

ProActivity

WINTER 2018



FOCUS ON PROPERTY

Construction and property development may be rewarding but they can bring a particular set of VAT and tax headaches. Establishing best practice and avoiding mistakes are extremely important in this sector as transactions can involve substantial sums of money. If you are active in this area you need an advisor who can help guide you through the pitfalls. In our *Focus on Property* we highlight some of the common VAT and tax problems that our clients encounter.



New builds

Although most developers are aware that new homes are zero-rated for VAT, VAT can't be reclaimed on everything. There are specific rules, particularly around professional fees, fitted furniture, white goods, carpets and landscaping. Zero-rating of works also extends to sub-contractors works.

Tax tip: Check the VAT Notice 708 on buildings and construction and ensure the VAT claim is correct, as reclaims can be thrown out by HMRC if the incorrect rate is used. Complications occur if, having built a home, it can't be sold and it is let out instead. Residential letting is not a VAT-able activity so some of the input VAT reclaimed on the build will have to be paid back. Broadly the calculation is; expected rents divided by expected rents plus the ultimate selling price, although there may be ways around this.

Tax tip: Contact us to find out the implications of renting a newly built property instead of selling it.

Conversions

VAT can also be reclaimed on works to convert non-residential property such as offices, pubs and barns to residential property. Contractors and sub-contractors working on the property can usually apply the reduced rate of 5% VAT.

Tax tip: To gain the maximum VAT reclaim if converting a mixed-use site to residential, take care in the plans not to taint a new residential dwelling with any part of the old residential dwelling, otherwise input VAT cannot be reclaimed on that dwelling.

Renovations

Ordinarily no VAT can be reclaimed on residential refurbishments, but works renovating a residential property that has been empty for 10 years or more can be zero-rated, or 5% rated where the property has been empty for more than 2 years.

Tax tip: Don't overlook these rules and miss out on reclaiming the VAT.

Options to tax

An option to tax (OTT) is when an owner has elected that a commercial property will be subject to VAT, often because it means input tax can be reclaimed on purchase or renovation costs. It also means VAT is applied to rents.

Tax tip: Ensure you opt to tax if you buy a property with VAT on it, or have a substantial renovation to undertake, and charge VAT on any rental income.

Tax tip: When selling an opted property, contact us immediately if you are served with a notice to disapply an option to tax, as accepting it could have serious VAT implications.

Do you know anyone who would like a free subscription to ProActivity? Perhaps a supplier or customer? Simply give us their details and we will invite them to subscribe free of charge as a gift from you. Contact: Sarah.Robertson@fkca.co.uk

LOOKING AT LANDLORDS

Residential landlords

The financial landscape has changed a great deal for those letting residential property, whether it's a substantial business or a small-scale landlord with one or two properties.

Additional stamp duty

Since 1 April 2016, anyone buying an additional residential property worth more than £40,000 has had to pay an additional 3% stamp duty. The rules are quite stringent and apply whether it is a part share, bought through marriage or civil partnership, or a company, or part of a major acquisition.

Tax tip: Replacement of your main dwelling, or purchase of commercial property, mobile homes/caravans, houseboats and some mixed use dwellings does not attract the additional charge.

Withdrawal of wear and tear allowance

6 April 2016 saw the end of the 10% flat rate wear and tear allowance for landlords of furnished residential properties; it was replaced by replacement relief. Landlords now claim for the actual costs of replacing an item provided for use in the let property (the initial purchase doesn't apply). Whilst this sounds straightforward enough, the devil is in the detail and there are complex rules about what constitutes a replacement or improvement.

Tax tip: The new rules are applicable to furnished and unfurnished properties, so don't miss out because you think it doesn't apply to you. If replacing an item, make sure you do it before 5 April to gain the tax advantage a full year earlier. Be mindful when upgrading an item that you may not get tax relief on the full cost.

Mortgage interest relief restriction

Since 6 April 2017 residential landlords have seen the tax relief that they could claim be gradually restricted to the basic rate. The measure is being phased in over four years. This delivers a double whammy for landlords of highly geared properties, as not only will tax relief be claimed at 20% rather than 40%, a change in the calculation means many previously basic rate tax payers will be pushed into higher rates of tax. (See our Winter 2017 issue of *ProActivity* for a detailed article on the changes.)

