Veterinary Matters

DRIVING LIFELONG PROSPERITY

Spring 2016

SPOTLIGHT ON TAX CHANGES AND OPPORTUNITIES

Welcome...

In this issue we highlight some of the tax changes, introduced from April 2016, which may affect you and your practice. We also look at the potential opportunities available to enable you to plan for a better future.

INSIDE

- Budget 2016
- Changes to tax on Dividends and Interest offers potential opportunities
- Tax simplification reaching out to benefits in kind
- Buy-to-let landlords targeted again
- Tapered pensions annual allowance for higher earners
- Meet the Team

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BUDGET 2016
CORPORATE TAX
Corporation Tax rate to be further reduced to 17% by 2020. (Rates will reduce to 19% from 1 April 2017)
Overdrawn directors loan accounts will be subject to tax at 32.5% from April 2016 (previously 25%)
INDIRECT TAXES
Sugar tax to be introduced from April 2017 to help address childhood obesity
Insurance Premium Tax – to rise by 0.5% to 10% from 1 October 2016
PERSONAL TAX
Personal allowance to increase to £11,500 for 2017/18 (£11,000 in 2016/17)
Lifetime ISA to be introduced for under 40s. Individuals can pay in up to £4,000 per annum with a maximum £1,000 bonus from the government
SDLT
SDLT on commercial properties changed to 0% up to £150K, 2% £150k to £250K, 5% over £250k
3% surcharge on purchases of second homes by an individual and any corporate purchases of residential property
CAPITAL GAINS TAX
Entrepreneurs' Relief (10% Capital Gains tax)– relief extended to investors with a separate £10m lifetime investment limit available where an individual has subscribed for shares in an unlisted trading company which are held for at least three years
CGT rates to decrease to 20% and 10% for higher rate and basic rate taxpayers respectively. The current rates of 28% and 18% will remain for residential properties
Employee Shareholder Status (ESS) – exempt gains will be capped at a lifetime limit of £100,000 after 16 March 2016. ESS agreements already in place will not be affected

Changes to tax on Dividends and Interest offers potential opportunities

From 6 April 2016, fundamental changes to the taxation of dividends and interest were introduced. HMRC continue to talk about reduced administration for taxpayers; however, whilst these latest changes are likely to result in many more people being required to file a tax return, they do offer some opportunities for good tax planning.

With the move towards digital tax accounts and quarterly reporting, it is hard to see how tax administration is going to get any easier.

DIVIDENDS

Previously, an individual receiving gross dividends up to the basic rate i.e. £42,385 in 2015-16 (assuming no other income) would not have had a tax liability and would not have been required to file a tax return.

Now, however, the same individual will only be able to receive dividends of up to £16,000 before becoming subject to tax and required to self-assess. With a personal allowance of £11,000 and dividend allowance of £5,000, any dividend income above this would be subject to tax at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

As a summary, dividend rates changed from 6 April 2016 as follows:

	NEW	OLD
£5k – dividend tax allowance	0%	n/a
£11k - £42k	7.5%	0%
£42k - £150k	32.5%	25%
> £150K	38.1%	30.6%

For those practices which are a company, the dividend changes should have been discussed with you by your adviser. There is still opportunity for good tax planning in respect of remuneration from your practice, where you are an owner, and this should continue to be reviewed.

ADMIN

These changes are mainly likely to affect basic rate taxpayers by bringing them within the self assessment regime and could catch out the unwary, not realising they are now required to file a tax return.

If you fall within the self-assessment net for 2016-17, you will need to register with HMRC by 5 October 2017 and file your first tax return and pay any tax due by 31 January 2018.

INTEREST

From April 2016, banks and building societies have begun to make interest payments without deducting tax. Previously, banks withheld 20% tax on interest payments to individuals, therefore, only higher or additional rate taxpayers would be required to pay any additional tax due on interest via a tax return.

The change to pay interest gross is due to the introduction of a new Personal Savings Allowance. This new allowance is set at £1,000 for basic rate taxpayers, £500 for higher rate taxpayers and nil for additional rate taxpayers.

