Walker Dunnett & Co

over 40 years in business

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TEAM NEWS

New Starts

Lee Martin
Trainee Paraplanner

Welcome to Lee Martin who has joined the Carnoustie team. Lee enjoys holidays to Turkey but is hoping to explore the West Coast of USA someday soon. Lee watches Dundee United, which he says isn't always enjoyable and enjoys spending time with friends and family. Lee lives in Dundee and is looking forward to getting married to his fiancée, Lesley, next July.

Lauren Melville has started in reception as cover until April. She is also attending university during this period studying for a Business Management Honours degree.

Laura from reception went off on maternity leave in July and gave birth to a lovely little boy, Logan, a new little brother for Katie and Tyler. Congratulations to Laura, fiancé Spencer and family!

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PASSIVE vs AGGRESSIVE FUND MANAGEMENT

Ian Barr
Financial Services Manager

Would you prefer a fund manager to actively manage your money for you or are you happy to let your investments simply track the market? Either way, you need to make sure you understand the difference between active and passive fund management and the relative cost before you invest.

When you invest in a fund, your money is spread across a wide range of underlying investments, which are overseen by a fund manager. It's their job to run the fund in line with the stated investment objectives, meeting declared targets in order to deliver a profit for investors.

Funds are generally divided neatly into two types — active and passive. Both types aim to make money from whatever assets they hold — be it shares, bonds, property or commodities.

Active funds

The job of an active fund manager is to pick and choose investments, with the aim of delivering a performance that beats the fund's stated benchmark or index. Together with a team of analysts and researchers, the manager will "actively" buy, hold and sell stocks to try to achieve this goal.

There's never any guarantee however, that even the most talented fund manager will pick investments that will outperform on a regular basis. All investments are at the mercy of market conditions and sentiment so they could rise or fall in value. Some promising shares may nose-dive one year only to rebound the next. The best active managers are the ones who can navigate market volatility year in, year-out. Many fail to achieve this, so if you're looking at going down the active route, look at a manager's long-term

GO FIGURE...

Odds on unlikely events, 1 in:

139,838,160
Winning Euromillions.

14,179,104
Dying in a plane crash.

8,000,000
Being killed by a shark.

2,564,103
A plane crashing.

727,020
Winning the Postcode Lottery.

347,615
Having quintuplets.

300,000
Being struck by lightning.

75,000
Earth hit by an asteroid.

33,000
Dying skydiving.

12,750
A hole in one.

track record across a variety of market conditions, but keep in mind that his past performance isn't necessarily a reliable indicator of future performance.

The cost of active investing

Investors in actively managed funds will have to pay higher annual charges for the expertise of the fund manager, usually anywhere between 0.6% to 1.5%, and sometimes more, depending on the type of portfolio they're running. It's up to you to decide whether the cost of a fund investment is worth the potential returns you could receive.

Passive funds

Passive or "tracker" funds have a different aim altogether. Their main job is to deliver a return that's in line with the market – they don't have to outstrip it, they simply replicate the movement of the market they're tracking.

One of the most commonly tracked and quoted indices is the FTSE100, which is an index of the UK's 100 biggest companies based on share value. A tracker fund will buy shares in all 100 companies and in the same proportions as their market value. The value of the fund therefore, will move in line with the change in the value of the FTSE100 Index.

Because passive fund managers don't have to pick which investments to hold in their funds, you'll never get away from the fact that your return depends entirely on the performance of the index being tracked. So if the market falls, so will your fund. An active fund manager, in contrast, may be able to react to any market tumble by pulling out of troubled sectors and looking for better opportunities elsewhere, though of course if they misjudge it, they might lose.

Lower costs

In short, passive fund management delivers a return in line with how the tracked index performs. A key reason why this type of fund appeals to investors is because it offers them complete access to the markets that these funds mirror at a low price when compared to active funds. Some passive funds for example carry an annual management charge as low as around 0.1%, it's worth bearing in mind that passive funds will always marginally under-perform their index once costs are taken into account.

