolution is coming

From 25 May 2018, the EU General Data Protection Regulation (GDPR) will replace the Data Protection Act (DPA). Is your business ready?

The GDPR deals with the storage and handling of personal data, extending the scope of data protection and introducing much tougher fines for non-compliance. The UK's decision to leave the EU will not affect the GDPR's introduction.

The DPA dates from nearly 20 years ago, when only the largest companies were involved in collecting and storing data. The GDPR will bring EU data protection law into the 21st century, and could have wide-ranging consequences for SMEs. The GDPR's definition of personal data is more detailed, so, for example, an IP address can be personal data.

One of the biggest changes will be that of consent, with an individual's active agreement required. A record of this consent must be retained. Individuals can withdraw consent at any time and their details must then be permanently erased.

Although the introduction of the GDPR is a few months away, you need to review your systems now. For some SMEs, it might mean a complete change in corporate culture. Fines for non-compliance are up to 4% of turnover or €20m – whichever is higher.

Simple assessments

HMRC will soon begin issuing simple assessments for the 2016/17 tax year.

This new approach to collecting tax avoids the need to bring taxpayers within the self-assessment system. Simple assessments will, however, only be used where a taxpayer's tax affairs are straightforward and HMRC already has all the relevant information.

The initial focus will be on taxpayers who have recently reached pension age, or where tax underpayments cannot be collected using PAYE coding.

You will normally have just 60 days in which to query a simple assessment, with the tax then payable on the normal date – 31 January 2018 for 2016/17.

Keeping up with employment changes

Changes to the taxation of employment termination payments, originally announced in the 2016 Budget, will go ahead from 6 April 2018.

The legislation introduces a new concept of post-employment notice pay (PENP). This effectively excludes from the £30,000 exemption any amounts that would have been subject to PAYE and national insurance contributions (NICs) had the employment continued. It will do away with the distinction between contractual and non-contractual payments in lieu of notice (PILONs) and may result in tax on payments of compensation for loss of office.



Also from 6 April 2018, all taxable termination payments will be subject to employer's NICs – under current rules there is no NIC liability. Employers will need to factor in the additional cost when planning termination payments.

Another measure that has reappeared in the Finance Bill currently before Parliament is the reduction from £10,000 to £4,000 in the money purchase annual allowance (MPAA) for pension contributions. The normal annual allowance is £40,000. The MPAA is not triggered if the individual only draws the tax-free lump sum, or purchases an annuity.

The change affects individuals who flexibly access their pension benefits but make further contributions to a money-purchase scheme. The reduction to the MPAA has been backdated to 6 April 2017, the original start date before it was dropped from Finance Act 2017.

If you have exceeded the £4,000 allowance, you must report the excess on your tax return and it will be subject to tax.

Planning for the dividend allowance cut

The dividend tax allowance is to be reduced from £5,000 to £2,000 from April 2018. The change was originally in the spring Finance Bill, but was dropped because of the general election.

At present, individuals pay no tax on the first £5,000 of dividends they receive. The £3,000 cut will leave shareholders who receive more than £2,000 of dividends worse off by up to an annual £225 (at basic rate tax), £975 (higher rate) or £1,143 (additional rate) depending on their income. Those likely to be hardest hit are director/shareholders who take remuneration from their company mainly in the form of dividends.

Dividends remain advantageous compared with salary for basic rate taxpayers. However, if you pay tax at the higher or additional rates, the effective rate of tax on dividends is only about 3.6% below that on salary, taking national insurance contributions into account as well.

Company owners who have not made full use of the £5,000 dividend allowance in 2017/18 should make up the difference by 5 April 2018, if they are in a position to do so.

Also adversely affected by the cut in the dividend allowance will be anyone who relies on income from their investment portfolio to supplement their earnings or, in many cases, their pension. If you currently receive more than £2,000 in dividends, you might benefit from switching to investments that give capital growth rather than income.