Any taxpayers receiving interest income in excess of the above allowances and after taking into account any relief under the existing starting savings rate, will need to self-assess to settle their additional tax liability. Therefore, all taxpayers will now have the responsibility of checking the annual interest income they have received and working out whether they have any tax to pay.

As an aside, it should be noted that other companies making interest payments will still need to deduct tax at source, so CT61s will still be required, for example, in respect of payments on a director's loan account.

OPPORTUNITIES

With the above changes, you could have income of £17,000 without paying any tax (personal allowance of £11,000, dividend allowance of £5,000 and personal savings allowance of £1,000).

As a result there are options available within a company structure to include spouses as directors and shareholders to enable them to utilise these allowances.

You may also want to consider whether to review any rent received from the company for property you own personally as you may wish to change the structure of your remuneration package.

Incorporation can still be an attractive option as although the tax rates on dividends may appear to be increasing, with corporation tax rates reducing over the next few years, overall your tax bills may reduce.

As ever your adviser will be best placed to guide you through this and agree the best course of action for you.

Tax simplification reaching out to benefits in kind

On 6 April 2016 there are some new rules intended to simplify the benefits in kind (BIK) regime. The tax cost of these new rules is minimal to the Treasury, but the main objective is to cut the administrative costs of reporting for both businesses and the Treasury.

The key areas of change are:

VOLUNTARY PAYROLLING OF BIK

Employers are now able to tax certain benefits through the payroll. By doing so, this will remove the requirement to report the benefits on a P11D form. Employers can choose which benefits they would like to payroll, with the exception of vouchers, living accommodation and loans which are not covered by this new regime. This could potentially negate the requirement to complete P11D forms for a number of employers.

For the 2016/17 tax year employers must have registered to use this service by 5 April 2016 and their payroll software must have the capability to collect the correct amount of tax. HMRC's 'Basic PAYE Tools' software is not suitable for this. If you did not register before this date then you will need to prepare P11Ds as normal.

If you want to use the service for 2017/18, then you need to register by 5 April 2017 and ideally before Christmas to avoid unnecessary tax code updates being sent out.

During the recent Budget, the Chancellor announced that from 2017/18 it will also be possible to voluntary payroll non-cash vouchers.

TRIVIAL EXEMPTION

Under a new statutory exemption, if an employer provides a benefit to its employees, the benefit is exempt from tax as employment income providing all of the following conditions are satisfied:

- the cost does not exceed £50;
- it is not cash or cash vouchers (high street vouchers are ok);
- the employee is not contractually entitled to the benefit; and
- the benefit is not provided in recognition of their employment duties.

There are no restrictions on the number of trivial benefits which can be provided in one year for employees, however for most directors of veterinary practices the total value of benefits which can be treated as exempt trivial benefits are capped at the annual exempt amount of £300.

ABOLITION OF DISPENSATIONS

Previously an employer had been able to request a dispensation from reporting certain benefits and expenses to HMRC. Dispensations became obsolete with effect from 6 April 2016 with new legislation introduced to cover the payment of business related expenses.

Nearly all expenses and BIK previously covered by a dispensation will now be automatically exempt and will not need to be reported to HMRC nor included on a P11D. In some cases approved HMRC scale rates can be used for reimbursing employee expenses rather than the actual costs incurred. These rates will still apply under the new exemption. If, however, you would like to apply a bespoke scale rate, agreement will need to be obtained from HMRC.

Whilst this potentially removes a large proportion of the reporting requirement, you should continue to maintain detailed records of expenses and benefits..

REMOVAL OF £8,500 THRESHOLD FOR TAXATION OF BIK

Those employees who earn at a rate of less than £8,500 per annum have historically been exempt from tax on certain BIKs. From 6 April 2016 this no longer applies and all employees will now be subject to tax on BIK, where applicable, irrespective of their level of income. However, new measures will mitigate against some of this for lower paid ministers of religion and home care workers.

The P9D form has now been scrapped and any benefits will need to be reported on the P11D unless they are dealt with under voluntary payrolling.

