



by Phil Needham

Budget 2018



Beware Stealth Taxes

Whilst the News Channels are fascinated by the new taxes on technology companies, in practice these are unlikely to affect any of us. However, some of the stealth taxes could be nasty.

Entrepreneurs Relief

My client Jo spotted a struggling business with some great technology, she bought the company for £100,000 and only 13 months later she sold out to a Japanese multinational company for £600,000. Because of Entrepreneurs relief she only paid £50,000 tax on the £500,000 gain. She reinvested and is hoping to sell out again shortly, but this time if she sells in less than two years she will have to pay the full CGT rate of 20%. Still not excessive you might think, but a doubling in the tax rate for this kind of transaction.

Capital Gains Tax for Landlords

Changes to Rent a Room relief to prevent its use (or abuse) by Airbnb landlords were well flagged, and possibly not unreasonable. **Please tell your friends that they should be reporting their Airbnb income to HMRC, and that we can help them claim the maximum allowable expenditure.**

Changes to Landlord's Capital Gains Tax reliefs were completely unexpected. And in some cases, will be quite penal.

My client Ali sold a house a few years ago. He had lived in it for one year and let it to tenants for 7 years, he made an £80,000 Gain and paid no tax even though he had other gains in the year. How? Well he had Principal Private Residence relief (PPR) for the year he lived in the house and this was extended to 4 years because the last 3 years were allowable in addition. Furthermore, Letting Relief allowed him to double up on his PPR effectively leaving the gain tax free.

A couple of years ago the chancellor reduced the amount allowable for the period up to sale from 3 years to 18 months. Had Ali sold his house after this change he would have had PPR for 2.5 years, doubled up by Letting Relief to 5 years, so would have had Gains tax to pay on £30,000, at 28% this would be £8,400.

In the budget just announced that final period has been reduced again from 18 months to 9 months so the PPR would now be just 21 months of 96. But the real blow is the Letting relief that can only be claimed if the owner is also in occupation of the property, so in this and almost all cases in which Letting Relief would have been claimed, it is no longer available, and Ali would now have to pay Capital Gains Tax on £62,500 of the £80,000 gain. So, £17,500 at 28% tax. Ouch.

I don't know if this was a mistake or not, but in reality, Letting Relief has effectively been withdrawn.

Hornbeam Accountancy Services Limited Bidwell Road Rackheath Industrial Estate Norwich NR13 6PT

Whether you are a client or not, if we can provide further help or advice concerning any of the matters covered here, please do not hesitate to telephone us on (01603) 720424 or email info@hornbeam-accountancy.co.uk

Disclaimer Most of the information contained in this Hornbeam Highlights is of necessity greatly oversimplified. We are trying to bring to your attention tax planning and business management opportunities. However, you should not take action based upon this leaflet without obtaining specific professional advice.

Liquidations

For a few years HMRC has had to take its share of the losses along with other creditors in liquidations. Philip Hammond has rolled the clock back and reinstated HMRC as a “Preferential Creditor”. So, in insolvencies HMRC will get its money first and there will be less available for the rest of us. We may see increased enthusiasm amongst HMRC collectors for putting businesses into liquidation. **What can we do? Tighten up on our credit control and don’t deal with dodgy customers.**

Contractors

HMRC and the Treasury are obsessed with the idea that contractors are not paying enough tax. They have been fairly successful in getting public sector employers to pay PAYE and NI on contractor’s payments, and this has inevitably reduced the prevalence of contracting into the public sector and presumably increased public sector costs.

They now intend to roll out this program into the large company element of the private sector. We will see whether private sector managers are as blasé about taking on additional costs, as the public sector have been.

Many of our clients are going to find themselves with a new set of managers examining their self-employed status. All the old chestnuts of which you are familiar will be raked over.

- Do you have to rectify your own mistakes?
- Are you paid for an outcome rather than by time?
- Do you set your own hours and place of work?
- Do you control how you do the work?
- Do you provide your own equipment?
- Do you have your own employees, subcontractors or substitutes?
- Do you have liability insurance?
- Do you lose pay if you are on holiday or off sick?
- Do you pay tax as a self-employed contractor?
- Do you have a well drafted contract of self-employment?
- Does your contract finish without any entitlement to redundancy or notice?
- Do you advertise for future work?
- Do you have many customers?

The more of these that you can say yes to, the more secure is your self-employment.

Any resemblance of the fictional characters above to real clients is purely coincidental.



Hornbeam Accountancy Services Limited Bidwell Road Rackheath Industrial Estate Norwich
NR13 6PT

Whether you are a client or not, if we can provide further help or advice concerning any of the matters covered here, please do not hesitate to telephone us on (01603) 720424 or email info@hornbeam-accountancy.co.uk

***Disclaimer** Most of the information contained in this Hornbeam Highlights is of necessity greatly oversimplified. We are trying to bring to your attention tax planning and business management opportunities. However, you should not take action based upon this leaflet without obtaining specific professional advice.*