An open race to returns

Even though the aims of both types of fund management are quite different, the reality is that each can throw up some surprises.

There could be years when active fund managers fail to beat the market. The stocks picked might not perform well enough. In this situation, passive funds could deliver higher returns. It's this uncertainty that ensures the active versus passive funds debate continues to run and run.

The common argument among experts is that passive funds can work well for "efficient" or very well researched markets such as the FTSE100 or the S&P500 in the US, while less established and typically more volatile markets such as those found in emerging markets, such as India or China for example, need the expertise of an active stock-picker. Which route is right for you will be entirely down to your investment goals and risk tolerance. Whichever option you choose, you have to accept that your investments will fluctuate in value. Our preferred management style is active management where this is suitable for the individual client.

If you have any questions regarding the above please contact:

Ian Barr or Tony Rudol at our Carnoustie office by phone on 01241 855688 or by e-mail at ibarr@walkerdunnett.co.uk or trudol@walkerdunnett.co.uk

DIGITAL TAX ACCOUNTS AND MAKING TAX DIGITAL

Danie Van Niekerk
Partner

As a Greek philosopher once said: "The only constant is change".

And in relation to Making Tax Digital (MTD) and the timescales relating to this, it is specifically applicable.

MTD had been planned to start in April 2018. It will now start in April 2019 and only at that date for businesses with a turnover above the VAT threshold and also only for VAT return information.

As mentioned in the past two newsletters, I did not believe the timescale for Making Tax Digital was achievable and government and HMRC have seen the light and changed the rules on this. Whether or not it will be implemented remains to be seen.

The end of the tax return

The original intention for small business owners had been the eradication of the annual tax return by 2020. Most businesses, self-employed people and landlords will instead be required to keep track of their tax affairs digitally and to update HMRC at least quarterly via their digital tax accounts. HMRC has said that this doesn't mean you'll have to complete a full tax return four times a year; you'll simply need to provide more regular updates online.

Road Map

The Road Map was issued in 2015 and is the document outlining HMRC's original vision for reform with the intention of ending the Tax Return by 2020. This document has now been archived.

The only information updated on 13 July 2017 was that stated above with MTD applying from April 2019 for businesses above the VAT threshold and only for VAT. We will have to look out for updates in the future.

A lot of the fundamentals of the MTD rules have been explained in the previous two newsletters that can be found on our website: www.walkerdunnett.co.uk/about-us/newsletters

I will explain the changes relating to MTD that were announced in July 2017.

When does it start & how would Making Tax Digital work?

MTD was due to start in April 2018 but will now start in April 2019 and only for businesses with a turnover above the VAT threshold as mentioned above.

Changes to VAT reporting will come into effect from April 2019. From that date, businesses above the VAT threshold have to provide their VAT information to HMRC.

In their Overview paper which was updated 13 July 2017 HMRC state "The government has committed to not widening the scope of MTD for Business beyond VAT before the system has been shown to work well, and not before April 2020 at the earliest."

Businesses will send summary data to HMRC about their business each quarter. The summary data will consist of total income and total expenditure (which is very much the same as at present).

Businesses will need to send this information through MTD software for bookkeeping/accounting – not provided by HMRC – and that the use of "digital record keeping software that links to and updates business's digital accounts with HMRC" will be mandatory.

Personal Tax Account

Each individual will have a personal tax account which enables them to register for new services, update their information and check how much tax they need to pay. Access to your personal tax account requires registration on the Government Gateway and your National Insurance number. Below is a link to the sign in or set up page:

www.gov.uk/personal-tax-account

I have found the original setup easy, but it took some time to verify my identity. The personal tax account is actually very useful for looking into income levels, state pension forecast, etc.

How will tax payments work?

HMRC is not planning to change the current payment dates, but they have asked as part of the consultation if they should review the payment on account regime. Under MTD, businesses

may have the right to make "voluntary payments" towards their tax liabilities, which would be aggregated together HMRC has tentatively suggested it may need to be warned of upcoming voluntary payments.