The correct treatment of BIK can be a complex area. The above changes do not exempt employers from reporting any and all BIK; the onus is still on the employer to ensure the correct treatment is applied.

Accommodation exemption for Veterinary Assistants

Where the employee only stays in the accommodation whilst they are on call, there is no benefit (this applies to both vets and nurses).

However there is an accommodation exemption available which applies only to vets, not veterinary nurses. This is not a new treatment but we thought it was worthwhile including a reminder. In addition, company directors (even when they are vets) are specifically excluded from the exemption.

Please note that the provisions below apply only to accommodation provided by an employer, that is where the lease is in the name of the employer or the property is owned by them. Where cash housing allowances are paid to employees to help with accommodation costs these should always be processed through the payroll and are subject to income tax and NICs as the allowance effectively forms part of their salary.

Where the accommodation exemption applies, there are no reporting requirements i.e. P11Ds / s336s are not required, neither is a dispensation.

Living accommodation provided by employers
The general rule is that where living accommodation is provided to an employee by their employer (i.e. the lease is in the name of the company), this is a taxable benefit. However there are exemptions to this rule, including one for vets:

Better performance of the duties – the 'customary' rule

This exemption applies where both:

- the accommodation is provided for the better performance of the duties of the employment; and
- the employee's employment is one where it is customary for employers to provide living accommodation for their employees.

In respect of vets (but not veterinary nurses), HMRC accept that the 'customary' test is met. However the 'better performance' test has to be considered in each individual case. The rules are a little lengthy to consider here but, in outline, the better performance test is met where:

- the employee is required to be on call outside normal hours and
- the employee is in fact frequently called out and
- the accommodation is provided so that the employee may have quick access to the place of employment or other place to which the employee is called.

You should seek guidance to ensure that you meet the conditions.

If you are satisfied that the vet meets the conditions for the accommodation exemption to apply, then there will be no P11D benefit in relation to the accommodation. If the vet is not exempt then a benefit in kind will need to be declared.

Where the accommodation exemption applies, ideally practices should keep all on call records (name of employee, name of client, dates and times of call outs).

OTHER COSTS IN RELATION TO ACCOMMODATION

Whilst water rates, council tax and sewerage charges are also covered by the exemption, other costs such as heating, lighting and cleaning are not. Therefore if these costs are paid by an employer, even if the exemption applies, there will be a P11D benefit.

Where the accommodation exemption applies the P11D benefit is calculated as the lower of:

- The full cost of the heating, electricity etc
- 10% of the employee's net earnings minus any contribution that they make to costs

Where the accommodation exemption does not apply, the P11D benefit would be the full cost of the expenses paid per annum.

You should seek further advice if you think this applies to your practice. We have a flow chart which we can provide to help.

Buy-to-let landlords targeted again

From 1 April 2016, second residential property purchases will be subject to a 3% Stamp Duty Land Tax (SDLT) surcharge. Property purchases with a value of less than £40,000 will remain free from SDLT, however, all additional property purchases above this amount will be subject to a 3% surcharge going forward (see below table).

Residential property value (£)	Current SDLT rate	New SDLT rate (additional residential purchases)
Up to £40,000	Zero	Zero
Over £40,000 – £125,000	Zero	3%
Over £125,000 – £250,000	2%	5%
Over £250,000 – £925,000	5%	8%
Over £925,000 – £1,500,000	10%	13%
Over £1,500,000	12%	15%

For example the SDLT on a second property purchase of £265,000 would now be calculated as follows:

3% on the first £125,000 = £3,750

Plus: 5% on the next £125,000 = £6,250

Plus: 8% on the remaining £15,000 = £1,200

The total SDLT due, therefore, would be £11,200.

This is compared to £3,250 under the current rules (2% on £125,000 plus 5% on £15,000); in this case, an increase in tax due of almost £8,000.