Tax tip: Consider how your debt is structured when mortgages are due for renewal. 20% relief is still better than no relief (for example, on your own home) and lending to a business still attracts tax relief at the highest rate. If you have some flexibility in how you structure your income, consider if you can (legally) bring your top rate of tax down to 20%. Consider if owning properties through a limited company would be more beneficial (Please see the case study opposite).

Other points

Rent a Room: Earn up to £7,250 tax-free by letting out furnished accommodation in your own home.

Capital Gains Tax: CGT rates for residential property remain at 18% and 28% and from 6 April 2020, a payment on account of the CGT will need to be made within 30 days of completion.

STOP PRESS: Lettings relief and Principal Private Residence (PPR)

The Budget reduced deemed PPR in the final period of ownership from 18 months to 9 months, and proposed that lettings relief will be restricted to when the property is shared with the tenant. Both these provisions are proposed from April 2020 and a consultation on the technical detail is planned. Affected individuals are likely to be those retaining a flat or home they initially lived in before moving, or who have let their property out for periods whilst away from home.



CASE STUDY: Incorporating a property portfolio

Due to the tax changes affecting landlords, property owners have been asking if they should incorporate their rental properties. There are a number of taxes to consider and as usual the answer is; it depends. This means each case should really be looked at on its merits. However, as a generalisation, we are finding small landlords with one or two properties have not found it worthwhile. It is likely to be more suitable for sizable portfolios with significant borrowing.

A husband and wife property partnership held £2.5m of property in a mixed residential portfolio, mortgaged and generating £200,000 of gross rents per annum. With mortgage interest of £65,000 pa and other costs, the net profit was around £110,000 pa. With the effect of the changes in how tax relief is given the profit would be pushed to £175,000 pa, into the additional (45%) rate band, and then only allow a 20% tax credit on the mortgage interest, costing £19,000 more in tax each year.

Ordinarily in such a transfer, capital gains tax would be payable on the disposal of property. However, because of the size of the portfolio, it was considered a business, and incorporated using S162 incorporation relief in order to avoid crystallising inherent capital gains within the properties. Instead, the gain is rolled over into the shares of the new company, as long as the consideration is by way of share capital.

Stamp duty is also usually payable in the transfer of a property but in this case it wasn't chargeable as the business partners were the same before and after the incorporation. To be eligible for this it is important that it is a partnership here and not just joint ownership.

Bank or lender consent is required before transferring any properties, but in this case beneficial interest was transferred to the company by a declaration of trust and legal title remained with the individual as trustee. This is yet to be tested by HMRC but is becoming a recognised solution to the lending problem.

The result? The property business is incorporated within a company without crystallisation of capital gains tax or stamp duties, and a tax saving of at least £13,750 pa!

The decision to incorporate should not be undertaken lightly, or without specific advice on the case in question, but when it works it can save significant amounts of tax.

For more information, or to discuss any property issues, please contact us.

