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NATIONAL LIVING WAGE: MORE SANCTIONS INCLUDING HIGHER PENALTIES

RICHARD WALLER, DIRECTOR

On 1 September the Business Secretary announced measures to enforce compliance with the National Minimum Wage (NMW) and the new National Living Wage (NLW).

The NMW, currently £6.50, increased to £6.70 from 1 October 2015. The NLW, due to be introduced on 1 April 2016, will initially be set at £7.20 per hour and will apply to employees aged 25 and over.

The new measures include:

- Doubling the penalties for non-payment of the NMW and NLW.
- Increasing the enforcement budget.
- Setting up a new team in HMRC to take forward criminal prosecutions for those who deliberately do not comply.
- Ensuring that anyone found guilty will be considered for disqualification from being a company director for up to 15 years.

The calculation of penalties for those employers who do not comply will rise from 100% of arrears to 200%. This will be halved if paid within 14 days. The overall maximum penalty of £20,000 per employee will remain unchanged.

In conjunction with the enforcement measures, the government has promised improved guidance and support to help employers with compliance. It will also work with payroll providers to ensure payroll software contains checks that employees are being paid at least the minimum wage.

KM payroll clients affected by the new NLW will be notified by our payroll department as to how this will impact on their payroll.

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EBAY GUM: SELLING GOODS ONLINE

HM Revenue & Customs may again be focusing its attention towards online traders who use websites such as eBay and Gumtree to regularly sell goods.

You may think selling second-hand items and crafts online is a hobby but this can be classed as a business. This also includes car boot sales and sales in classified ads. Getting it wrong could involve paying arrears of tax, late payment interest and penalties to HMRC.

When is a hobby actually a business?

Generally, if you are selling your own private possessions you will not be trading. There are several indications that you may be in business and complying with just one of these could be enough to show that you are trading.

- Is your primary motive to earn a profit?
- Is the number of transactions involved systematic and repeated?
- What type and quantity of goods are you selling?
- Is the sale a one-off or part of a pattern of similar transactions?
- Did you modify, repair or improve the goods before selling them?
- Are the goods sold in a way that indicates trading?
- Has any money been borrowed to buy the goods?
- Is there a short interval between the purchase and sale of the goods?
- Did you purchase the goods that are being sold?

If your hobby is considered a business, you must declare any profits on your self-assessment tax return. You may also have to submit a VAT return if your taxable turnover exceeds £82,000 in any given twelve month period.

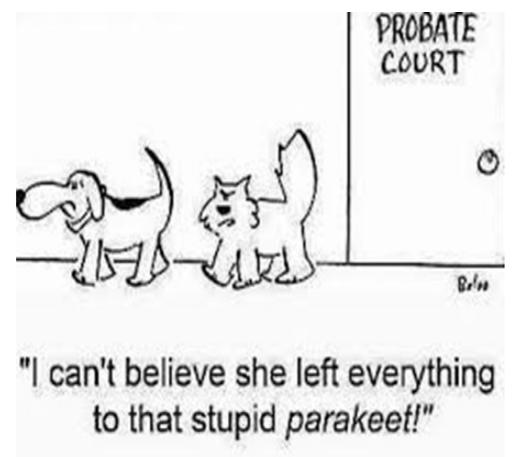
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YOU CAN'T TAKE IT WITH YOU!!!

In the Spring Budget George Osborne announced a government review of what he described as attempts to avoid inheritance tax through the use of deeds of variation. These enable a person's Will to be changed within two years of the death.

A deed of variation is not just a tax planning vehicle as it can ensure the Estate passes as the family wishes where there is no Will or where circumstances have changed. There are many cases where a variation is used simply to correct tax mistakes or where family members of the deceased want to make a change so that the Estate can go to someone else.

Over two thirds of people don't have a Will. Taxpayers need to ensure that they have a Will and that it reflects their up to date wishes. Too often individuals have ignored changes in their circumstances in the knowledge that their beneficiaries have the ability to amend their Will up to two years after their death.



It is unfortunate that something that has been around for generations to enable the straightforward handling of Estates between families has been questioned as a mechanism for tax avoidance.

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LANDLORDS: RELIEF FOR MORTGAGE INTEREST

At present, full tax relief is available for interest on a loan used in a property business. From April 2017, tax relief on interest in a property business (including single buy-to-lets) will be restricted so that by 2020, interest will not be an allowable expense in computing the profits of the business but will attract a tax relief at 20%. Although this primarily relates to mortgage interest and mortgage arrangement fees, it also includes any interest paid on loans used to buy furniture or fixtures.

The measures appear to apply to:

- Individuals only - Not trustees or corporate landlords.
- Interest costs associated with residential properties - Not commercial properties or holiday lets.

The provision will be phased in over a four-year period, beginning in 2017-18. In the fourth year of transition 2020-21 tax relief on mortgage interest will only be available at 20%.

Tax Year	Interest Eligible For Full Deduction Against Rental Income	Interest Relief Restricted To Basic Rate Relief
2017/18	75%	25%
2018/19	50%	50%
2019/20	25%	75%
2020/21	0%	100%

The mechanism by which the interest relief is restricted to the basic rate relief is rather awkward. It is done by reducing the tax on the rental income by 20% of the lower of:

- The finance costs which are not eligible for a full reduction in the calculation of the property income for the year.
- The property income for the year, or
- The total taxable income (excluding savings and dividend income).

A letting activity that has a low level of interest in relation to the borrowings will not be too badly affected but a larger property business using debt to expand the portfolio will be. Basic rate tax payers should not be affected by these changes but because of the way in which tax relief is to be given, by removing it as a deduction from rental income, this may push the total taxable income into the higher rate tax band. Deciding on what action should be taken regarding these changes is very complex and will depend on individual circumstances.

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TOPPING-UP YOUR STATE PENSION

People who reach state pension age before 6 April 2016 will now be able to top up their state pension by paying a new Class 3A voluntary National Insurance contribution.

You can choose to increase your state pension by between £1 and £25 per week. The amount you need to contribute depends on how much extra pension you want to receive each week and how old you are when you make the contribution. To receive this extra pension you will need to make a lump sum payment between 12 October 2015 and 5 April 2017. Go to www.gov.uk/state-pension-topup to find the personal top-up calculator. This will tell you how much you will need to contribute and by how much your weekly pension will increase. The subject of pensions is a complicated area. You need to do your sums and seek advice before making any top-up payments.



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KM ON THE LOOSE: ANNUAL TEAM EVENT

The KM annual team event took place on Wednesday 2 September 2015 at Ragley Hall near Alcester. A beautiful venue set in stunning grounds.

The team got stuck into some team events organised by Aztec Adventure. The first event was Segway racing including navigation around an obstacle course. Not that easy when you have to use your weight to control the speed and direction of the Segway (especially when there are only two wheels!). After the excitement of the Segways, the team were given a talk by a falconry expert on a range of owls, hawks and falcons. There were a number of birds on display, all of which the team members were allowed to handle. The talk consisted of an outline of the equipment used, feeding habits of the birds as well as their individual flight, sight and hearing abilities. Lunch was taken in Ragley Hall, always a very popular event on the day. As usual, on our KM team days, the weather was excellent.

If anyone would like to run a similar event for their team, please contact Sue Bellingham or Linda Hulme on 01527 872888 for details.

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