Some key points to note on the new surcharge include:

- Married couples/civil partners will be treated as a 'unit' and can only own one residence between them with any second purchase being subject to the higher rate.
- Unmarried couples will be able to own one property each (but not jointly) before being subject to the higher rate.
- For joint purchases, if one of the purchasers already owns a property the 3% surcharge will apply to the entire transaction regardless of how small an interest that purchaser has in the new property.
- Mixed use property (e.g. part residential, part commercial) purchases will not be subject to the additional 3% SDLT.
- If selling the main residence and purchasing another within 36 months the higher rates will not apply. If the main residence has not been sold at the point of purchase, the higher rate will apply but a refund can be claimed if the previous main residence is subsequently sold within 36 months.
- All purchases of residential property by a company will be subject to the higher rates to reduce the risk of avoidance of the 3% rate.

The surcharge is expected to raise £625m in additional taxes in 2016-17 and is being introduced to try and dampen the buy-to-let market so that more people have the opportunity to become home owners.

On top of the introduction of the surcharge, from April 2017, the SDLT filing and payment date will be shortened from 30 days to 14 days.

Tapered pensions annual allowance for higher earners

Some high income individuals may face a cut in the amount of tax-efficient pension savings they can make from 6 April 2016, but there are opportunities.

The standard £40,000 annual allowance (AA) will be reduced by £1 for every £2 of 'adjusted income' individuals have over £150,000 in a tax year, until their AA drops to £10,000. So someone with income of £210,000 or more would see their AA cut by £30,000.

But not everyone who fails the 'adjusted income' test will see their AA cut.

There is a second test which can help some people who are caught simply because pension savings exceed £40,000 in the tax year. Therefore, even if their adjusted income exceeds £150,000, their AA won't be cut if their 'threshold income' is £110,000 or less for the tax year.

Here is what is included for each test:

ADJUSTED INCOME Above £150K = AA tapered	THRESHOLD INCOME £110K or below = full £40k AA available
Included → Total income before tax from all sources (ignoring deductions for pension contributions). → The value of employer pension contributions	Included → Total income before tax from all sources. → New salary sacrifice arrangements (started after 8 July 2015).
Deductions → None	Deductions → The individuals penion contributions.

The value of employer contributions for a money purchase scheme will be easy to identify. For a defined benefit (DB) scheme, it is the total pension input amount, less any contributions paid to the scheme by the individual.

Anti-avoidance legislation will be introduced to ignore arrangements designed to shift income earned in one tax year, but taxed in a different year.

It will still be possible to carry forward unused allowances to use in a tax year where the standard AA has been reduced. However, the available carry forward from a tax year where the annual allowance has been reduced by the taper will be the balance of the tapered amount.

OPPORTUNITIES

If you are an unincorporated business (sole trader, partnership or limited liability partnership), becoming a company might give you more flexibility for pensions through company contributions. If you are already a company, you may want to consider how your remuneration is structured and whether company pension contributions may be preferred to dividends or a salary.

MEET THE TEAM

Hazlewoods veterinary team has over 25 years' experience in advising veterinary clients in all aspects of accounting, tax and business advice. Our in-depth knowledge and experience allows us to fully understand clients' issues and advise them accordingly.

Our focus is on profit improvement, becoming an integral part of your practice, and providing a useful sounding board for commercial decisions, as well as providing all the traditional services you would expect from a firm of accountants.

We have experience in advising practices ranging from sole traders to partnerships and companies of various sizes. These include small animal, large animal, DEFRA, referral, equine and mixed practices.

We act for over 250 veterinary practices across England, Scotland and Wales. We have also been involved with practice sales worth over £134m in the past 5 years.

HOW CAN WE HELP?

We take a proactive approach with the owners of the veterinary practice to ensure:

- You are being challenged on your business objectives.
- Personal and business objectives are aligned and are being achieved.
- Tax liabilities are minimised.
- Accounting and taxation compliance is dealt with efficiently and cost effectively.

In addition, we also provide specialist advice on:

- Benchmarking the performance of the practice.
- Retirement planning.
- Practice valuations and sales.
- Ownership change.
- Management accounts and payroll.
- Setting up a practice, including business plans and financial forecasts.

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