PROPERTY AND CONSTRUCTION SERVICES

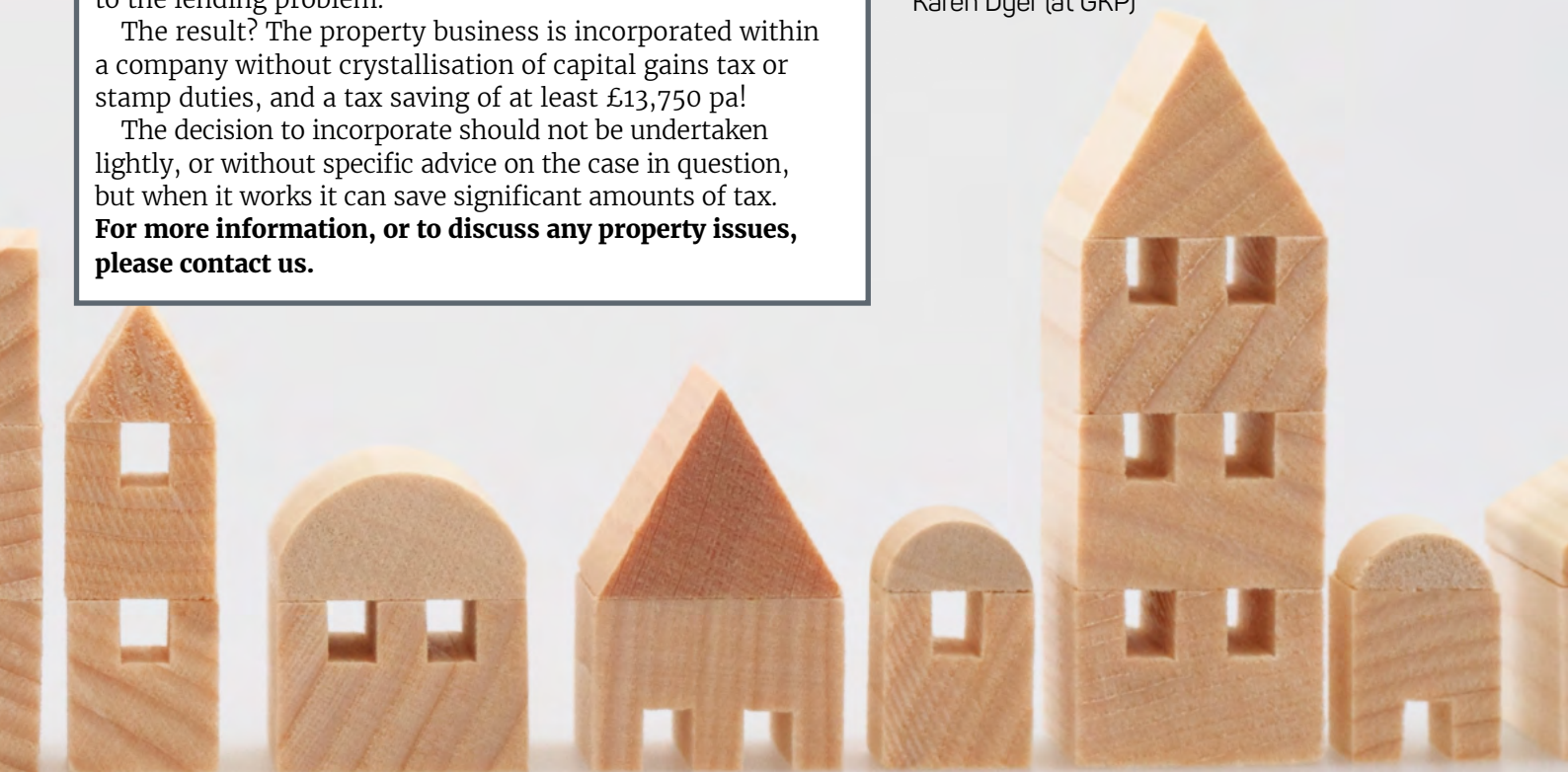
The property and construction industry is one of the most volatile sectors in the UK and particularly susceptible to fluctuations in the economy. When times are tough, getting the right financial advice and support becomes critical to a business's ability to manage uncertainty, stay competitive and keep the cash flowing.

We have a substantial list of clients in the property and construction sector and many years of experience. This has given us significant insight into the sorts of accounting, financing, and operational challenges these businesses face and the tax planning opportunities that may apply.

- 🏠 Property services
- 🏠 Specialist property tax planning advice
- 🏠 Managing cashflow
- 🏠 Raising finance
- 🏠 Tax efficient structuring
- 🏠 Arranging acquisitions, mergers or disposals
- 🏠 Processing payroll
- 🏠 Managing CIS submissions
- 🏠 Advising on VAT complexities
- 🏠 Full compliance advice

Key staff for property and construction:

Paul Bithrey
Tara Aldwin
Stephen Mason
Crystal Boston
Lyn Ainsworth
Sam Brown
Karen Dyer (at GKP)



AUTUMN BUDGET: THE CALM BEFORE THE STORM?

The chancellor Phillip Hammond presented a relatively low-key Budget that was cautiously welcomed by small businesses.

Brexit cast a long shadow over proceedings. This was a Budget designed to give the chancellor some room to manoeuvre in the unpredictable post-Brexit landscape. It also benefitted the upgraded forecasts for Government growth and higher than expected tax revenues.

Small business highlights

Against the background of speculation of a reduction in the VAT threshold, small businesses will benefit from the chancellor's decision to freeze the £85,000 turnover threshold for VAT registration until 2022. According to the Federation of Small Businesses, complying with the VAT regime costs the average small business a working week every year.

The Budget also included a significant temporary increase to the annual investment allowance to boost investment in capital expenditure. The chancellor confirmed the planned drop in the rate of corporation tax to 17% from 1 April 2020, reiterating the pledge to keep the UK at the lowest rate of corporation tax in the G20. There were also measures designed to stem the reduction of firms offering apprentices; small firms will now only have to pay 5% of apprenticeship training costs rather than the current 10%.