HMRC has also said: "Under Pay As You Go, the customer will decide how often and what amount they want to pay. Payment will not have to be at any fixed time, or at regular intervals; the customer will retain control and choice, so they feel confident that they have made the right decision for their circumstances, and have the opportunity to amend their choices if circumstances change." (Please do not ask my opinion of HMRC calling taxpayers, "customers".)

So what next?

HMRC have changed the timetable on a number of occasions and it appears that they are now going to adopt a "wait and see" attitude to see how the pilot scheme and the scheme for VAT registered businesses works in practice before implementing a scheme for others caught within the MTD net.

If you have any queries on this please do not hesitate to contact:

Danie van Niekerk by phone on 01382 224221
or by e-mail at dvn@walkerdunnett.co.uk

TAX CORNER

Q. I own an investment property and pay higher rate tax on the rental income but my husband has some unused personal allowance and fully available basic rate band. It would make sense for him to have some of the income but I want to leave the property on my death to my children from my first marriage. Is there anything I can do?

A. With some exceptions, there is a general presumption that spouses and civil partners who jointly own property, own it and the income which flows from it, on a 50:50 basis. This is why couples who wish to share and be taxed on income otherwise than on a 50:50 basis have to effect a change to the beneficial ownership of the asset and then make a declaration to HMRC using Form 17. This 50:50 rule can work to your advantage.

If you transfer the investment property into joint ownership with your husband so that you retain beneficial ownership of 99% of the property and your husband has 1% then, in the absence of a Form 17 declaration, you will be taxed on the income on a 50:50 basis but you are still in a position to pass on 99% of the value of the property to your children.

Q. I spend time working from home and wish to claim a deduction against my trading profits for use of home expenses. I wonder whether the income tax savings will be significant or could easily be outweighed by future capital gains tax payable because of a loss of principal private residence relief (PPR). What should I do?

A. It is possible there is no capital gains tax problem to worry about. The legislation denies PPR relief to that part of a gain which is attributable to any part of the house which has been used exclusively for business purposes. So, for example, a room which is occupied for business use during the working day but occupied for family and residential purposes in the evenings and at weekends will qualify in full for relief. On the other hand, HMRC take the view that where the residential use is occasional and very minor then relief can be denied. They give the example of a doctor who keeps some private possessions in a room used as a surgery — the room will be treated as used exclusively for business purposes.

If you have any questions regarding the above please contact:

Isla Walker by phone on: 01382 224221
or by e-mail at iwalker@walkerdunnett.co.uk

SAVE THE DATE

We are holding a seminar with Royal Bank of Scotland on 15 November at their offices in Dundee Technology Park. We will be discussing HMRC's digital agenda and how this may impact your business. There will also be opportunity for networking at the event. If you want further information please don't hesitate to contact Andy or Danie.

MEET THE TEAM

Diane Archibald – Administration Assistant, Carnoustie Office

THE THING I CAN'T LIVE WITHOUT
My iPad, closely followed by an Americano. I can spend ages browsing on my iPad while enjoying a strong cup of coffee.

MY GREATEST WEAKNESS
My two children and my five grandchildren. My husband says I can't say no to them.

IF I COULD PASS A LAW
I would change the retirement age to 60 for everyone.

MY FAVOURITE TV SHOW
Poldark. Aiden Turner — enough said!

MY GUILTY PLEASURE
A coffee tower. I can't resist them.

MY FAVOURITE TIME OF THE YEAR
Summer — I love sunshine and holidays.

MY LAST HOLIDAY WAS
Florida. We are on a bit of a Florida binge as we are going back again next year.

MY FAVOURITE PLACE IN BRITAIN
Cornwall. Lovely towns, villages, beaches and very friendly people.

THE SHOP I CAN'T WALK PAST
Pandora and Joules — I always go into both.

MY FAVOURITE DAY OUT
We were lucky to get Centre Court tickets for the ladies' and men's semi-finals days at Wimbledon this summer. We watch it every year on TV and to be there watching live tennis with a glass of Pimms was very special.

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