KILSBY WILLIAMS
Chartered Accountants

## WELCOME TO THE LATEST EDITION OF TALKING TAX

The last Spring Budget of this Parliament caused an unexpected political storm, resulting in a surprising U-turn from the Chancellor. Clearly, more tax increases lie ahead if he is to plug the gap created by the retraction of the proposed increase in National Insurance rates for the self-employed. In the latest Talking Tax, we reflect on the implications for business owners of some of the other recent tax changes introduced by the government and consider the future for diesel cars. We also take a look at the additional inheritance tax relief for home owners.

## DIESEL DOUBTS AND THE NEW VEHICLE EXCISE DUTY (VED)

Determined to meet the UK's carbon-emissions target (Diesels emit about 15% less CO2 than petrol cars), Ministers encouraged the switch from petrol to diesel. Following the reduction in road tax and duty it was hardly surprising that more diesel cars and vans were purchased. However, it is now understood that diesel cars pose a greater health hazard (emitting up to 22 times more particulates) than petrol ones.

From 23 October 2017 a new toxicity charge (T-Charge) will be introduced in London, adding £10 to the current £11.50 Congestion Charge for drivers of vehicles with Pre-Euro 4 engines (broadly those registered before 2005). It appears that other local authorities plan to follow London, with low emissions zones being considered around the country.

Whilst arguably driven by revenue, the new changes to VED for vehicles registered after 1 April 2017 demonstrate this new attention to tailgate emissions. The changes will see most new car buyers paying virtually double what they would have previously, with only zero-emissions vehicles getting away with paying nothing at all.

From the second year of ownership onwards the CO2 scale becomes irrelevant however, as two flat rates will then be applied - £0 for zero emissions vehicles and a flat annual rate of £140 for all other cars. Cars costing more than £40,000 will pay an additional annual 'supplement' of £310 for five years (this also applies to zero emissions cars).

With more changes to tax and emissions being considered the choice of a new car will need to be carefully considered. To discuss what these changes mean for you or your company please do not hesitate to contact Diane Nettleton – diane.nettleton@kilsbywilliams.com.

## IHT – NIL RATE BAND EXTENDED FOR MAIN RESIDENCES.

From 6 April 2017 if an estate meets the qualifying conditions, then the existing Nil Rate Band for Inheritance tax could be increased by the new Residence Nil Rate Band (RNRB).

The amount of the RNRB due for an estate will be the lower of:

- the value of the home, or share, that's inherited by direct descendants
- the maximum RNRB available for the estate when the individual died (£100,000 in 2017/18 increasing to £175,000 in 2020/21).

Estates will be entitled to the RNRB if the:

- individual dies on or after 6 April 2017;
- individual owns a home, or a share of one, so that it is included in their estate;
- individual's direct descendants inherit the home or a share in it; and
- value of the estate is not more than £2m.

An estate will also be entitled to the RNRB when an individual has down-sized to a less valuable home or sold, or given away, their home after 7 July 2015.

Any unused RNRB when someone dies can be transferred to the deceased's spouse or civil partner's estate. This can also be done if the first of the couple died before 6 April 2017, even though the RNRB was not available at that time.

As with all new legislation there is a lot of detail behind the RNRB. If you are interested in finding out more please contact Wendy Burden – wendy.burden@kilsbywilliams.com

## TECHNICAL DIFFICULTIES: ARE YOU AT RISK FROM HM REVENUE & CUSTOMS (HMRC) SOFTWARE ERRORS?

'Tax doesn't have to be taxing'. HMRC may be eating their words as recent failings mean that thousands of taxpayers that submit self-assessment Returns may be facing higher liabilities due to reliance on HMRC's programming resulting in sub-optimal calculations.
The errors have arisen in the inability of the software to apply the 0% savings starting rate to individual savings income and the incorrect allocation of the £5,000 dividend allowance. This could give rise to calculations producing excessive liabilities.

Those vulnerable to the errors include:

1) Non-savings income less than £16k, with savings income in excess of starting rate for savings and savings nil-rate band.
Potential additional liability: £1,000.

2) Total income in excess of £145k, with non-savings income between £27k and £32k and the balance is dividend income.
Potential additional liability: £280.

As software used by advisers must be approved by HMRC, there is no work around for these calculations in terms of electronic submissions. Tax Returns can be submitted on paper to avoid these errors. HMRC have advised that if the issue is not resolved online, clients will have until 31 January 2018 to submit (ordinarily the paper deadline would be 31 October 2017).

Caroline Miskin, of the ICAEW has told us they are "discussing other steps to mitigate the impact, such as providing a separate accurate calculator. The issue is estimated to affect about 5,000 taxpayers."

If you prepare your own self-assessment Tax Returns, or are unsure whether you are affected by the issues raised herein, please contact me.

Email: emily.williams@kilsbywilliams.com   Direct dial: 01633 654158

## INTEREST RESTRICTION AND LET RESIDENTIAL PROPERTY

6 April 2017 heralded the introduction of the new restriction on finance costs when establishing the profit or loss on lettings from residential property. For 2017/18 tax returns, only 75% of the finance costs will be allowable, meaning more of your income will be chargeable at your higher marginal tax rate and this relief reduces to 0% by 2020/21.
Importantly this could affect Child Benefit or your Personal Allowances.

Instead of claiming the full finance cost landlords should receive a basic rate reduction from their income tax liability, but this might not be the case.

The level of the credit available is the lowest of:

- 20% of disallowed finance costs;
- 20% of property profits;
- The Adjustable Total Income (ATI).

Under these rules ATI is calculated as:

- Total income net of tax deductions and relief (pension contribution, trade losses etc), but
- Ignoring dividend and savings income and
- Less personal allowances.

Consider a director with a small salary of £9,000, rental income of £13,000 (finance costs £8,000) and £75,000 of dividend/savings income, trading losses and pension contribution of £15,000.

The credit available will be the **lowest of**:

- £1,600 (20% of £8,000)
- £2,600 on property profits (20% of £13,000)
- Nothing at all based on ATI

In this example ATI is calculated as total income of £7,000 (£9,000 + £13,000 less deductions £15,000).
Ignore dividends/savings. Deduct the personal allowance of £11,500 (ATI is - £4,500).
The unused relief can be carried forward but this will have affected your level of income and your tax liability.

Depending on circumstances the mix of salary and dividends may be changed or the employer may be able to make the pension contribution. Please contact Steve Kings to discuss this and the planning opportunities available in more detail – steve.kings@kilsbywilliams.com.


## Contact Us

Tel: 01633 810081 • Fax: 01633 810077 • Web: www.kilsbywilliams.com
Kilsby Williams; The firm's principal place of business and registered office is Cedar House, Hazell Drive, Newport, NP10 8FY




If you have any comments or suggestions, please contact Helen Vincent, helen.vincent@kilsbywilliams.com.


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