Caution needed

However, concerns have been raised by small businesses over reforms to the off-payroll working rules, otherwise known as IR35. This is regarded as the biggest tax grab of the Budget and is an extension of the off-payroll rules that are currently in use in the public sector. These changes will move the onus to determine whether any contractors used are genuine freelancers for an organisation, agency or third party who has engaged them. If they are considered employees, the engaging company is liable for deducting the correct tax. Smaller organisations will be exempt, although all organisations would benefit from professional advice on this issue.

Brexit briefing: The British Chambers of Commerce have produced a briefing to help businesses understand potential changes under different Brexit scenarios. The document is available on the British Chambers of Commerce website alongside a number of other resources in the 'Preparing for Brexit' section. The briefing measures the level of clarity for business that the proposed Brexit agreements provide against its Risk Register and Business Preparedness Checklist. For more information, go to www.britishchambers.org.uk.

THE AUTUMN BUDGET: OTHER HIGHLIGHTS

Corporation tax

The main rate of corporation tax remains at 19% for 2019/20 but will be cut to 17% in 2020/21.

Annual investment allowance

The annual investment allowance will be temporarily increased from £200,000 to £1m for a two-year period from 1 January 2019.

Structures and building allowance

New structures and the renovation of non-residential structures and buildings will be eligible for a 2% capital allowance.

Employment allowance

From April 2020 the employment allowance will be restricted to only those employers who had a NICs bill below £100,000 in the previous tax year.

Corporate capital loss restriction

From 1 April 2020, the Government will restrict the proportion of annual capital gains that can be relieved by brought forward capital losses to 50%.

Business rates on the high street

Business rates will be reduced by one-third for retail properties with a rateable value below £51,000 for two years from April 2019, subject to state aid limits.

Personal allowance increase

The tax-free personal allowance will increase from £11,850 to £12,500, and will be gradually withdrawn for those with adjusted net income of between £100,000 and £125,000.

Higher rate tax band increase

The higher-rate tax threshold will increase from £46,350 to £50,000. This limit will remain in place for the 2020/21 tax year.

Company car benefit

The car fuel benefit multiplier will increase from £23,400 to £24,100 from 6 April 2019.

Lifetime allowance for pensions

The lifetime allowance for pension savings increases for 2019/20 from £1.03m to £1.055m.

Capital gains tax annual allowance

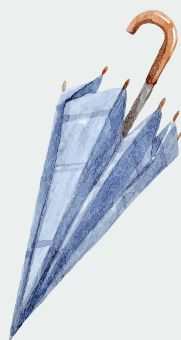
The capital gains tax (CGT) annual exempt amount for individuals rises from £11,700 to £12,000 from 6 April 2019.

Entrepreneurs' relief

Two new tests for the definition of a 'personal company' in relation to the qualifying criteria for entrepreneurs' relief will be available.

Inheritance tax

The residence nil-rate band increases from £125,000 to £150,000 from 6 April 2019 and to £175,000 from 6 April 2020. (See the next issue of *ProActivity* for more details).



NEWS IN BRIEF

Higher-rate earners hit by NICs rise

Taxpayers earning between £46,350 and £50,000 will see their income tax rate reduced from 40% to 20%. However, upper profits and upper earnings limit for National Insurance contributions (NICs) will increase at the same time. This means those employees who fall within this earnings bracket will see their NICs rate rise from 2% to 12%. In effect, taxpayers benefitting from a 20% reduction to their rate of income tax will see a 10% increase at the same time.

No deal Brexit may trigger new Budget

Chancellor Philip Hammond has raised the possibility of an emergency Budget if the UK fails to secure a deal on its exit from Europe. Speaking on Sky News, Mr Hammond said that while he thinks a no-deal is “extremely unlikely”, the government has to prepare for “all eventualities as any prudent government would”.

HMRC opens MTD to VAT pilot

HMRC has extended its Making Tax Digital (MTD) for VAT pilot scheme. The pilot was launched in April 2018 to invited businesses only, but has now been extended to sole traders and companies whose VAT affairs are up to date and straightforward. HMRC also announced a six-month extension to the MTD deadline for the 3.5% of VAT-registered entities with more complex requirements. Those businesses will now have until 1 October 2019 to comply with digital VAT reporting requirements.

If you would like to participate in this pilot, please contact Helen Spokes on 01582 540 800.

Financial Ombudsman Service open to more SMEs in 2019

The Financial Conduct Authority (FCA) is to extend access to the Financial Ombudsman Service to around 210,000 additional SMEs. Businesses with an annual turnover below £6.5 million and fewer than 50 employees, or an annual balance sheet below £5 million, will now be able to refer unresolved complaints to the ombudsman service.

MAKING TAX DIGITAL

We have already helped many of our clients switch from manual record keeping or non-compliant software to Making Tax Digital (MTD) compliant software. Clients who will be affected by the Making Tax Digital regulations from April 2019 will receive a letter from us with more details, but if you are VAT registered with turnover of over £85,000, your likely staging date will be April 2019.

Free digital migration

As part of our strategy to provide the best service to our clients we are offering to migrate our existing clients to an MTD compliant cloud-based software package, free of charge. This includes setting up the software with your details including customer and supplier accounts and the opening balances at the start of the period, before handing the package over to you. The first three months software subscription will be completely free, then £20 + VAT per month thereafter. We are also able to provide bespoke training to ensure that you and your staff get the most out of the software.



Free drop-in sessions

We understand this will be a big step for many businesses, so from now until 1st April 2019, we are offering completely free drop-in and phone-in sessions to answer questions or troubleshoot difficulties using the software. No appointment is necessary, just call or pop in, and one of our MTD Champions will be on hand to help you.

Drop-in sessions

All sessions run from
2 – 5pm at both Foxley
Kingham and GKP.

Thursday 13th December

Tuesday 8th January

Wednesday 13th February

Thursday 14th March

FoxKash is our dedicated book keeping division, and can take your MTD bookkeeping nightmare away from you at a competitive cost. **Contact Helen Spokes on 01582 540 800 for a free no obligation enquiry.**

The Foxley Kingham Anniversary Foundation



GALA DINNER AT OFFLEY PLACE



Our recent Anniversary Foundation Gala Dinner was a fantastic success and we raised over £12,000 for local charities. Over 170 local business people were kind enough to join us in celebrating our 50th anniversary by eating, drinking, and dancing the night away in the beautiful newly refurbished Offley Place Country House Hotel.

The money raised is pledged to our seventeen chosen local charities. Paul Bithrey, a director at Foxley Kingham, said: "As always, we are forever grateful to our supportive clients and Foxley Kingham employees, family and friends for their support and dedication to raising funds for our charity partners."

The fundraising fun is far from over though as the Foundation's Charity Committee, made up of staff from Foxley Kingham, remains focused on delivering their goal of raising £50,000 before February 2019.



The 17 charities supported by the Foxley Kingham Anniversary Foundation are:

- Autism Bedford
- Dogs Trust
- Families United Network
- Friends of Chums
- Keech Hospice Care
- L&D: Neonatal ICU, Maternity Bereavement and Cancer Unit
- Level Trust
- Luton, South Beds and Harpenden Samaritans
- Luton Town FC Community Trust
- Mind BLMK (local branch)
- Rett UK
- Road Victims Trust
- The Karen Trust
- The Noah Enterprise
- Tokko Youth Space
- Wildlife Trust for Bedfordshire Cambridgeshire & Northamptonshire
- Womens Aid in Luton

UPCOMING EVENTS FOR THE FOXLEY KINGHAM ANNIVERSARY FOUNDATION:

All money raised will be going to our nominated charities.

For more information, contact the charity committee on CharityCommittee@fkca.co.uk

Pamper Event

at Barnfield College in Luton
on Wednesday 12 December
from 4.30pm – 8.30pm



Band Night

February 2019

More details
announced soon!



FIRM NEWS



FOXLEY KINGHAM AND GKP JOIN FORCES

We are delighted to highlight the close association between Foxley Kingham and GKP, an outstanding firm of chartered accountants based in Ampthill, Bedfordshire.

As you may know, Foxley Kingham was founded by two partners, Malcolm Foxley and John Kingham in 1968. The firm has remained in Luton throughout this

period and the senior team first came to know Graham Keeble when he was partner at Whittaker's and then later with his own practice, Graham Keeble Partnership (GKP), based in Park Street in Luton. In 2000 GKP moved to its current location at Doolittle Yard, Ampthill.

When Graham started to turn his thoughts to retirement he asked Foxley Kingham if we would take his practice forward and ensure his clients received the same high level of service they had come to expect, as he did not want his practice to fall into the hands of a large consolidator. Foxley Kingham directors Stephen Mason and Tara Aldwin subsequently joined Graham at GKP in February 2015 and worked together for some time before Graham retired and relocated to Cornwall to enjoy holidays and golf courses.

For Foxley Kingham it was a natural fit; the size, range and breadth of GKP clients perfectly matched ours – both focussed on delivering a quality service with a local practice feel.

STAFF FOCUS

Donna French

Practice Manager, GKP

How did you get here?

Previously I had worked in an insurance brokers for 17 years, 12 years of that I was their Operations Manager in which I gained many of the skills required to enable me to transpose them across to the role I have now in GKP.

How would you describe what you do?

I'm responsible to ensure smooth running of the business to ensure that the team can service their clients effectively. Amongst other things my responsibilities include overseeing the administration function as well as reviewing and implementing office operations and procedures. I handle customer requests & complaints, staff management, HR issues and monitoring cashflow and client invoicing.

What is the most interesting part of your job?

The variety, no day is ever the same.

What do you think that 2019 will bring for your job?

I'm sure 2019 will bring many more challenges and opportunities to explore.

What would you say to someone just starting out in your career?

Work hard, stay calm and never stop learning.

Fiona Plover

Executive Assistant to directors, Foxley Kingham

How did you get here?

I joined Foxley Kingham in late July 2018. Previously I had worked in recruitment, banking, automotive and the creative industries and have over 16 years' experience in administration, HR, project management, and business operations.

How would you describe what you do?

My role at Foxley Kingham is to support the directors ensuring they maximise their time with their clients.

What is the most interesting part of your job?

It's the variety. You get to touch every part of the business and the impact you make on the business is very rewarding. It is important in this role to be approachable, adaptable, reliable and resourceful.

What do you think that 2019 will bring for your job?

I expect to be involved in more projects, taking on larger tasks and making a greater impact on the business.

What would you say to someone just starting out in your career?

Be open minded about the roles and tasks you take; it is important to be open to all aspects of the business. Only work in organisations where you feel you can learn from your colleagues, and the best way to learn is to listen to them as they are experts in their fields. If you are not feeling stretched, always put yourself forward for projects. Keep challenging yourself every day and keep your skills up to date.

May we take this opportunity to thank all of our clients for your continued partnership over the past year and to wish you all a very Merry Christmas and a happy, healthy and prosperous New Year!

We will not be sending Christmas cards but instead making a donation to the Foxley Kingham Anniversary Foundation.

Opening hours over the festive period are:

Foxley Kingham

24th December: Closed

25th December: Closed

26th December: Closed

1st January: Closed

GKP

Close at 12pm on 20th December
and reopen on 2nd January

Anyone working towards an end of December deadline for the submission of accounts to Companies House should aim to get signed accounts back to us in good time to allow for any holiday delays and avoid any late filing penalties.

For more information on any topic covered in this issue of ProActivity, or to speak to one of our friendly team about any aspect of your financial position, please go to www.fkca.co.uk, or call us on 01582 540800 (FK) or 01525 717666 (GKP)

Disclaimer: Please note that we cannot be held responsible in any way for any consequence arising from the information provided in this newsletter. Whilst every effort is made to ensure that accuracy of the content of all FK publications, no decisions should be taken on the basis of information given without reference to specialist advice.

FOXKASH: FOR ALL YOUR MTD NEEDS

Online accounting is now mandatory for an increasing number of our clients under the Making Tax Digital regulations (see page 5 for more details). We are proud to have developed FoxKash, an independent service designed to make this process straightforward and secure.

Sitting alongside Foxley Kingham and GKP, FoxKash is a standalone business, with its own fee structure that offers expert online accounting at an affordable price. We are with you for every step in establishing and developing your use of online accounting. We offer a bespoke service, including technical support, a dedicated website, and client training. Our fee structure is transparent, and we are always available to answer any queries, and to work with you to make the most of this exciting new technology.

We would urge all our clients to consider what FoxKash can offer them. We would be delighted to meet you for a free, no obligation consultation. Please see www.foxkash.co.uk for more details.

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**Foxley
Kingham**
CHARTERED & BUSINESS
ACCOUNTANTS & ADVISORS

Prospero House, 46-48 Rothesay Road,
Luton, Bedfordshire LU1 1QZ
Tel (01582) 540800 Fax (01582) 480901
Email: accountants@fkca.co.uk www.fkca.co.uk



5 Doolittle Yard, Froghall Road
Amphill, Bedfordshire MK45 2NW
Tel (01525) 717 666 Fax (01525) 715 666
info@gkp.co.uk www.gkp.co.uk

